

FILE COPY

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No. P-1973-PH

REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED LOAN
TO THE REPUBLIC OF THE PHILIPPINES
FOR THE
JALAU R IRRIGATION PROJECT

January 5, 1977

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

CURRENCY EQUIVALENTS

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

ABBREVIATIONS

ADB	-	Asian Development Bank
ADCC	-	Agricultural Development Coordinating Council
DAR	-	Department of Agrarian Reform
NIA	-	National Irrigation Administration
NISIS	-	National Irrigation Systems Improvement Study
UPRP	-	Upper Pampanga River Irrigation Project

REPUBLIC OF THE PHILIPPINES
FISCAL YEAR

Through 1976:	July 1 - June 30
Beginning 1977:	January 1 - December 31

REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
TO THE EXECUTIVE DIRECTORS ON A PROPOSED LOAN
TO THE REPUBLIC OF THE PHILIPPINES FOR
THE JALAU R IRRIGATION PROJECT

1. I submit the following report and recommendation on a proposed loan to the Republic of the Philippines for the equivalent of \$15 million to help finance the Jalaur Irrigation Project. The loan would have a term of 20 years including four and a half years of grace with interest at 8.5 percent per annum.

PART I - THE ECONOMY

2. An economic mission visited the Philippines in April/May 1975 and its report, "The Philippines: Priorities and Prospects for Development, Basic Economic Report" (Report No. 1095a-PH of May 5, 1976) was distributed to the Executive Directors on May 18, 1976 (SecM/76/366). Paragraphs 3-16 below are an updated summary of that report. Annex 1 contains country economic data./1

3. During the 1960s, the economy grew in real terms at an annual rate of about 5-6 percent. 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 distributed relatively unevenly. As the population and labor force continued to grow rapidly, unemployment rose. Low levels of taxation accentuated these problems and resulted in inadequate public investment in necessary infrastructure and social services. A 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 for the Philippines, 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, the Government initiated a series of social and economic reforms including an agrarian reform program, tax reforms, and an administrative reorganization.

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

/1 This is the same discussion of the economy as that in the President's Report for the Third Highway Project (Report No. P-1960-PH of December 13, 1976).

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 was quite vulnerable to the impact of world inflation, the increase in oil prices, and the prolonged recession in the industrialized countries. While adverse effects of the recession were cushioned somewhat in 1974 by a modest improvement in the external terms of trade, the Philippines was more seriously affected in 1975 by the continued rise in import prices and reduced demand for Philippine exports. While the international economic situation has made it difficult for the Government to realize its objective of accelerating the rate of development, GNP in 1974 and 1975 has, nevertheless, grown in real terms at an annual rate of about 6 percent and the same rate is expected in 1976.

7. Agricultural production has grown at an average rate of 3.2 percent per year during the 1970s, a period which has been characterized by unusually adverse weather conditions. Rice production increased by 25 percent in 1973/74, but because of damage by typhoons, grew by only 1 percent in 1974/75; the Government had to import 200,000 tons in the first half of 1975 to ensure adequate stocks. However, the rice harvest in 1975/76 was very good due to unusually favorable weather conditions and during this period the Philippines was virtually self-sufficient in rice. The Government continues to give the highest priority to further 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 the social services needed in rural areas, including rural electrification, health and family planning services, and village road and small-scale irrigation projects.

8. Although progress has been slower than initially planned, the Government has made some progress with its agrarian reform for the nation's one million tenant farmers who grow rice and corn. By May 31, 1976, the Government had issued Certificates of Land Transfer to 216,000 of the 424,000 tenants on holdings of over 7 hectares; thus, title to 378,000 hectares of the total 825,000 hectares of farms occupied by such tenants has been transferred. 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 and 1975 by the worldwide economic slowdown and the depressed demand for Philippine exports. As a result, industrial production increased by only 4 percent in 1974 and 5 percent in 1975. Stepped-up public sector spending for infrastructure development and other priority projects and for the alleviation of recent flood and earthquake damages has contributed significantly to sustaining the higher level of domestic activity in 1976, especially in the construction industry. The longer 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 over 3 percent, having risen from 1.8 percent in FY72.^{/1} 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. The ratio of national government tax revenues to GNP has increased from an average of 9 percent in the early 1970s to about 12 percent in FY74 and FY75.

11. Significant financial reforms have also been enacted. At the beginning of 1976, the Central Bank issued circulars designed to help rationalize the level and structure of deposit and lending rates; deposit rates were raised for the second time in 18 months; long-standing statutory ceilings on the long-term lending rates of banking institutions were increased from 12-14 percent to 19 percent per annum; and the ceilings on short-term lending rates were raised. Efforts were also made to control short-term money market operations and to strengthen the organized banking institutions. These actions should help to improve the mobilization and allocation of domestic resources in the Philippines.

12. In the latter part of 1973, inflation emerged as a major problem in the Philippines. The increase in prices 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. The annual inflation rate fell from 35 percent in 1974 to 8 percent in 1975, and the authorities aim at keeping inflation below 7 percent in 1976. While monthly inflation rates have generally been lower in 1976 than in 1975, there have been moderate inflationary pressures in the last few months resulting from the damages of recent typhoons to food crops, a 25 percent increase in land transport fares, a significant though long overdue raise in the minimum wages, and an increase in the controlled prices for rice and corn.

13. On the external side, the Philippine balance of payments benefitted 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 increase in export earnings and a current account surplus of about \$550 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 downturn in the economies of the Philippines' main trading partners. As a result, current account deficits of \$240 million in 1974 and about \$900 million in 1975 were incurred. The current account deficits have been offset by direct foreign investment, inflows of medium- and long-term loan capital, the use of IMF facilities and

^{/1} Fiscal year July 1 to June 30.

some short-term borrowing by the Central Bank. During 1976, export receipts are expected to be about 10 percent greater than in 1975, with growth in nonsugar primary exports and nontraditional manufactured exports more than offsetting shortfalls in sugar receipts. Imports are expected to be only about 4 percent greater than in 1975 because of relatively low rates of industrial investment and the excellent rice crop which made rice imports unnecessary. Taking into account trends in services and transfers, the outlook is for a current account deficit of about the same magnitude as in 1975, which will be largely offset by capital inflows; the overall deficit is expected to be about \$200 million. In mid-1976, reserves stood at about \$1.2 billion, equivalent to four months' imports. Assuming continued sound debt management and the maintenance of a reasonable maturity structure of foreign borrowings, the overall level of external debt of the Philippines is expected to remain within reasonable limits, as the ratio of debt service payments to exports and nonfactor 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 17 percent and its share in debt-service is about 4 percent. These shares are expected to increase somewhat in the years ahead.

14. Foreign assistance on concessional terms will be essential to help finance the large 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 and that debt service obligations remain within reasonable limits, total commitments of official assistance will need to be maintained in real terms at least at the annual level of about \$500 million which was achieved in 1974. The Consultative Group for the Philippines at its meeting in Paris on June 15 and 16, 1976, agreed that it would be reasonable for the Philippine Government to seek official aid commitments of about \$600 million in 1976 and \$700 million in 1977. Total new commitments of public and private medium- and long-term capital would reach \$2 billion in 1976 and need to be maintained at approximately this level through 1980.

15. 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. Both the Philippine Government and the Bank's Basic Economic Report estimate that it should be possible in the longer term for the Philippine economy to grow in real terms at a rate of about 7 percent per annum provided that good economic management continues and international economic conditions improve. High priority must be accorded to expanding employment opportunities because unemployment and underemployment are still high, and the labor force continues to grow at 3 percent a year. Continued attention must also be given to expanding the Government's effective family planning program to reduce the rate of growth of the population and the labor force.

16. The Government is pursuing a development strategy which focuses on rural development with emphasis on food production; accelerated industrialization, both in capital-intensive resource based industries and labor-intensive export industries and a substantial expansion in public sector investment in infrastructure to support the growth of the productive sectors. In support of these objectives, the Government plans to continue its efforts to increase

public revenues, to strengthen the capacity of public sector agencies and to foster the growth of exports. The Government 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 productive investments. It will, however, take time for Government programs to have an impact on the balance of payments, and the Government is, therefore, seeking increased support from the international financial community to assist in the financing of its development effort.

PART II - BANK GROUP OPERATIONS

17. By November 30, 1976, the Philippines had received 38 Bank loans ^{/1} (of which two were on Third Window terms) and three IDA credits for a total of \$941.5 million, net of cancellations. About one third of Bank lending, \$306 million, has been for infrastructure projects in power, transportation, and water supply and another third, \$303 million, has been for agriculture. Of the remainder, about \$250 million has been for industry and about \$83 million has been for social sector projects in education, population and urban development. There has been a marked improvement in the execution of Bank-financed projects in the last four years compared with experience in the 1960s, when there were serious problems caused by a shortage of peso counterpart funds and poor administration. All ongoing projects are now being implemented reasonably well. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of November 30, 1976, and notes on the execution of ongoing projects.

18. The Bank's lending program has been designed to continue to support the Philippine development effort with its emphasis on agriculture and infrastructure and its growing attention to the needs of lower income groups. About one third of Bank lending planned for the future would continue to be for agriculture and rural development projects and another third would be for needed basic infrastructure projects, mainly in the fields of transportation and power. The amount of lending for social sector projects, including education, population and urban development, is expected to continue to grow rapidly and account for nearly 20 percent of future lending. The balance of future lending would be for industrial development, where growing attention is being given to the needs of small and medium industries with high employment potential. The rapid growth in public revenues during the past five years has allowed for a significant expansion in public investment and both the ambitious Philippine development program and the Bank's growing lending program have been designed to make good past neglect and to meet future needs. Bank lending totalled \$165.1 million in FY74, \$208 million in FY75 and \$268 million in FY76 compared to about \$30 million a year in the preceding five years.

19. This is the second loan to be presented to the Executive Directors in FY77. Other loans which may be ready for presentation later in FY77 are for

^{/1} On December 23, 1976, the Executive Directors approved a loan of \$95 million for a Third Highway Project.

agricultural credit, land settlement, education, power, irrigation and water supply projects; a smallholder tree farming and forestry development project and an inter-island shipping project may be ready in early FY78. A number of these projects are designed to help the Government meet its objective of increasing the productivity and incomes of the poorer segments of the population.

20. As of October 31, 1976, IFC has made commitments in the Philippines totalling \$78.9 million for investment in 14 companies in the fields of development banking, power, telecommunications, ceramic tiles, paper, petroleum products, nickel mining and refining, chemicals and synthetic fibres and edible oils. Of these investments, \$18.1 million had been sold, \$0.4 million cancelled and \$7.2 million repaid, leaving a net portfolio of \$53.3 million, including \$2.8 million undisbursed. Preliminary proposals have been received for projects in the wood and mining industry.

PART III - THE AGRICULTURAL SECTOR

21. Agriculture is the predominant sector in the Philippine economy accounting for about one third of net domestic product, over one half of total employment and nearly three quarters of export earnings. Over 70 percent of the 9 million ha of land under cultivation is used for the production of cereals, of which rice and corn are the most important. The remaining land is taken up by the major export crops: sugar, coconuts, abaca, pineapples, and tobacco.

22. The performance of the agricultural sector will be crucial in determining whether the Philippines can increase income both rapidly and equitably. At present, the domestic market for industrial products is limited by relatively low rural incomes. Although in recent years there has been a substantial change in the terms of trade in favor of agriculture, the problems of poverty and income distribution continue to be particularly acute in rural areas; of the 15 million people in the bottom 40 percent of the income scale, 12 million live in rural areas. The Government is aware of these problems and as noted in paras. 7 and 8, has initiated a number of programs designed to assist the rural poor.

23. The major goals the Government has set for the sector are sustained self-sufficiency in cereals, particularly rice and corn; development of the livestock and fisheries subsectors; and expansion of agricultural exports. Sustained self-sufficiency in cereals would not only strengthen the balance of payments, but would also help raise incomes for much of rural population. The ability to assure self-sufficiency in rice will depend largely on improving yields through increased cropping intensity, the increased use of fertilizer and agro-chemicals and

the provision of adequate credit and other supporting services. High yielding varieties, which helped to increase production in the late 1960s, require a much higher degree of water control than is possible under rainfed conditions or with the typical unimproved irrigation systems in the Philippines. At present, out of 3.2 million ha planted to rice, only 1.3 million ha, or 40 percent, is irrigated. A program to upgrade and expand irrigation to cover an additional 50,000 ha of rice land a year over the next decade would be needed to meet the growing domestic rice demand on a sustained basis. Investment in irrigation is therefore of high priority.

24. Since the late 1960s, the National Irrigation Administration (NIA), with assistance from the Bank and from the Asian Development Bank (ADB), has been engaged in upgrading and extending large irrigation systems, mainly in Luzon and to a lesser extent in Mindanao. In addition to rehabilitation of existing canals and structures, the construction of new ones, the provision of better drainage and access and the introduction of water management and rotational irrigation practices, additional water supply is being provided in some areas through the construction of storage or by transbasin diversion. However, NIA has not neglected the need for rehabilitation and upgrading of the badly deteriorated smaller systems scattered throughout the Philippines. The National Irrigation Systems Improvement Study is expected to lead to projects increasing rice production on a total of about 150,000 ha with the highest priority for improvement in a number of regions of the Philippines. A first project in Leyte in the Eastern Visayas and in Northern Luzon, which are among the poorest areas of the country, has already been appraised by the Bank.

25. About one half of the expected Bank lending for agriculture in the Philippines in the next five years is likely to be for irrigation. The proposed project would be the seventh Bank-assisted irrigation project designed to increase rice production in the Philippines. It is the first such project on the Visayan islands. The first six projects, three in Central Luzon, two in the Cagayan Valley of Northern Luzon and one on Mindoro Island,^{/1} set the pattern for the type of irrigation rehabilitation, new construction and operations needed for increasing rice production in the Philippines. These projects are providing improved irrigation and drainage facilities, better road systems needed for efficient operation and maintenance and marketing of farm products, stronger supporting services to assist farmers in adopting the new techniques needed to increase production, and technical assistance and training to help the National Irrigation Administration (NIA) to expand and improve its irrigation program. These projects, together with the project now proposed, will bring about substantial increases in rice production on about 235,000 ha and will benefit nearly 100,000 farmers, most of whom are smallholders. As noted in Annex II, while there have been some difficulties in attracting interest

^{/1} Upper Pampanga River Irrigation Project, Aurora-Penaranda Irrigation Project, Tarlac Irrigation Systems Improvement Project, Mindoro Rural Development Project, Magat River Multipurpose Project Stage I and Chico River Irrigation Project Stage I, financed by Loan 637-PH, Loan 948-PH/ Credit 472-PH, Loan 1080-PH, Loan 1102-PH, Loan 1154-PH and Loan 1227-PH respectively.

in bidding on the part of local contractors and there have been substantial cost increases under some of the projects, these problems are being overcome and progress under the projects is generally satisfactory. All of the projects are expected to have high economic benefits.

PART IV - THE PROJECT

Background

26. The proposed project would follow the same basic approach to improving and expanding four national irrigation systems on Panay island in the Western Visayas. In terms of size, it would fall between the larger Bank-financed projects in Luzon and the smaller, scattered projects now being prepared under the National Irrigation Systems Improvement Study. As the first Bank-financed irrigation project on the Visayan islands, it would contribute to the Government's objective of achieving a more regionally balanced distribution of development.

27. The Jalaur irrigation project feasibility report was prepared by NIA with the assistance of consultants. The project was appraised in June-July 1976 and negotiations were held in November 1976. The leader of the Government negotiating team was His Excellency Eduardo Z. Romualdez, the Philippines' Ambassador to the United States. The Appraisal Report (No. 1311a-PH) on the project is being circulated separately to the Executive Directors. Annex III of this report contains a loan and project summary.

The Project Area

28. The project is located in Iloilo Province on Panay island in the Western Visayas. The Panay region is a surplus producer of rice and contains about 12 percent of the area annually planted to rice in the Philippines and accounts for 12 percent of total national production. The Iloilo Province of Panay accounts for 35 percent of the region's rice production and exports 65 percent of its rice production to the nearby island of Negros. The mean rice yield in Iloilo is about 18 percent above the national average. This is due to the existence of irrigation systems, fertile soils well suited to rice production, good external drainage, rapid adoption of high yielding varieties, the relative absence of typhoons, and a fairly even distribution of rainfall. The project area accounts for about 40 percent of the rice area and 60 percent of rice production in Iloilo. There are a number of small towns with populations of between 5,000 and 10,000 in the project area; larger towns, including the provincial capital, provide banking, storage and processing facilities as well as supplies of inputs to the surrounding agricultural area. The project area is connected to the provincial capital and port of Iloilo by a national highway and a paved provincial road.

29. About 12,000 farm families live in the project area. The average farm size is 2.1 ha; two thirds of the farms, accounting for more than half the total area, range from 1 to 3 ha and more than 95 percent of the farms, accounting for 85 percent of the total area, are less than 5 ha. Per capita incomes on rice farms of 1.5 - 3 ha range from \$45 to \$135, or between 12 and 35 percent of national per capita income. About 75 percent of the farm families are presently at or below the absolute poverty level for the Philippines.

30. Under the Government's land reform program, land transfer certificates have been issued to all tenants in the country on rice and corn holdings of more than 24 ha and the Government is now proceeding with transfer on land holdings of between 7 and 24 ha. Under the Government's program, tenants on holdings of less than 7 ha will no longer be share croppers, but will be protected by lease agreements providing for payment of fixed rents. Of the 12,000 farm families in the project area, about 9,000 are tenants on 17,600 ha. Land transfer certificates have already been issued to about 2,650 tenants on about 4,200 ha and the transfer of land on holdings of more than 7 ha will eventually benefit about 4,100 tenants who will own more than 6,600 ha. When the land transfer has been completed, some 7,100 owner operators, or 59 percent of the farmers, will own and cultivate 12,700 ha (average size of holdings will be 3 ha irrigated and 5 ha unirrigated land), or 54 percent of the land in the project area. The remaining 4,900 tenant farmers would operate under leasehold agreements.

Description of the Project

31. The proposed project would upgrade four existing irrigation systems and extend irrigation service to currently rainfed rice lands, a total of 24,700 ha, to standards adopted for similar Bank-assisted projects in the Philippines. The project would include:

- (a) rehabilitation of four existing NIA irrigation and drainage systems serving a total area of 22,000 ha;
- (b) construction of new irrigation and drainage facilities for about 2,700 ha;
- (c) construction of project headquarters building and facilities for operation and maintenance;
- (d) procurement of vehicles and equipment;
- (e) the provision of technical assistance to NIA for further studies on the expansion of the project; and
- (f) a water management training program.

Project Cost and Financing

32. The project is estimated to cost a total of \$34 million, of which \$15 million, or 44 percent, would be in foreign exchange. The cost estimates include provision for physical contingencies of 25 percent for irrigation and drainage works and 10 percent for the operation and maintenance facilities and water management training program. The cost estimates also include price contingencies, amounting to 26 percent of total project cost, which take into account the projected rates of international and domestic inflation. The Bank loan of \$15 million would finance the foreign exchange cost of the project. The Government would finance the balance of \$19 million from budgetary resources. To ensure timely and continuous flow of funds for implementation of the project, NIA has set up a special account (Section 3.01 (b), draft Loan Agreement). The Government would deposit money in the account and replenish it at monthly intervals to a level equivalent to the estimated payments for goods and services required for the project during each subsequent two-month period less the estimated payments to be made by the Bank directly to suppliers and contractors. The arrangement is similar to those adopted under previous Bank-financed irrigation projects.

Project Execution

33. The project would be implemented by the NIA, which was established in 1964 to develop, operate and maintain all national irrigation systems in the Philippines. It has recently been reorganized to meet the Government's program of accelerated irrigation development. Major foreign assisted projects have been placed under a Special Projects Organization headed by an Assistant Administrator. To help the Assistant Administrator carry out his heavy responsibilities, NIA proposes to employ two officers with broad experience in public and/or business administration.

34. Outside the headquarters, NIA is organized on a regional basis. There are ten irrigation regions, each of which is headed by an Engineer. The Regional Engineer, stationed in Iloilo, would be appointed Project Manager for the proposed project. There would be an Assistant Project Manager who would be stationed in the project headquarters in the project area. He would have the day-to-day responsibility for project construction and would report to the Project Manager in Iloilo, who would in turn report to the Assistant Administrator in charge of the Special Projects Organization.

35. For operation and maintenance purposes, NIA would establish in the project area four support divisions dealing with engineering and operation, administration, agriculture and equipment. For administrative purposes, the project area would be divided into two irrigation districts serving about 14,600 ha and 10,000 ha respectively. The Director, who supervises the Central Luzon and Magat water management training programs, would also be in charge of water management training for the Jalaur project. A field supervisor would be attached to each of the two irrigation districts to be responsible for the day-to-day operation of the training program. To coordinate the provision of agricultural services to farmers, the Government would establish an Agricultural Development Coordinating Council in Iloilo Province (Section 3.01 (c),

draft Loan Agreement). The Council would consist of senior officers of Government agencies concerned with agriculture development in the project area. It would be chaired by an NIA representative. This arrangement has worked well under the earlier irrigation projects financed by the Bank.

36. The Agriculture Department of the Special Projects Organization in NIA headquarters would be responsible for monitoring use of farm inputs, adequacy of support services and progress in agricultural production and land reform. The Department already performs these functions in the Bank-assisted Luzon projects.

Cost Recovery

37. Following discussions with the Bank in 1975 and 1976 in connection with the Magat River Multipurpose Project and the Chico River Irrigation Project (Loans 1154-PH and 1227-PH), NIA has agreed to review the rate of collection of water charges for the national irrigation systems and to identify factors affecting such collections. A report completed in June 1976 showed that for FY75 the total rate of collection was 59 percent, a small improvement over the FY74 collection performance. However, preliminary information indicates that for FY76 the national collection rate has fallen to 25 percent since the fourfold increase in water charges in July 1975. The collection rate in the region which includes the project is among the better ones in the country. The study also resulted in some preliminary findings on the factors affecting collections. NIA is making the necessary arrangements to study the factors in greater depth. The objective of the investigations will be to identify administrative and managerial obstacles to improved collection, as well as to determine the causes of farmers' resistance to payment. In view of the problems encountered in collecting water fees, NIA would prepare, by October 31, 1978, a plan of action for improved collection of irrigation fees for review by the Bank and implement this program thereafter (Section 4.04, draft Loan Agreement).

38. NIA is authorized to collect from users of irrigation systems, fees to finance the costs of operation and maintenance of the system and to recover construction costs. Irrigation fees on national irrigation systems were raised in July 1975 to the equivalent of 2.0 cavans (100 kilograms) of paddy per ha in the wet season and 3.0 cavans (150 kilograms) in the dry season, to be applied uniformly to all national irrigation systems. As an exception to the uniform rate policy, the Government has agreed to raise the rates on the Bank-assisted Central and Northern Luzon Projects to a level equivalent to about 3.5 cavans (175 kilograms) of paddy per ha in the wet season and 4.4 cavans (220 kilograms) in the dry season. These rates would be reached gradually over a period of five years from completion of construction of each project. It has been agreed that the same rates would apply to the proposed

Jalaur project. As a result, one third of the farms' total surplus (after deducting imputed returns to capital, labor management and uncertainty) would be paid in water charges.

Procurement

39. Civil works in the project service area (\$13.7 million) would be scattered over five separate areas and have to be planned and executed as far as possible to take into account the growing season and bad weather. This work would not be suitable for international competitive bidding as it consists of relatively small systems and would be phased over the project implementation period. In the past, NIA has experienced considerable difficulty in attracting bids for such works. Several steps have been taken through Bank-assisted projects to strengthen local contractors, including the financing of reconditioned equipment and providing mobilization allowances. This has resulted in encouraging results in recent bids. Nevertheless, it is doubtful that all civil works could be done by local contractors; some of the works would therefore have to be carried out by force account. At the same time, it would not be desirable for NIA to expand its force account work too rapidly because of its heavy work program in the years ahead. Therefore, the amount of work to be done by NIA by force account would be limited to not more than 40 percent of the total cost of the civil works (para. B (i), Schedule 4 to the draft Loan Agreement). The balance of this work would be carried out on the basis of competitive bidding procedures advertised locally in accordance with procedures which are acceptable to the Bank.

40. Equipment and vehicles for force account construction, operation and maintenance and the water management training program, costing about \$4.5 million, would be procured after international competitive bidding in accordance with the Bank's Guidelines. For purposes of bid comparison, a preference limited to 15 percent of the c.i.f. price of imported goods, or the customs duty, whichever is the lower, would be extended to qualified local manufacturers. Off-the-shelf items costing less than \$10,000 each would be procured through existing Government procedures, which are acceptable to the Bank, because any advantage of international competitive bidding would be clearly outweighed by the administrative costs involved. The total cost of such items would not exceed \$200,000 (para. B (ii), Schedule 4 to the draft Loan Agreement). There is adequate local competition for such items.

Disbursements

41. The Bank loan would be disbursed for 100 percent of the c.i.f. cost of directly imported equipment and vehicles, 100 percent of the ex-factory cost of such items manufactured locally and 65 percent of such items imported but procured locally. Disbursements for civil works would be 25 percent of certified monthly payments or expenditures. For civil works contractors' mobilization, and equipment, the loan would be disbursed for 100 percent of foreign exchange cost. For consultants for the study of the possible future expansion of the project, the loan would be disbursed for 100 percent of total cost.

Environmental Effects

42. Schistosomiasis does not exist in the project area and malaria is not a serious problem. The project would correct poor drainage in scattered areas and the incidence of the mosquito nuisance caused by poor drainage in the low-lying areas behind the belt of coastal fishponds would be reduced by improved project drainage. The principal health problems in the area are protein deficiencies in the preschool-age children, enteric diseases and tuberculosis. The project would have little direct impact on them.

Benefits and Justification

43. The proposed project would contribute to the Philippine Government's objective of attaining self-sufficiency in rice, improving the productivity and incomes of small farmers and promoting balanced regional redistribution of development at a capital cost of \$2,010 per benefited farm family. The project would provide better water control, improved drainage and necessary agricultural supporting services and thus increase rice yields and production on 24,700 ha currently dependent on run-of-the-river irrigation and rainfed cultivation. Total paddy production in the project area would increase from 80,000 tons at present to 147,000 tons per annum at full development. The project would provide the equivalent of an additional 3,500 full-time jobs. Some 12,000 farm families and 2,000 landless labor families for a total of about 80,000 people would benefit directly from the project. At full project development in 1985, per capita farm income in the project area would increase in real terms from \$45-135 at present to \$110-390, compared to projected national average per capita GNP of \$550 in that year. The project would also provide farmers with increased access to markets through an improved and denser network of roads to be constructed along the canals and drainage system as part of the construction of the system.

44. Assuming a project life of 50 years, rice and fertilizer farm gate prices based on the Bank's commodity price forecast and appropriate shadow prices for unskilled labor and foreign exchange, the economic rate of return of the project would be 20 percent. Sensitivity tests indicate that even under a number of adverse assumptions, the rate of return would not fall below 15 percent. If shadow prices for unskilled labor and foreign exchange were not applied, the internal rate of return of the project would be 18 percent.

45. At full agricultural development, the project would result in rice import savings of about \$10 million per year at the forecast world market prices. This would mean a net foreign exchange saving of about \$9 million.

46. There are no unusual risks associated with the project. The risks normally associated with irrigation projects have been accounted for in the estimates of yields and of the areas to be irrigated during the dry season.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

47. The draft Loan Agreement between the Republic of the Philippines and the Bank, the Report of the Committee provided for under Article III,

Section 4 (iii) of the Articles of Agreement of the Bank and the resolution approving the proposed loan are being distributed separately to the Executive Directors.

48. Features of the Loan Agreement of special interest are described in paragraphs 32, 35, 37 and 38 this report.

49. I am satisfied that the agreement would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

50. I recommend that the Executive Directors approve the loan.

Robert S. McNamara
President

Attachments

January 5, 1977

PHILIPPINES
 TABLE 3A
 - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM2)	PHILIPPINES			REFERENCE COUNTRIES (1970)					
	TOTAL	AGRIC.		1960	1970	MOST RECENT ESTIMATE	THAILAND	TURKEY	KOREA, REP. OF **
TOTAL	300.0			140.0	230.0	370.0	210.0	480.0	270.0
AGRIC.	116.3								
GNP PER CAPITA (US\$)				140.0	230.0	370.0	210.0	480.0	270.0
POPULATION AND VITAL STATISTICS									
POPULATION (MID-YR, MILLION)				27.4	36.9	42.5	36.3	35.7	31.4
POPULATION DENSITY PER SQUARE KM.				91.0	123.0	142.0	71.0	46.0	319.0
PER SQ. KM. AGRICULTURAL LAND				..	279.0	326.0 ^{/a}	..	67.0	1320.0
VITAL STATISTICS									
AVERAGE BIRTH RATE (/THOU)				45.1	44.2	43.8	44.3	40.6	35.0
AVERAGE DEATH RATE (/THOU)				17.9	13.2	10.5	13.7	14.4	11.4
INFANT MORTALITY RATE (/THOU)				..	80.0	68.0 ^{/a}	80.0	145.0	..
LIFE EXPECTANCY AT BIRTH (YRS)				49.4	55.6	58.4	55.5	54.4	57.7
GROSS REPRODUCTION RATE				3.5 ^{/a}	3.3	3.3	3.2	2.6 ^{/a,b}	2.6
POPULATION GROWTH RATE (%)									
TOTAL				3.0	3.0	2.9	3.1	2.5	2.3
URBAN				4.0	4.0	4.0	4.9	4.2	6.4
URBAN POPULATION (% OF TOTAL)									
				25.3	27.6	29.0	15.0	31.2	41.2
AGE STRUCTURE (PERCENT)									
0 TO 14 YEARS				45.7	45.6	44.0 ^{/a}	45.0	41.8	42.1
15 TO 64 YEARS				51.6	51.6	51.0 ^{/a}	52.0	53.9	54.6
65 YEARS AND OVER				2.7	2.8	2.0 ^{/a}	3.0	4.3	3.3
AGE DEPENDENCY RATIO									
ECONOMIC DEPENDENCY RATIO				0.9	0.9	0.9	0.9	0.9	0.8
				1.3 ^{/b}	1.5	1.4 ^{/b}	1.1	1.1 ^{/c}	1.4
FAMILY PLANNING									
ACCEPTORS (CUMULATIVE, THOU)				..	354.0	2872.5	470.0	..	..
USERS (% OF MARRIED WOMEN)				..	2.0	19.0	10.0	8.2	42.0
EMPLOYMENT									
TOTAL LABOR FORCE (THOUSAND)				10100.0	12300.0	14200.0	16700.0	14500.0 ^{/d}	10400.0
LABOR FORCE IN AGRICULTURE (%)				61.0	55.0 ^{/a}	56.0 ^{/c}	79.0	67.0	50.5 ^{/a}
UNEMPLOYED (% OF LABOR FORCE)				6.0	7.0	4.0	..	4.0 ^{/e}	5.0 ^{/b}
INCOME DISTRIBUTION									
% OF PRIVATE INCOME REC'D BY-									
HIGHEST 5% OF HOUSEHOLDS				28.8	..	24.8 ^{/d}	..	32.8 ^{/f}	17.1
HIGHEST 20% OF HOUSEHOLDS				56.2	..	54.0 ^{/d}	..	60.6 ^{/f}	44.5
LOWEST 20% OF HOUSEHOLDS				4.2	..	3.9 ^{/d}	..	2.9 ^{/f}	7.1
LOWEST 40% OF HOUSEHOLDS				11.9	..	11.9 ^{/d}	..	9.4 ^{/f}	17.7
DISTRIBUTION OF LAND OWNERSHIP									
% OWNED BY TOP 10% OF OWNERS				..	..	..	..	53.0	28.0
% OWNED BY SMALLEST 10% OWNERS				..	..	..	..	0.9	2.0
HEALTH AND NUTRITION									
POPULATION PER PHYSICIAN				..	..	3220.0 ^{/a}	7970.0	2220.0	2210.0 ^{/g}
POPULATION PER NURSING PERSON				..	..	2000.0 ^{/b}	6650.0	1880.0 ^{/g}	1760.0 ^{/g}
POPULATION PER HOSPITAL BED				1180.0	850.0	..	850.0	490.0	1920.0
PER CAPITA SUPPLY OF -									
CALORIES (% OF REQUIREMENTS)				83.0	100.0	97.0 ^{/a}	105.0	110.0	103.0
PROTEIN (GRAMS PER DAY)				44.0	45.0	47.0 ^{/f}	52.0	78.0	65.0
- OF WHICH ANIMAL AND PULSE				19.0 ^{/c}	22.0	..	17.0 ^{/a}	22.0 ^{/h}	19.0
DEATH RATE (/THOU) AGES 1-4									
				9.0 ^{/d}	9.0	9.3 ^{/a}	..	15.0 ^{/b}	..
EDUCATION									
ADJUSTED ENROLLMENT RATIO									
PRIMARY SCHOOL				91.0 ^{/a}	108.0 ^{/b}	110.0 ^{/a,g}	82.0 ^{/b}	111.0 ^{/i}	104.0
SECONDARY SCHOOL				26.0 ^{/e}	48.0 ^{/b}	48.0 ^{/a,g}	16.0 ^{/b}	28.0 ^{/i}	41.0
YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)									
				10.0	10.0	10.0	12.0	11.0	12.0
VOCATIONAL ENROLLMENT (% OF SECONDARY)									
				14.0 ^{/f}	6.0 ^{/c}	9.0 ^{/a}	14.0 ^{/c}	14.0	16.0
ADULT LITERACY RATE (%)									
				..	..	72.0 ^{/a}	79.0	55.0 ^{/i}	87.0
HOUSING									
PERSONS PER ROOM (AVERAGE)									
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)				..	2.1	..	..	1.9	2.7
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)				80.0	76.0	..	..	64.0	80.0 ^{/d}
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)				17.0	23.0	..	..	41.0	50.0
				..	7.0	..	..	18.0	30.0
CONSUMPTION									
RADIO RECEIVERS (PER THOU POP)				22.0	45.0	45.0	78.0	89.0	126.0
PASSENGER CARS (PER THOU POP)				3.0	8.0	9.0	5.0	4.0	2.0
ELECTRICITY (KWH/YR PER CAP)				100.0	235.0	315.0	124.0	247.0	307.0
NEWSPRINT (KG/YR PER CAP)				1.3	2.0	1.5	1.0	0.7	3.4

SEE NOTES AND DEFINITIONS ON REVERSE

NOTE

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

** Korea has been selected as an objective country 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.

PHILIPPINES	1960	<u>A</u> 1950-55; <u>B</u> Ratio of population under 15 and 65 and over to total labor force; <u>C</u> 1960-62; <u>D</u> 1962; <u>E</u> 7-12 and 13-16 years of age respectively; <u>F</u> Not including vocational short-term courses.
	1970	<u>A</u> As percentage of employment; <u>B</u> 7-12 and 13-16 years of age respectively; <u>C</u> Not including private vocational schools or vocational short-term courses.
	MOST RECENT ESTIMATE:	<u>A</u> 1972; <u>B</u> Ratio of population under 15 and 65 and over to total labor force; <u>C</u> As percentage of employment; <u>D</u> 1971; <u>E</u> Including midwives; <u>F</u> 1969-71 average; <u>G</u> 7-12 and 13-16 years of age respectively.
THAILAND	1970	<u>A</u> 1964-66; <u>B</u> 7-13 and 14-18 years of age respectively; <u>C</u> Public schools which include technical education at the post-secondary level.
TURKEY	1970	<u>A</u> Excludes 17 eastern provinces; <u>B</u> 1965-67; <u>C</u> Ratio of population under 15 and 65 and over to labor force 15 years and over; <u>D</u> 15 years and over, excludes unemployed; <u>E</u> Registered only; <u>F</u> Disposable income; <u>G</u> Including assistant nurses and midwives; <u>H</u> 1964-66; <u>I</u> 7-11 years of age; <u>J</u> Persons 6 years old and over who tell the census takers they can read and write.
KOREA, REP. OF	1970	<u>A</u> As percentage of employment; <u>B</u> Registered; <u>C</u> Registered, not all practicing in the country; <u>D</u> Water piped inside.

R8, November 3, 1976

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960, 1970 and 1975 data.

Population and vital statistics

Population (mid-yr. million) - As of July first; if not available, average of two end-year estimates; 1960, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Gross birth rate per thousand - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Gross death rate per thousand - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food as defined as above; requirements for all countries established by ISDA Economic Research Services 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 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.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 1-4 - Annual deaths per thousand in age group 1-4 years, to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (average) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearse and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita; generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newspaper (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newspaper.

ECONOMIC INDICATORS /1

	<u>GROSS NATIONAL PRODUCT IN 1974</u>		<u>ANNUAL RATE OF GROWTH (% , constant prices)</u>					
	<u>US\$ million</u>	<u>%</u>	<u>1960-65</u>	<u>1965-70</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
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

	<u>Value Added</u>		<u>Labor Force /2</u>		<u>V.A. per worker</u>	
	<u>US\$ million</u>	<u>%</u>	<u>Million</u>	<u>%</u>	<u>US\$</u>	<u>%</u>
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

	<u>General Government</u>			<u>Central Government</u>		
	<u>(Million)</u>	<u>% of GDP</u>		<u>(Pesos million)</u>	<u>% of GDP</u>	
	<u>197</u>	<u>197</u>	<u>196 -7</u>	<u>FY74</u>	<u>FY74</u>	<u>FY71-73</u>
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

	<u>1965</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
	<u>(Million Pesos Outstanding End Period)</u>						
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	24,531	26,906	34,326
	<u>(Percentages or Index Numbers)</u>						
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 FLOWSBALANCE OF PAYMENTS

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
		(US\$ million)		
Exports of Goods, NFS	1,432	2,443	3,357	
Imports of Goods, NFS	<u>1,484</u>	<u>2,008</u>	<u>3,782</u>	
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	-22	77	59	
Net MLT Borrowing				
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	876	1,165	
<u>Fuel and Related Materials</u>				
Imports of Goods, NFS	1,514	2,008	3,782	
of which: Petroleum	147	184	653	

RATE OF EXCHANGE

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

MERCHANDISE EXPORTS (AVERAGE 1972-74)

	<u>US\$ million</u>	<u>%</u>
Coconut Products	403	21.2
Sugar Products	426	22.4
Forest Products	337	17.7
Mineral Products	393	20.7
Fruits & Other Agric. Products	117	6.2
Other Manufactures	224	11.8
Total	1,900	100.0

EXTERNAL DEBT, DECEMBER 31, 1974 /6

	<u>US\$ million</u>
Public Debt, including Guaranteed	1,113
Non-Guaranteed Private Debt	985
Total Outstanding and Disbursed	2,098

DEBT SERVICE RATIO FOR 1974 /7

	<u>%</u>
Public Debt, including Guaranteed	6.6
Non-Guaranteed Private Debt	8.9
Total Outstanding and Disbursed	15.5

IBRD/IDA LENDING, OCTOBER 31, 1976 (US\$ million)

	<u>IBRD</u>	<u>IDA</u>
Outstanding and Disbursed	302.6	25.4
Undisbursed	521.2	6.8
Outstanding, incl. Undisbursed	823.8	32.2

/1 Includes SDRs, short-term private loans, Central Bank liabilities and use of IMF credit.

/2 Errors and omissions.

/3 Includes net commercial bank holdings plus foreign exchange holdings of Central Bank and monetary gold. This entry is equivalent to the change in international reserves.

/4 Includes Central Bank and commercial bank reserves.

/5 Gross reserves of Central Bank plus net reserves of commercial banks.

/6 Excludes short-term debt and IMF standby credit and is on a disbursement basis.

/7 Ratio of Debt-Service to Exports of Goods and Nonfactor Services.

THE STATUS OF BANK GROUP OPERATIONS IN THE PHILIPPINES

A. STATEMENT OF BANK LOANS AND IDA CREDITS
As of November 30, 1976 /1

Loan or Credit Number	Year	Borrower	Purpose	Amounts (US\$ millions)		
				Bank	IDA	Undisbursed
Fourteen loans and one credit fully disbursed				196.5	10.0	
637-PH	1969	Republic of the Philippines	Irrigation	34.0		0.8
720-PH	1971	"	Rice Processing and Storage	14.3		8.4
809-PH	1972	National Power Corporation	Power	22.0		8.5
349-PH	1973	Republic of the Philippines	Education II		12.7	5.5
891-PH	1973	"	Fisheries	11.6		6.0
939-PH	1973	"	Ports	6.1		5.2
950-PH	1973	"	Highway II	68.0		31.6
472-PH	1974	"	Aurora-Penaranda Irrigation		9.5	1.2
984-PH	1974	"	Aurora-Penaranda Irrigation	9.5		9.3
998-PH	1974	"	DFC-DBP I	50.0		13.3
1010-PH	1974	"	Third Rural Credit	22.0		0.1
1034-PH	1974	National Power Corporation	Power	61.0		39.1
1035-PH	1974	Republic of the Philippines	Population	25.0		24.0
1048-PH	1974	"	Shipping	20.0		19.2
1052-PH	1974	Philippine National Bank	DFC	30.0		25.5
1080-PH	1975	Republic of the Philippines	Tarlac Irrigation	17.0		16.2
1102-PH	1975	"	Rural Development	25.0		24.8
1120-PH	1975	"	Small and Medium Industries	30.0		16.2
1154-PH	1976	"	Magat Irrigation	42.0		41.4
1190-PH	1976	"	DFC-DBP II	75.0		75.0
1224-T-PH	1976	"	Education III	25.0		22.8
1225-PH	1976	"	Livestock II	20.5		18.6
1227-PH	1976	"	Chico Irrigation	50.0		50.0
1272-T-PH	1976	"	Manila Urban	10.0		10.0
1282-PH	1976	"	Manila Urban	22.0		22.0
1269-PH	1976	"	Second Grain Processing	11.5		11.5
1270-PH	1976	"	Second Fisheries	12.0		12.0
Total				<u>910.0</u>	<u>32.2</u>	<u>518.2</u>
of which has been repaid (Bank and third parties)				88.0	-	
Total now outstanding				<u>822.0</u>	<u>32.2</u>	
Amount sold				13.3		
of which has been repaid (third parties)				<u>12.6</u>	0.7	-
Total now held by Bank and IDA (prior to exchange rate adjustments)				<u>821.3</u>	<u>32.2</u>	
Total undisbursed				<u>511.4</u>	<u>6.8</u>	<u>518.2</u>

/1 A loan of \$95 million for a third highway project was approved by the Executive Directors on December 23, 1976.

B. STATEMENT OF IFC INVESTMENTS
As of November 30, 1976

<u>Fiscal</u> <u>Year</u>	<u>Company</u>	<u>Amounts (\$ million)</u>		
		<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1963 & 1973	Private Development Corporation of the Philippines	15.0	4.4	19.4
1967	Manila Electric Company	8.0	-	8.0
1967	Meralco Securities Corporation	-	4.0	4.0
1970	Philippine Long Distance Telephone company	4.5	-	4.5
1970 & 1972	Mariwasa Manufacturing Inc.	0.8	0.4	1.2
1970	Paper Industries Corporation of the Philippines	-	2.2	2.2
1971	Philippine Petroleum Corporation	6.2	1.8	8.0
1972	Marinduque Mining and Industrial Corporation	15.0	-	15.0
1973	Victorias Chemical Corporation	1.9	0.3	2.2
1974	Filipinas Synthetic Fiber Corporation	1.5	-	1.5
1974	Maria Christina Chemical Industries, Inc.	1.5	0.5	2.0
1974	Republic Flour Mills Corporation	1.2	-	1.2
1975	Philippine Polyamide Industrial Corporation	7.0	-	7.0
1976	Philagro Edible Oils, Inc.	<u>2.6</u>	<u>0.2</u>	<u>2.8</u>
	Total gross commitments	<u>65.2</u>	<u>13.8</u>	<u>79.0</u>
	Less sold, acquired by others, repaid or cancelled	<u>18.6</u>	<u>7.1</u>	<u>25.7</u>
	Total commitments now held by IFC	<u>46.6</u>	<u>6.7</u>	<u>53.3</u>
	Undisbursed	<u>2.6</u>	<u>0.2</u>	<u>2.8</u>

C. PROJECTS IN EXECUTION /1

Loan No. 637 Upper Pampanga River Irrigation; \$34.0 Million Loan of
August 18, 1969; Date of Effectiveness: October 15, 1969;
Closing Date: June 30, 1977

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 the Closing Date. The Closing Date was postponed to allow disbursement for the foreign exchange costs of the communications system which is scheduled for completion April 1977. Project costs have increased 40 percent 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 support 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 estimated rate of return is now higher than at appraisal.

Loan No. 720 Rice Processing and Storage; \$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 large capacity rice mills. Due in part to poor harvests and in part to large cost increases for rice mills, the demand for subloans for new integrated rice mills turned out to be small

/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.

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 to (a) expand the scope of the project to include corn in addition to rice, (b) enable local governments and the National Grains Authority to borrow funds under the project, and (c) 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 committed by February 1977 and fully disbursed before the revised Closing Date, June 30, 1977.

Loan No. 809 Fifth Power; \$22.0 Million Loan and \$10.0 Million
Credit No. 296 Credit of April 3, 1972; Date of Effectiveness
 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. Although there has been some minor delay due to the late delivery of transformers, the project is proceeding satisfactorily, and the unit is expected to be commissioned before the end 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 April 1977. A tariff increase was approved, effective July 1, 1974, and a second tariff increase has recently been approved. However, NPC is unlikely to be able to earn the expected rate of return of 8 percent on net fixed assets in operation in 1976 because of delays in implementing the second tariff increase.

Credit No. 471 Aurora-Penaranda Irrigation; \$9.5 Million Credit and
Loan No. 984 \$9.5 Million Loan of May 14, 1974; Date of Effectiveness:
 August 22, 1974; Closing Date: June 30, 1979

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 percent of Aurora water into Pantabangan Reservoir was achieved in September 1975, one year ahead of the appraisal schedule. All remaining engineering work on the second division dam was completed in July 1976, one year ahead of schedule. In the area served by the project, lack of competition caused some delay in awarding of contracts, but this has been overcome. Efforts to attract bids from more local contractors have been very effective. Urgent work is being done by Government force account. Project costs have increased about 54 percent over appraisal estimates, largely as a result of inflation. There would be added benefits from early diversion, however, resulting in additional water for irrigation sooner than planned, but the rate of return is expected to fall from 17 percent at appraisal to 14 percent.

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

The proceeds of the Loan are being relent to the Development Bank of the Philippines (DBP). The industrial portion of the Loan (\$48 million) is being used by DBP to finance direct imports for medium and relatively large industrial projects. DBP is using the balance (\$2 million) to finance about 1,300 smallholders in a pilot tree-farming project. The Loan is now virtually fully committed for subloans and disbursements are expected to be completed before the closing date.

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

The Loan was fully committed by December 31, 1975 and disbursements are expected to be completed long before closing date. Collection of arrears by about 250 participating banks from beneficiaries under the first and second projects is not satisfactory. The Central Bank is taking steps to improve collection and appropriate measures will be included in the fourth project which is currently being appraised.

Loan No. 1034 Sixth Power: \$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 behind schedule because necessary 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, and a second tariff increase was recently approved. However, NPC is unlikely to be able to earn the expected rate of return of 8 percent on net fixed assets in operation because of delays in implementing the second tariff increase.

Credit No. 349 Second Education; \$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 is about 11 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 are ahead of the appraisal estimate. Project costs are now estimated to be about 25 percent higher than the appraisal estimates and the cost increase is being financed by the Government. Despite initial delays, the project is expected to be completed on schedule.

Loan No. 891 Fisheries; \$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 demand for subloans has been adequate, and the organization to implement them has been properly established. The project is progressing satisfactorily, and all funds were fully committed by July 1976 and are likely to be disbursed by the closing date.

Loan No. 939 Second Ports; \$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 on the island of Mindanao. The contract for General Santos was awarded in May 1975 but work has slowed down due to dredging difficulties. For Cagayan de Oro, after about nine months' delay, the contract was awarded on March 12, 1976 and work has now commenced. The civil works were about 15 percent completed as of October 31, 1976.

Loan No. 950 Second Highway; \$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 1,400 km of roads in Luzon. Works were about 70 percent completed as of September 1, 1976 on 14 contracts, 10 of which were awarded to local contractors. 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. Execution of other minor project items is generally proceeding on schedule.

Loan No. 1035 Population; \$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. Under the direction of Project Management Staff in the Department of Health, overall project implementation is progressing well. Training activities are well ahead of schedule in all 12 regions; the civil works component lags by 9 months, but is projected to be completed ahead of the appraisal report timetable due to simplification of construction design. Progress under the project is satisfactory.

Loan No. 1048 Interisland Shipping; \$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 (DBP) for onlending to beneficiaries for the acquisition of new and used ships and for major repairs and conversions. Progress under the project is satisfactory. Commitments were originally slow, because of lack of demand from the private sector and DBP's restrictive collateral requirements. These problems are now being resolved; about \$7 million have been committed as of November 1, 1976 and subloan commitments are expected to increase rapidly during the coming months.

Loan No. 1052 Private Development Corporation of the Philippines;
\$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 subprojects, the bulk of which are expected to go to export-oriented manufacturing projects. As of October 31, 1976, commitments for subloans totalling \$12.5 million had been made. While subloan commitments have been somewhat slower than originally expected due to the generally slow pace of business activity, the implementation of the project is satisfactory.

Loan No. 1080 Tarlac Irrigation; \$17.0 Million Loan of January 27,
1975; Date of Effectiveness: April 27, 1975; Closing
Date: December 31, 1980

The project is assisting the Government to improve and expand irrigation on 34,000 ha of land in Central Luzon. The project is progressing satisfactorily with exceptionally good interest in the bidding for civil works contracts. Procurement of equipment has been slow, but this problem has been overcome.

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

The project is assisting the Government to carry out a rural development project on the island of Mindoro, which includes infrastructure and irrigation improvements, and ecological and health improvement measures. Progress is satisfactory on irrigation and roads, which are being implemented by agencies having experience with Bank-funded projects. With the exception of the Mangyan Assistance Program, however, there has been little progress under the other programs. This was caused mainly by the lack of funds due to inadequate budgeting for the current 18-month fiscal year while the Government changes to a calendar year financial system. Adequate financing to carry on scheduled work for all project components, however, is expected for next year.

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

The DBP portion of the funds has been fully committed. After a slow start, commitment of funds under the Industrial Guarantee Loan Fund and National Electrification Administration is now proceeding well. Overall progress of the project is satisfactory.

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

The project is assisting the Government to improve and expand irrigation on 35,000 ha of land in the Cagayan Valley, Northern Luzon. Consultant's work on the engineering and economic evaluation studies is making good progress. The water management training is underway and a start has been made on civil works.

Loan No. 1190 Industrial Investment; \$75.0 Million Loan of January 28, 1975; Date of Effectiveness: April 6, 1976; Closing Date: March 31, 1980

The proceeds of the Loan are being relent to the Development Bank of the Philippines (DBP) for subloans to finance direct imports for medium and relatively large industrial projects. Commitment of funds is much slower than expected. As of October 31, 1976, only \$1.8 million against the estimated \$17 million was committed. This is due to a slowdown of investment in the industrial sector as a whole over the past twelve months. Government has made a proposal to reallocate about \$25 million of the funds for small and medium industries. The proposal is under consideration.

Loan No. 1224 Third Education Project; \$25 Million Loan of April 8, 1976; Date of Effectiveness: July 29, 1976; Closing Date: June 30, 1981

The project covers the first phase (1976-80) of the Government's eight-year textbook program and provides for the development, production and distribution of 27 million textbooks. It also provides for curriculum development, teacher training and technical assistance. Initial progress under the project is satisfactory.

Loan No. 1225 Second Livestock; \$20.5 Million Loan of April 8, 1976; Date of Effectiveness: September 13, 1976; Closing Date: June 30, 1982

The Loan became effective on September 13, 1976, and initial progress is satisfactory.

Loan No. 1227 Chico River Irrigation Project; \$50.0 Million Loan of April 8, 1976; Date of Effectiveness: July 19, 1976; Closing Date: June 30, 1981

The project will assist the Government to improve and expand irrigation on 19,700 ha in the Cagayan Valley. The Loan became effective on July 19, 1976, and initial progress under the project is satisfactory.

Loan No. 1269 Second Grain Processing Project; \$11.5 Million Loan of July 2, 1976; Date of Effectiveness: November 12, 1976; Closing Date: June 30, 1981

The project provides long-term credit through the Development Bank of the Philippines to assist in modernizing and expanding the Philippines grain processing industry. The Loan became effective on November 12, 1976, and initial progress under the project is satisfactory.

Loan No. 1270 Second Fisheries Project; \$12.0 Million Loan of July 2, 1976; Date of Effectiveness: November 12, 1976; Closing Date: June 30, 1981

The project provides long-term credit through the Development Bank of the Philippines to assist in increasing fish production for domestic consumption. The Loan became effective on November 12, 1976 and initial progress under the project is satisfactory.

Loan No. 1272T Manila Urban Development Project; \$10.0 Million and
Loan No. 1282 \$22.0 Million Loans of June 9, 1976; Date of Effectiveness:
December 10, 1976; Closing Date: September 30, 1981

The project will assist the Government in upgrading the Tondo area of Manila and in carrying out a sites and services development in neighboring Dagat-Dagatan. The Loans became effective on December 12, 1976.

PHILIPPINES

JALAU IRRIGATION PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of the Philippines

Amount: \$15.0 million equivalent

Terms: The loan would be for a term of 20 years, including a grace period of four and a half years at an interest rate of 8.5 percent per annum.

Project Description: The project includes:

- (a) rehabilitation of four existing NIA irrigation and drainage systems serving a total area of about 22,000 ha;
- (b) construction of new irrigation and drainage facilities for about 2,700 ha of rainfed rice lands;
- (c) construction of a project headquarters building and facilities for Operation and Management;
- (d) technical assistance to NIA for further studies on the expansion of the project;
- (e) procurement of vehicles and equipment; and
- (f) water management training program.

Estimated Cost:

	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	<u>Foreign Exchange</u>
	-----	\$ Million	-----	%
Irrigation	11.5	8.3	19.3	42
Water management training	0.3	0.3	0.6	50
O&M equipment	-	0.4	0.4	100
Technical assistance	-	0.1	0.1	80
Total	<u>11.8</u>	<u>9.1</u>	<u>20.9</u>	43
Contingencies	7.2	5.9	13.1	45
Total Project Cost	<u>19.0</u>	<u>15.0</u>	<u>34.0</u>	44

Disbursements:

<u>Fiscal Years</u> (July 1 - June 30)	<u>Annual Disbursements</u> ----- \$ Million -----	<u>Cumulative Disbursements</u> -----
1978	3.1	3.1
1979	4.5	7.6
1980	3.9	11.5
1981	2.0	13.5
1982	1.2	14.7
1983	0.3	15.0

Procurement:

The following procedures have been agreed: /1

- (a) civil works in the project service area total \$13.7 million. About 60 percent would be carried out by contracts awarded on the basis of competitive bidding advertised locally in accordance with Government procedures which are acceptable to the Bank. Foreign contractors would be eligible to participate NIA would carry out the balance of the work, not exceeding 40 percent, by force account; and
- (b) equipment and vehicles for force account construction, operation and maintenance, and water management training program (costing about \$4.5 million) would be procured on the basis of international competitive bidding in accordance with the Bank's Guidelines. For purposes of bid comparison, a preference of 15 percent of the c.i.f. price of imported goods, or the customs duty, whichever is the lower, would be extended to qualified local manufacturers in the evaluation of bids. Off-the-shelf items costing not more than \$10,000 each would be procured through existing Government procedures which are acceptable to the Bank. The total cost of such items would not exceed \$200,000.

Consultants:

Consultants would be appointed to study the possibility of the expansion of the project (20 man-months).

Rate of Return:

The economic rate of return of the project is estimated to be 20 percent.

Appraisal Report:

No. 1311a-PH, dated December 28, 1976.

/1 All costs are before contingencies.

PHILIPPINES

JALAU IRRIGATION PROJECT

Supplementary Data Sheet

Section I: Timetable of Key Events

- (a) Time Taken by the Country to Prepare the Project: the project was prepared in approximately one and a half years (December 1974 - April 1976) by the National Irrigation Administration (NIA) with the assistance of consultants.
- (b) First Presentation to the Bank: first Bank Mission to consider the project - March 1976.
- (c) Departure of Appraisal Mission: June 20, 1976.
- (d) Completion of Negotiations: December 3, 1976.
- (e) Planned Date of Effectiveness: May 1977.

Section II: Special Bank Implementation Action

None.

Section III: Special Conditions

During negotiations, agreement was reached with the Government and NIA on the following points:

- (a) irrigation fees would be levied to provide NIA with sufficient funds to maintain and operate the project and to allow for recovery of the investment costs within a reasonable period (para. 38);
- (b) an Agricultural Development Coordinating Council would be established to coordinate the provision of agricultural services to farmers in the project area (para. 35);
- (c) funds would be deposited regularly in the Special Account established by NIA to ensure effective project implementation (para. 32).
- (d) a plan of action for the improved collection of irrigation fees would be prepared, submitted to the Bank by October 31, 1978 for comment and implemented thereafter (para. 37); and
- (e) NIA's force account work for the project service area would be limited to no more than 40 percent of total costs of civil works (para. 39).

PHILIPPINES JALAU IRRIGATION PROJECT

- Proposed**
- Main canal
 - - - Lateral canals
 - ▭ Jalaur river left bank extension, (2700ha)
- Existing**
- Main canals
 - Lateral canals
 - Irrigation areas
 - Rivers
 - ▭ Diversion dams
 - Roads
 - Railways
 - - - Potential extension of irrigation areas

