Mr. Chenery



RESTRICTED

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# INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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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

LIVESTOCK PROJECT

April 27, 1972

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

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

1. I submit the following report and recommendation on a proposed loan to the Republic of the Philippines for the equivalent of US $7.5 million to help finance the Government's livestock development program. The loan would have a term of 14 years including 6-1/2 years of grace, with interest at 7-1/4 percent per annum.

## PART I - THE ECONOMY

2. A report entitled "Philippines: Prospects and Problems of the Economy" (EAP-21 dated March 31, 1971) was circulated to the Executive Directors on April 5, 1971. An economic mission visited the Philippines in October-November 1971 and again in March 1972. Its report will be distributed to the Executive Directors in the next few days. It will also be distributed to the participants of the Consultative Group for the Philippines as a basis for discussion at the Group's second meeting to be held in Tokyo in late June. Basic data on the country are given in Annex II.

3. The Philippines is endowed with favorable potential for economic growth. The country's principal economic assets are good natural resources, a literate labor force and a dynamic and well-developed private sector. The political system has remained democratic, and despite intermittent and widely publicized outbreaks of violence, relatively stable. A nationwide two-party system has existed since independence and an equal number of Presidential elections have been won by the Liberal and Nacionalista Parties. Public administration still remains uneven in quality, but the influx into the top levels of public service of a highly able class of administrators has contributed to an improvement in the implementation of public sector programs during the last several years.

4. The Philippine economy has grown at an average rate of about 6 percent during the past decade. The ratio of gross fixed capital formation to GNP rose from an average of about 13 percent during 1960-62 to about 20 percent during 1968-70 and the marginal saving rate was around 20 percent. However, notwithstanding the impressive growth in total investment, there was a relative neglect of infrastructure and agricultural investments reflecting mainly the continued low level of public investment. Almost 90 percent of total investment is in the private sector and raising the share of public investment to about 15 percent of total investment is an important objective of the Four-Year Development Plan (FY 1972-75).

5. A serious weakness of the economy during the last decade was the failure to make headway in strengthening the balance of payments. While exports expanded by less than 5 percent per annum during 1960-69, imports rose by around 8 percent annually during this period; the current account deficits rose to well over 4 percent of GNP during 1968 and 1969. A large part of the external borrowing to finance these deficits took the form of suppliers' credits and short- and medium-term loans to the Central Bank. The Philippine economy was thus confronted with a serious foreign exchange crisis at the end of 1969 which was aggravated by a large fiscal deficit. The stabilization program adopted in February 1970 consisted of a number of measures aimed at reducing excessive liquidity in the economy and limiting the growth of short-term external debt. The program also provided for adoption of a floating rate of exchange for the peso and liberalization of most import restrictions. During the last two years, the stabilization program has been implemented with determination by the Government and has contributed to improvement in the fiscal, monetary and foreign exchange situation. Partly as a result of the stimulus provided by the de facto devaluation of over 40 percent, export earnings increased by 24 percent in 1970 and showed a further increase of 6 percent in 1971 despite a sharp drop in the prices of copper and coconut products.

6. During the last two years, the Government has also made a concerted effort to improve debt management and instituted control over medium- and short-term borrowing. But the heavy burden of external debt remains a crucial problem for the economy. Of the total medium- and long-term debt of $1.7 billion at the end of 1971, not in itself a large sum for an economy of this size, about two-thirds is payable within the next four years. Debt service accounted for 28 percent of foreign exchange earnings in 1971 and this ratio is not likely to decline significantly until the latter part of the decade.

7. In the fiscal field, the large revenue deficit during FY 1969-70 was replaced by a surplus of ₱ 539 million (US $84 million) during FY 1970-71. Tax revenues increased by 39 percent during FY 1971 in part due to the imposition of an export tax and are likely to increase another 12 percent during the current fiscal year. The ratio of Government revenues, including those of the social security system and local governments, to GNP is about 13 percent, lower than in many developing nations. The Government recognizes the need for further improvement in mobilizing public resources and has submitted new tax measures to Congress for consideration in the current session.

8. The stringent financial measures adopted under the Stabilization Program in early 1970 no longer seem to be seriously restricting the level of economic activity. The gross national product which expanded by 5.0 percent during 1970, is estimated to have risen by 6.5 percent during 1971. The opportunities opened for industrial and agricultural growth by the major exchange rate adjustment are becoming evident and investment, at least in the public sector, has begun to pick up. There is also considerably greater foreign investment interest in the Philippines than could have been foreseen a year ago. On the other hand, a sharp deterioration in the terms of trade

during 1971, estimated at some 18 percent, has been a major setback to the balance of payments and has aggravated the strains on the foreign exchange position arising out of the heavy burden of external debt. At the same time, the inflationary pressures triggered by the 1970 devaluation continued during 1971. A major factor in the rise in consumer prices of 23 percent during the year, compared to 15 percent in 1970, was the 30 percent rise in food prices, resulting from rice shortages which emerged for the first time since 1967.

9. Per capita income in the Philippines is about $200 and incomes are unevenly distributed. Income disparities have probably widened during the last two years because a large part of the benefit of higher export earnings has gone to a relatively small group of exporters of sugar, minerals and logs. The Government has recently become increasingly aware of this problem and land reform legislation has been enacted which limits the level of land rents and reduces the maximum size of landholdings. Other social sector programs now receiving increased attention which may contribute to improved living standards of large segments of the population are rural electrification, family planning and housing.

10. The management of the foreign exchange and debt position will continue to require skill and tight discipline in the next few years. According to the recent Bank economic mission estimates, merchandise exports are expected to rise by 7 percent per annum during 1972-75, with export volume rising by about 5 percent a year. The heavy debt repayments, and the expected further deterioration in the terms of trade during the next two or three years, would leave little scope for an increase in the real level of imports, unless there is a marked increase in quick disbursing official assistance. But even if this occurs only a modest growth in real imports of around 2 percent a year during 1972-75 will be possible. In order to maintain a manageable balance of payments position, much of the burden of adjustment will therefore fall on the side of imports. To avoid the potentially disruptive effects on output and employment that would tend to follow from raw material shortages induced by lack of foreign exchange, most of the projected growth in imports would have to be in raw materials and intermediates. There would be little scope for increases in the level of capital goods imports and there would be a need to keep consumer goods imports to a minimum. The development task will not be made any easier by the need for such curbs on imports. Moreover, the current account deficit would still average about $130 million a year during 1972-75. Allowing for amortization payments, gross external borrowing requirements would average $445 million annually during this period, although the average net transfer of such capital (disbursements less amortization and interest) would only be about $20 million a year.

11. The success of the Government's efforts to stimulate agricultural production, curb import demand and ensure better utilization of existing

industrial capacity will be critical to the maintenance of the present growth rate of 6 percent a year during 1972-75. At the same time, there is a need to shift the structure of investment from the private to the public sector to overcome the infrastructure bottlenecks that have arisen from past inadequate levels of public investment. Despite the recent improvements in raising public revenues, the Philippine development program will require funds in excess of expected local savings and foreign capital which would become available by financing the foreign exchange component of development projects. Moreover, there are a number of development projects in various stages of preparation in the Philippines which have strong economic and social justification, but a low foreign exchange component. In such cases, which include this project, limited local cost financing by the Bank is justified.

12. Because the external debt and payments problems facing the Philippines are considerable, they should clearly obtain as much of their external financing as possible on concessional terms in order to improve the structure of the debt. Considering the strong resource potentials of the country and its capabilities for export expansion the Philippines will continue to be creditworhty for some additional borrowing on conventional terms.

## PART II - BANK GROUP OPERATIONS

13. The Philippines has received 16 Bank loans and one IDA credit totalling $270.8 million, net of cancellations. A little over half of the Bank Group's lending, about $140 million, has been for priority infrastructure projects in power, transportation, water supply and education. The remainder has been divided equally between the productive sectors: about $65 million in agriculture for irrigation, agricultural credit and rice processing and about $65 million in industry for three loans through the Private Development Corporation of the Philippines (PDCP).

14. Of the total Bank Group's lending of $270.8 million, one loan and one development credit totalling $32 million were made earlier in April this year and have not yet become effective. Of the remaining Bank lending of $238.8 million, the undisbursed balance on March 31, 1972, was $68 million, almost all of which was accounted for by the five loans made during the last three fiscal years. Disbursements for four of the five loans have been progressing satisfactorily and disbursements under the loan for the Second Rural Credit Project are significantly behind schedule. Sub-loan demand under this project was adversely affected by the change in the value of the peso in February 1970 which resulted in a sharp increase in the cost of imported equipment. The Bank agreed in October 1971 to a number of proposals of the Central Bank for increasing disbursements; e.g. a reduction in farmers' and rural banks' contributions and a more diversified range of crops and items to be financed under the project. These changes and recent increases in the price of rice, which have helped to restore farmers' investment incentives, have led to a substantial increase in the rate of disbursements under the Bank loan during recent months.

15. In the next few months I expect to recommend a loan of $20 million for a fourth development finance companies project for PDCP and a second education project to assist the Government in its efforts to improve the quality of secondary education. The Bank Group's future lending program will continue to concentrate on financing public infrastructure which has been neglected in the past because of the scarcity of public resources, but which is essential to the future development of the economy. Highway and ports projects are currently being prepared for possible future Bank financing. Bank assistance to agriculture is also expected to increase as it is the largest sector in the economy and the Government is mounting a major effort not only to stimulate foodgrain production to eliminate shortages which have necessitated substantial rice imports during the last year but also to encourage some diversification with emphasis on livestock and feed grain production. The Bank will continue to provide assistance for general agriculture, including rice, through loans for irrigation and for agricultural credit through the rural banking system and for rice processing through the Development Bank of the Philippines. The Bank also expects to assist the Government's efforts to diversify agricultural production and increase the protein content of the diet of the Philippine population through loans for livestock and fisheries.

16. The inaugural meeting of the Philippine Consultative Group in April 1971 endorsed the need for quick disbursing aid on favorable terms and both Japan and the United States have responded by announcing major increases in their level of assistance to the Philippines. Given the poverty of the Philippines, the magnitude of the debt problem, the overall improvement in the management of the country's economy and the fact that the Bank, as the Chairman of the Consultative Group, has recommended that the members provide concessional aid to the Philippines, it is appropriate that the Bank Group now provide some IDA funds for the Philippines. The $10 million IDA credit to help finance the Fifth Power Project was the first IDA credit for the country. For the next year or two I expect to propose some further IDA lending to the Philippines.

17. IFC has made total commitments of $47.2 million of which $10.2 million has been sold, repaid or cancelled. Investments have been made in several areas: development banking, power, telecommunications, ceramic tiles, paper, petroleum and nickel mining and refining. The Central Bank placed restrictions in 1970 on the repatriation of equity investments by foreigners in non-export oriented projects. IFC is continuing to discuss this matter with the Government, but in the meantime will concentrate mainly on export oriented industries. A statement of Bank loans, IDA credit and IFC investments is given in Annex I.

## PART III - THE PROJECT

### The Agricultural Sector

18. Agriculture is the largest sector in the Philippine economy generating about one-third of gross national product, accounting for three-quarters of export earnings and providing employment to about half the

population. Food crops, mainly rice and corn, take up over 60 percent of the total land under cultivation. Most of the remaining land is devoted to the production of the major export crops: sugar, coconuts, abaca, pineapples and tobacco.

19. The sector grew at a rate of almost 7 percent during the latter part of the 1960's. The main stimulus for this growth was the breakthrough in rice production following the increased use of high-yielding varieties, fertilizer and irrigation water. More recently, typhoons, poor weather and crop diseases have adversely affected agricultural production and the growth of the sector was only 3.1 percent in 1970 rising to about 5.0 percent in 1971. As a result, importation of about 400,000 tons of rice and 30,000 tons of corn were necessary during 1971. Despite the rapid spread of new technology during the last few years, considerable scope remains for increasing rice production as only about 60 percent of the cropped area in Central Luzon was irrigated and only 35 percent is under high-yielding varieties during 1970.

20. Philippine agriculture will be significantly affected by Government land reform and credit policies. A land reform program was initiated in 1963, which was designed in the first instance to replace sharecropping with a leaseholding system with fixed rent in special "land reform areas" and subsequently to convert leaseholders into landowners by paying the owners of the land full compensation through the Land Bank. Dissatisfaction with the slow progress in implementing this program, led to the enactment of new legislation in 1971 which provides for the spread of the leaseholding system to all areas of the Philippines producing foodgrains, the reduction of the upper limits of landholdings from 75 to 25 hectares and the integration and strengthening of existing land reform institutions. This legislation reflects the growing awareness of Philippine authorities of the need to promote social justice in rural areas, but if the program is to be fully successful a growing financial commitment will be required to finance land transfers. Also necessary will be a whole range of organizational and institutional changes related to credit supply, extension and marketing arrangements to provide for the requirements of smaller farmers.

21. The most important sources of institutional credit for agriculture are financial institutions either fully or partially capitalized by the Government. These are the Philippine National Bank (PNB), the Development Bank of the Philippines (DBP), private development banks (PDBs) which are partially owned by DBP, the rural banks and the Agricultural Credit Administration (ACA) which together account for 65 percent of institutional credit. The balance comes from private commercial banks. PNB and the private commercial banks provide mainly short-term credit to large producers and agro-industry; the rural banks, PDBs, ACA and, to some extent, DBP, provide credit to the small to medium size farmer. Non-banking institutions, including fertilizer dealers, farm machinery suppliers, shopkeepers, marketing and processing firms, landlords and private money lenders, still provide a substantial amount of the total credit used in the agriculture sector. Prevailing rates of interest from institutional

sources are 8 - 14 percent per annum. The effective cost of credit from suppliers is 15 - 18 percent. The Government recognizes the need for a considerable expansion in the volume of institutional credit and has made some provision for this by increasing the funds available for relending by ACA, the rural banks and DBP. However, budgetary constraints continue to be significant.

22. Livestock and poultry production account for about 15 percent of the value contributed by agriculture. The Philippines is not yet self-sufficient in meat and imports amounted to $5 million in 1970. Beef cattle which number about 2 million heads, are largely small native types with concentrations in Southern and Northern Mindanao and Central Luzon. Most beef cattle are found in ranching areas, but the grazing of cattle under coconuts has assumed increasing importance in recent years, particularly in Mindanao. Carabaos (water buffalo), which number about 5 million heads, are found all over the country with the highest concentrations in rice producing areas where they are used extensively as draft animals. According to Government estimates, there are about 12.5 million pigs in the Philippines and the number slaughtered annually ranges between 6 - 9 million animals. Pigs are found throughout the Philippines and backyard units contribute about 90 percent of pork production. The poultry population is estimated at almost 100 million with commercial production mostly concentrated around Manila.

23. The Four-Year Plan (1972-75) projects an annual rate of growth for agriculture of 5.3 percent. It attaches high priority to increasing rice production to attain self-sufficiency in this major staple, and improving the quality of the Philippine diet through increased production of feed grains (yellow corn, sorghum and soy beans) and livestock. Yellow corn output is projected to more than double from about 150,000 tons in 1971 to 325,000 tons in 1975 and meat production is projected to increase from about 640,000 to 820,000 tons during the same period. These objectives are to be realized through a substantial expansion in credit and extension services supporting livestock and feed grain production.

## The Project

24. The proposed project was prepared by two missions under the IBRD/FAO Cooperative Program which visited the Philippines in 1969 and 1970. It was appraised in June and July 1971. Negotiations for the proposed loan were held in Washington in January 1972. The purpose of the project is to assist the Government in carrying out its livestock development program by providing funds for supervised credit to be administered by DBP. The proposed project would provide medium and long-term loans to farmers for development of about 1,450 smaller to medium size pig, poultry and integrated coconut and beef cattle farms; 25 larger beef cattle breeding ranches, and three small slaughterhouses. It would also include the employment by DBP of technicians.

25. The lending arrangements would be similar to those for the Philippine Rice Processing Project (Loan No.720-PH). The Bank loan would be made to

the Government which would bear the foreign exchange risk and relend the proceeds to the DBP under the terms of a subsidiary loan agreement. DBP would on-lend the Bank funds either directly to private sector sub-borrowers or to private development banks for relending.

26. DBP, a wholly owned Government institution, has total resources of about ₱ 3.3 billion (US $515 million), making it the largest development bank in the Philippines and an important channel of finance for agriculture and industry. It has a professional staff of more than 700, including about 200 agriculturalists and engineers, and has wider experience in livestock lending than any other institution in the Philippines. While DBP's overall financial position has in the past given cause for concern, DBP came under new management in early 1970, as a part of President Marcos' policy of bringing in well qualified administrators to run Government agencies, and the organization's financial situation has improved steadily since then. The rate of collection on direct loans has practically doubled over the past year and DBP is receiving substantial repayments against advances previously made under foreign loan guarantees. DBP's interest rate was raised from 9 to 12 percent in August 1970 which should contribute to further improvement in DBP's financial position.

27. This loan would afford the Bank the opportunity to work with DBP in building up and rationalizing its livestock operations. DBP is in the process of setting up a livestock and poultry group, responsible for all of its livestock lending. The head of the group would be a senior officer, appointed after consultation with the Bank. He would be assisted by a technical specialist and two production specialists, one for beef/coconut production and the other for pig and poultry production. These specialists would assist in the appraisal and supervision of sub-projects, provide technical advice to the group and assist in the training of staff. These arrangements would help the livestock and poultry group to begin its operatoons on a sound technical and organizational basis and would assist DBP in pursuing its policy of moving from security to technical and project criteria in building up an effective program of supervised livestock credit. An amount of $500,000 has been provided in the Bank loan for financing the services of technical specialists, but if DBP is successful in securing bilateral assistance for this purpose, as is expected, these funds would be used to make additional sub-loans under the project.

28. The total cost of the project is $15.5 million, and the Bank loan of $7.5 million would finance almost 50 percent of this cost. It is estimated that the loan would be used to cover about $4.8 million of foreign costs and $2.7 million of local costs. About 35 percent of project costs would be provided by DBP and PDBs and the remaining 15 percent by sub-borrowers.

29. Most sub-borrowers would contribute about 10 percent to the cost of their projects and repay their sub-loans to DBP at an interest rate of 12 percent per annum. "Large" farmers, however, would be required to contribute

50 percent and pay a one-time technical services fee of 2 percent of the amount of the sub-loan. These arrangements reflect the greater financial capability of large farmers. The 12 percent interest rate on sub-loans is the same as DBP's overall lending rate and would give DBP a spread of about 5 percent over its average cost of funds for the project which would be adequate to cover overhead and administrative costs and to leave a margin for reasonable profits and reserves. Sub-loans would be committed over a three-year period and would have repayment periods of up to 11 years. Given these terms and DBP's resulting project cash flow position, it is appropriate that both the Bank loan and the subsidiary loan have a term of 14 years including 6-1/2 years of grace.

30. Turnkey contracts of about US $200,000 for each of the three slaughterhouses would be awarded after international competitive bidding. Turnkey contracts would be used because several types of equipment from different manufacturers will be needed for each slughterhouse. A single contractor must be given overall responsibility to ensure that the individual items of equipment are compatible and delivered at the right time. No customs duties apply to the turnkey contracts as such, but contractors would pay duties on items they import. Import duties on slaughterhouse equipment range from 10 percent to 20 percent, averaging about 11 percent for the facilities proposed. Under the Laurel-Langley Treaty items imported into the Philippines from the United States are assessed at 90 percent of the normal duty. The preferential arrangements under the Treaty will be phased out by December 1973. Procurement would begin late in 1973 and be spread over several years. Goods for on-farm investments and incremental working capital inputs would be acquired through existing commercial channels as the items to be procured are diverse and the likely size of individual purchases small. The Philippines has a good network of dealers in agricultural supplies and competition is keen.

31. Total incremental production under the project after full development is estimated to be about US $17 million per annum. The financial rates of return to sub-borrowers vary between 19 and 47 percent and should be sufficiently high to make the proposed investments attractive. The economic rate of return is estimated at 36 percent. Sensitivity analysis indicates that the project remains economically justified over any likely range of variation in investment costs, physical production and crop prices.

32. The project would produce earnings from expanded copra exports resulting from beef and coconut sub-projects and foreign exchange savings from the substitution of domestic meat production for imports which together would have a total value of about US $56 million over the life of the project. In addition to the approximately 1,500 small to medium farmers who would receive sub-loans, about 1,700 people living in rural areas would benefit by new jobs created by investment under the project.

## PART IV - LEGAL INSTRUMENTS AND AUTHORITY

33. 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 and the draft Resolution approving the proposed loan are being distributed to the Executive Directors separately.

34. The draft Loan Agreement contains provisions normally used for livestock projects. A Subsidiary Loan Agreement, satisfactory to the Bank, would be entered into between the Borrower and DBP and the execution of the Subsidiary Loan Agreement is a condition of effectiveness of the Loan Agreement. The Operating Policies and Procedures governing the onlending of the proceeds of the Loan are set forth in Schedule 5 to the draft Loan Agreement.

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

## PART V - RECOMMENDATION

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

Robert S. McNamara
President

## STATEMENT OF BANK LOANS AND IDA CREDITS TO THE PHILIPPINES AS AT MARCH 31, 1972

| Loan or Credit Number | Year | Borrower | Purpose | (US $ million) Amt. Less Cancellations Bank | IDA | Undisbursed |
|---|---|---|---|---|---|---|
| Eight Loans fully disbursed | | | | 127.0 | | - |
| 393-PH | 1964 | Republic of the Philippines | Education (College of Agriculture) | 6.0 | - | 0.3 |
| 491-PH | 1967 | National Power Corporation | Power | 12.0 | - | 1.4 |
| 607-PH | 1969 | Central Bank of the Philippines | Agriculture Credit | 12.5 | - | 10.3 |
| 630-PH | 1969 | Philippine National Bank | DFC's | 25.0 | - | 11.3 |
| 637-PH | 1969 | Republic of the Philippines | Irrigation | 34.0 | - | 23.3 |
| 720-PH | 1971 | Republic of the Philippines | Rice Processing and Storage | 14.3 | - | 14.2 |
| 731-PH | 1971 | Republic of the Philippines | Highway | 8.0 | - | 7.2 |
| 809-PH* | 1972 | National Power Corporation | Power | 22.0 | - | 22.0 |
| 296-PH* | 1972 | Republic of the Philippines | Power | - | 10.0 | 10.0 |
| Total | | | | 260.8 | 10.0 | 100.0 |
| of which has been repaid | | | | 35.8 | | |
| Total now outstanding | | | | 225.0 | | |
| Amount sold | | | 12.2 | | | |
| of which has been repaid | | | 11.6 | 0.6 | | |
| Total now held by Bank | | | | 224.4 | 10.0 | |
| Total undisbursed | | | | | | 100.0 |

* Signed on April 3, 1972 and not yet effective

STATEMENT OF IFC INVESTMENTS IN THE PHILIPPINES AT MARCH 31, 1972

| Fiscal Year | Company | Amount (US$ million) Loan | Equity | Total |
|---|---|---|---|---|
| 1963 | Private Development Corp. of the Philippines | - | 4.4 | 4.4 |
| 1967 | Manila Electric Co. | 8.0 | - | 8.0 |
| 1967 | Meralco Securities Corp. | - | 4.0 | 4.0 |
| 1970 | Philippine Long Distance Telephone Co. | 4.5 | - | 4.5 |
| 1970 | Mariwasa Manufacturing Inc. | .8 | .3 | 1.1 |
| 1970 | Paper Industries Corp. of the Philippines | - | 2.2 | 2.2 |
| 1971 | Philippine Petroleum Corp. | 6.2 | 1.8 | 8.0 |
| 1972 | Marinduque Mining and Industrial Corp. | 15.0 | - | 15.0 |
| | Total | 34.5 | 12.7 | 47.2 |
| | Less sold, acquired by others, repaid or cancelled. | 3.5 | 6.7 | 10.2 |
| | Now held | 31.0 | 6.0 | 37.0 |

# PHILIPPINES

## BASIC DATA

| | |
|---|---|
| Area | 297,000 square kilometers |
| **Population** | |
| Total (mid-year 1971) | 38 million |
| Rate of Growth (1960-1970) | 3.1% |
| Density | 128 per square kilometer |
| **Gross National Product** | |
| Total 1971 (current market prices) | ₱48,110 million 1/ |
| Real Growth Rate 1971 | 6.5% |
| Per Capita GNP 1971 | US$197 |

| Gross Domestic Expenditure (current prices; in percent of GDP) | 1969 | 1970 | 1971 1/ |
|---|---|---|---|
| Consumption | 81.7 | 78.0 | 81.6 |
| Private | 71.9 | 70.2 | 72.8 |
| Public | 9.8 | 7.8 | 8.8 |
| Gross Domestic Capital Formation | 19.9 | 20.4 | 21.4 |
| Gross Domestic Saving | 14.7 | 16.7 | 19.3 |
| Resource Gap 2/ | 5.2 | 3.4 | 2.1 |
| Statistical Discrepancy | 3.6 | 5.3 | -3.0 |

| Central Government Operations (in million pesos) | FY 1969 | FY 1970 | FY 1971 |
|---|---|---|---|
| Revenue from domestic sources | 2,862 | 3,111 | 4,297 |
| Current expenditures | 3,056 | 3,328 | 3,758 |
| Capital expenditures 3/ | 661 | 975 | 775 |

| Money and Credit (annual rate of change in percent) | 1969 | 1970 | 1971 |
|---|---|---|---|
| Money Supply | 19 | 6 | 10 |
| Time and Savings Deposits | 10 | 20 | 21 |
| Total Bank Credit Outstanding | 25 | 6 | 7 |

| Price Indices (percent increase) | 1969 | 1970 | 1971 |
|---|---|---|---|
| Consumer price index for the Philippines | 1.7 | 15.3 | 23.1 |
| General wholesale price index for Manila | 0.7 | 19.5 | 15.7 |

| Balance of Payments (US$ million) | 1969 | 1970 | 1971 1/ |
|---|---|---|---|
| Merchandise exports | 875 | 1,083 | 1,144 |
| Merchandise imports | 1,132 | 1,090 | 1,186 |
| Net services | -133 | -141 | -59 |
| Net transfer payments (public and private) | 155 | 119 | 134 |
| Current account deficit/surplus | -234 | -29 | 33 |
| Net errors and omissions | -125 | -224 | -165 |

1/ Preliminary
2/ Including Balance of Payments errors and omissions
3/ Including foreign-financed outlays; excluding capital transfers

| Major Exports (Percent of total exports) | 1969 | 1970 | 1971 |
|---|---|---|---|
| Coconut products | 19 | 20 | 23 |
| Sugar products | 18 | 18 | 20 |
| Forest products | 30 | 28 | 23 |
| Mineral products | 19 | 21 | 19 |
| Others | 14 | 13 | 15 |
| | 100 | 100 | 100 |

| Foreign Exchange Reserves (US$ million) | | 1970 | 1971 |
|---|---|---|---|
| Net Reserves | June | - 71 | - 10 |
| | December | - 46 | - 20 |

| External Public and Private Debt (US$ million) | Dec. 1970 | Dec. 1971 |
|---|---|---|
| 1-5 years' maturity | 510 | 431 |
| Over 5 years' maturity | 1,169 | 1,233 |
| Medium and Long-Term Debt Outstanding | 1,679 | 1,664 |

| Debt Service on external debt at beginning of period | CY 1970 | CY 1971 | CY 1972 1/ |
|---|---|---|---|
| Amortization (Medium and Long-Term) | 264 | 302 | 267 |
| Interest | 95 | 86 | 108 |
| Total | 359 | 388 | 375 |
| Debt service ratio (debt service as percentage of merchandise and invisble exports) | 26.8% | 27.6% | |

| Bank Operations (March 31, 1972) | |
|---|---|
| Bank loans outstanding | US$ 135 million |
| Undisbursed amount | US$ 68 million |

| IMF Position | |
|---|---|
| Quota | US$ 168.0 million |
| Drawings outstanding (Dec. 31, 1971) | US$ 128.5 million |
| Par Value - up to Feb. 21, 1960 | ₱ 3.90 per US$. |
| Floating since Feb. 21, 1970 | |

| Social Indicators | |
|---|---|
| Income Distribution | 1965 |
| Lowest Quintile | 3.5% |
| Highest Quintile | 55.4% |
| Literacy Rate (% adult pop.) | 72% |

| School Enrolment per age group | 1965 | 1970 |
|---|---|---|
| Primary (7-12 years old) 2/ | 110% | 119% |
| Secondary (13-16 years old) | 40% | 62% |

| | 1959-1961 | 1966-1968 |
|---|---|---|
| Unemployment (% Labor Force) | 6.2 | 7.5% |

| | 1969 | 1970 | 1971 |
|---|---|---|---|
| Family Planning (1000 acceptors) | 85 | 210 | 400 |

1/ Projection
2/ Excess of 100% indicates presence of over age students

# PHILIPPINES

## LOAN AND PROJECT SUMMARY

**Borrower:** Republic of the Philippines

**Amount:** US$7.5 million equivalent. The proposed loan would cover the project's estimated foreign exchange component of $4.8 million and $2.7 million of local costs.

**Purpose:** To assist the Government in carrying out its livestock development program through supervised agricultural credit administered by the Development Bank of the Philippines (DBP), assisted by consultants. Credit would be provided as follows:

(a) to about 200 farmers owning less than 10 ha. each for coconut and beef fattening operations

(b) to about 200 farmers owning 10 to 50 ha. each for coconut and beef fattening and breeding operations

(c) to 25 hill beef cattle ranches

(d) to 600 pig farms for breeding and fattening

(e) to 250 poultry-broiler farmers

(f) to 200 poultry layer farmers

(g) to three producer associations to enable each to construct a slaughter house.

All sub-loans over $50,000 would be presented to the Bank for prior approval. About $500,000 of the loan would be used to provide the services of a technical specialist to assist the head of the livestock and poultry group, a beef and coconut production specialist, a pig and poultry production specialist and consultants on pig breeding and the use of sugarcane by-product in cattle production.

**Terms and Conditions:** Payable in 14 years including 6-1/2 years of grace at 7-1/4 percent interest per annum.

**Intermediary:** The Government would lend the proceeds of the loan in pesos to the Development Bank of the Philippines (DBP), which would: Relend to Private Development Banks on variable terms; and

Relend to Producers at 12 percent interest per annum on variable terms biased in favor of small and medium producers.

| Cost of Project: | Components | (US$ millions) Local | Foreign | Total |
|---|---|---|---|---|
| | Fixed Investments | | | |
| | Pasture Establishment | 0.3 | 0.1 | 0.4 |
| | Fencing | 0.1 | 0.0 | 0.1 |
| | Water Facilities | 0.1 | 0.0 | 0.1 |
| | Farm Buildings | 3.1 | 0.5 | 3.6 |
| | Equipment for Farm Buildings | 0.9 | 0.4 | 1.3 |
| | Breeding Stock | 1.5 | 0.1 | 1.6 |
| | Farm Machinery | 0.0 | 0.1 | 0.1 |
| | Slaughterhouse Buildings and Equipment | 0.4 | 0.2 | 0.6 |
| | Miscellaneous | 0.5 | 0.1 | 0.6 |
| | Technical Services | 0.5 | 0.5 | 1.0 |
| | Sub-total | 7.4 | 2.0 | 9.4 |
| | Incremental Working Capital | 3.3 | 2.8 | 6.1 |
| | Total Project Cost | 10.7 | 4.8 | 15.5 |
| Financing: | | | | |
| | IBRD Loan | 2.7 | 4.8 | 7.5 |
| | DBP/PDBs | 5.5 | - | 5.5 |
| | Project Beneficiaries | 2.5 | - | 2.5 |
| | | 10.7 | 4.8 | 15.5 |

**Procurement Arrangments:** Turnkey contracts for slaughterhouses through international competitive bidding. Goods for on-farm investment and incremental working capital through commercial channels.

**Estimated Disbursements:**

(US$ million)

| 1972 | 1973 | 1974 | 1975 | 1976 | 1977 |
|---|---|---|---|---|---|
| 0.2 | 1.6 | 2.5 | 2.2 | 0.6 | 0.4 |

**Consultants:**

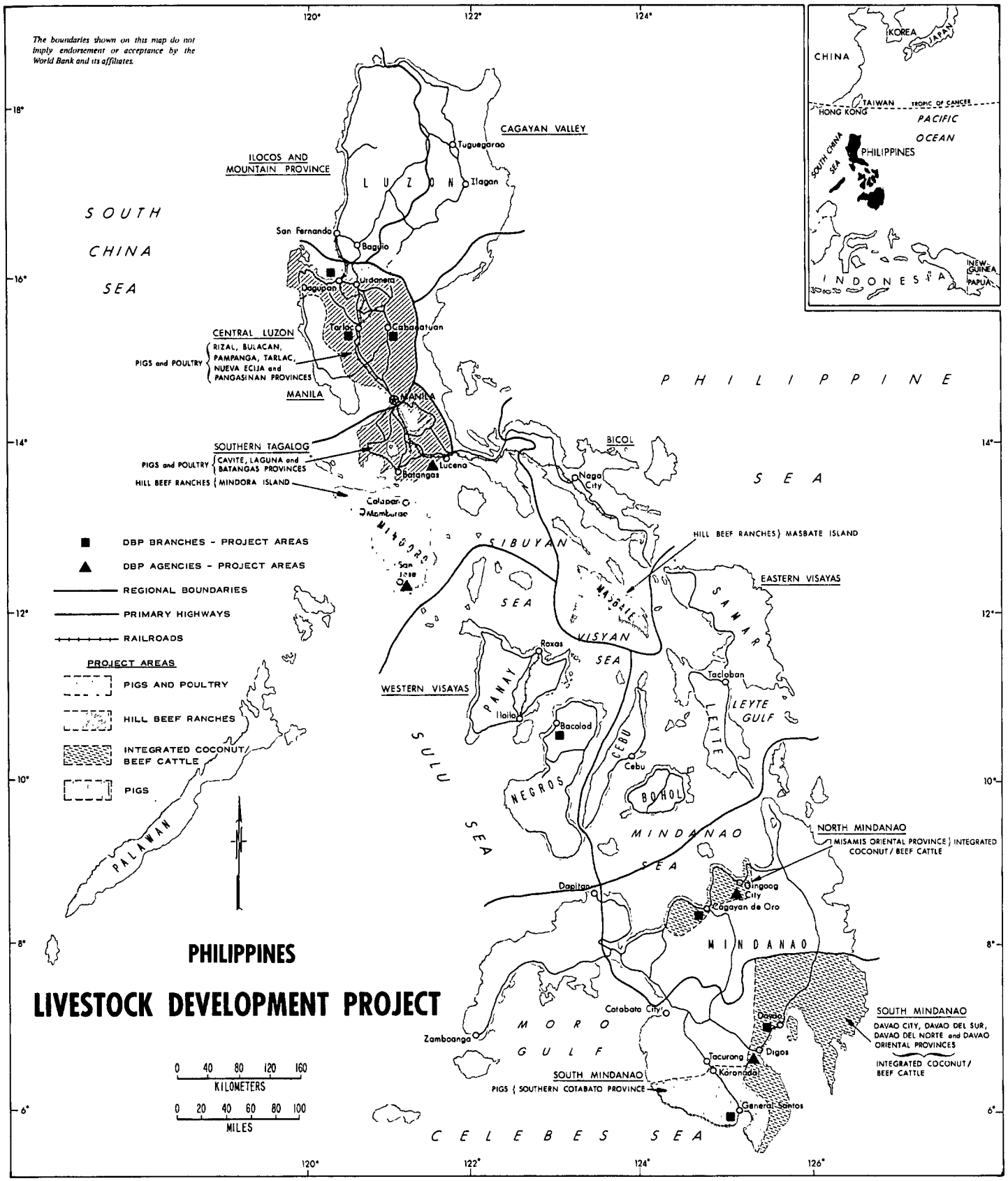
(1) Technical specialist to assist head of livestock and poultry group.

(2) A beef/coconut production specialist and pig and poultry production specialist to assist livestock and poultry group.

(3) Two short-term consultants: one to advise on utilizing molasses and sugar cane tops in cattle production and one to advise on pig breeding.

**Rate of Return:** Economic rate estimated at 36 percent. Rate on producer's investment estimated at from 19 to 47 percent.

**Appraisal Report:** Report No. PA-117a, April 26, 1972, Agriculture Projects Department.

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