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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 A
SECOND FISHERIES PROJECT

May 13, 1976

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CURRENCY EQUIVALENT

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

FISCAL YEAR

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

ABBREVIATIONS

BFAR - Bureau of Fisheries and Aquatic Resources
DBP - Development Bank of the Philippines
FG - Fisheries Group (of DBP)

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

1. I submit the following report and recommendation on a proposed loan to the Republic of the Philippines for the equivalent of \$12 million to help finance a Second Fisheries Project. The loan would have a term of 18 years, including five years of grace, with interest at 8.5 percent per annum. The proceeds of the loan would be relent to the Development Bank of the Philippines (DBP), on the same terms as those of the Bank loan, for on-lending to the private sector for specific fisheries sub-projects.

PART I - THE ECONOMY^{1/}

2. A basic economic mission visited the Philippines in April/May 1975 and its report, "The Philippines priorities and prospects for Development," is expected to be distributed to the Executive Directors in the next few days. Paragraphs 3-21 below are a summary of that report. The previous economic report, "Current Economic Position and Prospects of the Philippines" (No. 568-PH of November 7, 1974) was circulated to the Executive Directors on November 11, 1974. Annex I of this President's report contains country economic data.

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

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

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

^{1/} This part, except for paragraph 11, which has been added, is the same as as in the President's Report for the Chico Irrigation Project Stage I (Report No. P-1783-PH, dated March 11, 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 proved quite vulnerable to the impact of world inflation, the increase in oil prices and the prolonged recession in the industrialized countries. This sequence of events has temporarily frustrated the Government's attempt to accelerate the rate of development, and in 1974 GNP increased by only about 6 percent in real terms. While adverse effects of the recession were cushioned somewhat in 1974 by a modest improvement in the external terms of trade, the Philippines has been even more seriously affected in 1975 by the continued rise in import prices and reduced demand for Philippine exports. The real growth of GNP in 1975 is estimated to have been at about the 6 percent rate of the previous year. Improvement in the growth performance in 1976 can be expected only if recovery takes place in the economies of the Philippines' main trading partners.

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

8. Although progress has been slower than initially planned, the Government has made some progress with its agrarian reform for the nation's one million tenant farmers who grow rice and corn. By December 1, 1975, the Government had issued Certificates of Land Transfer in respect of 208,000 of the 424,000 tenants on holdings of over 7 ha; thus, title to 366,000 ha of the total of 825,000 ha farms occupied by such tenants has been transferred. The Government has raised the cash portion of the compensation package to landlord to reduce their resistance to land reform, but strong administrative efforts will be necessary to ensure continued progress in the implementation of the program.

9. Industry accounts for almost 30 percent of net domestic product, one-third of total fixed investment and 15 percent of total employment. Industrial production, which grew by 12 percent in 1973, was adversely affected in 1974 by the world-wide economic slowdown and grew by only 3.6 percent in 1975. This decline is primarily a result of depressed demand for Philippine exports on the part of the country's main trading partners and the concomitant slowdown in the rate of economic growth in the Philippines. Nonetheless, the long-term prospects for industrial growth are favorable because of the natural and human resource endowment of the Philippines and a very active private sector.

10. The Government has made significant progress in increasing public investment. The ratio of public investment to GNP is currently about 3 percent compared with 1.8 percent in FY72. The Government has also implemented a series of long needed tax reforms and improvements in tax administration. These reforms, aided by the increased economic activity, the boom in export incomes, and domestic inflation, resulted in a 36 percent increase in national government tax revenues in FY73, and an estimated 47 percent in FY74. As a result, the ratio of national government tax revenues to GNP has increased from an average of 9 percent in recent years to an estimated 12.3 percent in FY74 and stayed at this level in 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 also raised. Efforts were also made to control short-term money market operations and strengthen the organized banking institutions. These actions are important steps in improving 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 and in 1974 consumer prices rose by almost 40 percent. The rise was caused by the large increase in liquidity that came with the export boom in 1973-74, and by a number of cost-push factors, including the higher rate of world inflation. To deal with this problem, the Government adopted contractionary monetary and fiscal policies, and attempted to reduce the impact of inflation on consumers by subsidizing such essential goods as wheat, imported rice, and cooking oil. As a consequence of the Government's measures, the annual rate of inflation decreased to less than 20 percent at the end of 1974 and less than 10 percent in 1975.

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

14. On the external side, the Philippine balance of payments benefited considerably from the international commodity price boom during 1973. High prices for the country's chief exports, including coconut products, sugar, copper and wood products resulted in a 70 percent boost in export earnings and a balance of payments surplus of about \$670 million. Since

mid-1974, the external trade position has deteriorated, due to the sharp increases in the prices of oil and other imports, less favorable prices for Philippine exports, and reduced volume of some exports resulting from the recession in the economies of the Philippines' main trading partners. As a result, the overall balance of payments surplus fell to about \$100 million in 1974, and a deficit of about \$400 million was recorded in 1975. International reserves stood at around \$1.1 billion at the end of 1975, the equivalent of about three months imports.

15. The outlook for 1976 is for exports to increase by about 12 percent in real terms on the assumption that there will be some international economic recovery. Imports will need to grow by about 7 percent in real terms in order to maintain the growth of the economy. Due to a modest deterioration of the terms of trade, the current account deficit may reach about \$1.0 billion compared to \$860 million in 1975. Medium and long term capital inflows are expected to finance most of this deficit, producing an overall balance of payments deficit of about \$200 million. Such a deficit can be managed without serious pressure on reserves through utilization of IMF facilities and by short-term foreign borrowing by the Central Bank.

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

17. Foreign assistance on concessioned terms will be essential to help finance the larger investment expenditures which will be necessary for the country's development. In order to ensure that disbursement of external assistance reaches levels commensurate with the level of development expenditures which will be required during the latter part of the decade, total commitments of official assistance will need to be maintained in real terms at least at the level of about \$500 million which was achieved in 1974. The Consultative Group for the Philippines at its meeting in Paris on October 1, 1975, agreed that it would be reasonable for the Philippine Government to seek aid commitments of about \$600 million during 1976; another meeting of the Consultative Group has been called for June 15 and 16, 1976, mainly to review prospects and needs over the next 5-10 years, which were analyzed in the Bank's most recent economic report.

Growth Prospects

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

19. Priority must also be given to expanding food production for the domestic market, to expanding industrial export production and to accelerating development of local energy resources. The difficulties experienced during the last two years in importing sufficient quantities of food at reasonable prices, especially cereals, have increased the Government's resolve to achieve self-sufficiency in rice and corn as soon as possible. The Government rightly recognizes that the increased cost of petroleum and other imports cannot be financed indefinitely by borrowing abroad, and it is actively encouraging both local and foreign investors to expand productive investments. Because it will take time for these investments to have an impact on the balance of payments, the Government is seeking increased support from the international financial community to help carry out its development program and to ease the adjustment to higher petroleum and other import prices. Because of the substantial easing of the external debt burden which has taken place in the last several years, the Philippines now has the capacity to borrow externally larger amounts of capital on appropriate terms to support its development program.

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

21. The Government's ambitious development program will continue to require foreign resources in addition to the capital which would become available for the financing of the foreign exchange component of development projects. Some financing of local costs is justified, especially for projects of economic and social importance which need only limited amounts of foreign exchange. In view of the Philippines balance of payments and external debt position, and taking into account the country's performance in economic development and its relatively low per capita income, the Philippines is considered eligible for Third Window loans from the Bank. One Third Window loan of \$25 million for the Third Education Project has already been approved by the Executive Directors, and one additional Third Window loan of \$10 million is proposed as part of the financing for the Manila Urban Development Project.

PART II - BANK GROUP OPERATIONS IN THE PHILIPPINES

22. By April 30, 1976, the Philippines had received 35 Bank loans and 3 IDA credits totalling \$886.7 million, net of cancellations. About 33 percent of the Bank/IDA lending, \$293 million, has been for infrastructure projects in power, transportation, and water supply and \$63 million has been for population and education projects. Of the remainder, about \$280 million has been for agriculture and about \$250 million for industry. There has been a marked improvement in the way Bank financed projects in the Philippines have been executed in the last three years, compared with experience in the 1960s, when shortages of peso counterpart funds combined with poor administration to cause serious problems. All on-going projects are now being implemented reasonably well. Annex II contains a summary statement of Bank loans, IDA credits and IFC investments as of March 31, 1976 and notes on the execution of on-going projects.

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

24. Five loans totalling \$212 million have so far been approved in FY76. This proposed loan for the Second Fisheries Project, which is being presented at the same meeting as a proposed loan for the Second Grain Processing Project, and proposed loans for the Manila Urban Development Project, which may also be presented before the end of this month, are the last loans for the Philippines scheduled for consideration during this fiscal year. Loans for a highway and a power project may be ready for presentation in the first half of FY77.

25. IFC has made commitments in the Philippines totalling \$76.2 million for investments in 13 companies in the fields of development banking, power, telecommunications, ceramic tiles, paper, petroleum products, nickel mining and refining, chemicals and synthetic fibers. Of these investments, as of March 31, 1976, \$19.1 million had been sold, \$0.4 million cancelled and \$3.7 million repaid, leaving a net portfolio of \$53.0 million. On the same date, all commitments were fully disbursed. Preliminary proposals have been received for an aluminum smelter and other projects in pulp and paper, dinnerware, metal alloys and shipbuilding fields.

PART III - THE FISHERIES SECTOR IN PHILIPPINES

26. The fisheries sector in the Philippines accounts for 4 percent of GNP and has considerable potential for further development. The Philippines with over 7,000 islands has excellent access to productive marine fisheries, and the coastline with its many estuarine areas is ideal for brackish water fish farming. Fisheries employ directly about 700,000 persons (about 5 percent of total employment), most of whom are small fishermen in the traditional subsistence sector. Fish is a staple in the Filipino diet and provides over one-third of animal protein intake. Total fish consumption was estimated to be about 1.4 million tons in 1974 and is expected to increase by at least 6 percent per year. Exports, consisting mainly of shrimp and tuna, amounted to \$18 million in 1974, while annual fish imports, mainly canned mackerel, canned sardine and other processed fish products, amounted to about \$32 million. Large investments will be necessary in the coming years to increase production to meet domestic demand.

Marine Fisheries

27. Marine fisheries consist of municipal fisheries and commercial fisheries. Municipal fisheries comprise about 500,000 poor fishermen, who fish from small boats (under 3 gross tons) in coastal shallow waters; commercial fisheries comprise some 1,500 operators using about 2,500 vessels, ranging from three to over 100 gross tons, for deep-sea fishing. Since the sustainable yields from the Philippines waters are estimated to be about 1.7 million tons, the resource base will not be a constraint in achieving further production increases. However, the scope for further expansion of the municipal fisheries catch is limited, because the upper limit for fish production in waters accessible to municipal fishermen has nearly been reached. Much of the additional production needed to meet further demand will therefore have to come from commercial fisheries. Prior to the oil crisis in 1973, the commercial fishing industry had responded to the problem of over-fishing in coastal waters by relying on larger boats with more powerful engines to reach more distant fishing grounds. The increase in oil prices, however, has resulted in much higher operating costs and commercial fishermen have adapted to this situation by relying more heavily on smaller vessels, which have more flexible capabilities and use less oil-intensive methods such as purse seining.

Inland Fisheries

28. Inland fisheries also have considerable potential for further development. The Philippines is among the leading countries in the region in developing inland fish farming, particularly milkfish culture. Estimated 1974 production of milkfish was 110,000 tons and the average annual yield from fish ponds was about 600 kg/ha, which compares to 300 kg/ha in Indonesia and 1,700 to 2,000 kg/ha in Taiwan. There is considerable scope for increasing both the area of the fishponds and their average yield.

Support Facilities and Services

29. Despite the importance of fisheries, there are no specialized fishing ports in operation in the Philippines other than Navotas at Manila. Existing ice-making facilities, transport equipment, cold storage auction facilities are inadequate and any large scale increase in fish production would require expansion and provision of new facilities. Navotas is currently being developed into a modern fishing port with the assistance of a loan from the Asian Development Bank. The project, to be fully completed by the end of 1976, will greatly improve marketing in the Manila area, which accounts for a large proportion of total fish consumption in the Philippines.

30. The construction of fishing boats in the Philippines is carried out at shipyards near Navotas, and in many small private shipyards in the Visayas, where a number of independent contractors have successfully developed methods of constructing wooden hulls, which require low fixed capital overhead in the form of slipways and conventional shipyard infrastructure. The quality of the vessels is satisfactory; boat building is usually well supervised by the owners and the costs of the vessels are competitive with those of comparable ones in other countries in the region.

31. Institutional sources for fisheries credit are commercial banks, rural banks, and the Development Bank of the Philippines (DBP). DBP has been by far the most important institutional source for medium and long term credit and is expected to play the leading role in financing fisheries investments in the coming decade. Commercial banks are a source of loans, mainly for marine fisheries, and the rural banks are a source of credit, mainly for inland fisheries, but these institutions have not provided substantial amounts of longer-term financing.

Government Policies and Development Program

32. In November 1972, a Presidential Decree was promulgated to provide policy guidance for the fisheries sector and to coordinate the activities of the various agencies. This was followed by another Decree in 1975, clarifying fisheries regulations and vesting the overall responsibility for policy coordination in the Bureau of Fisheries and Aquatic Resources (BFAR), under the Department of Natural Resources. BFAR now has 1,600 staff and its functions include fisheries policy formulation and regulation, training, research and extension.

33. The Government seeks to increase fish production as rapidly as possible, and expects to achieve this objective by developing: (a) better knowledge of the resource base; (b) improved extension and training services; (c) provision of better infrastructure (ice plants and other shore facilities); and (d) better managed financial institutions and credit resources.

Bank's Role in the Fisheries Sector

34. To assist the Government in achieving its development objectives in the fisheries sector, the Bank made a loan of \$11.6 million (Loan 891-PH) in 1973 for fisheries development in the Philippines. Under the project, DBP initiated a program of long-term lending to help rehabilitate and expand inland fishponds and to help expand and modernize the commercial fisheries fleet and shore facilities. The project also included technical assistance for organizing and executing an inland fisheries training program, a test fishing program to obtain marine fisheries resource data and a study of fish marketing and distribution. The marine fisheries component of the project got off to a slow start because of staffing problems in DBP and the effect of the oil crisis on sub-loan demand. However, the staffing problems have been resolved and adjustments were made in the design of the vessels financed under the project, so that they had more flexible capabilities and could utilize less oil intensive techniques. Lending for the inland fisheries component has from the outset proceeded rapidly. The rate of sub-loan commitments for both components is now satisfactory and the loan is expected to be fully committed during the second half of 1976.

35. Under the first project, DBP has developed considerable expertise in lending for inland and commercial fisheries and has thus become the major source of the long-term credit and technical assistance needed to foster the development of the fisheries sector. DBP is thus in a unique position to play a leading role in helping to finance the large amount of investment, which will be needed in the coming decade, to increase production to meet the rising domestic demand for fish products and to reduce reliance on imports. The proposed second fisheries project would help DBP to improve and expand further its lending program for fisheries development and thus help support the Government's fish production program. As a result of experience gained under the first project, the commercial fisheries component of this project has been designed to allow for smaller vessels which are suitable in the present conditions of higher oil prices. The project also provides for an improved system for monitoring the impact of sub-projects and sub-loan repayments. There are a number of issues related to the development of the fisheries sub-sector which still need considerable attention. These include: the future pattern of development of municipal fisheries, which as indicated earlier employ about 500,000 small fishermen with little prospect for increased productivity; and a need for a manpower analysis to assess the training requirements of the sub-sector. The Government is considering the possibility of carrying a comprehensive study aimed at developing a sectoral strategy responding to these problems and may request the Bank to finance this study in the context of a possible future project.

PART IV - THE PROJECT

Background

36. The project would be a continuation of the first fisheries project and was prepared by DBP. A Bank mission appraised the project in August/September 1975 and negotiations were held in April 1976. His Excellency Eduardo Z. Romualdez, the Philippine Ambassador to the United States, led the Government's negotiating team. The Appraisal Report (No. 1101b-PH) on the proposed project is being circulated separately to the Executive Directors. Annex III provides a loan and project summary.

Project Description

37. The proposed project would assist the Government in its efforts to: (a) build up the institutional base for financing investments in marine and inland fisheries; and (b) increase fish production for domestic consumption. Under the proposed project, DBP would provide long-term credit to the private sector for the rehabilitation, expansion and construction of milkfish ponds, construction of new fishing vessels, conversion of second-hand fishing vessels into fish carrier boats and construction of ice plants with cold storage and a marine slipway. The project is expected to provide additional employment opportunities for low-income people and continue the process begun under the first project of strengthening DBP's capacity to appraise and supervise projects in the fisheries sector. Details of the various components are given in the following paragraphs:

38. Construction of New Fishponds. The project includes construction of about 115 new fishponds covering a total of about 2,700 hectares. The size of fish ponds would vary, depending upon the nature of the land available and the operator's capacity for efficient management. There are considerable economies of scale in investment costs for fishponds up to about 30 hectares, and the standard commercial model adopted by DBP involves a 24-hectare fishpond with an average investment cost of about \$1,470 per hectare.

39. Expansion and Rehabilitation of Existing Fishponds. The proposed loan would help finance expansion and rehabilitation of about 265 existing fishponds damaged by typhoons and floods and expansion of existing fishponds. The financial and economic returns for this kind of development are high because the investment cost per hectare is only about \$860 and existing fishponds generally have good natural conditions (i.e. soil, water quality and proximity to markets) and are operated by experienced fish farmers.

40. Fishing Vessels. The proposed loan would help finance 17 fishing vessels, of which about 14 would be of the 90-gross ton class and about three would be of the 45-gross ton class. The number of vessels financed would be small relative to the existing fleet of 1,000 vessels of comparable size because of the currently slow rate of investments in additional ships, but the

proposed financing would be important to maintain the continuity of DBP's lending operations until such time as economic recovery results in an expanded investment in this sub-sector. All vessels financed would have wooden hulls of a relatively simple design. They would be powered by diesel engines and equipped with trawl and/or purse seine fishing gear, shortwave radios, fish finders and mechanical net hauling gear. The larger vessels would have crews of about 25, and the smaller ones about 17. The design of the vessels takes into account the effect of increased oil prices on operating costs and the need for vessels which have flexible capabilities and are less dependent on oil intensive techniques.

41. Conversion of Second-hand Vessels into Fish Carrier Boats. The proposed loan would help finance acquisition and conversion of four second-hand vessels into fish carrier boats. These boats would deliver ice, fuel and other supplies to the vessels fishing on distant grounds and transport fish from there to markets. As a result of the sharply increased oil prices, these specialized services have become one of the most effective means of reducing the cost of fish landed by commercial fishing vessels. A number of inexpensive second-hand vessel hulls suitable for conversion into fish carrier boats are available in the local ship market. Appropriately refitted, these could provide specialized fish carrier services on a financially viable basis.

42. Ice Plants. The proposed loan would help finance three ice plants, each with a capacity to produce 20 tons of ice and to hold 40 tons of fish in cold storage. These plants to be located around the Visayan Sea would provide the ice required for vessels operating on distant fishing grounds and provide cold storage facilities for fish being held for better prices or for collection by carrier boats for delivery to the Manila market.

43. Slipway. The proposed loan would help finance a slipway at a suitable location on the coast of the Visayan Sea to be used for repair and maintenance of fishing and carrier vessels. At present, there are no suitable slipways and the vessels in need of repair are beached at high tide and repaired at low tide. The slipway would be capable of servicing practically all categories of fishing vessels.

Project Execution

44. As in the first fisheries project, the proposed project would be administered by DBP, a wholly Government-owned development bank, which operating in all sectors of the economy. It is the largest and most important institutional source of long-term finance in the Philippines. Since its inception in 1958, DBP has provided financial assistance, including loan guarantees, totalling almost \$3 billion and, as of June 30, 1975, its total assets amounted to \$1 billion equivalent. DBP's lending operations have increased particularly rapidly in FY75 and reached a level of \$320 million, compared to \$39 million in 1974. This increase more than offsets a deliberate reduction in DBP's guarantee operations, which decreased from \$373 million

in FY74 to \$106 million in FY75. Equity investments, mainly in Government enterprises, were approved totalling \$28 million in FY75, a much higher level than in the previous year. The volume and diversity of DBP's operations give it a prominent and unique role in financing development programs. DBP has administered a number of Bank assisted projects in the industrial, shipping and agricultural (fisheries, livestock and grain processing) sectors; the implementation of these projects has been satisfactory.

45. DBP's overall capabilities and financial position were described in detail in the President's Report (SecM75-239) on the proposed loan for the Second Industrial Investment Credit Project (Loan No. 1190-PH), approved by the Executive Directors on December 16, 1975. Since then, DBP's management has continued successfully to strengthen the institution and raise the standards of its operations. As a result, noticeable improvements are taking place in the functioning of individual departments and in operational and financial planning. DBP has a total staff of about 3,000, over a half of whom are located in branch offices. The calibre of the staff is generally good, although the middle management level needs to be further strengthened.

46. DBP's financial position is reasonably sound. Its liquidity position is secure (current ratio 2:1) as is its long-term capital structure (long-term debt-equity ratio 4.5:1). In order to increase DBP's long-term domestic resources, the Government is taking actions, agreed with the Bank, to increase DBP's equity and convert \$53 million of short-term Treasury deposits into a loan with a five-year maturity. DBP's net income for FY75 was \$10 million, a decline of 21 percent from the previous year. The decline in income reflected mainly a decline in collections, as a result of the effects of the economic downturn in FY75 on many of DBP's clients. To improve its financial position, as agreed with the Bank, DBP in January 1974 increased interest rates, penalty charges and fees; is now introducing prompt reminder procedures for overdue accounts; and is planning steps both to improve its system of reporting and recording arrears and to improve its collection performance on industrial accounts.

47. The Fisheries Group (FG) of DBP would be responsible for the processing of sub-loans financed under the project. FG presently has about 25 staff including fisheries experts, marine engineers and financial and economic analysts. It has two divisions, a Marine Fisheries and Inland Fisheries Division, each having an appraisal and supervision section. Under the first project, FG has developed considerable expertise in fisheries lending. It does, however, need to increase its capability to handle the growing volume of sub-projects by recruiting additional technical staff. FG is taking steps to fill recently created positions by recruiting five additional inland fisheries supervision specialists and two maritime fisheries specialists.

48. Loan collection is a problem in DBP's operations in the fisheries sector as about P 25 million (US\$3.3 million) of the total amount of P 188 million (\$25.1 million) of the outstanding principal on fisheries loans is overdue. DBP is aware of the need to concentrate on improving collection performance and has undertaken to review its fisheries portfolio, prepare

a detailed plan of action for reducing arrears by June 30, 1977 for discussion with the Bank, implement the plan thereafter in accordance with a timetable to be agreed with the Bank and to provide arrears information to the Bank with DBP's quarterly reports. (Section 4.04 of the Loan Agreement).

49. To improve its overall reporting and monitoring systems, FG would institute a system of reports from project sub-borrowers showing the quantities and value of production, itemized production costs and indices of productivity (Section 3.08 (a) of the Loan Agreement). The form of these reports has been discussed with the Bank, and summary information would be forwarded to the Bank. In addition to the information on the sub-projects, DBP's quarterly reports to the Bank would, as in the first project, continue to include data on sub-loan applications, approvals, disbursements, repayments and arrears (Section 3.08(b) of the Loan Agreement).

Project Costs and Financing

50. The estimated total project cost is \$23.5 million, of which \$2.0 million would be for incremental working capital; the estimated foreign exchange cost is \$6.3 million. Cost estimates include price contingencies amounting to 33 percent of base line costs to take into account the effects of international and domestic inflation during the project implementation period. The proposed Bank loan of \$12 million would, as under the first project, finance the foreign exchange cost of the marine sector (\$4.6 million) and about 50 percent of the total investment and incremental working capital costs of the inland sector (\$7.4 million), including \$5.7 million of local costs. The Bank loan would have a term of 18 years, including a grace period of 5 years. The Government would bear the foreign exchange risk and relend the proceeds to DBP on the same terms as those of the Bank loan. The execution of a subsidiary loan agreement, satisfactory to the Bank, would be a condition of effectiveness (Section 5.02 of the Loan Agreement).

51. DBP would on-lend the proceeds of the Bank loan, together with funds from its own resources, to qualified individuals and private companies. Sub-borrowers in the inland sector would contribute from their own resources 10 percent of the investment cost of a sub-project and sub-borrowers in the marine sector would contribute 20 percent. Sub-loans would have a maximum repayment period of 14 years, including a maximum of three years grace. DBP would provide, out of its own resources, working capital loans needed by sub-borrowers to finance their requirements during the sub-project implementation period. Sub-loans, which together with working capital loans to the same sub-borrower exceed \$600,000, would be subject to the prior approval of the Bank. It is expected that about 20 percent of the sub-loans for the marine fisheries component of the project would be approved by the Bank. Interest rates on sub-loans and working capital loans would be in accordance with DBP's interest rate policy; at present DBP charges 12 percent for loans secured by land and 14 percent for loans secured by other forms of collateral, but an increase in these rates is being considered in close consultation with IBRD staff. In addition, sub-loans over ₦ 3 million (\$400,000 million equivalent) would be subject to a service charge of up to 2 percent per annum of amounts outstanding to cover DBP's costs of sub-loan appraisal and supervision.

Procurement

52. Competitive bidding for fishpond rehabilitation and development would not be appropriate because individual needs vary, sites are geographically scattered and work would be carried out by manual labor. Fishpond operators would, therefore, make arrangements satisfactory to DBP, for carrying out this work with local labor or contractors. New fishing vessels to be financed under the project would be small wooden hulls, which are normally constructed on a custom basis in backyard sites. Contracts for ship-building are therefore not suitable for competitive bidding, and would be awarded by sub-borrowers through normal commercial channels under supervision of DBP. Second-hand vessels to be converted to fish carriers would be individually procured and contracts for their refitting would be awarded through normal commercial channels with due regard for economy and suitability. Equipment for vessels would be procured by individual operators on the basis of price quotations received from qualified suppliers represented or established in the Philippines. Through international advertisements, other suppliers would be encouraged to establish themselves in the Philippines and provide adequate service facilities and spare parts inventories. The advertisement would indicate the approximate type of equipment and total quantity required; potential suppliers would quote prices on various quantities of each type of equipment. DBP would then assist the sub-borrower in obtaining the make of equipment and the quantity required on the basis of these quotations.

53. Contracts for ice plants and slipway (total cost \$1.4 million, net of cancellations) costing more than \$200,000 would be awarded after international competitive bidding in accordance with Bank guidelines. Contracts between \$100,000 and \$200,000 would be awarded through competitive bidding advertised locally in accordance with procedures which are acceptable. Contracts of less than \$100,000 would be awarded through normal commercial channels. Foreign firms are represented in the Philippines and would be eligible to bid for these contracts.

Disbursement

54. The proposed Bank loan would be disbursed over four years. The Bank would reimburse 61 percent of DBP's disbursements under sub-loans for the inland fisheries sector (excluding land and working capital) and 71 percent of disbursements for the marine sector. Reimbursements would be made against evidence of disbursements by DBP.

Markets and Prices

55. The domestic demand for fish in the Philippines is expected to increase at a rate of 6 percent per annum, which is about the same rate at which fisheries production has actually expanded during the period 1969-73. Since the potential of municipal fisheries is limited and scale of investment in commercial fisheries may not be adequate to meet future production requirements, a growing fish deficit is possible during the coming years. During the period 1969-73, wholesale fish prices rose at about the same rate as the general wholesale price index, but have increased more rapidly during the past two years because of the decline in deep-sea production resulting from the rapid increase in oil costs. Although ex-vessel fish prices have not

increased significantly in the last two years, it is expected that they will rise with the general upturn in the Philippine economy expected during the next year or two. For purposes of the financial analysis of this project, ex-vessel fish prices have been conservatively assumed to remain at September 1975 price levels.

Benefits and Justification

56. Fishponds and fishing vessels financed under the project would increase annual fish production by 26,000 tons, which would have an estimated value of about \$11 million. In addition, the project fish carriers and ice plants would reduce operating costs and distribution losses by improving fish marketing and transportation facilities and thereby help increase productivity. The fish produced under the project would constitute an important source of protein for the Philippine population. The project would cause virtually no degradation of the environment.

57. The estimated financial rates of return on investments vary between 17 and 39 percent, with a weighted average of 27 percent. The corresponding economic rates of return range from 21 to 43 percent, with an overall weighted average for the project of 30 percent. The economic rate of return is sensitive to fish prices, but, given the expected increase in demand for fish products in the Philippines, a significant decline in fish prices is unlikely. The project would generate 1,000 new permanent jobs required for the sub-projects and about 750 jobs resulting from the marketing of the additional fish produced under the project. Construction of project facilities would generate about 4 million man-days of employment. Although the direct beneficiaries of the project would be some 400 rural entrepreneurs who would receive project sub-loans, the beneficiaries of the additional employment created would mainly be very low income people.

58. In addition to these quantifiable benefits, the project would continue to help FG improve further its appraisal and supervision procedures. During the project implementation period, particular emphasis would be given to improving the FG's technical capability, monitoring and reporting procedures and collection performance. With the assistance provided, DBP would be able to play a major role in providing the long-term financing and technical assistance needed to support the large investments necessary to increase fish production to meet the expected increase in domestic demand during the coming years.

PART V - LEGAL INSTRUMENTS AND AUTHORITY

59. 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 text of a resolution approving the proposed loan are being distributed to the Executive Directors separately.

60. The draft Loan Agreement conforms to the pattern for previous loans for lending programs carried out by DBP. A subsidiary loan agreement, satisfactory to the Bank, would be entered into between the Borrower and DBP, and its execution would be 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 3 to the draft Loan Agreement.

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

PART VI - RECOMMENDATION

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

Robert S. McNamara
President

Attachments
May 13, 1976

TABLE 3A
PHILIPPINES - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOU KM ²)	PHILIPPINES			REFERENCE COUNTRIES (1970)					
	TOTAL	300.0	ARABLE	1960	1970	MOST RECENT ESTIMATE	THAILAND	TURKEY	KOREA, REP. OF **
GNP PER CAPITA (US\$)				130.0	220.0	280.0	210.0	420.0	270.0
POPULATION AND VITAL STATISTICS									
POPULATION (MID-YR, MILLION)				27.4	36.9	40.2	36.3	35.2	31.4
POPULATION DENSITY PER SQUARE KM.				91.0	123.0	134.0	71.0	45.0	119.0
POPULATION DENSITY PER SQUARE KM. ARABLE LAND				140.0	749.0
VITAL STATISTICS									
CRUDE BIRTH RATE PER THOUSAND				..	45.0	44.0	43.0	30.0 /a	28.0
CRUDE DEATH RATE PER THOUSAND				..	12.0	11.0	10.0	13.0 /a	8.0
INFANT MORTALITY RATE (/THOU)				..	80.0	68.0	80.0	145.0	..
LIFE EXPECTANCY AT BIRTH (YRS)				51.0 /a	56.0	59.0	59.0	55.0 /b	65.0
GROSS REPRODUCTION RATE				3.5 /b	3.3	3.3	3.2	2.6 /a,b	2.6
POPULATION GROWTH RATE (%)									
TOTAL				3.0	3.0	3.0	3.1	2.5	2.4
URBAN				2.0 /c	4.0	..	5.0	4.5	6.0
URBAN POPULATION (% OF TOTAL)				30.0 /d	32.0	..	13.0	39.0	41.0
AGE STRUCTURE (PERCENT)									
0 TO 14 YEARS				46.0	43.1	43.2	45.0	41.8	42.1
15 TO 64 YEARS				51.0	53.4	53.4	52.0	53.9	54.6
65 YEARS AND OVER				3.0	3.5	3.4	3.0	4.3	3.3
AGE DEPENDENCY RATIO									
ECONOMIC DEPENDENCY RATIO				1.0	0.9	0.9	0.9	0.9	0.8
				1.5 /e	1.5	1.4 /e	1.2	1.1 /c	1.4
FAMILY PLANNING-ACCEPTORS (CUMULATIVE, THOU) USERS (% OF MARRIED WOMEN)									
				..	409.0	..	550.0	484.0 /d	..
				..	8.0	..	10.0	8.2	..
EMPLOYMENT									
TOTAL LABOR FORCE (THOUSAND)				9100.0	12300.0	13300.0	16700.0	14500.0 /e	10400.0
LABOR FORCE IN AGRICULTURE (%)				61.0	51.0	..	79.0	67.0	51.0
UNEMPLOYED (% OF LABOR FORCE)				6.0	7.0	5.0	..	4.0 /f	5.0 /a
INCOME DISTRIBUTION									
% OF PRIVATE INCOME REC'D BY-									
HIGHEST 5% OF POPULATION				28.0 /e	..	24.0 /b	..	32.0 /g	20.1
HIGHEST 20% OF POPULATION				56.2 /e	..	54.0 /b	..	60.6 /g	47.1
LOWEST 20% OF POPULATION				4.2 /e	..	3.9 /b	..	2.9 /g	6.1
LOWEST 40% OF POPULATION				11.9 /e	..	11.9 /b	..	9.4 /g	16.2
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				2710.0	7970.0	2220.0	2210.0 /b
POPULATION PER NURSING PERSON				1970.0	2270.0 /a	1880.0 /h	1760.0 /b
POPULATION PER HOSPITAL BED				1180.0 /g	850.0	..	850.0	490.0	1920.0
PER CAPITA SUPPLY OF -									
CALORIES (% OF REQUIREMENTS)				83.0	85.0	86.0	105.0	110.0	103.0
PROTEIN (GRAMS PER DAY)				44.0	45.0	47.0	52.0	78.0	65.0
-OF WHICH ANIMAL AND PULSE				19.0 /h	22.0	..	17.0 /b	22.0 /i	19.0
DEATH RATE (/THOU) AGES 1-4				9.0 /g	7.0	..	..	15.0 /b	..
EDUCATION									
ADJUSTED ENROLLMENT RATIO									
PRIMARY SCHOOL				91.0	119.0	112.0	80.0	111.0	104.0
SECONDARY SCHOOL				26.0	49.0	..	13.0	28.0	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	10.0 /a,b	9.0	14.0 /c	14.0	15.0
ADULT LITERACY RATE (%)				72.0	..	55.0 /i	..
HOUSING									
PERSONS PER ROOM (AVERAGE)									
OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)				80.0	66.0 /b	..	..	64.0	80.0 /c
ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)									
RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)				..	6.0 /b	..	..	18.0	30.0
CONSUMPTION									
RADIO RECEIVERS (PER THOU POP)				22.0	45.0	46.0	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)				101.0	235.0	255.0	120.0	244.0	309.0
NEWSPRINT (KG/YR PER CAP)				1.3 /i	1.5 /c	1.0 /c	1.0	0.7	5.4

SEE NOTES AND DEFINITIONS ON REVERSE

NOTE

Unless otherwise noted, data for 1960 refer to 1959-1961, for 1970 to 1968-1970, and for Most Recent Estimate to 1971-1973.

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

PHILIPPINES	1960	/a 1946-49; /b 1950-55; /c 1956-60; /d 1956; /e Ratio of population under 15 and 65 and over to total labor force; /f Households; /g 1962; /h 1960-62; /i Imports only.
	1970	/a Public education only; /b 1967; /c Imports only.
	MOST RECENT ESTIMATE:	/a Ratio of population under 15 and 65 and over to total labor force; /b Households; /c Imports only.
THAILAND	1970	/a Including midwives; /b 1964-66; /c Public schools, which include technical education at the post-secondary level.
TURKEY	1970	/a Excludes 17 Eastern Provinces; /b 1965-67; /c Ratio of population under 15 and 65 and over to labor force age 15 years and over; /d 1964 - June 1974, 86 percent being IUDs; /e 15 years and over, excluding unemployed; /f Registered only, /g Disposable income of households; /h Including assistant nurses and midwives; /i 1964-66; /j Persons six years old and over, who tell the census takers that they can read and write.
KOREA, REP. OF	1970	/a Registered, /b Registered, not all practicing in the country; /c Water piped inside.

R7, March 2, 1976

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km²)

Total - Total surface area comprising land area and inland waters.
Arable - Most recent estimate of land area used temporarily or permanently for cultivation, pastures, market and kitchen gardens or to lie fallow.
GNP per capita (US\$) - GNP per capita estimates at market prices, calculated by same conversion method as World Bank Atlas (1972-74 basis).

Population and vital statistics

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

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

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

Vital statistics

Crude birth rate per thousand - Annual live births per thousand of mid-year population; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Crude death rate per thousand - Annual deaths per thousand of mid-year population; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

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 1960 to most recent year.

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 population.

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 is defined as above; requirements for all countries established by USDA 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 instruction 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, hearses 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/}GROSS NATIONAL PRODUCT IN 1974ANNUAL RATE OF GROWTH (% constant prices)

	<u>US\$ Mln.</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	-3.2	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	-24.7
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</u> ^{2/}		<u>V. A. Per Worker</u>	
	<u>US\$ Mln.</u>	<u>%</u>	<u>Mln.</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>(Mln.)</u>	<u>% of GDP</u>		<u>(Pesos Mln.)</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

MONEY, CREDIT and PRICES

	<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	21,531	26,906	34,326

(Percentages or Index Numbers)

Money and Quasi Money as % of GDP	21.1	27.0	25.0	23.2	23.5	23.5	19.2
General Price Index (1963 = 100)	100.0	111.4	137.7	159.3	175.3	218.4	337.5
Annual percentage changes in:							
General Price Index	2.2	1.3	23.6	15.7	10.0	24.6	54.5
Bank credit to Public Sector	..	27.9	-2.4	12.3	22.3	41.6	11.8
Bank credit to Private Sector	..	9.0	17.2	17.0	27.0	25.0	27.6

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

^{1/} All current factor cost.

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

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

.. not available

. not applicable

TRADE PAYMENTS AND CAPITAL FLOWS

BALANCE OF PAYMENTS

	1971	1972	1973	1974
	(Million US\$)			
Exports of Goods, NFS	1,432	2,443	3,357	
Imports of Goods, NFS	1,484	2,008	3,782	
Resource Gap (deficit - -)	-52	+435	-425	
Interest Payments (net)	-92	-53	-55	
Workers' Remittances				
Other Factor Payments (net)	-33	-60		
Net Transfers	188	234	271	
Balance on Current Account	+11	556	-210	
Direct Foreign Investment	-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	

MERCHANDISE EXPORTS (AVERAGE 1972-74)

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

EXTERNAL DEBT, DECEMBER 31, 1974 6/

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

IBRD/IDA LENDING, March 31, 1976 (Million US \$)

RATE OF EXCHANGE	1965-69		1970-71		IBRD		IDA	
	1965-69	1970-71	1970-71	Since July 1975	Outstanding & Disbursed	Undisbursed	Outstanding incl. Undisbursed	
US\$ 1.00 = Ps.	3.92	6.43	0.16	US\$ 1.00 = Ps. 7.5	264.9	519.5	784.4	
Ps. 1.00 = US\$	0.26	0.16	0.15	Ps. 1.00 = US\$ 0.133	8.3	13.9	22.2	
	<u>April 1972-July 1975</u>		<u>Since July 1975</u>					
	US\$ 1.00 = Ps. 6.78		US\$ 1.00 = Ps. 7.5					
	Ps. 1.00 = US\$ 0.15		Ps. 1.00 = US\$ 0.133					

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

PHILIPPINES

A. Statement of Bank Loans and IDA Credits to the Philippines
as of March 31, 1976

Loan or Credit Number	Year	Borrower	Purpose	(US\$ millions)		
				Amount Bank	less IDA	Cancellations Undisbursed
13 loans and credits fully disbursed				191.0		
637-PH	1969	Republic of the Philippines	Irrigation	34.0		0.9
720-PH	1971	"	Rice Proces- sing and Storage	14.3		11.0
809-PH	1972	National Power Corporation	Power	22.0		13.8
823-PH	1972	Republic of the Philippines	Livestock	7.5		1.5
349-PH	1973	"	Education II		12.7	7.8
891-PH	1973	"	Fisheries	11.6		8.1
939-PH	1973	"	Ports	6.1		5.7
950-PH	1973	"	Highway II	68.0		42.3
472-PH	1974	"	Aurora Penaranda Irrigation		9.5	6.1
984-PH	1974	"	"	9.5		9.4
998-PH	1974	"	DFC -DBP I	50.0		22.7
1010-PH	1974	"	Third Rural Credit	22.0		0.2
1034-PH	1974	National Power Corporation	Power	61.0		50.8
1035-PH	1974	Republic of the Philippines	Population	25.0		24.8
1048-PH	1974	"	Shipping	20.0		20.0
1052-PH	1974	Philippine National Bank	DFC	30.0		27.5
1080-PH	1975	Republic of the Philippines	Tarlac Irrigation	17.0		16.9
1102-PH	1975	"	Rural Development	25.0		24.9
1120-PH	1975	"	Small and Medium Industries	30.0		25.1
1154-PH	1976	"	Magat Irrigation	42.0		42.0
1190-PH	1976	"	DFC -DBP II	75.0		75.0
1224T-PH*	1976	"	Education III	25.0		25.0
1225-PH*	1976	"	Livestock II	20.5		20.5
1227-PH*	1976	"	Chico Irrigation	50.0		50.0
			TOTAL	864.5	22.2	533.4
Of which has been repaid (Bank and 3rd parties)				79.3	---	
Total now outstanding				785.2	22.2	
Amount sold				13.3		
Of which has been repaid (3rd parties)				12.5		
Total now held by Bank and IDA (prior to exchange rate adjustments)				784.4	22.2	
Total undisbursed				519.5	13.9	533.4

* yet effective.

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

<u>Fiscal Year</u>	<u>Company</u>	<u>(Amount US\$ million)</u>		
		<u>Loan</u>	<u>Equity</u>	<u>Total</u>
1963 & 1973	Private Development Corporation of the Philippines	15.0	4.4	19.4
1967	Manila Electric Company	8.0	-	8.0
1967	Meralco Securities Corporation	-	4.0	4.0
1970	Philippine Long Distance Telephone Company	4.5	-	4.5
1970 & 1972	Mariwasa Manufacturing Inc.	0.8	0.4	1.2
1970	Paper Industries Corporation of the Philippines	-	2.2	2.2
1971	Philippine Petroleum Corporation	6.2	1.8	8.0
1972	Marinduque Mining and Industrial Corporation	15.0	-	15.0
1973	Victorias Chemical Corporation	1.9	0.3	2.2
1974	Filipinas Synthetic Fiber Corporation	1.5	-	1.5
1974	Maria Christina Chemicals	1.5	.5	2.0
1974	Republic Flour Mills Corporation	1.2	-	1.2
1975	Philippine Polyamide Industrial Corporation	<u>7.0</u>	<u>-</u>	<u>7.0</u>
	Total	62.6	13.6	76.2
	Less sold, acquired by others, repaid or cancelled	<u>16.1</u>	<u>7.1</u>	<u>23.2</u>
	Now held	<u>46.5</u>	<u>6.5</u>	<u>53.0</u>
	Undisbursed	-	-	-

C. Project in Execution 1/

Ln. No. 637-PH Upper Pampanga River Irrigation; US\$34.0 million Loan of August 18, 1960; Date of Effectiveness: October 15, 1960; Closing Date: June 30, 1976

This is the first major irrigation project in the Philippines and will supply water year-round to nearly all its 84,000 ha command area. The project's on-farm development scheme is setting a pattern for future irrigation development in the country. Despite some delays caused by the 1972 floods, the dam was commissioned on September 7, 1974 ahead of schedule. Most of the work has been completed and the loan is expected to be entirely disbursed by the Closing Date. 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 more than at appraisal.

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

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

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.

Authority to borrow funds under the project, and (iii) to streamline procurement procedures (President's memorandum SecM74-244 of April 15, 1974). As a result of these amendments, the project is now progressing satisfactorily and the loan is expected to be fully committed by June 30, 1976, and fully disbursed before the revised Closing Date, June 30, 1977.

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

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

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

The project is helping the National Power Corporation (NPC) to finance the construction of a second thermal unit of 150-MW at Bataan and transmission facilities in Luzon. The project is proceeding satisfactorily, and the unit is expected to be commissioned during the second quarter of 1976. The erection of transmission lines has been somewhat delayed due to unfavorable weather and poor soil conditions and is now expected to be completed in June 1976. A tariff increase was approved, effective July 1, 1974, and a new tariff increase is under active consideration.

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

The project is assisting Government in carrying out its livestock development program through credit supervised by the Development Bank of the Philippines. The start of DBP lending operations was delayed by about six

months because of late appointment of technical staff. Sub-loan commitments were slow therefore but they improved so that all funds were fully committed by December 1975. The project has expanded the agricultural credit capability of DBP into a new and important field thus meeting a previously unsatisfied demand for loans for small to medium scale livestock projects.

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

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

This is the second irrigation development and rehabilitation project in the Philippines to be financed by the Bank. The project diverts water from the Aurora basin into the Pantabangan Reservoir, to provide year-round irrigation for 25,300 ha of rice land in Central Luzon. The project also includes an Irrigation Development Study for Central Luzon to inventory water, land, and other resources and identify priority irrigation projects. Although there has been some delay in constructing the two diversion dams because of the need for more extensive foundations and abutment area grouting than originally expected, most difficulties have been overcome and the work is progressing satisfactorily. Diversion of 75 percent of Aurora water into Pantabangan Reservoir was achieved in September 1975, one year ahead of the appraisal schedule. In the area served by the project, lack of competition and high bids have delayed awarding of contracts. 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.

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

The proceeds of the loan are being relent to the Development Bank of the Philippines (DBP). The industrial portion of the loan (US\$48 million) is being used by DBP to finance direct imports for medium and relatively large industrial projects. DBP is using the balance (US\$2 million) to finance about 1,300 smallholders in a pilot tree-farming project. As of March 31, 1976 commitments for sub-loans totalling \$44.7 million had been made. The project is progressing satisfactorily.

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

The Central Bank relends the proceeds of the Loan (except for a small amount for an evaluation study) to participating banks. These on-lend the funds to farmers and rural entrepreneurs to finance investment in farm mechanization, on-farm transportation, farm support facilities and equipment, coastal and inland fisheries, small-scale livestock development and cottage-scale agro-industry. The project also provides for a review of the effectiveness of the First, Second and this project. The loan became effective on August 27, 1974, and is expected to be fully committed in 1976. Collection of arrears by about 200 participating banks from beneficiaries under the first and second projects is not satisfactory. This is being watched closely by Bank staff and appropriate steps are being taken by the Central Bank to improve such collections.

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

The project is helping the National Power Corporation (NPC) to finance a 100 MW hydro plant at Pantabangan and transmission lines for the further expansion of the Luzon grid and feasibility studies by consultants for a future power project. Major equipment for the plant has been contracted and project commissioning is expected in January 1977 - three months ahead of original schedule. The transmission component of the project is proceeding in stages. Some lines are under construction and others are being procured. The design work has been delayed due to NPC's heavy construction program. It is now expected that this part of the project will be completed by the end of 1978, i.e. one year behind schedule. NPC raised its tariffs on July 1, 1974, and a new tariff increase is under active consideration.

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

The Credit is helping to finance a project for development of technical and vocational education and for improvement in curriculum development and teacher training. Construction has been about 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. Despite initial delays, the project is expected to be completed on schedule.

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

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

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

This project provides for the rehabilitation and expansion of the ports of General Santos and Cagayan de Oro in the island of Mindanao. The contract for General Santos was awarded in May 1975 and work is progressing satisfactorily. For Cagayan de Oro, after about nine months delay, the contract was awarded on March 12, 1976 and work has now commenced.

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

The project is helping the Government to implement its program of construction, improvement and rehabilitation of highways and feeder roads, by financing the construction, improvement and rehabilitation of 1,400 kms of roads in Luzon. Work has begun on all 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. The UNDP financed Road Feasibility Studies (Phase II), for which the Bank is executing Agency, have been completed and a possible Third Highway project is now being appraised. Execution of other minor project items is proceeding generally on schedule.

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

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

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

The Government is relending the proceeds of the loan to the Development Bank of the Philippines for onlending to beneficiaries for the acquisition of new and used ships and for major repairs and conversions. The loan became effective on January 15, 1975. It is progressing satisfactorily.

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

The project assists in the financing of industrial sub-projects, the bulk of which are expected to go to export-oriented manufacturing projects. As of March 31, 1976, commitments for sub-loans totalling \$7.8 million had been made.

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

The project is assisting the Government to improve and expand irrigation on 34,000 hectares of land in Central Luzon. It also includes a groundwater pilot scheme, a water management training program and a national irrigation systems improvement study. The project is progressing satisfactorily.

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

The project 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. The loan became effective on July 28, 1975. It is progressing satisfactorily.

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

The Government is relending \$15 million of the loan proceeds to the Development Bank of the Philippines (DBP) and \$12 million to the Industrial Guarantee Loan Fund (IGLF) to finance a wide range of small and medium-sized industrial sub-projects; \$2.3 million to the National Electrification

Administration (NEA) to finance the establishment of 24 industrial producer cooperatives; \$0.7 million to the Department of Industry (DOI) to establish 7 Small Business Advisory Centers to provide technical assistance to small industries. The project is progressing satisfactorily and as of March 31, 1976 disbursements for sub-loans totalling \$4.9 million had been made.

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

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

Ln. No. 1190-PH Industrial Investment; US\$75.0 million Loan of January 28, 1975; Date of Effectiveness: Net yet effective; Closing Date: March 31, 1980

The proceeds of the loan are being relent to the Development Bank of the Philippines (DBP) for sub-loans to finance direct imports for medium and relatively large industrial projects. The loan became effective on April 6, 1976, and the project is progressing satisfactorily.

Ln. No. 1224-PH Third Education Project; \$25 million Loan of April 8, 1976; Date of Effectiveness: Not yet effective; Closing Date: June 30, 1981

The project is designed to assist the Government in strengthening its capacity to develop, produce and distribute textbooks on a continuous basis. It covers the first phase of the Government's eight-year textbook program (1976-1980) and provides for the development, production and distribution of 27 million textbooks. It also provides for curriculum development, teacher training and technical assistance. The loan was signed on April 8, 1976, but is not yet effective.

Ln. No. 1225-PH Second Livestock; US\$20.5 million Loan of April 8, 1976; Date of Effectiveness: Not yet effective; Closing Date: June 30, 1982

The project would specifically help finance about 1,850 pig farms, 460 poultry farms, 200 small beef cattle farms, 440 mixed coconut and

cattle farms, 60 hill beef farms, 10 municipal slaughter houses and supporting technical services and research. The loan was signed on April 8, 1976, but is not yet effective.

Ln. No. 1227-PH Chico River Irrigation Project; US\$50.0 million Loan of April 8, 1976; Date of Effectiveness: Not yet effective; Closing Date: June 30, 1981

The project will assist the Government to improve and expand irrigation on 19,700 ha in the Cagayan Valley. It includes improvement of 65 km of provincial roads in the area adjacent to the Magat River Multipurpose Project (Loan No. 1154-PH) and includes technical assistance for an erosion control study of the Magat and Pampanga river catchments and the establishment of a monitoring system. The loan was signed on April 8, 1976, but is not yet effective.

PHILIPPINES

Second Fisheries Project

Loan and Project Summary

- Borrower: Republic of the Philippines.
- Beneficiary: The Government would relend the proceeds of the loan to the Development Bank of the Philippines (DBP, which would provide sub-loans to about 400 individuals and private companies for specific fisheries sub-projects.
- Amount: \$12.0 million equivalent.
- Terms: The loan would be for a term of 18 years, including a grace period of 5 years at 8-1/2 percent per annum.
- Relending Terms: The Government would relend the proceeds of the loan to DBP on the same terms as those of the Bank loan. DBP would onlend the funds to individuals and private companies for specific fisheries sub-projects. Sub-loans would carry an interest rate of 12 percent per annum for loans secured by land and 14 percent for loans otherwise secured. In addition, sub-loans over \$400,000 equivalent would be subject to a service charge of up to 2 percent per annum of amounts outstanding to cover DBP's costs of sub-loan appraisal and supervision. Sub-loans would have repayment terms of up to 14 years, including a grace period of up to 3 years.
- Project Description: The project would assist the Government in carrying out its program of increasing fish production for domestic consumption through financing to be administered by DBP for the following:
- Inland Sector
- (i) Construction of about 115 new fishponds for fish farming;
 - (ii) Expansion and rehabilitation of about 265 existing fish ponds;
- Marine Sector
- (iii) Construction of about fourteen 90-gross ton fishing vessels;

- (iv) Construction of three 45-gross ton fishing vessels;
- (v) Conversion of four second-hand vessels into fish carrier boats;
- (vi) Construction of three ice plants with cold storage; and
- (vii) Construction of a slipway for repair of fishing vessels.

<u>Estimated Cost:</u>	<u>\$ Million</u>			<u>Foreign Exchange Percentage</u>
	<u>Local</u>	<u>Foreign</u>	<u>Total</u>	
Inland Fisheries	9.5	1.3	10.8	12.0
Marine Fisheries	<u>3.2</u>	<u>3.6</u>	<u>6.8</u>	<u>52.9</u>
Sub-Total	12.7	4.9	17.6	25.0
Price Contingencies	<u>4.5</u>	<u>1.4</u>	<u>5.9</u>	<u>23.7</u>
Total Project Cost	<u>17.2</u>	<u>6.3</u>	<u>23.5</u>	<u>26.8</u>

<u>Financing Plan:</u>	<u>\$ Million</u>			
	<u>Sub-Borrower</u>	<u>DBP</u>	<u>IBRD</u>	<u>Total</u>
Inland Fisheries	1.3	4.7	7.4	13.4
Marine Fisheries	1.6	1.9	4.6	8.1
Incremental Working Capital	-	2.0	-	2.0
	---	---	---	---
Total	<u>2.9</u>	<u>8.6</u>	<u>12.0</u>	<u>23.5</u>

<u>Estimated Disbursements</u>	<u>\$ Million</u>		
	<u>Fiscal Year</u>	<u>Annual</u>	<u>Cumulative</u>
	77	0.5	0.5
	78	3.2	3.7
	79	4.3	8.0
	80	4.0	12.0

Procurement
Arrangements:

- (a) Civil works for fishpond construction, expansion and rehabilitation would be arranged by sub-borrowers through engaging local labor or local contractors under arrangements satisfactory to DBP;
- (b) Fishing vessels and second-hand vessels to be refitted to fish carriers would be procured by individual sub-borrowers through normal commercial channels under DBP supervision;
- (c) Equipment for vessels would be procured by individual operators on the basis of quotations received from qualified suppliers established or represented in the Philippines. Through international advertisements, other suppliers would be encouraged to establish themselves in the Philippines and provide adequate service facilities and spare parts.
- (d) Contracts of over \$200,000 for ice plants and slipways would be procured through international competitive bidding in accordance with Bank Group guidelines. Contracts between \$100,000 and \$200,000 would be awarded through competitive bidding advertised locally in accordance with procedures that are acceptable; contracts of less than \$100,000 would be awarded through normal commercial channels. Foreign firms are represented in the Philippines and would be eligible to bid for these contracts.

Rate of Return:

The estimated weighted average economic rate of return of the project is 30 percent. The rates of return on individual components of the project are as follows:

<u>Economic Rates of Return (%)</u>	
<u>Inland Sector</u>	21 to 39
<u>Marine Sector</u>	28 to 43

Appraisal Report:

Report No. 1101b - PH

Dated: May 7, 1976

