McNamara Papers

Travel briefs – J[illegible]
Singapore and M[illegible]

Vol. 2
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REPUBLIC OF THE PHILIPPINES

UNDP/IBRD Projects

The Bank was executing agency for a comprehensive Transport Survey which was financed by UNDP and carried out by consultants in 1968/69. The Bank is currently executing agency for three UNDP-financed projects:

(a) Board of Investments ($803,000).

The purpose of this project is to provide consultants' services to BOI to help improve its investment and export promotion activities, including assistance in the preparation of annual investment priorities plans and annual export priorities plans and the preparation and evaluation of feasibility studies for specific industries. The project began in May 1971 and will continue for a period of three years. W. D. Scott and Company of Australia has been selected as the general consultant. In addition, other consulting firms may also be engaged to assist in preparing studies of specific industries and other assignments.

(b) Reorganization of the Bureau of Public Highways (BHP) and Roads Feasibility Studies ($2,086,000).

The technical assistance to BPH is to help improve BPH's organization and operations, including overall highway planning, preparation and implementation of maintenance programs and training of BPH staff. Work on this project began by the consultant, Kampsax of Denmark, in July 1971 and will be completed in 26 months. The road feasibility studies cover about 1,200 km. of priority roads in Luzon identified under the Transport Survey and selected by the Bank in agreement with the government. On the basis of the studies some 700 km of higher priority roads will be selected for detailed engineering and will form the basis for Bank consideration of a second highway project, now planned for FY 1973. The studies, began by the consultant, Norconsult of Norway, in July 1971, will be completed in nine months.

(c) Port Feasibility Studies ($485,000).

The studies cover four ports - Batangas and Tabaco in Luzon and Cagayan de Oro and General Santos in Mindanao which were selected by the Bank in agreement with the Government from a list of priority ports identified under the Transport Survey. The results of the studies will form the basis for Bank consideration of a port project, now planned for FY 1973. The firm of Sir William Halcrow and Partners of the U.K. has been selected as the consultant to carry out the studies. Its staff arrived in the Philippines in early October and field work will be completed in 12 months. This UNDP project is still yet to be approved by UNDP Governing Council next January. In order to avoid delay in awaiting this approval, UNDP Administrator has authorized a grant of $271,000 to cover initial financing of the studies.

East Asia and Pacific Department
October 18, 1971

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REPUBLIC OF THE PHILIPPINES

UNDP Projects in Special Fund Component
(Excluding projects completed through December 1970)
As of September 30, 1971

Project	Agency	Approved by Governing Council	Governing Council Earmarkings
Soil Fertility Survey and Research	FAO	June 1963	980,800
Survey of Coal Resources in Mindanao	UN	Jan. 1964	523,500
Strengthening Agricultural Training at the Mindanao Institute of Technology, Kabacan	UNESCO	June 1964	1,135,800
Demonstration and Training in Forest, Forest Range and Watershed Management	FAO	Jan. 1965	729,900
Meteorological Training and Research, Manila	WHO	Jan. 1967	980,600
Strengthening Agricultural Training at the Central Luzon State University	UNESCO	Jan. 1968	1,185,700
Institute of Planning of the University of the Philippines	UN	June 1968	614,100
National Industrial Vocational Training Programme	ILO	Jan. 1969	585,400
Metal Industry Development Centre, Manila	UNIDO	June 1969	913,600
Improvement of Irrigation Facilities through Groundwater Development	FAO	Jan. 1970	1,996,200
Deep Sea Fishing Develop- Project (Phase II)	FAO	Jan. 1970	384,600
Training of Technicians for Grain Industries	FAO	June 1970	764,400
Board of Investments	IBRD	June 1970	803,000

Project	Agency	Approved by Governing Council	Governing Council Earmarkings
Coconut Research Institute	FAO	Jan. 1971	854,100
Export Promotion	UNTAD	Jan. 1971	545,500
Reorganization of the Bureau of Public Highways and Roads Feasibility Studies	IBRD	June 1971	2,086,000
Port Feasibility Studies	IBRD	1/	271,000

1/ Of the total cost of $485,000, UNDP Administrator has authorized $271,000 to finance pre-project activities, and the Governing Council is expected to consider financing the remaining $214,000 in January 1972.

East Asia and Pacific Department
October 18, 1971

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ASIAN DEVELOPMENT BANK

Operations in the Philippines
(US$ million)

1969		
Private Development Corporation of the Philippines project, to assist PDCP in providing loans to the private sector		$5.0
Cotoabato Irrigation Project to assist three irrigation schemes in South Cotatato Province		2.5*
	Total	7.5
Under Consideration		
1970		
Private Development Corporation II		15.0
Mindanao Highway I (General Santos-Cotabato)		10.6
	Total	25.6
1971		
Fisheries Port Project (Manila North Harbor)		5.5**
Mindanao Power Generation and Transmission		23.4
	Total	28.9

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* Concessional terms

** $1.0 million from ordinary resources.

East Asia and Pacific Department
October 20, 1971

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REPUBLIC OF THE PHILIPPINES

Japanese Assistance to the Philippines

In calendar 1970 official Japanese assistance disbursed to the Philippines was $19.2 million, including $15.7 million in technical assistance grants and reparations payments and $3.5 million in loans. In addition to official development assistance, Japanese official and private financed export credits amounted to $118.6 million and private investment to $16.7 million.

There has been no perceptable trend during the last five years in the disbursement of official Japanese assistance to the Philippines:

OFFICIAL DEVELOPMENT ASSISTANCE (Disbursements)
($ millions)

	1966	1967	1968	1969	1970
Government loans	-	-	-	13.3	3.5
Reparations	30.2	61.0	26.8	34.9	14.3
Technical Assistance	0.3	0.6	0.9	1.0	1.4
	30.5	61.6	27.7	49.2	19.2

However, Japanese official development loan commitments have increased sharply in the last three years and this should contribute to a dramatic rise in the level of disbursements during the next several years.

Development Loans

Japan made its first development loan to the Philippines in 1969 for the equipment necessary for the construction of the Japan-Philippines Friendship Highway. This $30 million loan was for 20 years including 8 years of grace at an interest rate of 5-1/8 percent. As of December 31, 1970, $16.8 million had been disbursed. In July, 1971, the Japanese agreed to provide to the Philippines a loan of $65 million: $40 million of commodity and $25 million of project assistance. The loan will be for 20 years including 7 years of grace and will have an interest rate of 3-1/2 percent. While the details are still under negotiation, it has been agreed that the commodity loan will be used to finance imports from Japan by refunding to the Central Bank of the Philippines 80 percent of the cost of Philippine imports. The uses of the $25 million project loan will be decided after discussions between the Philippine Government and a Japanese mission scheduled to visit the

Philippines in November, but the most likely financing prospects are the expansion of the Mindanao telecommunications system and provision of ferry facilities connecting sections of the Friendship Highway.

Reparations

The agreement between the Japanese and the Philippines includes: (a) $550 million in grants to be disbursed over the period 1956/57 - 1975/76, and (b) $250 million in development loans. Annual commitments under (a) are scheduled to be about $30 million during the next six years. The most important uses of reparations during the last year were for the Marikina Power Project, telecommunications expansion and assistance to the Philippines National Railway. The Philippines Government has at various times in the past requested an acceleration of these remaining reparations payments, but the Japanese have resisted this suggestion, partly because of the precedent this would have set for other Governments with reparations claims. With regard to (b), the development loan has already been exhausted by various deferred payment contracts with Philippine borrowers.

Technical Assistance

Disbursements for technical assistance have increased rapidly from about $300,000 reaching $1.4 million in 1970. The more important recent projects assisted by the Japanese include assistance to the Technological and Development Center for Cottage and Small-Scale Industries, the El Tor cholera eradication project and several pilot farm projects.

Export-Import Bank

For credit exceeding one year, the Exim Bank finances up to 80 percent of the value of the contract minus the down payment which is financed by the purchaser; commercial banks finance the remainder. The theoretical maximum repayment period of five years is not strictly maintained. The Exim Bank interest rate has been 6-7 percent and the commercial bank rate 8.5-9 percent. The bulk of recent Exim Bank financing of suppliers credits to the Philippines has been for industrial machinery,ships and electrical and telecommunications equipment.

Prospects

Until recent years, the Japanese government was reluctant to increase its assistance to the Philippines both because Japan was already providing substantial reparations payments and because considerable resentment has been created by the failure of the Philippine Congress to ratify the Japanese Friendship Treaty. However, with a dramatically improved foreign reserve position, the adoption of the target for foreign assistance of 1 percent of GNP in the spring of 1970 and the formation of the Philippine Consultative Group, the Japanese Government has become increasingly interested in the possibility of increasing assistance to the Philippines, the second largest country in South East Asia. Subject to uncertainties created by the present international monetary situation, the Japanese Government is reported to be willing to continue to provide assistance at about the 1971 level so long as the Philippines economic performance is satisfactory, existing Japanese projects are properly implemented and well prepared projects are available for foreign financing. The Japanese attitude may also be affected by the willingness of other members of the Consultative Group to step up their assistance to the Philippines. Philippine authorities report that the Japanese are open to the possibility of joint-financing with the Bank Group, but would, for internal political reasons, prefer to participate in projects financed by IDA credits where the interest rate on the Japanese loan would not be lower than that of the Bank Group partner.

East Asia and Pacific Department
October 18, 1971

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REPUBLIC OF THE PHILIPPINES

Ford Foundation

The Foundation has been active in providing assistance for education in the Philippines for many years. In 1970, the Foundation approved new grants amounting to almost $2.0 million, the most important of which was a $900,000 terminal grant to the University of the Philippines College of Agriculture (UPCA) and a $359,000 grant for the graduate engineering program at the University of the Philippines.

The Foundation's efforts have been loosely associated with both the Bank's First and Second Education Projects. With regard to our First Education Loan made in 1964 to finance UPCA's Five-Year Development Program, the Foundation has provided grants to UPCA to cover the costs of visiting professors, consultants from Cornell University, fellowships for Filipino faculty at the Ph.D. and Master's levels, experimental extension programs and training in rice and corn production. With regard to the Second Education Project , the Foundation provided a grant of $85,000 to finance the costs of consultants from Macquarie University in Australia who assisted in the preparation of the Education Commission Survey which was completed at the end of 1970 and which will serve as the basis for the Bank project scheduled for Board presentation in FY 1972.

East Asia and Pacific Department
October 20, 1971

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INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

TAB 16
[Temporary]

OFFICE MEMORANDUM

TO: Files DATE: May 19, 1970

FROM: Rudolf Hablutzel RH.

SUBJECT: PHILIPPINES: Back-to-Office Report of Economic Mission

An economic mission, composed of myself, Miss Goris and Messrs. Maniatis, Holmgren, Datas-Panero, Lamer (consultant) and Franklin (ILO), visited the Philippines from April 3 to May 8, 1970, to appraise the economic situation, the four-year development program, and the appropriateness of establishing a consultative group.

On the political front, the first six months of President Marcos' second term of office have been a period of expectations for improved government. While important personnel changes took place in the administration, which in time should produce favorable results, progress has been interrupted on the one hand by some manifestations of social restiveness in the form of student demonstrations and strikes, and on the other by preoccupation with heavy legacies from past years requiring immediate solution, in particular the accumulation of short-term foreign debt maturities and the threat of monetary inflation.

In the last three years, the Philippine economy has been growing at an annual rate of about 6.3 percent per annum, but a slowdown has occurred to probably about 5 percent in the current year ending July 1, 1970. A further slowdown to less than 4 percent may be expected for 1970/1971 as a result of disinflationary measures and the reduction in total import capacity. Subsequently, a recovery to previous growth rates is possible.

Growth since 1967 has been accompanied by a sharp increase in the level of imports and a substantial current account deficit, covered mostly by credits on very short terms obtained both by the Central Bank and the private sector. In the face of the resulting liquidity crisis early in 1970, with maturities falling due in 1970 totalling $530 million, or 42 percent of expected foreign exchange earnings, the government approached the IMF for a Standby Agreement, which was approved on February 20, 1970. Negotiations have also started for a restructuring of the short-term debt due to foreign banks, mostly in the U.S.

In connection with the IMF Standby Agreement, a floating rate for the peso was introduced, with the proviso that 80 percent of the proceeds of major exports (logs, copra, sugar, copper concentrate and ore) were to be surrendered to the Central Bank at the par rate of ₱3.90/$1. Shortly thereafter, a bill was introduced in Congress to impose an export tax of between 8 and 12 percent to replace the surrender requirement, which would improve the effective peso value of export proceeds by about ₱1 per dollar at the free rate of ₱6/$1; while the bill was debated for about six weeks in Congress, exporters held back shipments to the extent possible, while import demand grew to speculative levels, resulting in heavy pressure on the peso. Awareness of the critical short-term foreign debt problem was also a factor in this speculative movement. The disequilibrium between demand and supply of foreign exchange widened but the banks exercised voluntary restraint in the free market, and the rate was kept at around ₱6.25 by the end of April, until the export tax became law on May 1, 1970, after which the rate started to decline. It has been hovering in the neighborhood of ₱6.00 for the last two weeks.

The Standby Agreement provided for drastic measures to reduce inflationary pressures in 1970/1971. These include a cash surplus in the government's fiscal operations during the current 6 months, implying a reduction in expenditures for the infrastructure program; increase in tax revenues through new measures within the next 2 years in the amount of about ₱600 million; a reduction by July 31, 1970 in the Central Bank's net domestic assets by ₱300 million from the December 1969 level; changes in interest rate ceilings and reserve requirements; a prohibition on new foreign credits with maturities less than 5 years; and a limitation on credits with maturities between 5 and 12 years to US$100 million during the one-year period of the Standby. The Agreement also proposed not to further reduce total net foreign exchange reserves from the end of 1969 level of minus $61 million; finally, it stipulated near complete removal of quantitative import controls.

So far, performance under the Standby has not been wholly up to the targets, but given the circumstances, it has been relatively satisfactory. Exchange reserves declined further to minus $110 million at the end of March with some further small decline in April, but a recovery is under way. The government will probably not be able to realize a cash surplus during the current semester in the stipulated amount of ₱300 million; about half this amount is a more likely possibility. On the other hand, the export tax in 1970/1971 will enable the government to conform with the provisions regarding taxation. Central Bank loans and advances to banks were reduced by ₱357 million or more than 25 percent from December to April, and further reductions are planned.

Regarding the free Peso exchange rate, the sharp movement from ₱3.90 to over ₱6.00 is in large measure a result of extraordinary circumstances, and unconnected with the relationship of domestic and international prices, since the Philippines, with an average increase in wholesale prices by just over 4 percent per annum in the last 7 years, has not been significantly out of line with price movements abroad. In fact on the export side, the peso at the present rate is undervalued even with the export tax. (The tax has been set at 10 percent for logs, copra, sugar and copper/ore concentrates and 8 percent for coconut oil, dessicated coconut, other ores, abaca, tobacco, lumber and some other processed raw materials.) The increase by 50 percent in the cost of imports has already started to produce price repercussions on the economy. In the case of essential low-income consumer imports as well as fuels, the immediate impact is on the cost of living; in the case of raw materials and intermediary products, the formerly "depressed" industries such as textiles and paper are again facing difficulties similar to those encountered in the early sixties; they will attempt to pass on the increased cost to the consumer, although the removal of quantitative restrictions may, to some extent, limit such action through import competition. Other and new industries having had heavy recourse to foreign suppliers' credits in most recent years will be faced with the problem of substantially higher interest and amortization costs. Bank credit will be needed by many of these enterprises to tie them over these difficulties. In the case of fertilizers, the increased cost combined with continued inadequacy and increased cost of agricultural credit is presently jeopardizing the rice program. A 50 percent increase in the cost of all types of capital equipment, including agricultural, may bring down investment incentives considerably, particularly in combination with continued Central Bank action to cut back the volume of credit.

Recent expressions of political and social restiveness are giving added cause for pressure on wages, which in turn are expected to enhance manufacturing costs as well as payroll expenditures of the government. A bill to increase minimum wages from ₱6 to ₱8 in Manila and ₱7 in other cities, and for agricultural workers from ₱3.50 to ₱5, was passed by the Senate after the mission had left. Since non-import dependent businesses are also taking advantage of the situation whenever possible by increasing their prices, even such items as housing rents, the whole price structure at present is at the beginning of an upward movement of considerable strength. The recent decline in the free exchange rate is too modest to exercise a moderating psychological influence.

In summary, the extent of devaluation under the floating rate, which has been beyond expectations and beyond the point required on grounds of purchasing power disparity, is bringing in its wake a series of price adjustments which in time will eliminate the present undervaluation. The immediate beneficiaries are the exporting groups, and the cost is borne by manufacturing industries, farmers, and consumers.

Discussions were held last week in Washington between the Central Bank and the IMF to regularize the substitution of the exchange surrender scheme by the export tax and to review progress under the Standby Agreement. The main point that came up was the unilateral action by the Central Bank on April 14 to increase the eligible portion of commercial banks' reserves held in the form of government obligations from 50 percent to 75 percent of total reserves, which resulted in potential cash releases offsetting the contractionary effect of the agreed increase in the reserve/deposit ratio. While this action had appeared prima facie unwarranted, it was agreed that the sharper-than-expected movement in the peso rate tended to tie up larger amounts of liquidity in import transactions, and that the decline in external reserves had effected a contraction in domestic assets, against a planned increase by $40 million between February and July. A full review of the Standby Agreement will be carried out in July as originally provided for.

After negotiations in Tokyo in early May led to the conclusion of a one-year standby agreement with 15 Japanese banks in the amount of $50 million, with individual drawings repayable within 180 days, Central Bank representatives are now holding discussions with U.S. banks in New York for the restructuring of Central Bank's short-term obligations. In the light of the fact that no serious departure from the provisions of the IMF Standby Agreement is noted by the Fund, the U.S. banks' earlier expression of willingness to convert about $190 million of their short-term claims into longer-term obligations gives rise to the hope for a successful outcome. The Central Bank's new proposal of consolidating altogether $247 million into a single account repayable in 7 years after a grace period of 3 years, plus a 3-year standby facility of $150 million, would bring down the amortization payments to 24 percent of export earnings in 1970, 17 percent in 1971 and 4 percent in 1977 (against 42, 19 and 2 respectively at present). Even if the proposal undergoes modifications in the course of the discussions, a substantial improvement in the time profile of the Philippines' debt service burden should be expected. This does not mean, however, that the balance of payments problem of future years is solved.

As a result of restrictions imposed in November 1969 and the change in the exchange rate system introduced in February, total merchandise imports in 1969/1970 are now expected to decline by about 10 percent to a level of US$1,050 million. Even with a very moderate growth of 5 percent in subsequent years, a gross new inflow of foreign capital of between $200 million and $300 million a year will be necessary. Official borrowing by the government is limited by the size of the public investment program and the availability of suitable projects. Since about 85 percent of total investment in the Philippines is in the private sector, much of the new capital inflow will be in the form of private borrowing; net direct investment will play a relatively small role since some disinvestment will inevitably take place with the approaching termination of the Laurel-Langley Agreement with the U.S.

Indications exist that suppliers' credits on favorable terms might be offered by Japan on a substantial scale, but from discussions with Japanese officials in Manila, it appears that hesitations exist as long as there is no multilateral grouping as a forum where an objective assessment of the Philippines' economic performance and prospects could be discussed. Also, ratification of the Friendship Treaty with Japan, which has been held up in the Senate, is quoted as something that would greatly facilitate Japanese financial assistance.

The budget debate for Fiscal Year 1970/1971 has reached the stage of Senate Finance Committee hearings. A special Congressional Session will probably be needed to reach final approval. The expenditure level as originally proposed was appreciably below the previous year, and since expenditures were at the same time well within expected revenues, President Marcos' budget message could rightly present it as a balanced budget. As a consequence of recent changes, however, both expenditure and revenue estimates had to be modified. Taking into account the cost increases following the introduction of the floating exchange rate as well as the expected minimum wage increase, latest estimates at the end of April put expenditures at ₱4,267 million, which is 11 percent over the previous year. Revenues are expected to increase by 23 percent over the previous year to ₱3,929 million, after taking into account the proceeds from the export tax and the increased yield of import duties with the new exchange rate. This would leave a considerable deficit to be financed with non-inflationary borrowing. The figures approved by Congress may of course differ substantially from the proposal, as has often been the case. Since budget control has been traditionally a problem in the Philippines, the IMF is planning to provide technical assistance in this field.

A Four-Year Development Plan was completed in draft shortly before the mission returned. Overall growth targets moving from 4.5 percent in 1970/1971 to 6.5 percent in 1974/1975, are comparatively modest but realistic under the foreseeable import constraint. Investments are projected at a nearly constant rate of about 21 percent of GNP which is slightly higher than in the preceding 4 years. While private investment is not expected to recover quickly from the drop in the current year and in 1973/1974 would be a bare 6 percent higher than what it was in 1968/1969, the bulk of the increase is proposed to occur in the public sector, where investment is projected to grow from ₱857 million in 1969/1970 to ₱1,588 million in 1973/1974. Since the export tax as enacted is to be phased out over 4 years, a number of other tax proposals are made in the Plan in support of such a growth in capital outlays, to be financed entirely with corresponding increments in public savings.

The Plan implies a gradual decline in the current account deficit as a result of an increase in the national savings rate from 17.5 percent of GNP in 1969/1970 to 19.5 percent in 1973/1974. Gross borrowing from abroad is projected to decline slowly to about US$220 million by 1973/1974.

On the whole, the priorities of the Plan appear reasonable; major emphasis is given to agriculture and mining, particularly for export. Import dependent activities are discouraged. In this regard, a courageous step has already been taken in prohibiting import of CKD cars and trying to enforce a rationalization of the car assembly industry.

In summary, overall economic performance of the Philippines continues to be maintained at a somewhat improved level. As time goes on, further improvements can be expected, particularly on the administrative side. The Plan, although not yet approved by the President, gives an acceptable framework for economic policies in the next 4 years. Substantial effort has been devoted to implementation of the IMF Standby Agreement. In consideration of these points, I recommend that the Bank actively pursue preparations for the establishment of a Consultative Group for the Philippines, as proposed tentatively earlier this year. From informal soundings with diplomatic representatives in Manila, it appears that the U.S., Japan, Australia, France, Germany and Spain are favorably inclined to join such a group.

RHablutzel:epa

cc: Messrs. Friedman
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Miss Goris
Messrs. Maniatis
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Datas-Panero
Franklin
Lamer

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REPUBLIC OF THE PHILIPPINES

Family Planning

The demographic problem in the Philippines is mainly one of very rapid growth, a result of sustained high fertility and declining mortality. The preliminary count of the 1970 census indicates a total population of 37 million, which represents an increase of 36% during the last decade. The 3.1% average annual rate of population increase for that period was one of the highest in the world. If the present growth rate remains unchecked, the population will double in the next 23 years. Since the mortality rate is expected to decline even more in the future the need to decrease fertility levels is that much more necessary and urgent.

While private family planning efforts actually began in the 1920's in the Philippines, it was not until 1968-69 that the combined public and private program began to gain momentum. In 1969, President Marcos expressed strong interest in a family planning program and created the Commission on Population (POPCOM) as the main policy-making body responsible for allocating external funds to the multiplicity of existing public and private family planning organizations. (See Attachment I). At the same time, USAID stepped up its program providing $1.4 million in 1969 and $5.0 million in 1970 and 1971 for 100 percent financing of the activities it considered promising. Substantial assistance has also been provided by the Ford Foundation, the Rockefeller Foundation, the Pathfinder Fund and the International Planned Parenthood Federation. To date, the Government has not provided funds specifically for family planning in the National Budget, though the Government has incurred some costs for public health personnel engaged in family planning activities on a part-time basis.

The number of clinics providing family planning services has increased from 90 in January 1968 to almost 1,000 in June 1971. Of this latter total, about 200 are rural health units within the Department of Health. It is estimated that clinical services for family planning are presently available to about 35 percent of the population.

The total number of new acceptors has grown from less than 3,000 in 1965 to 85,000 in 1969 and more than 210,000 in 1970 and is expected to reach 400,000 in 1971. Acceptors have tended to be the relatively prosperous and educated coming from non-rural areas. In 1970, 53 percent of acceptors used pills, 22 percent IUD, 16 percent rhythm and 9 percent other methods. The largest number of acceptors in 1969-70 were recruited by Private Organizations: the Family Planning Organization of the Philippines (FPOP) 39 percent and the Institute of Maternal and Child Health (IMCH) 20 percent. Health clinics run by the Department of Health recruited 17 percent.

POPCOM estimates that the number of family planning clinics in operation can increase from about 1,000 in 1971 to 1,870 in FY 1974 and that the number of new acceptors per month per clinic will decline from the present level of about 40 to about 22 at the end of the five-year program (FY 1971-75). Under these assumptions, the cumulative number of acceptors for the five-year period would reach 3,121,000 or about half of the number of eligible women in 1975. If this target is realized, the population growth rate would be cut by more than 40 percent in 1977 (from 3.0 percent to well below 2.0), education expenditures would be at least U.S. $30 million less than would be the case if the growth rate of population was not reduced and by the mid-1990's the demand for jobs would be reduced by 300,000 - 400,000.

The estimated costs of the five-year population program is about ₱340 million (US$56 million), about 60 percent of which will be for clinics. The program has depended heavily in the past on foreign assistance, but if this high level of assistance is to be maintained the Government will have to begin to make more of its own resources available to finance a greater part of the local costs of the family planning program. Priority attention will also have to be given to increasing the number of physicians and nurses especially trained for family planning and to intensifying efforts to bring the family program into rural areas.

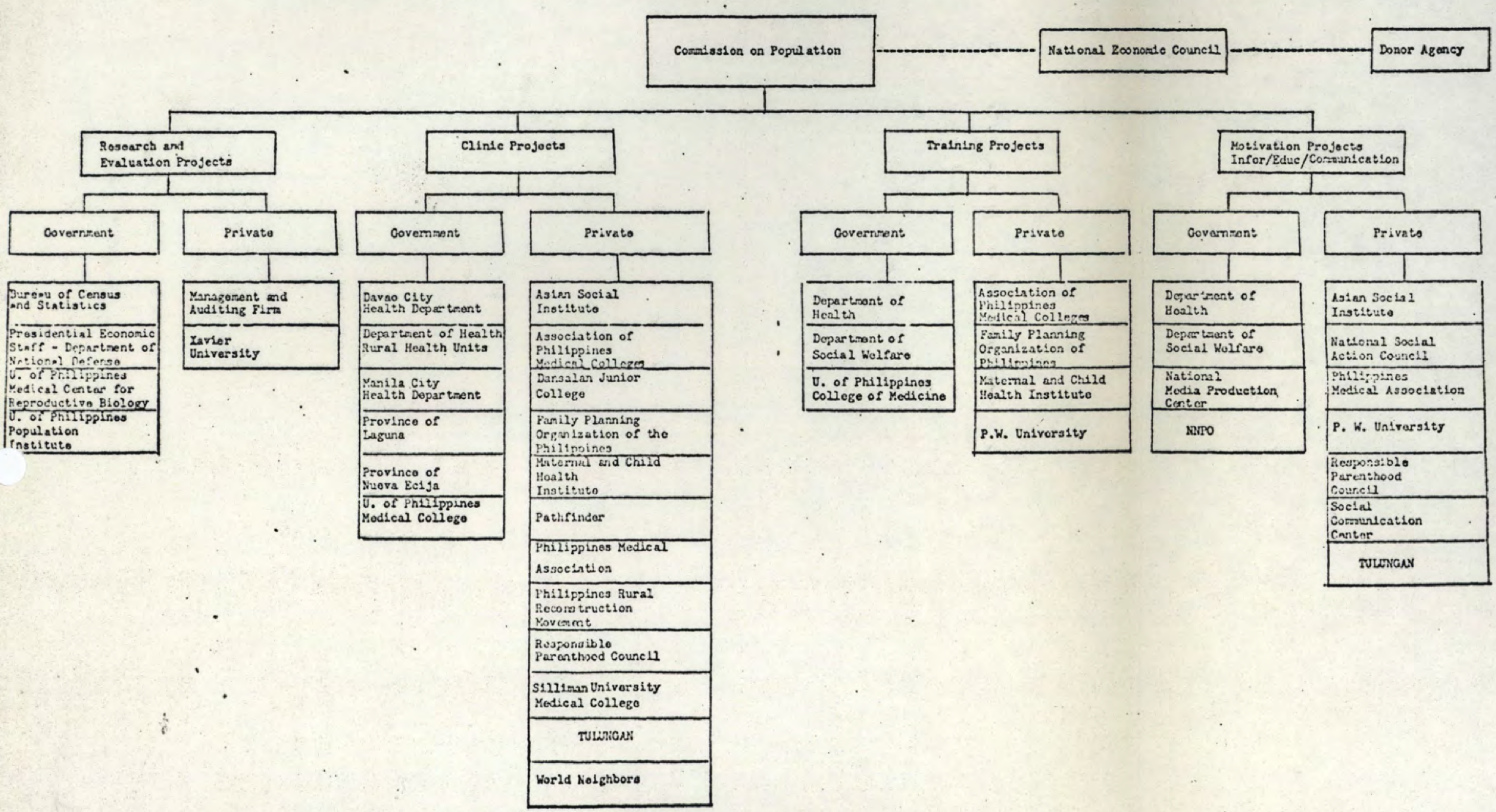
A $4.0 million IDA credit for a population project has been included in our operations program for FY 1974. The Bank has been approached informally about the possibility of providing financial assistance for the proposed $5 million population center which would house in a single large office building all of the various public and private family planning agencies based in Manila. We have taken the position that the population center could possibly form part of a broader Bank project which might focus on development of family planning clinics located primarily outside of Manila. The Philippines' needs for foreign assistance in the field of family planning appear to have been adequately met up to now, but there may well be a need for Bank Group assistance in the near future. We plan to keep this matter under careful review and a member of the Population Projects Department is scheduled to participate in the next economic mission, in February 1972.

Attachment

East Asia and Pacific Department
October 19, 1971

Attachment I.

FAMILY PLANNING ORGANIZATIONS IN THE PHILIPPINES - 1971



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REPUBLIC OF THE PHILIPPINES

Land Reform

The Philippines land reform which was initiated under the Agriculture Land Reform Code of 1963 has made very little headway. The intent in the first stage was to replace in designated land reform areas share cropping arrangements with a leasehold system under which lease rent would be fixed at 25 percent of the average harvest proceeds (net of costs) of the previous three years. Under the second stage, leaseholders were to become landowners. The Land Bank was to finance such land transfers by purchasing land for division and resale and by financing purchases of landholdings by the agricultural lessee from landowners. In the last eight years, only 30 percent of the land in reform areas has been transferred to leaseholders and actual acquisition of land and transfer of ownership rights has been negligible. Even the share cropping tenants who have become leaseholders have been forced to rely heavily on landlords for their credit needs, often provided at exorbitant rates, due to the inadequacy of alternative facilities. Meanwhile the spread of improved technology, particularly in rice production, has increased the value of the land increasing both the rent and cost of eventual land acquisition to the tenant. Finally, the land reform has been underfinanced as the Government has not been able to make available the funds required for substantial transfers of land and for needed supporting services including extension, legal services and credit.

Congress has recently approved new land reform legislation which proposes to extend the first stage of leaseholding to the whole country and lowers the ceiling on individual holdings from 72 to 24 hectares. The legislation also creates a new Department of Agrarian Reform with direct line control over most land reform agencies including the Land Bank which had previously been loosely coordinated under the control of the National Land Reform Council. However, the Agricultural Credit Administration, the agency responsible for making loans to small farmers and cooperatives, for the time being remains under the Office of the President. To finance an expanded land reform program ₱65 million have been made available from the proceeds of the export tax for FY 1971-72. While this assistance will represent an improvement over past performance, the funds provided are far less than the requirements which the Land Bank estimates at ₱275 million for the year. The Bank's economic mission which is presently in the Philippines will review this legislation in detail.

The possibility was raised at the Annual Meetings of the Bank's assisting the Land Reform program by financing mapping and land surveys and credit to small farmers. Another related possibility which has been considered is Bank financing of land resettlement projects in Mindanao where sufficient land is available to ensure economic farm size and there might be more flexibility in establishing new organizational forms compatible with the needs of farm production. The Bank's agriculture sector mission scheduled to visit the Philippines in February 1972 will consider these possibilities in depth.

East Asia and Pacific Department
October 21, 1971

19

Philippines Country Program Paper

Postscript

79. This paper was reviewed at a meeting in Mr. McNamara's office on August 12 and the following conclusions were reached:

(a) The Philippines was eligible for IDA lending but the allocation of IDA resources would be determined mainly by the Philippine efforts to improve fiscal performance.

(b) Some local cost financing would be permissible on "project grounds", i.e. provided it was confined either to projects in the social sector or to projects supporting the recommended shift in agricultural priorities.

(c) The proposed lending program did not allow for a sufficient margin of slippage from the proposed operations program. It was therefore agreed that, while there would be no change in the lending programs for FY 72 and FY 73, it would be reduced by $60 million for the FY 74-77 period. A revised lending program is attached (attachment 1a).

(d) It was agreed that a resident representative should not yet be stationed in Manila, but that the matter would be kept under review.

(e) The economic work program focussed on the right priorities. The study of trends in income distribution and employment appeared highly desirable. Consideration should be given to advancing the study relating to mobilization of domestic savings from FY 73 to FY 72.

East Asia and Pacific Department
August 24, 1971

Population: 37.7 m.
Per Cap Inc: $212

PHILIPPINES - ACTUAL AND PROPOSED LENDING THROUGH FY 1977
($ Million)

Attachment 1a

		Through 1963	1964	1965	1966	1967	1968	1969	Fiscal Years 1970	1971	1972	1973	1974	1975	1976	1977	Total 1964-68	Total 1969-73	Total 1973-77
Agricultural Credit I	IBRD				5.0														
Agricultural Credit II	IBRD							12.5											
Agricultural Credit III	IBRD											15.0							
Agricultural Credit IV	IDA														15.0				
Grain Processing I	IBRD									14.3									
Grain Processing II	IBRD													20.0					
Irrigation I (Pampanga)	IBRD								34.0										
Irrigation II (Nueva Ecija)	IBRD												10.0						
Irrigation III (Magat)	IBRD														35.0				
Livestock I	IBRD										5.0								
Livestock II	IBRD													10.0					
Fisheries I	IBRD											5.0							
Fisheries II	IBRD														10.0				
Coconut Rehabilitation	IBRD												5.0						
Agriculture - Unidentified	IDA													5.0					
Agriculture - Unidentified	IDA														10.0				
Agriculture - Unidentified	IDA															10.0			
DFCs I	IBRD	15.0																	
II	IBRD					25.0													
III	IBRD								25.0										
IV	IBRD										20.0								
V	IBRD												20.0						
VI	IBRD														20.0				
Education I	IBRD			6.0															
Education II	IDA										10.0								
Education III	IBRD													10.0					
Education - Unidentified	IDA															10.0			
Industry - Unidentified	IBRD															10.0			
Population	IDA												4.0						
Power I-III	IBRD	58.7																	
Power IV	IBRD					12.0													
Power V	IBRD										22.0								
	IDA										10.0								
Power VI	IBRD												20.0						
Power VII	IBRD															25.0			
Highways I	IBRD									8.0									
Highways II	IBRD											35.0							
Highways III	IDA													25.0					
Highways IV	IDA															25.0			
Ports I	IBRD	8.5																	
Ports II	IDA											10.0							
Ports III	IDA													10.0					
Urbanization - Unidentified	IDA														5.0				
Telecommunications - Unidentified	IBRD												10.0						
Water Supply I	IBRD			20.2															
Water Supply II	IDA												20.0						
Water Supply III	IBRD															20.0			
Tourism - Unidentified	IBRD																		
Operations Program	IBRD										47.0	55.0	65.0	50.0	65.0	55.0			290.0
	IDA										20.0	10.0	24.0	40.0	30.0	45.0			149.0
	Total										67.0	65.0	89.0	90.0	95.0	100.0			439.0
	No.										4	4	7	7	6	6			30
Lending Program	IBRD	82.2		26.2	5.0	37.0		12.5	59.0	22.3	47.0	40.0	60.0	40.0	30.0	30.0	68.2	180.8	200.0
	IDA										10.0	20.0	20.0	29.0	30.0	25.0		~~30.0~~	124.0
	Total	82.2		26.2	5.0	37.0		12.5	59.0	22.3	57.0	60.0	80.0	69.0	60.0	55.0	68.2	210.8	324.0
	No.	5		2	1	2		1	2	2	3	4	5	5	5	3	5	12	22
Asian Development Bank								5.0		25.6	25.0	27.0	30.0	33.0	36.0	40.0		82.6	166.0
IBRD o/s inc. undisbursed		74.8	74.0	98.1	99.4	132.4	128.9	137.1	190.9	207.0	244.6	274.5	323.3	350.6	365.4	378.5			
exc. undisbursed		25.4	31.5	47.7	57.1	68.5	81.6	94.2	112.6	126.8	149.7	165.3	185.0	218.3	255.6	295.7			
IBRD - gross disbursements		30.3	6.9	18.3	13.1	14.1	16.4	19.2	20.5	20.4	32.3	25.7	30.9	46.0	52.5	57.0	68.8	118.1	212.1
- net disbursements		28.8	6.0	16.9	10.7	11.2	12.9	14.6	14.1	14.2	22.9	15.6	19.7	33.3	37.3	40.1	57.7	81.4	146.0
- net transfer		23.5	3.9	14.4	7.2	7.2	8.3	9.2	7.1	7.5	15.9	7.9	11.3	24.3	27.9	30.8	41.0	47.6	102.2
IBRD/IDA - gross disbursements		30.3	6.9	18.3	13.1	14.1	16.4	19.2	20.5	20.4	32.3	27.2	39.9	59.0	84.0	92.5	68.8	119.6	302.6
- net disbursements		28.8	6.0	16.9	10.7	11.2	12.9	14.6	14.1	14.2	22.9	17.1	28.7	46.3	68.8	75.6	57.8	82.9	236.5
- net transfer		23.5	3.9	14.5	7.2	7.2	8.3	9.2	7.1	7.5	15.9	9.4	20.3	37.3	59.4	66.3	41.0	49.1	192.7

East Asia & Pacific Department
8/16/71

Form No. 61-EC
(7-65)

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CONFIDENTIAL

ECONOMIC COMMITTEE

EC/O/71 - 114

July 22, 1971

Philippines: Country Program Paper

Attached is the draft Country Program Paper on Philippines (EC/O/71-114/1 dated July 22, 1971) which has been prepared by the East Asia and Pacific Department.

2. The Paper will be discussed at a meeting of the Economic Committee scheduled for Wednesday, July 28, at 11:30 a.m. in Conference Room "B", 12th floor, B Building.

J. Chaffey
Secretary
Economic Committee

Attachment

Secretary's Department

Distribution:

Members of the Economic Committee
Director, Deputy Director, Chief Division B, Area Department
Directors, Projects Departments
Programming and Budgeting Department
Executive Vice President, IFC
Director, Department of Investments, Asia

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BRIEFING PAPER - 1971 ANNUAL MEETING

PHILIPPINES

I. MEMBERS OF DELEGATION

Mr. Cesar Virata - Secretary of Finance

Mr. Gregorio Licaros - Governor of the Central Bank of the Philippines

Biographical notes are attached.

II. RECENT POLITICAL DEVELOPMENTS

The Philippines was shaken last month by bomb explosions at a political rally in Manila which caused the death of several participants and serious injury to leading members of the opposition Liberal Party - including the candidate defeated in the 1969 Presidential elections. President Marcos attributed the violence to an armed leftist group - the Maoist oriented New Peoples Army - and hinting also at Chinese collusion he suspended habeas corpus and began rounding up known communist sympathizers. Marcos has been using the communist threat in his campaign efforts on behalf of his Nacionalista Party candidates in November's off-year elections but there is no serious threat to internal security situation and the suggestion of a Chinese conspiracy, in particular, seems a little far-fetched. A more plausible explanation for what seems like over-reaction on the part of the President is that he wanted to clear his own party from any possible association with the tragedy. Nevertheless, the President's own popularity - currently at a low ebb - is not likely to improve as a result of these developments. It is therefore possible - particularly since Marcos cannot seek reelection when his term expires in January 1974 - that he might yield to pressures for a relaxation of the stabilization program which he has followed with considerable determination in the past 18 months. While these austerity measures have contributed to the economy's recovery, the cost of living has been adversely affected by the de facto devaluation and is one of the causes of current discontent with the Administration. Some relaxation in Government spending curbs must be expected between now and the November elections - if this has not already taken place. Since the Philippine economy is by no means out of the woods it would be useful if you were to stress the need for continued prudence in fiscal, monetary and foreign exchange management.

III. BANK/IDA RELATIONS

(a) Special Increases in Capital Subscriptions. We have been informed by Dr. Mapa that the Philippine Government intends to take up its additional shares (149) in the Bank's capital stock - as provided for under Board resolution No. 258. Legal authorization exists for this purpose and we have been informed that the necessary action will be taken by the deadline of November 17.

(b) IDA Lending - It was agreed, at your review of the CPP in August, that the Philippines was eligible for IDA lending, but the allocation of IDA resources would be determined mainly by the Government's efforts to improve fiscal performance. Accordingly, our operational program for FY 1972 includes, in addition to proposed Bank lending of $47 million, an IDA allocation of $20 million for two projects, although one of these would probably slip to FY 1973 and it is likely that our lending program would include only $10 million from IDA. For subsequent years it was decided that a Bank/IDA blend of 62/38 would be appropriate. But all IDA financing would be considered in the light of improved fiscal performance. We were disappointed to learn from Secretary Virata, who was in Washington earlier this week, that Congress has not passed the Government's proposals to maintain the export tax without reduction as originally scheduled. He gave us the reason that the US 10% import surcharge provided the opposition to this tax with the ammunition they needed. The Government's fiscal performance will be further reviewed by our economic mission scheduled for next month. You may wish to advise the delegation that the proposed IDA financing in FY 1972 would be subject both to IDA replenishment and to our forthcoming review of fiscal efforts. Further, you may wish to stress that if improvement of fiscal performance is not maintained, not only will we have to reconsider the question of IDA assistance but also it may be necessary to reduce the overall size of the future Bank lending program after FY 1972 since inadequate peso resources would be available to support it.

(c) Local Currency Financing - It was agreed, at your review of the CPP, that some local cost financing would be permissible on project grounds, i.e., provided it was confined either to projects in the social sector or to projects supporting a reorientation of agricultural priorities towards diversification. It is possible that Secretary Virata may ask you about this.

(d) Consultative Group - You may wish to express your pleasure that the Consultative Group has got off to a good start and also congratulate Secretary Virata and Governor Licaros on their successful negotiation of a $65 million loan (including $40 million commodity aid) with the Japanese. It would be useful to remind them however, that while the target of $200 million which we had suggested as a desirable level of annual official assistance has been realized this year it would be difficult for the international community to maintain this level of aid - or for the Bank to justify it - if there was a slackening of the Philippines' own development effort.

(e) Social Reform - At your meeting last year with the delegation you emphasized the importance of reducing inequalities in income distribution. This will bear repetition and you may wish to add also that the regular economic mission this October and an agricultural sector mission planned for February 1972 will pay special attention to such matters as land reform achievements and constraints as well as trends in income distribution and employment.

(f) Visit to the Philippines - Without making any commitment we informed Secretary Virata during his visit to the Bank earlier this week that you were considering a trip to the Far East which might include the Philippines. Therefore, he will probably ask you about this. You may wish to inform him of your plans.

Biographical Data

Cesar Virata - Secretary of Finance

Mr. Virata has been the Secretary of Finance since the spring of 1970. He had earned widespread respect in his previous assignment as Chairman of the Board of Investments for his effective administration of the Industrial Incentives Act and this reputation has been enhanced by his efficient and honest management of the economy in very difficult times.

He has an M.A. degree in industrial management from the University of Pennsylvania and has served as head of the Management Services Division of Sycip, Gorres, Velayo & Co., the largest management and accounting consulting firm in the Philippines, and as Dean of Business Administration at the University of the Philippines. He has held a number of important official positions in the field of public finance and industrial policy including Director of the Philippine National Bank; Director, Industrial Investment and Development Corporation; Chairman, Preparatory Committee on the Laurel-Langley Agreement; Action Officer, Coordinating Council for Business Industry; Deputy Director-General, Presidential Economic Staff; and Chairman of the Board of Investments.

Mr. Virata is 41 years old.

Gregorio Licaros - Governor of the Central Bank of the Philippines

Mr. Licaros, born in 1909, received his undergraduate and law degree from Far Eastern University. His entire professional career has been spent in the Government. He joined the Budget Commission in 1936 where he worked throughout the Japanese occupation. Subsequently, he has worked as financial assistant in the Office of the President; Auditor of the Development Bank of the Philippines; Undersecretary of the Department of Economic Coordination; General Manager of the Government Service Insurance System; and Chairman of the Development Bank of the Philippines. He was appointed Governor of the Central Bank in the spring of 1969 and has since exercised strong control over the current austerity program.

PHILIPPINES

1971 Annual Meeting Brief for Mr. Goodman

The following matters, additional to those raised in the briefing paper for Mr. McNamara, should be raised with Secretary Virata:

I. General

1. Aid Coordination and Utilization

a. You may wish to mention to Virata that no interim meeting is planned before the next CG meeting to be held in Tokyo in early May 1972. We should ask him about the status of the utilization of official assistance of $200 million obtained from the Group this year and Government project proposals for next year. You might stress that it would be difficult for the Bank to justify the same level of official assistance at the next CG meeting if this year's $200 million could not be fully committed by then because of lack of projects. You might express our concern about the need for improvement in development administration, especially in relation to the impact of a proposal for the establishment of a National Economic Development Authority. We should also ask him for his views about how to expand the Government's efforts for project preparation, since we understand that the law prohibits Government borrowing abroad for pre-investment studies and since UNDP's grant financing of such studies would be limited.

b. When the Japanese Executive Director informed us last July of Japanese assistance of $65 million to the Philippines, he mentioned that Japan understood the Philippines would also be seeking both commodity and project assistance from other countries and asked that we keep Japan informed of the progress made. In response to your query about this, Virata has replied that the Government has sought commodity aid from Australia ($15 million), Canada ($8 million), Germany ($20 million), and New Zealand (amount unspecified). You might ask what progress has been made.

2. Legislation

We have now been informed that the Philippine Congress has passed the NPC Act, the budget for the fiscal year 1972 and the Land Reform Act. Sec. Melchor has cabled us some details of the NPC Act (see paragraph III (1) below), and we have received no details of the other two Acts. We should ask for the main outlines of the new budget, particularly revenue from existing and new taxation and the future of the export tax.

3. Effects of President Nixon's Economic Measures

You may wish to ask Virata's views on this. We understand that the 10% surcharge does not apply to all exports from the Philippines to the U.S. Exempt are items under quota and duty free imports such as sugar, copra, part of coconut oil, copper, logs, etc., which represent more than half of its exports to the U.S. (some $450 million in 1970). The Philippines have made representations to the U.S. that all its exports to the U.S. are entitled to be exempt from the surcharge on the ground of the preferential provisions of the Laurel-Langley Agreement. The U.S. have now decided the Philippines will pay a surcharge of only 8% rather than 10%. The claim for total exemption is still under discussion.

4. Missions

Although Mr. Hasan already wrote to Virata on September 2, it would be useful to mention to him that we are planning to send a general economic mission in October and an updating mission in February which will prepare the report for the next CG meeting. We have also scheduled a agriculture sector mission for February which will undertake a comprehensive review of the agricultural sector and give special attention to the needs for reorientation of policies and priorities, crop diversification, export agriculture, land reform, etc.

5. Visit of President McNamara

We should discuss arrangements for Mr. McNamara's visit now tentatively scheduled for November 12-15.

II. Existing Projects

We should take up with Virata matters concerning two existing projects as follows:

1. Manila Water Project (Loan No. 386-PH)

We have now been informed that Mr. Zablan, General Isada, Mr. Locsin and Mr. Payoyo have been appointed as members of the Board of Trustees of the Metropolitan Waterworks and Sewerage System (MWSS). Meanwhile, we have cabled Locsin to arrange authorizing some one in Washington to sign with us the loan assumption agreement on behalf of MWSS and the loan guarantee letter on behalf of the Government.

2. Second Rural Credit Project (Loan No. 607-PH)

While disbursements under this loan have been slow (about $1.0 million of a loan of $12.5 million at the end of June 1971) due to the February 1970 exchange reform and the subsequent deterioration in the terms of trade for agricultural producers, more recent increases in farmgate prices should help to restore farmers' incentives. The Central Bank has also made a number of proposals for project reform and these were reviewed by a re-appraisal/supervision mission which visited the Philippines in May. We expect to seek approval of the Bank's management to a number of modifications in the project soon (see draft memorandum).

III. Prospective Operations

You may wish to inform Virata of the status of our planned 1972 operations, as follows:

1. Fifth Power Project (Bank/IDA: $32 million)

a. A prior condition of Board presentation of a Bank loan for this project is the passage of NPC legislation. We have now been informed by the Government that the legislation was passed by Congress on September 5. While we are awaiting receipt of a copy of the Act for further review, the Government has indicated to us that the Act has improved the procedures for NPC to implement rate increases, increased the foreign debt ceiling to $200 million from $100 million and exempted NPC from all taxes, including income tax and franchise tax. All this would be an improvement over the previous NPC legislation and would indicate the Governments' renewed determination to help NPC overcome its financial difficulties. In this connection, you may draw to Virata's attention that according to our calculations NPC's present expansion program including ADB's project in Mindanao and ours in Luzon would require peso borrowing of about ₱190 million (in addition to some ₱200 million from its own internal cash generation) during the next four years 1972-1975. We should ask him what are the Government's plans to help NPC obtain such borrowing.

b. You may wish to inform Virata that a draft (yellow cover) appraisal report on this project would be ready for our review by mid-October. In view of the passage of the NPC Act, we will try to open negotiations in January and will confirm to him a more definite schedule after we have completed our review of the appraisal report.

2. Livestock Project (Bank: $5.0 million)

The appraisal report is under preparation and negotiations are tentatively scheduled for December. We should inform Virata that the appraisal mission is expected to recommend much smaller on-farm investments than were proposed in the preparation mission report and that it be a condition of Board presentation that RA 6142 be amended so as to authorize DBP to relend the proceeds of Bank loans to individual farmers as well as to corporations, private cooperatives or associations. Secretary Virata indicated during his visit to the Bank in mid-September that the term "association" in the Act was sufficiently broad to include even a family group and that the restrictions under RA 6142 would therefore not affect disbursements under the Bank loan. We should ask Virata to send us an opinion of the Secretary of Justice confirming his interpretation of the word "association" as used in RA 6142.

3. Fourth PDCP Project (Bank: $20 million)

Contrary to what PDCP indicated to our supervision mission last May, PDCP's latest data indicate that its foreign exchange loan commitments slowed down in the first half of 1971. (At the end of June 1971, its uncommitted foreign exchange resources amounted to $16.8 million; this compares with PDCP's highest annual loan commitment of $10.8 million in 1969.) PDCP is now reviewing its projections of loan commitments which will be ready in early October. Pending receipt of the results of this review, appraisal mission is still scheduled for this December and Board action next April.

4. Second Education Project (IDA: $10 million)

There is considerable uncertainty in the Bank and the Philippines regarding the project items to be financed. This is particularly true with regard to the high school component ($9.6 million of a total project cost

$22.2 million). UNESCO has recommended that the Bank finance two new experimental high schools, six new model high schools and the upgrading of ten existing high schools. Education Projects Department has reservations about financing these on the grounds that public funds for secondary education are very limited in the Philippines and unless there were major innovations in the system of educational finance, Bank financing of a few high schools would be unlikely to lead to any significant improvement in the overall quality of secondary education. While the Government generally would like the Bank to finance the high schools, there are differences of opinion within the Government on the priority and nature of the high schools to be financed. Education Projects Department expects to send a pre-appraisal mission to the Philippines at the end of October to discuss this matter, and if a satisfactory solution can be found, appraisal will begin in early October. PES has prepared draft legislation which would authorize the project, appropriate the peso funds, provide for Government borrowing and allow for necessary lending channel arrangements. We have commented on the legislation and should confirm with Virata that it will be introduced to Congress in January.

IV. Other Matters

Pampanga Hydro Project

The Bank has now reviewed the study of this project which was financed under our loan for the Pampanga Irrigation Project. Our position is as follows: The study has not taken due account of Meralco's planned expansion. The expansion programs of NPC and Meralco will increase the capacity of the Luzon grid by a total of 750MW (300MW by Meralco in 1973/74, 150MW by NPC in 1975 and 300MW by Meralco in 1977) during 1973-77. Since this would be sufficient to meet the expected increase in demand, the hydro project would not be justified before 1977. Nor would it appear justified after 1977 for two reasons: One is that the size of the hydro project is small, with an installed capacity of 100MW and a firm capacity of only 66MW. Thus, even if it is constructed, other schemes would still have to be undertaken. The other reason is that although the cost of the hydro project would be attractive compared with that of thermal schemes, it would compare unfavorably with that of a large pump storage scheme at Caliraya, which should logically be undertaken next to meet the increased demand after 1977. In view of the foregoing and given the fact that one of the Bank's objectives is to assist in a coordinated development of this sector, it would be difficult to justify Bank financing of this hydro project.

East Asia & Pacific Dept.
September 24, 1971

October 7, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: PHILIPPINES: Meeting of the Philippine Delegation to the 1971 Annual Meeting with Mr. McNamara, October 4, 1971

Present for the Philippines were Mr. Cesar Virata, Secretary of Finance, Mr. Alex Melchor, Executive Secretary to the President and Messrs. Barco and Mapa. Present for the Bank were Messrs. McNamara, Knapp, Goodman and Gould.

Secretary Virata opened the meeting by saying that he was pleased that President McNamara would be able to visit the Philippines. He also expressed satisfaction with the outcome of the first meeting of the Consultative Group for the Philippines and, in particular, with the Japanese loan which was expected to be signed next month. He was, however, concerned that the members of the Consultative Group might not be so forthcoming at the next meeting in May 1972 because of the current uncertainty in international monetary affairs. Mr. McNamara said that these uncertainties should have been largely resolved by the time of the next meeting of the Philippine Consultative Group and that a far more important determinant of the willingness of member countries to provide assistance would be the economic performance of the Philippines. In this connection, the failure of the Philippine Congress to approve an extension of the existing tax rates under the export tax was particularly disappointing because this weakened the Government's fiscal position and contributed to income inequalities. He also noted that the ability of the Bank to provide a sizable level of assistance in the form of IDA credits, and even Bank loans, would be dependent on a satisfactory tax effort in the Philippines. Secretary Virata said that he, too, had been disappointed by this decision of Congress which could be attributed to an important degree to the announcement of the introduction of the American 10 percent import surcharge. A small increase in the corporate tax has been approved which will provide amounts equivalent to about one third of the revenue which would be lost as a result of export tax reduction. The Secretary was hopeful that part of the loss in revenue from the export tax could also be compensated for by improved tax administration which would contribute to higher rates of tax collection. It was agreed that Mr. McNamara would stress the need for fiscal improvement in his discussions with Congressional leaders during his visit to the Philippines in November.

In response to a question from Secretary Virata, Mr. McNamara said that he would during his visit to the Philippines be very interested to learn more about the Government's efforts to reduce population growth and improve nutritional standards. With regard to Mr. McNamara's question on income distribution and public taxation, Secretary Virata reported that income tax rates varied between 3 and 70 percent in the Philippines, but the tax rates applying to higher income levels were generally higher than in the United States.

In response to a question from Mr. Knapp regarding tariff rates charged by public utilities which had received Bank loans, the Philippine delegation reported that an increase in NPC's rates had been provided for in recently approved legislation and that progress had been made in discussions with the Mayor of Manila regarding an increase in NWSA's rates.

MAGould:aos/mfb
IBRD

Michael A. Gould

cc: Messrs. McNamara
Knapp
Cope
Goodman
Fontein
Street
Christoffersen

FORM No. 57

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 8, 1971

FROM: C.W. Wang

SUBJECT: PHILIPPINES: Annual Meeting Interviews

1. Two meetings were held with the delegation - September 30, at 2.30 p.m. for about two hours at the Sheraton Park Hotel and October 4, at 11 a.m. for about one hour in the Bank. Present were Mr. Virata, Secretary of Finance, Mr. Melchor, Executive Secretary to the President, Mr. Mapa, Mr. Legarda (first meeting only), Minister Suarez (second meeting only) and Mr. Barco (first meeting only) for the delegation and Messrs. Goodman, Hoffman (briefly at the first meeting only), Fontein, Street, Gilmartin, Hasan, Gould and Wang for the Bank.

Aid Coordination

2. As regards government comments on the Consultative Group meetings, about which we wrote to him in July, Mr. Virata said that while the documentation presented and the format of the meetings were satisfactory distribution of information about the results of the meeting throughout the government agencies of some of the donors needed improvement, as he found that positions taken by donor's representatives at the CG meeting sometimes did not filter down to the working level.

3. Mr. Virata remarked that in order to help improve the follow-up on the CG meetings he would like to bring the CG delegations to the Philippines first before the next CG meeting so that they could get acquainted with the on-going and proposed projects. Mr. Hoffman suggested that it might be more useful to invite donor countries to send representatives at their convenience rather than to invite all the delegations at the same time in order to get the right people from the responsible agencies of the donor countries.

4. As to tangible benefits aside from the Japanese loan, Mr. Virata mentioned that the CG compelled government agencies to come to grips with problems and to take decisions on priorities. As a result the preparation of projects and programs was now better organized. Mr. Melchor added that the CG gave the administration better leverage to get things done. He cited, for example, the passage of the NPC Act by Congress.

5. Mr. Goodman recalled that at the Paris meeting last April the U.S. had proposed that an interim meeting be convened before the next regular CG meeting to act as a deadline before which the Japanese would commit their assistance. Now that Japan had made the loan to the Philippines, he saw no point in convening such a meeting. Mr. Virata agreed.

...2/-

Japanese Assistance

6. Mr. Virata said that the Japanese loan of $65 million (including $40 million of commodity aid) would be signed by the end of October. The commodity loan would be used to finance imports from Japan by refunding up to 80% of the costs of various imports. The first $20 million could be used before the end of March 1972 and the other $20 million would only be usable thereafter. Since imports from Japan into the Philippines were at a monthly rate of $40 million, the commodity loan was expected to be used up shortly after March 1972. The $25 million project loan, it had been agreed with Japan, would be used for such projects as the Mindanao telecommunications system, ferry facilities connecting sections of the Japan-Philippine Friendship Highway and other projects to be agreed upon with a Japanese mission arriving in Manila shortly.

Other Commodity Aid

7. Mr. Virata said that aside from the Japanese commodity aid, the government had discussed the possibility of receiving commodity assistance from Germany ($20 million), Australia ($15 million), Canada ($8 million) and New Zealand (amount yet to be determined). In its appeal to the latter three countries, the government had stressed that the Pacific Basin countries should be the principal members of the CG for the Philippines.

Program Lending

8. Mr. Virata asked whether the Bank could make program loans to the Philippines if the commodity aid from countries other than Japan were not forthcoming. Program loans would enable his country to utilize surplus plant capacity. Mr. Goodman thought the chances were slim, as the Bank management and the Board took the following view: The Bank is mainly a project-financing agency and could make program loans only under special circumstances and, in the case of the Philippines, it would be difficult to justify program lending while there was room for improvement in the mobilization of domestic resources, particularly through tax revenues. Mr. Mapa pointed out the administration's effort in this regard had been thwarted by the Congress, to which Mr. Goodman replied he was referring to the country as a whole and not just the government. Mr. Mapa added that he would like the Bank to take into account the political/social situation in its consideration of this question, and also mentioned that we should not overestimate our Board reaction - one Executive Director who was opposed to program lending was no longer on the Board.

Equipment Prices

9. Mr. Virata said that there should be some "mechanism" for determining fair prices of equipment, because prices of equipment financed under bilateral assistance were often unduly high. Mr. Goodman agreed that this was a problem because of tied funds, and mentioned that a possible way to minimize this problem might be to use funds of both bilateral and multilateral assistance for joint financing of projects, which would enable the

...3/-

government to use bilateral aid on the basis of international competitive bidding. Mr. Barco wondered whether it would be possible for the Bank to circulate, for information of its Part II member countries, the prices obtained under awarded contracts as a result of international competitive bidding. Mr. Virata supported this idea. Mr. Goodman said he would discuss this suggestion with our Projects Department.

Prospective Operations

10. Our planned operations for FY 1972 were discussed as follows:

a. Livestock Project: We confirmed that we expected to be ready to open negotiations in December. Mr. Virata reiterated that the term of "association" in RA 6142 was broad enough to include individual farmer family groups so that there would be no legal restrictions for relending the proceeds of the Bank loan to them. The delegation was informed that we would not question this interpretation, but we would need a legal opinion to confirm it. Mr. Virata promised to seek such a legal opinion.

b. Fifth Power Project: Mr. Goodman said that since the NPC Act had been enacted we were processing this loan as fast as possible and expected to be ready to open negotiations in January with a view to presenting the loan to our Board in March. He promised to send the government a more definite schedule after we had completed our review of the appraisal report. Mr. Goodman also drew to Mr. Virata's attention to the fact that NPC's present expansion program would require, in addition to its own cash generation, substantial peso borrowing and asked about the government's plans to help NPC obtain such borrowing. Mr. Virata and Mr. Melchor said part of the counterpart fund derived from the Japanese commodity loan would be made available to NPC as well as some transfer from budgetary appropriations. They assured us that NPC would have no problem of counterpart financing. They also asked that the Bank loan for this project include financing of a study of the long-term plan for load expansion of the Luzon grid, since the government would not be able to use an existing USAID loan for this purpose because a recent legal interpretation of RA 6142 provided that foreign loans could not be used exclusively for feasibility studies. Mr. Goodman said that we would be prepared to recommend this.

c. Second Education Project: The delegation was informed that a pre-appraisal mission would arrive in Manila at the end of October to discuss with the government the project items to be financed, and if agreement could be reached a mission would follow shortly to appraise the project. Mr. Virata said that the government had not submitted the draft legislation authorizing government borrowing for this project to Congress this year because he thought that its submission might prejudice the passage of other urgent bills. He agreed the bill was of priority and would be submitted to Congress next year. It was also agreed that we would give him before his departure next week a note listing the points to be taken up by the pre-appraisal mission (subsequently this was done).

Possible Other Future Operations

11. After having been told about our present operations program for FY 1973 the following other possible future operations were discussed:

a. Pampanga Hydro Project: It was explained to the delegation that, first, the Pampanga Irrigation Project financed under Loan No. 637 PH in fact provided the necessary facilities in the dam for the construction of a hydro project sometime in the future when it could be justified and, second, we had reviewed the study of this project and found that the study did not take due account of Meralco's expansion. Since the combined expansion of NPC and Meralco now underway totalling some 750 MW would be sufficient to meet the expected demand up to 1977, the hydro project would not be justified before then. Nor would it appear justified after 1977 for two reasons. First, its size is small (firm capacity: 66 MW); thus even if it were constructed, other schemes would still have to be undertaken. Second, although the cost of the hydro project would be attractive compared with that of thermal schemes, it would compare unfavorably with that of a large pump storage scheme at Caliraya, which should logically be undertaken to meet the increased demand after 1977. Mr. Goodman remarked that the hydro project should be looked at again after completion of the study of the long-term Luzon grid expansion referred to in para 10(b) above.

b. Development Bank of the Philippines (DBP): Mr. Virata hoped that DBP would be included in the Bank's institution building effort. Mr. Goodman agreed that the Bank should have a much closer relationship with this important developmental agency and noted that we had made a start with the Rice Processing Project where we arranged to segregate DBP's operations for this project from its other activities. He went on to say that if the government should so wish we would be prepared to work out with the government a program to improve DBP's operations so that DBP might become eligible for Bank financing.

c. Shipyard: Mr. Virata said that a government-owned shipyard in Bataan now needed financing for expansion. The shipyard was small, mainly for building and overhauling of ships for inter-island shipping. He did not know the size of the financing requirement. Mr. Goodman said the government might approach ADB for assistance since the project seemed too small to be suitable for Bank financing and also since we had no particular expertise in this field.

d. Tourism: Mr. Virata was reminded that following a visit to Manila of a Bank reconnaissance mission in April 1970 we had suggested that the government approach UNDP for financial assistance for a tourism study, but we understood that the government had decided not to. Mr. Virata said the reason was that the government wanted to retain Japanese consultants to prepare a special program relating to war memorials to attract Japanese tourists, although they had so far discussed with the Japanese Embassy only. In response to his queries whether tourism projects could be financed under our loans to PDCP Mr. Virata was informed that in principle PDCP could probably be willing to finance tourism superstructure projects such as hotels, but no such projects had yet been included in PDCP's projections of its future operations.

...5/-

e. Housing: We told the delegation that the Bank had so far not financed any housing project.

f. Land Reform: Mr. Virata asked whether the Bank could provide assistance to the government in its land reform efforts. We told him that we would in principle be willing to do so, but a major difficulty would be to find an appropriate lending channel for relending to farmers. Our agricultural sector mission would look into this matter.

12. Mr. Goodman summed up the discussions on future operations by saying that there was a serious lack of suitable projects for Bank financing and that project preparation in the public sector needed improvement. The delegation agreed.

Mr. McNamara's visit

13. Mr. Goodman confirmed to the delegation that Mr. McNamara will visit the Philippines for about 2-3 days - arriving on the afternoon of November 12 and leaving on the morning of November 15. Mr. Goodman said that from his experience with Mr. McNamara's visit to a few other countries he knew Mr. McNamara would prefer discussions with small groups or individuals (businessmen and intellectuals) and minimum social engagements (not more than one a day). Mr. Goodman thought Mr. McNamara might wish to visit Mindanao and he asked whether arrangements could be made for Mr. McNamara to leave from Davao by air on November 15 for Kota Kinabalu if Mr. McNamara decided to include Mindanao in his itinerary. Mr. Melchor stated that the government could arrange to fly Mr. McNamara out from Davao in a government plane. Mr. Melchor was given a copy of our proposed schedule on Mr. McNamara's visit. He agreed to discuss this with President Marcos after his return to Manila and let us have any changes by cable. He also said that they would prepare a brief on the background of local personalities whom Mr. McNamara would meet.

Cleared with and cc: Messrs. Street/Gould

cc: Messrs. Hoffman
Chadenet
Knobel
Friedmann/Scales
Van Dijk
Powell
Simmons

CWWang:vt

OFFICE MEMORANDUM

TO: Files

DATE: October 14, 1971

FROM: Michael A. Gould

SUBJECT: ASIAN DEVELOPMENT BANK: Meeting with President Watanabe during 1971 Annual Meeting, October 1, 1971

President Watanabe was accompanied by his personal assistant, Mr. Nakahira, and Mr. Farrelly, Director of Operations. Present for the Bank were Messrs. Cargill, Goodman, Melmoth and Gould. The following points were discussed.

ADB Lending Operations

President Watanabe said that he expected ADB's 1971 loan commitments to amount to about $250 million, approximately the same level as 1970 (a country breakdown based on earlier and somewhat more optimistic assumptions is attached). Mr. Farrelly subsequently gave me a copy of ADB's medium term projections which indicate that ADB's annual loan commitments will reach $600 million in 1975. The realization of this very rapid increase in loan commitment is, however, predicated on the availability of very substantial Special Fund Resources which are expected to amount to half of total loan commitments in 1975.

Bank-ADB Relations

Mr. Cargill said that we had received a report from Mr. Shoaib, who had recently returned from Manila, that ADB was not happy about the state of Bank-ADB relations. President Watanabe said that he was, on the contrary, very satisfied with the informal, but effective working relations between the two institutions and that he would like to extend this relationship to include the mutual exchange of policy papers submitted to our respective Boards and of summary minutes on Board meetings. Messrs. Cargill and Goodman welcomed this proposal and Mr. Goodman said that he would discuss this matter with Mr. Mendels. Mr. Farrelly and I subsequently met with Mr. Elmendorf of the Bank's Development Services Department to discuss the steps required to implement these new procedures (copy of minute of meeting attached).

Mr. Goodman suggested with Mr. Cargill's enthusiastic support that now that ADB had successfully established itself as a major development institution in Asia it might be appropriate for the Bank to send higher level representation to ADB's Fifth Annual Meeting in Vienna in April. He suggested that possibly one or both of the Directors of the Bank's Asia Departments might like to attend. Mr. Watanabe welcomed this proposal saying that he thought that such representation would constitute a "meaningful gesture".

Lending Procedures

President Watanabe said that due to uncertainties created by the present international monetary situation, ADB had adopted a policy of increasing allowances under its loans to provide for possible losses due to international exchange rate adjustments. In response to a question from the President, Messrs. Cargill and Goodman said that the Bank did not have an established policy on this question, but in those cases where exchange rate adjustments were likely to be a significant factor the Bank was prepared to increase contingencies.

On the question of eligibility for concessional loans, the President said that it was ADB's policy to take into account project considerations as well as overall economic criteria. The Bank's Department Directors reiterated the Bank's position that country economic considerations were the relevant criterion for determining eligibility.

At President Watanabe's request, Mr. Cargill described the Bank's policy with regard to local currency financing. While the President acknowledged the need for local currency financing in some cases, he said that ADB was not yet in a position to finance such expenditures.

Finally, the President said that while ADB had made five-year projections of its total loan commitments, no attempt was made to predict the annual level of lending in each country for the five-year period. President Watanabe suggested that the Bank's approach of establishing annual country targets tended to "force" projects and that he had heard comments from some borrowing countries that Bank staff had in some cases tried to push countries into accepting loans so that annual targets could be met. Messrs. Cargill and Goodman said that while this might have happened in one or two cases, the country targets were designed as a means of assisting in planning financial and staff allocations and that it was emphatically not the policy of the Bank to adopt inflexible country lending targets which resulted in problems of the kind described by the President.

Pakistan

Mr. Cargill responding to a question from the President said that the forthcoming meeting of donors to Pakistan would consider a proposal to reschedule $75 million of Pakistan's outstanding foreign debt, though this exercise would not, of course, apply to debt held by multi-lateral institutions. The Consortium was, however, opposed to any resumption of aid to West Pakistan. The provision of food and other relief to the people of East Pakistan has been impeded by the transportation bottleneck. Disbursements under existing Bank loans and credits (with the exemption of the Tarbella Project) have been negligible since March 1971. President Watanabe said that ADB's loan for Karachi power transmission was ready for Board presentation, but was being held up pending consideration by ADB's management of the findings of a general review mission.

Attachments.

Cleared with & cc: Messrs. Goodman, Cargill
cc: Messrs. Knapp, Demuth, Fontein, Street
Melmoth

MAGould:mfb

Attachment I

1971

ADB LOAN COMMITMENTS BY COUNTRY

	(US $ million)
Ceylon	7.1
China	44.1
Fiji	4.7
Indonesia	39.1
Korea	57.8
Laos	3.4
Malaysia	23.4
Nepal	4.8
Pakistan	17.8
Papua	4.5
Philippines	28.9
Singapore	23.6
Thailand	18.7
Vietnam	3.9
Western Samoa	0.3
	282.1

INTERNATIONAL DEVELOPMENT ASSOCIATION | INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT | INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Files

DATE: October 8, 1971

FROM: Richard H. Demuth RHD

SUBJECT: Visit of Mr. Watanabe to Mr. McNamara

Mr. Watanabe visited Mr. McNamara at 5:00 p.m. on Friday, October 1. He was accompanied by Mr. Kosuke Nakahira. Mr. Knapp, Mr. Chenery, Mr. Shoaib, and I were also present.

Mr. Watanabe referred to the exchange of Board documents and other information which he had heard that the IBRD was working out with the IADB; he hoped that a similar arrangement for exchange of information could be worked out between the IBRD and the AsDB. Mr. McNamara said he would favor such an arrangement.

There was some discussion of the status of Chinese membership in the two Banks. It was decided that the legal departments of the two institutions should remain in contact on this issue. Mr. Watanabe explained that the AsDB's exposure in Taiwan amounts to $99 million out of total hard-loan commitments of $450 million. Of this $99 million, however, only $25 million has been disbursed. AsDB intends to continue its loan activities in Taiwan.

Views were exchanged on the situation in Pakistan, which had recently been visited by an AsDB mission. Mr. Watanabe mentioned a loan application to the AsDB to finance the Karachi Electric Supply Corporation (KESC), to which the IBRD has already made loans.

Mr. McNamara explained the IBRD's policy with respect to participating in debt rescheduling exercises. He hoped that there would be a common position on this matter by the IBRD and the regional banks. Mr. Watanabe said he agreed fully with the position expressed by Mr. McNamara.

Turning to the Mekong, Mr. Watanabe said that the partnership between the two Banks was working well. He particularly welcomed the frequent visits paid to the AsDB by Mr. Shoaib. He was also grateful for the arrangements made by the IBRD to have all important missions to the area stop in Manila to exchange views with the AsDB.

On the matter of operations, Mr. Watanabe said that AsDB expects to lend this year about the same amount as last year, i.e., $245 million. He said the AsDB had "reached its temporary cruising altitude." One of its real difficulties was the small size of its Special Fund. Because of the limited Special Fund resources available, AsDB has had to concentrate on the wealthier developing countries in its area. AsDB cannot do as much for the poorer countries, such as Nepal and Afghanistan, as it would wish to do. To give it more flexibility in its financing, AsDB is not only seeking additional and increased contributions to its Special Fund but is also seeking a capital increase in order to get more paid-in capital.

Mr. Watanabe explained that, while the AsDB had the same kind of debt limitation in its charter as the IBRD, it had agreed, in connection with its borrowings, to limit the amount of its debt to the total of the callable capital of members whose currencies were convertible. He said that at the present time the limit on AsDB's borrowings, as a result of this covenant, was $345 million. He hopes to increase this limit by a 150% increase in capital, of which 20% would be paid in and 80% would be callable. He expressed the hope that the U.S. would find itself in a position to vote for this capital increase even if it should be unable to subscribe to its share of the increase immediately.

RHD:tf

cc: Messrs. Knapp, Chenery, Shoaib, Cargill, Goodman and Christoffersen
Mr. Broches

BRIEFING PAPER - 1971 ANNUAL MEETING

ASIAN DEVELOPMENT BANK

Attached is a memorandum of May 10 on ADB's last annual meeting which summarizes ADB's 1970 operations. In 1971 ADB had approved as of September 7, loans amounting to $86.7 million: $63.0 million from ordinary resources and $23.7 million from Special Fund resources. ADB will have to increase the pace of its activities very considerably during the last quarter to meet its target of surpassing the 1970 level of loan commitments ($245 million). Loan disbursements have, however, begun to pick up sharply reaching a cumulative total of $46.5 million as of July 31, 1971 compared to $25.5 million at the end of 1970.

On the resource side, ADB's total borrowing to date amounts to about $118 million, the most recent bond issues having been made last April in the United States (US$50 million) and Switzerland (US$ 9.8 million). With the projected growth in ADB's lending operations, loan commitments from ordinary resources will exceed ADB's paid-in capital in 1971 and exceed ADB's borrowing limit, its callable capital in convertible resources, before the end of 1973. The Board of Governors at the last annual meeting authorized ADB's Board of Directors to undertake a study of ADB's resource position and recommend appropriate means of increasing the capital stock. It would be useful to know where this matter stands at present.

With regard to regional activities, it might be appropriate to congratulate President Watanabe on the Study of the Southeast Asia's Economy in the 1970's which will be published soon, the Regional Transport Survey which is nearing completion and the Asian Industrial Survey which is expected to get underway soon. It might also be worth mentioning that the Bank is pleased to be assisting in the Joint Regional External Debt Seminar which ADB is expected to host in Manila in November.

Bank/ADB Relations:

Mr. Demuth will be reporting to you separately regarding Mr. Shoaib's report on relations with ADB. Mr. Cargill and Mr. Goodman have not encountered any major difficulties and believe ADB is equally satisfied.

Export Financing:

You may want to ask President Watanabe whether ADB has plans to support an export refinancing scheme similar to that of the Inter-American Development Bank.

Vietnam:

ADB has made one loan of $2.5 million to ietnam for a fisheries development project and is financing experts to assist development financing institutions and the rural banking system. Mr. Watanabe may ask about the Bank Group's position on Vietnam. You will recall that the Prime Minister wrote to you in March 1971 asking the Bank to indicate in what manner the

Bank might be prepared to help Vietnam in its work of reconstruction and development which he felt could now begin. In your reply you said, in part

> "... Looking ahead, I am inclined to the view that the magnitude of the task could be such that it may warrant the setting up of a coordinated international and multinational aid effort. The Bank would be happy to join in such an effort provided it had the support of its principal member countries. Also, it would be important to have the cooperation of other international financial institutions such as the International Monetary Fund, the UNDP and the Asian Development Bank. Bank assistance should, of course, only be given to a country when there is reasonable assurance that the Government's economic and financial policies are conducive to development and the country is in a position to mobilize a substantial amount of resources, including an appropriate contribution of its own resources, for the task. It may well be that in the course of the next year a continuing improvement in the security situation, and in the stability of the economy following the anti-inflationary measures to which you refer in your letter, will permit a beginning to be made. In the meantime, I believe it would be useful for the Bank to be kept informed of your Government's plans to meet the changing situation..."

Mekong Basin Development:

Following Mr. Shoaib's visit to ADB last August a Memorandum of Understanding was drafted outlining the arrangements under which ADB will work with the Bank in carrying out the program of pioneer agricultural project studies being financed by UNDP and bilateral contributions to the Mekong Committee. The draft was accepted by the Mekong Committee in a meeting with representatives of UNDP, ADB and the Bank; it is presently under review in ADB and the Bank with a view to its finalization and signature. We warmly welcome the prospects of reaching a working arrangement with ADB in this matter as it accords with our stated objective to coordinate our efforts in Mekong Basin development with ADB.

With regard to the implementation of those pioneer projects found suitable for financing over the course of the two-year program of studies, the Bank will be considering over the next six months or so ways of raising the necessary financing from interested donor countries and other institutions as well as the possiblity for a Bank contribution to the costs of the projects. At this stage the Bank has not made a definite decision on how best to proceed and we would be interested to learn how ADB sees its role in pioneer financing.

The Bank expects to send its report to U Thant on Mekong Basin Development before the end of the year. Before the report is completed we would like to have review sessions with ADB, jointly with the Mekong Committee, on the substance of the report and the possible roles of ADB and the Bank. In this connection we welcome ADB's recent statement to the Committee that it would consider sympathetically Mekong Committee requests for assistance in pre-investment studies once priorities have been established.

East Asia and Pacific Department
September 24, 1971

ASIAN DEVELOPMENT BANK

1971 Annual Meeting Brief for Mr. Goodman

In addition to the points raised in the Briefing Paper for Mr. McNamara you may wish to discuss the following matters with President Watanabe during your meeting on October 1 at 2:30 p.m.

Bank/ADB Relations

In view of Mr. Shoaib's recent report on ADB's unfavorable attitude towards the Bank, it might be useful to explore with President Watanabe whether he is satisfied with the present state of Bank/ADB relations and whether there is anything we can do further to improve the situation. On our side, we might mention that we have occasionally in the past, as in the case of the Thailand Agricultural Credit and Education projects, had to delay consideration of projects and hold staff in reserve while waiting for ADB to decide whether it could finance these projects from Special Fund resources. In such cases, it would be of great assistance to us if ADB could make a decision at the earliest possible time as to whether it will make Special Fund Resources available for a particular project.

Bank Policy Regarding Current International Exchange Rate Adjustment

We have recently received a cable saying that the President would like to discuss the Bank's policy with regard to recent international exchange rate adjustments, particularly the effective devaluation of the US dollar, as this relates to Bank loans outstanding and in process. With regard to outstanding loans, we do not, except in exceptional circumstances, plan to make supplemental loans to cover increases in the dollar cost of projects as the amounts involved are usually small and supplemental loans would require reappraisal and Board approval. With regard to loans in process, in those relatively few cases where the effect of exchange reforms is significant, we would adjust project costs if the source of procurement is reasonably firm or make allowances in contingencies if the source of procurement is not known.

Malaysia

The Malaysian Government and the ADB both agree that it would be desirable to expand ADB operations in Malaysia. However, ADB expects to make only one loan to Malaysia in 1971, $12.0 million for the Kuala Lumpur-Karak Highway. ADB attributes its lack of activity in Malaysia to the fact that the Government is not preparing suitable projects for ADB financing. Other factors are the need for ADB to turn its attention to areas where foreign assistance is most urgently needed such as agriculture, including land settlement, forestry, rubber processing, education, etc.; to provide some of the local currency financing required in these sectors (ADB presently does not finance local currency costs); and to become more intensively involved in the process of project preparation.

In addition to raising the general point regarding an increase in ADB's lending in Malaysia you may want to seek President Watanabe's reaction to the possibility of convening a meeting of the Malaysian Consultative Group which has not met since 1966.

East Asia and Pacific Department
September 24, 1971

DEPARTMENT OF STATE DECEMBER 1970

REPUBLIC OF THE PHILIPPINES

BACKGROUND NOTES

Population: 37 million (1970 est.)
Capital: Quezon City

The Philippine archipelago extends about 1,100 miles north to south along the southeastern rim of Asia, forming a land chain between the Pacific Ocean on the east and the South China Sea on the west. It is separated from the Republic of China (Taiwan) on the north and Malaysia and Indonesia on the south by straits a few miles wide and from Viet-Nam and mainland China on the west by the 600-mile breadth of the South China Sea.

The archipelago consists of some 7,100 islands and islets with a total land area of 115,707 square miles, slightly larger than Arizona. Only 154 of these islands have areas exceeding 5 square miles and 11 of them, with more than 1,000 square miles each, comprise about 95 percent of the total land area and population. Luzon, the largest island, is about the size of Kentucky, while Mindanao, the second largest, is approximately the size of Indiana. Between these two major islands lies the regional grouping of smaller islands called the Visayas. The irregular coastlines, marked by bays, straits, and inland seas, stretches for more than 10,000 miles—twice as long as the coastline of the continental United States.

Manila is located on Luzon, some 6,200 miles from San Francisco and 630 miles from Hong Kong. (Quezon City, near Manila, was declared the capital in 1948, but most government activities thus far remain at Manila proper.)

The larger islands are mountainous, and uplands make up 65 percent of the total land area. Most have narrow coastal lowlands, but extensive lowland areas exist only on Luzon, Mindanao, Negros, and Panay. The central plain on Luzon is the most important agricultural area in the entire nation. It is approximately 100 miles long and 40 miles wide.

The entire archipelago lies within the tropics. The lowland areas have a year-round warm and humid climate, with only slight variations in the average mean temperature of 80° F. Rainfall is generally adequate, but varies from place to place because of wind directions and the shielding effects of the mountains. On Luzon rainfall averages between 35 and 216 inches per year, with the average at Manila at 82 inches. The wet season in the Manila area, caused by the southwest monsoon, begins in June and extends into November. The Philippines lies astride the typhoon belt. An average of 15 of these cyclonic storms affect the Philippines annually with at least heavy rainfall, and five to six may strike with destructive winds and torrential rains. A number of active volcanoes also exist, and the islands are subject to destructive earthquakes.

The Philippine flag consists of two horizontal bands—the top blue, the bottom red—joined at the staff side with a white triangle. Centered on the triangle is a yellow, eight-rayed sun. In each corner of the triangle is a yellow star.

THE PEOPLE

The population of the Philippines is estimated at 37 million. This gives an overall density of about 319 persons per square mile, although most of the people live on Luzon and Mindanao. Manila is the largest city with a metropolitan population of approximately 3 million. Quezon City, the capital, has about 500,000 inhabitants.

The population is predominantly of ~~Malay stock,~~ descended from the Indonesians and Malays who migrated to the islands long before the Christian era. The most significant alien ethnic group is the Chinese, who have played an important role in commerce at least since the ninth century when they first came to the islands to trade. As a result of intermarriage, many Filipinos have partial Chinese ancestry. Americans and Spaniards constitute the next largest alien minorities in the country.

About 90 percent of the people fit into a relatively homogeneous Christian ethnic category. These are predominantly rural Hispanicized people who were Christianized and to varying degrees Westernized during nearly 400 years of Spanish and American rule. The major non-Hispanicized groups include the Moslem population, concentrated in the Sulu archipelago and western Mindanao, and the mountaineer groups of northern Luzon. About 83 percent of the Filipinos are Roman Catholic, some 9 percent are Protestant, 5 percent are Moslem, and the remainder are primarily animist.

Eighty-seven native languages and dialects, all belonging to the Malayo-Polynesian linguistic family, are spoken, but eight of these are the mother tongue of more than 86 percent of the population. The three principal ones are Cebuano, spoken on the Visayas; Tagalog in the area around Manila; and Ilocano on northern Luzon. Pilipino, English, and Spanish are the official languages. Since 1939, in an effort to develop national unity,


PHILIPPINES
International boundary
National capital
0 50 100 150 Miles
0 50 100 150 Kilometers
Treaty Limits of the Philippines
116
120
124
128
20
16
12
8
Basco
BABUYAN ISLANDS
SOUTH
CHINA
SEA
PHILIPPINE
SEA
Laoag
Tuguegarao
Vigan
Bangued
Bontoc
Ilagan
San Fernando
Bayombong
Dagupan
Tarlac
Cabanatuan
Iba
LUZON
San Fernando
Malolos
Olongapo
Manila
QUEZON
Cavite
Pasig
Santa Cruz
Daet
Lucena
CATANDUANES ISLAND
Batangas
Naga
Virac
Boac
Legazpi
Calapan
MINDORO
Romblon
Bulan
Masbate
MASBATE
SAMAR
Catbalogan
Kalibo
Roxas
PANAY
Tacloban
Iloilo
Bacolod
LEYTE
San Jose de Buenavista
Cebu
NEGROS
CEBU
Maasin
Puerto Princesa
Surigao
PALAWAN
Tagbilaran
Dumaguete
Tandag
Cagayan de Oro
Butuan
Iligan
SULU SEA
Liloy
Ozamiz
Marawi
MINDANAO
Cotabato
Davao
Zamboanga
Basilan
BASILAN ISLAND
Kota Kinabalu (Jesselton)
Jolo
MALAYSIA
SULU ARCHIPELAGO
CELEBES SEA
PULAU MIANGAS (Indonesia)
INDONESIA
PULAU KARAKELONG (Indonesia)

510125 11-70

the Government has promoted the use of the national language, Pilipino, which is based on Tagalog. Pilipino is taught in all schools and is gaining increasing acceptance, particularly as a second language. English, the most important nonnative language in the Philippines, is used as a second language by about 40 percent of the population and is the universal language of professional people, education, and government. Spanish is spoken by less than a million people, largely of the social elite, and its use appears to be decreasing. Despite the multiplicity of languages, the Philippines has one of the highest literacy rates in the East Asian and Pacific area—75-80 percent of the population 10 years of age and above.

The Philippine educational system today embraces about 37,000 public schools with an enrollment of about 8.4 million and 4,500 private schools with perhaps a million students. About 24 percent of the national budget is allocated to education, but the goal of compulsory primary education has not yet been realized for lack of classrooms and teachers. Enrollment in schools of higher education is about 400,000, and the Philippines ranks high in the world in the number of college graduates per capita.

The Philippines' population growth rate of about 3.4 percent is one of the highest in the world. The median age is low, with more than half the Filipinos less than 16 years of age. Recognizing the economic implications of such a population growth rate, the President announced in 1970 a decision to make family planning an official policy of his administration.

HISTORY

The history of the Philippines may be broken down into four distinct phases: the pre-Spanish period, the Spanish period (1521-1898), the American period (1898-1941), and the years since independence (1946-present).

Pre-Spanish Period

The first people in the Philippines, the Negritos, are believed to have come some 30,000 years ago from Borneo and Sumatra across land bridges then existing. Subsequently, people of Malay stock came from the south in successive waves, the earliest by the land bridges and later by boats called barangays. The Malays settled in scattered communities, also called barangays, which were rulled by chieftains known as datus. In the 14th century Arabs arrived introducing Islam in the south and extending some influence even into Luzon. The Malays, however, remained and were the dominant group when the Spanish arrived in the 16th century.

Spanish Period

Ferdinand Magellan claimed the Philippines for Spain in 1521, and for the next 377 years the islands were under Spanish rule. This period was the era of conversion to Christianity (Catholicism), and a typical Spanish colonial social system was developed with a strong centralized government and considerable influence in the hands of the clergy. The Filipinos were restive under the Spanish, and this long period was dotted with uprisings. The most important of these began in 1896 under the leadership of Emilio Aguinaldo, but it was successfully put down by the Spanish authorities the following year.

American Period

In 1898, following the destruction of the Spanish fleet in Manila Bay by Admiral Dewey, the United States occupied the Philippines. Spain ceded the islands to the United States under the terms of the Treaty of Paris (1898) which ended the Spanish-American War. A war of insurrection against the United States, led by revolutionary President Emilio Aguinaldo, broke out in 1899. The United States put down the insurrection, and in 1901 Aguinaldo was captured and swore allegiance to the United States. This state of hostilities is referred to as the Philippine-American War (1899-1902) by many Filipinos.

United States administration of the Philippines was from the first declared to be temporary in nature and had as its goal the development of institutions which would permit and encourage the eventual establishment of a free and democratic government. Therefore, U.S. officials concentrated on the creation of such practical supports of democratic government as public education and a sound legal system. Philippine participation in the legislative processes of the country was introduced early in the American administration. The legislature was established and was largely in Philippine control after the passage of the Jones Act in 1916. A civil service was formed and gradually was taken over by the Filipinos, who were in effective control by the end of the First World War. The Catholic Church was disestablished, and a considerable amount of church land was purchased and redistributed.

In 1935, under the terms of the Tydings-McDuffie Act, the Philippines became a self-governing Commonwealth. Manuel Quezon was elected President of the new government, which was designed to prepare the country for independence after a 10-year transition period. The Second World War intervened, however, and in May of 1942 Corregidor fell. United States forces in the Philippines surrendered to the Japanese who occupied the islands until 1945. As a result of the Japanese occupation, the guerrilla warfare which followed, and the battles leading up to liberation, the country suffered great physical damage and a complete organizational breakdown. Despite the shaken state of the country, both the United States and the Philippines decided to move forward with plans for independence. On July 4, 1946, the Philippines Islands became the independent Republic of the Philippines, in accordance with the terms of the Tydings-McDuffie Act. In 1962, the official Independence Day was changed from July 4 to June 12, commemorating the day independance from Spain was declared by General Aguinaldo in 1898.

Postindependence Period

The efforts of the early years of independence were expended in rebuilding the country's economy, with the United States playing a major role in the reconstruction. Complicating the recovery efforts was the threat posed by the Communist-dominated Huk rebellion in the years 1945-53. Under the vigorous, honest leadership of President Ramon Magsaysay (1953-57) this rebellion was suppressed and communism, as an overt threat to the Government, was removed.

The succeeding administrations of Presidents Carlos P. Garcia (1957-61), Diosdado Macapagal (1961-65), and Ferdinand E. Marcos (1965- present) have, in the context of increasing nationalism, sought to expand Philippine ties with its Asian neighbors, implement domestic reform programs (notably land reform), and develop and diversify the economy.

GOVERNMENT

The Philippine Government is republican in form, based on the principle of separation of powers.

Executive power is vested in a President (Chief of State and Head of Government), who is elected by direct vote for a 4-year term and cannot serve more than 8 years consecutively. The responsibilities and authority of the Philippine President are similar to but, in relative terms, exceed those of the U.S. President. Unlike his American counterpart the Philippine chief executive possesses the power of an item veto over appropriation, revenue, and tariff bills submitted to him by the Congress. There are also separate elections for the offices of President and Vice President, and it is possible to have incumbents from different parties holding these offices at the same time. The Vice President has no clear-cut duties; for example, he does not, as in the U.S. Government, preside as the President of the Senate. He frequently functions—as may the President—as head of a ministry. Cabinet members are appointed by the President.

The bicameral Congress consists of a 24-member Senate and a 110-member House of Representatives. Senators are elected at large for a 6-year term, one-third being chosen every 2 years. Members of the House of Representatives are elected for a 4-year term in the same election in which the President is chosen.

Independent judicial power is lodged in an 11-member Supreme Court, an Appeals Court, trial courts, and other inferior courts. Supreme Court judges are appointed by the President and sit on the court until they are 70 years of age.

The Philippines is divided into 67 Provinces and 53 chartered cities, each with popularly elected officials. However, in this unitary system administrative authority remains highly centralized at Manila.

The Constitution, adopted in 1935, may be amended by three-fourths vote of each House of Congress or by a convention called for that purpose. By a joint resolution in 1967 Congress authorized a constitutional convention to begin in June 1971; in November 1970 voters nationwide elected the 320 delegates to this convention. The convention's proposed amendments must be validated in a referendum by approval of a majority of those voting.

POLITICAL CONDITIONS

Traditionally, there have been two major political parties in the Philippines—the Nacionalista and the Liberal. They compete to a considerable extent on the basis of experience and abilities of candidates rather than on formal party platforms.

The Communist Party, which was declared illegal under the Constitution by court ruling, was formally outlawed by the Anti-Subversion Act signed into law in June 1957. Communist insurgent activity, which reached a peak during 1945-50, was broken up under President Magsaysay and no longer constitutes a major threat to the legally established government.

In 1965, however, the Huks began to expand again, and there now exist three rival armed groups numbering about 500 dissidents operating in some parts of central Luzon. The current Communist line in the Philippines, which appeals to chauvinist nationalism at home and to neutralism in foreign affairs, attracts some intellectual, student, labor, and peasant support. The various factions in rural areas and the dissident Communist groups in the cities have operated essentially on an independent, national basis without significant ties abroad.

President Ferdinand E. Marcos, a World War II guerrilla hero and later Congressman and Senator, won election to the presidency in November 1965 with a platform pledging, among other things, to end corruption and smuggling and to make the Government more responsive to the needs of the people. In November 1969, President Marcos won an unprecedented second term, with about 62 percent of the vote. His Nacionalista Party enjoys a wide margin of control in both Houses of Congress.

In its first term, the Marcos administration pursued its announced goal of improving the lot of the average Filipino by giving priority to stimulating agricultural productivity and accelerating public infrastructure development. These efforts, summarized and popularized by the slogan "rice, roads, and schools," have been continued in the second term, giving greater emphasis on the rural sector with programs in agricultural diversification, rural electrification, and health (including nutrition and family planning).

ECONOMY

The Philippine economy, basically oriented toward free enterprise, performed impressively during the critical period of rehabilitation and expansion in the post-World War II decade. The pace slackened considerably in the 1950's and early 1960's, however, with real gross national product (GNP) rising only about 5.3 percent annually from 1955 to 1965. Since 1966, under the stimulus of expansionary monetary and fiscal policies, the real GNP growth rate again picked up, to an annual average of more than 6 percent. In 1969 it reached an estimated level of U.S. $8.1 billion, or about $219 per capita. While output of all sectors of the economy is expanding, agriculture and mining have risen most rapidly in recent years.

Despite such fundamental elements of strength as sizable natural resources, room for population expansion, increased agricultural production, a growing industrial sector, and a relatively high level of popular education, the Philippine economy does confront problems. These include dependence on a predominantly agricultural economy, recurring trade deficits resulting in shortages of foreign exchange, shortage of investment capital, limited government revenues, and high rates of unemployment and underemployment.

Balance-of-payments difficulties during the late 1960's led in 1970 to the negotiation of an International Monetary Fund (IMF) Stand-by Agreement for the Philippines. The Philippine Government also has made a proposal to the International Bank for Reconstruction and Development (IBRD) for the formation of a Consultative Group of interested nations and international agencies to coordinate external assistance to Philippine economic development.

Agriculture

Agriculture, including forestry and fishing, is the largest and most important sector of the Philippine economy. In 1969 it contributed 36 percent of the net domestic product, directly employed 57 percent of the total labor force, accounted for 70 percent of total exports, and supplied a variety of essential raw materials to the expanding industrial sector.

Arable farm lands comprise an estimated 28.2 million acres, about 38 percent of total land area of the Philippines.

Philippine farming is of two distinct types: production of food crops for domestic consumption and cash crops for export. Although food crop production (mainly rice and corn but also some important fruits and vegetables) has increased substantially in recent years, total output as of 1969 still represented only 85 percent of domestic consumption requirements. In an effort to narrow this gap, the Government has made self-sufficiency in food crops a major development goal and has been working on programs to enlarge the land area under irrigation, expand rural credit, improve distribution of fertilizers and pesticides, and carry out agrarian reform. Central to success in the endeavor to increase rice production was the development and planting of several improved strains of high yielding rice ("miracle rice") seed in 1967. With the resulting higher yield per acre and with increased multiple annual crops because of the rapid maturity of these strains, the Philippine Government attained its goal of self-sufficiency in rice production in the 1969 crop year. Until the Philippines was struck by a series of destructive typhoons, an export surplus in rice had been expected in 1970. Allied efforts are also being made to increase production of meat and dairy products, though an appreciable narrowing of the production-consumption gap may not be achieved for several years.

Cash crops in primary and processed form are the mainstay of Philippine export trade, accounting for five of the country's leading exports—sugar, copra, coconut oil, desiccated coconut, and abaca. Other important crop-reliant exports include canned pineapple, molasses, copra meal, and tobacco. In all, these nine commodities earned $375 million in world markets in 1969, or more than 40 percent of the total value of exports in that year.

The forestry industry is also very important to the Philippine economy, accounting for 6.3 percent of the net domestic product in 1969. The Philippines is one of the world's leading producers of wood and wood products. Exports of logs, lumber, plywood, and veneer earned $260 million in 1969, or 30 percent of total exports.

Although the Philippines lies in a fertile fishing belt, the domestic fishing industry has remained underdeveloped. Obsolescent methods, inadequate refrigeration and marketing facilities, and lack of investment capital have so handicapped the industry that production is inadequate to meet domestic needs. In an effort to curtail the resulting imports of canned fish, the Government is making a determined effort to improve the fishing fleet, modernize methods, and establish adequate storage, processing, and marketing facilities.

Mining

The Philippines has extensive proven and potential reserves of metallic as well as nonmetallic minerals. Chromite, nickel, and copper deposits are among the largest in the world. Other important metallic minerals include iron, silver, manganese, coal, gypsum, sulfur, mercury, and gold. Among nonmetallic minerals, clay, limestone, dolomite, feldspar, marble, silica, and phosphate rock are prevalent. However, while rich in mineral resources, only a small portion of the country has been adequately surveyed and actively exploited.

Exported minerals are important foreign exchange earners, accounting for $160 million (20 percent of total exports) in 1969 (triple the 1962 level of $52 million). The Philippines is the world's leading supplier of refractory chromite, most of which goes to the United States. Copper and iron in concentrate form are the most valuable mineral exports, followed by gold, silver, manganese, pyrites, mercury, sulfur, limestone, and zinc.

The mining sector contributed only 1.8 percent to total net domestic product in 1969, but rapid growth in output expected over the next several years should increase that contribution to 3.7 percent by 1974.

Industry

Industrial production has steadily expanded and diversified since World War II. However, growth has been relatively slow in recent years. Production is still centered mainly around processing and assembly operations comprising food, beverages, tobacco, and rubber products; textiles, clothing, and footwear; pharmaceuticals; paints; plywood and veneer; paper and paper products; small appliances; and automobiles. Among heavier industries there is some production of cement, glass, industrial chemicals, fertilizer, iron and steel, and refined petroleum products.

The manufacturing sector accounted for 17.3 percent of net domestic product in 1969. An annual average growth rate of 5 percent is anticipated for the sector during the next 4 years, which would result in a relative decline in its share of net domestic product to 16.8 percent.

A considerable segment of Philippine industry suffers from a weak capital base, shortage of credit and foreign exchange, and inadequate power and transportation facilities. Government programs to strengthen industrial development have included protective import duties and taxes, refinancing of distressed industries, and investment and export incentive legislation under which tax and other incentives are granted to selected industries and firms. In addition, the Government has played the major role in expansion of such infrastructure as telecommunications, roads, and hydroelectric power and has contributed to private industrial growth through such long-term financing institutions as the Development Bank of the Philippines.

Foreign Trade

Foreign trade is of great importance to the Philippine economy. In recent years, however, trade has become increasingly unbalanced, reaching deficits of $300 million in 1968 and $276 million in 1969. It was this deficit that led to the negotiation of the IMF Stand-by Agreement in February 1970. The shift to a floating exchange rate for the peso and other fiscal and monetary disciplines imposed by the Government has led to a sharp improvement in 1970, bringing the balance of trade into approximate equilibrium. Total imports in 1969 were $1,131 million and exports were $855 million.

In the past government policy concentrated on the encouragement of import substitution industries. The focus shifted in 1970 with the passage of the Export Incentive Act to a policy of active encouragement of export industries.

The United States continues to be the leading trading partner of the Philippines, though in a declining role as supplier and customer. In 1969 the United States purchased about 42 percent of Philippine exports (compared with 56 percent in 1956) and supplied about 29 percent of the Philippine imports (59 percent in 1956). Japan ranks a close second as a trading partner, with the European Economic Community (EEC) a distant third.

Economic Relations with the U. S.

The economic relationship between the United States and the Philippines is basically set forth in the revised U.S.-Philippine Trade Agreement of 1955 (Laurel-Langley Agreement) which expires in 1974. Under this agreement each country accords the other gradually diminishing preferential tariff treatment. In 1970 the effective Philippine rate of duty on U.S. imports is 90 percent of the normal rate, while Philippine exports, as of January 1, 1971, will enter the United States at 80 percent of the normal U.S. rate. In addition, the Philippines receives duty-free quotas on cigars, tobacco, coconut oil, and buttons, while Philippine cordage and sugar are guaranteed access to the U.S. market up to absolute quota levels. Investors of both countries doing business in the other receive national treatment or "parity" in natural resources and public utility fields and nondiscriminatory treatment in all others.

U.S. investment in the Philippines is very extensive (estimated at substantially more than $700 million). The success of these firms in adjusting to a post Laurel-Langley Agreement relationship and the form such adjustments take will greatly influence future Philippine economic relations with the United States.

U. S. Assistance

Since gaining independence in 1946, the Philippines has received approximately $1.9 billion from the United States in economic and military assistance. Net loans, principally for long-term development purposes or from the Export-Import Bank, constituted about $266 million of this total as of June 1970. Also included in the total figure are about $708 million in war damage and rehabilitation payments.

FOREIGN RELATIONS

The Philippines has based its foreign policy on a close alliance with the United States, adherence to the United Nations and its objectives, and cooperation with other Asian countries.

With the United States, the Philippines has a Mutual Defense Treaty (1951), a Military Bases

Agreement (1947), and a military assistance agreement. The Philippines is, with the United States and six other countries, a signatory of the Manila Pact of 1954 which established the Southeast Asia Treaty Organization (SEATO). A Filipino, Jesús Vargas, is now serving a second term as Secretary General of SEATO. The Philippines is a charter member of the United Nations and is an active member of most of its specialized agencies. A Filipino jurist is a member of the International Court of Justice.

In recent years, the Philippines has vigorously sought to broaden its participation and leadership in Southeast Asian regional affairs. It was a leader in the formation of the Asian Development Bank (ADB), which opened its headquarters at Manila in 1966, and the Association of Southeast Asian Nations (ASEAN) in 1967. It is also a charter member of the Asian and Pacific Council (ASPAC) formed in 1966.

While the Philippines recognizes all free nations in Asia, its relations with Malaysia have been periodically troubled since 1962 when the Philippines formally raised a claim to the territory of Sabah in north Borneo. In 1963 the Philippines withheld recognition from Malaysia as the successor to Malaya incorporating the state of Sabah. Diplomatic relations, reestablished by President Marcos in 1966, were temporarily suspended in 1968 but again resumed in 1969.

In suggesting new lines of foreign policy development for the 1970's, President Marcos has mentioned a desire to widen Philippine relations and has spoken of exploring the possibility of entering into relations with Socialist countries.

U. S. POLICY

U.S. policy is directed to strengthening and modernizing the constructive relationship between the two countries to ensure that it keeps pace with shifts in the Asian political environment and that it will continue on a basis of mutuality in respect and confidence. U.S. objectives in relations with the Philippines include doing what can appropriately be done to (a) help encourage the development of self-sustained economic growth and a general economic modernization that will make improving standards of living available to people of all classes and (b) lay the groundwork for U.S.-Philippine economic relations after 1974 when the Laurel-Langley Agreement terminates.

Pursuant to the Military Bases Agreement of 1947, the United States maintains and operates major facilities at Clark Air Base and Subic Navy Base, as well as several lesser installations. As a result of the U.S. buildup in Viet-Nam, U.S. military personnel in the Philippines increased from about 13,500 in 1964 to approximately 26,000 in early 1970. With the reduction of U.S. force levels in Viet-Nam and elsewhere, the numbers of U.S. military personnel in the Philippines is also being reduced and will be cut by about 6,000 by July 1971.

The Philippines, an important U.S. ally in Asia, is affected by the Nixon Doctrine. As enunciated at Guam in the summer of 1969 and subsequently elaborated on by the administration, the doctrine states that: (1) the United States will honor its commitments by providing a shield for the freedom of an ally; (2) conventional defense is the responsibility of the country directly concerned, with the United States assisting where it will make a difference and where U.S. interests are involved; (3) insurgencies are best handled by threatened governments with police, paramilitary action, and economic and social reforms; and (4) new commitments by the United States will be viewed in the light of careful assessment of U.S. national interests, specific threats to those interests, and U.S. capacity to contain those threats at an acceptable risk and cost.

At the conclusion of President Nixon's visit to Manila in July 1969, President Marcos said: "... It is indeed gratifying to note, too, that while treating Asia with the policy of encouragement of nationalism, independence, and freedom, he [President Nixon] does not intend to abandon Asia; that while we are moving toward what we have always hoped for, through political and economic independence, he supports the idea of Asian countries being able to defend themselves alone if necessary and helping them and supporting them with whatever aid he can extend to them in these particular tasks.... Our history indicates that we are capable of meeting internal subversion with our own troops and that we do not intend to call upon any foreign power to help us with foreign troops. We have demonstrated this in fighting the Hukbalahaps, and we intend to protect and defend our free institutions with our lives, alone if necessary. But we are happy that you guarantee to us that the treaties that we have entered into shall be complied with and that you are an ally, indeed, who understandings our problems."

PRINCIPAL GOVERNMENT OFFICIALS

President—Ferdinand E. Marcos
Vice President—Fernando Lopez
Secretary of Foreign Affairs—Carlos P. Romulo
Ambassador to the U.S.—Ernesto V. Lagdameo
Ambassador to the U.N.—Narciso Reyes

The Philippines maintains an Embassy in the United States at 1617 Massachusetts Avenue, N.W., Washington, D.C. 20036.

PRINCIPAL U. S. OFFICIALS

Ambassador—Henry A. Byroade
Deputy Chief of Mission—Richard B. Finn
Director, U.S. AID Mission—Thomas C. Niblock
Chief, Joint U.S. Military Advisory Group—Maj. Gen. George B. Pickett, Jr.
Public Affairs Officer (USIS)—Henry L. Miller
Political Counselor—Francis T. Underhill, Jr.
Economic Counselor—William E. Knight II

Consul General—Loren E. Lawrence
Administrative Counselor—Eldon B. Smith
Consul, Cebu—Victor Wolf

The U.S. Embassy in the Philippines is located at 1201 Roxas Blvd., Manila.

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REPUBLIC OF THE PHILIPPINES

IBRD Capital Subscription and Payments

(Figures in U. S. dollars or dollar equivalent)

1.	Capital Subscription	
	(a) Original capital subscription	15,000,000
	(b) Special increase in capital subscription (1959)	35,000,000
	(c) 100% increase in capital subscription (1960)	50,000,000
	(d) Special increase in capital subscription (1967)	17,300,000
	Total subscribed capital	117,300,000 1/
2.	Payments in U.S. dollars	
	(a) Original subscription	300,000
	(b) 1959 Special increase	700,000
	(c) 1967 Special increase	173,000
		1,173,000
3.	9% Portion	
	(a) Released on convertible basis	2,700,000
	(b) Balance not released	

1/ No action has yet been taken on Capital Subscription authorized under Board of Governors Resolution No. 258 which for the Philippines would amount to $14.9 million.

East Asia and Pacific Department
October 19, 1971

REPUBLIC OF THE PHILIPPINES

IDA Subscription and Payments

(Figures in U.S. dollar or dollar equivalent)

1.	Subscription	5,040,000
2.	Authorized under Third Replenishment Resolution - Formal notification not received.	196,240
	Total	5,236,240
3.	Payment of 10% portion	504,000
4.	90% portion	no release

East Asia and Pacific Department
October 19, 1971

REPUBLIC OF THE PHILIPPINES

IFC Subscription

Subscription	166,000

East Asia and Pacific Department
October 19, 1971

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RESTRICTED

PHI 71-6

FROM: The Secretary

May 11, 1971

CONSULTATIVE GROUP FOR THE PHILIPPINES

1. Attached is the Chairman's Report of Proceedings of the meeting of the Consultative Group for the Philippines, held in Paris on April 22 and 23, 1971. Attached to the Report are the following Annexes:

ANNEX I	-	List of Delegates
ANNEX II	-	Message from His Excellency, Ferdinand E. Marcos, President of the Philippines
ANNEX III	-	Chairman's Opening Statement
ANNEX IV	-	Opening Statement of the Philippine Delegation
ANNEX V	-	Statement by Mr. Savkar, IMF Delegation
ANNEX VI	-	Development Prospects for the Philippines - Statement by Mr. Parvez Hasan
ANNEX VII	-	Statement of Secretary Cesar E. A. Virata
ANNEX VIII	-	Projects and Aid Coordination on Sectoral Priorities Statement by Mr. Gerardo P. Sicat
ANNEX IX	-	Statement by Mr. Vincente Paterno
ANNEX X	-	UNDP Activities in the Philippines - Statement by Mr. W. M. Harding, UNDP Representative in the Philippines
ANNEX XI	-	Statement on US Participation in the Power Sector and by The Hon. Roderic L. O'Connor
ANNEX XII	-	Statement of The Hon. Roderic L. O'Connor
ANNEX XIII	-	General Statement by Mr. Masao Sawaki - Head of Japanese Delegation
ANNEX XIV	-	Statement by ADB Delegation
ANNEX XV	-	Press Release

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MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday April 22 and 23, 1971

REPORT OF PROCEEDINGS BY THE CHAIRMAN

1. The inaugural meeting of the Consultative Group for the Philippines was held at the World Bank's European Office at Paris, France on April 22 and 23, 1971.

2. The meeting was attended by representatives of Australia, Japan, Spain and the United States; and by representatives of Canada, Germany, India, the Netherlands, New Zealand, Switzerland and the United Kingdom which were participating in the Group as observers. Also represented were the International Monetary Fund, United Nations Development Programme, the Asian Development Bank and the Organization for Economic Cooperation and Development. The Philippines delegation was led by the Honorable Cesar Virata, Secretary of Finance. Mr. Raymond J. Goodman, Director of the World Bank's East Asia and Pacific Department, was in the Chair. A list containing the names of the delegates to the meeting is attached as Annex I.

3. A message from President Marcos stating that the Philippines intended to continue a development program consistent with social and economic stability was read by Secretary Virata. The President's message confirmed the Philippines' commitment to maintain fiscal discipline and emphasised that the stabilization measures introduced by the Government would be greatly assisted by the orderly inflow of external financial assistance suited to the country's development needs and potential. The text of this message is attached as Annex II.

4. Documentation for the meeting consisted of a publication entitled: "Major Development Projects"which had been prepared by the Government of the Philippines, and the World Bank's Report: "Philippines - Prospects and Problems of the Economy" (EAP-21, dated March 31, 1971). Both documents had been distributed to participants in advance of the meeting.

Introduction

5. The Chairman welcomed delegates to the meeting and expressed the hope that all delegates - whether their countries or agencies were represented as members or observers - would contribute freely to the discussions.

6. The Chairman recalled that at the meeting in October delegates had been concerned with the debt problems of the Philippines. The consensus at the time was that the problem though serious, was essentially short-term in character. Since the October meeting, however, additional information indicated that the perspective of the problem had changed. On the basis of more exact details concerning the structure and size of existing debt, together with an analysis of the effect of additional borrowings that would have to be incurred, it had become clear that the ratio of debt service to exports of goods and services would continue to be high throughout the 'seventies. It was less the quantum of the required inflow of funds which was the problem, as the terms on which the funds could be obtained. In 1970 the Philippines had been able to meet very large financing requirements but only by having recourse to short- or medium- term borrowings. The

Chairman therefore stressed the importance of quick disbursing aid on as favorable terms as practicable. Foreign private investment would also help ease the debt service burden of the Philippines much more than private suppliers' credits on even the most favorable terms.

7. For their part, the Philippine Government and Congress had taken steps to ensure effective debt management which deserved to be recognized. However, there was need for a considerable improvement in the fiscal performance of the Philippines, and, in particular, the speedy enactment of additional tax legislation. The text of the Chairman's statement is attached as Annex III.

8. Discussions covered the following subjects:

(a) Review of Developments since the preliminary meeting in October 1970:

Secretary Virata said that the improvement in the country's external position which had been noted at the preliminary meeting, had been maintained. Exports had exceeded the billion-dollar mark for the first time in Philippine history, and import demand had been restrained resulting in a reduction of the trade deficit from $257 million in 1969 to $8 million in 1970. International reserves had also nearly doubled over the same period. However, the improvement in the external accounts had been achieved at the expense of a slowdown in growth and a marked increase in domestic prices which, at the end of the year, stood at 21 percent over the previous year's level. While some increase in prices was to be expected as a result of the stabilization program and in particular the floating exchange rate, increases in minimum wages and public utility rates coupled with disruption caused by civil disturbances and typhoon damage had reinforced these upward pressures.

9. Meanwhile, the Government had taken several administrative and legislative steps to control external borrowings, raise public resources, increase the scope of existing incentives for foreign investment and improve the institutional capacity for development. Secretary Virata said that the greater leverage that the Government had now brought to bear on the direction of the economy laid the groundwork for its more rapid growth. The text of Secretary Virata's statement is attached as Annex IV.

10. The head of the IMF delegation, Mr. D. S. Savkar, paid tribute to the difficult and courageous decisions taken by the Philippine authorities to stabilize the domestic economy and to strengthen the balance of payments in 1970. He said that the policy program for 1971, which formed the basis of the current stand-by arrangement with the Fund, was designed to consolidate the principal gains resulting from those decisions, and to allow also for a credit expansion needed to revive production. He emphasised that the successful implementation of non-inflationary fiscal policies would be of great importance to the success of the overall program for 1971. Mr. Savkar stressed the need for measures to increase national savings as well as policies and investment decisions which were designed to improve the allocation of resources. However, the management of the external debt would continue to present difficult problems and since a successful development effort would require an increase in the net transfer of resources from abroad,

the need for an adequate inflow of long-term development capital was of great importance to the Philippines at this time. The text of Mr. Savkar's statement is attached as Annex V.

11. During the discussions which followed, delegates welcomed the Government's commitment to fiscal discipline. It was the consensus of the Group that the Government had displayed commendable courage in implementing its program of fiscal and monetary restraint and that considerable success had been achieved in complying with the performance criteria under the 1970 Stand-by. Continuing stabilization measures were necessary to dampen further increases in the general price level and to reduce pressures on the balance of payments.

12. Questions were raised by some delegates as regards the differences in the debt service projections for 1970 and 1971 between the Bank's report and the Fund's report of February 1971. Representatives of the Fund and the Bank explained that the Fund's estimates were based on figures up to September 30, 1970 while the Bank's data covered the full calendar year. There was an increase of about $150 million in total debt during the last quarter of 1970.

13. In response to a question, Secretary Virata explained the reference in the President's message to a boundary in the tax effort beyond which additional taxation would impede the development program. He suggested that what the President had in mind were the disturbances which followed recent tariff increases and the effect this had on industrial activity. Increased wage demands also tended to follow when tax increases were passed on to the consumer affecting thereby the competitiveness of Philippine exports. It was therefore important to select revenue sources which would not have disruptive effects on the Philippine economy.

(b) <u>Prospects and Aid Requirements of the Philippine Economy: 1971-1974</u>

14. <u>Mr. Parvez Hasan</u>, principal author of the Bank's report, opened the discussion on prospects of the Philippine economy over the longer term. He said that the ratio of fixed investment to GNP had declined from the peak of 21.3 percent in 1967 to 17.4 percent in 1970. If the Philippine growth rate was to be sustained at around 5 percent per annum over the next few years, it was essential that this decline be reversed and that sufficient domestic and foreign resources were mobilized for the purpose. Since the bulk of external finance would be required to service debt, this emphasised the crucial importance of the domestic savings effort. He noted in this connection that while private investments still accounted for nearly 90 percent of total investments the trend since 1966 had been towards an increasing share of public investment in total investment. In 1970 however, that trend was in fact reversed - a factor which had disturbing implications for social and economic development in the Philippines.

15. The Government's plans to accelerate infrastructure spending in FY 1971 and FY 1972 were contingent not only on larger foreign borrowings but also on the increased availability of local currency funds, and, therefore, a greater revenue effort. In spite of a 26 percent growth in

tax revenues during 1970-71, due largely to the export stabilization tax, the ratio of revenues to GNP was still only 14 percent in FY 1971. Mr. Hasan noted the urgent need not only for the implementation of the additional tax proposals contained in the President's budget message but also for making the tax system more responsive to national income growth.

16. Considering the difficulties in sustaining the growth rate at a reasonable level in the face of a slow rise in investment - there was need for commodity assistance to help maintain the flow of imports of intermediate goods so as to enable existing industrial capacity to be utilized. The momentum of agricultural growth had also to be maintained. Given the introduction of growth-oriented policies in both sectors and the very promising outlook for exports, Mr. Hasan concluded that despite the persistence of financial difficulties the prospects for long-term growth of the Philippines were good. The text of his statement is attached as Annex VI.

17. <u>Secretary Virata</u> explained that growth and investment were adversely affected by credit restraints under the stabilization program and the floating exchange rate. Public investment in particular had declined because of the Government's need to allocate part of its limited resources to meeting increased current expenditures and to honor the external loan obligations which its financial institutions had guaranteed before the floating exchange rate took effect. The natural disasters of the previous year had also resulted in increased claims on government funds.

18. The Government acknowledged the need to mobilize additional tax revenues and proposals to raise revenues by ₱269 million were under consideration. Secretary Virata suggested that the Government's performance on the tax front should also be measured by the fact that revenues had increased 60 percent in the past three years.

19. In support of its development program the Government required, during the next four years, external assistance in the form of commodity loans, more liberal terms for financing Government projects and long-term general purpose trade credits which would ease the burden of the private sector in meeting debt service obligations on supplier credits. Secretary Virata's statement is attached as Annex VII.

20. During the ensuing discussions reference was made to the difficulty of separating the short and long term aspects of the problems concerning the Philippine economy. Stabilization policies had to be reconciled with policies relating to growth and it was noted in this connection that the relaxation of reserve requirements and the easing of credit under the current stand-by arrangement with the Fund should enhance growth prospects for 1971.

21. Several delegates took the view that the Philippines could achieve a higher level of growth and investment without endangering the balance of payments position if public savings were raised through additional taxation. While the increased efforts of the Philippines to mobilize domestic savings were acknowledged, it was agreed that there was considerable scope for further improvement. It was noted by one delegate that the scale of public finance in the Philippine economy was comparatively low in relation to most developing nations and that the willingness of donor countries to assist the Philippines would be influenced by the Philippines' tax efforts. Reference was also made to the need to maintain export taxes at the present level.

22. Secretary Virata responded to the discussion on taxation by listing the areas in which new taxes or tariff increases were under consideration. He agreed with the need to narrow the scope of tax exemptions. Consideration was also being given to simplifying the tariff structure and, in the process, of reducing the discretionary authority of customs officials. The elasticity of the tax system was under study as well as the incidence of taxation on particular industries. A progressive sales tax system had also been introduced. While he agreed that there was scope for improvement he thought that the tax measures under consideration and the various studies proposed would eventually make for a sounder tax program. At the invitation of the Chairman, Mr. Armand Fabella, Chairman of the Philippines Reorganization Commission, spoke on the plan for reorganization of the executive branch of the Philippine Government which, he expected, would soon be approved by Congress. Mr. Fabella indicated that passage of the legislation would result in savings of about ₱70 to ₱80 million in Government wages which should result in an improvement in the fiscal position. These savings had not been taken into account in the current expenditure estimates of either the Bank or the Fund.

23. As regards the need for quick disbursing aid the question was raised as to whether standby credit facilities such as those provided by the IMF and Japanese Banks could not be considered a substitute for commodity loans or other types of quick disbursing aid. It was agreed that these short-term lines of credit were essentially required to improve the capacity of the Central Bank to meet the seasonal requirements of international payments by the Philippines and to ensure proper management of the reserves. The Chairman pointed out in this connection that the problem was to substitute, over time, longer-term credits for the relatively short-term supplier and similar credits to which the Philippines had access. Quick disbursing project aid or commodity aid could be of enormous assistance in the difficult transitional period.

(c) Sectoral Priorities, Projects and Aid Coordination

24. The discussions on this item opened with presentations on the public and private sector programs by the Honorable Gerardo Sicat, Chairman of the National Economic Council and the Honorable Vincente Paterno, Chairman of the Board of Investments. Dr. Sicat referred to the sectoral priorities contained in the Four Year Development Plan and to the financing requirements for agriculture, education, infrastructure and industry contained in the document: "Major Development Projects" He emphasised the importance of project feasibility studies as a prelude to the identification of priority projects and welcomed proposals for better aid coordination particularly in the pre-investment field. His statement is attached as Annex VIII.

25. Mr. Paterno said that priorities for industrial development were defined in the annual Investment Priorities Plans which contained an indicative listing of projects for which investment incentives were provided. The listing of products for potential exports was contained in the Export Priorities Plan. Capital expenditures for projects in the Investment and Export Priorities Plans were estimated to total US $508 million and ₱2.2 billion for the next five years. As regards the private industrial and public utility enterprises not registered with the Board of Investments, capital requirements were roughly about $420 million and ₱1.7 billion. An estimated $928 million would therefore be required by way of external finance for the next five years. Mr. Paterno recalled that private sector capital expenditures in the past had been largely financed by supplier credits and suggested that this burden could be considerably eased if commodity

loans on a government-to-government basis could be considered to finance the required industrial inputs. He estimated the annual foreign exchange requirements of such commodities at over $100 million in each of the next four years of which steel slabs and billets would constitute 60 percent. A copy of Mr. Paterno's statement is attached as Annex IX.

26. Following a visual presentation of the highlights of the Government's infrastructure program Mr. W. M. Harding, UNDP Resident Representative in the Philippines, opened the discussion with a statement on UNDP's pre-investment activities. He referred to the recent introduction of the system of "Country Programming" of UNDP inputs and to the important contribution this would make to the coordination of technical cooperation and pre-investment studies. Mr. Harding also associated himself with the need for local aid coordination to be undertaken under government auspices. A copy of his statement is attached as Annex X.

27. The Chairman referred to the scope for aid coordination in both the power and transportation sectors. An informal meeting of representatives of the Philippines, the United States Agency for International Development, the Asian Development Bank and the IBRD which had been held the day before had indicated that the three agencies were willing to consider loans amounting to about $85 million to help meet the foreign exchange requirements of power generation, transmission and rural electrification projects. Since the Philippine Government expected to apply Japanese reparations to meet the balance of the required financing there were good prospects of an international financing package of some $120 million. Mr. Masao Sawaki, leader of the Japanese delegation, indicated that his Government agreed in principle to the allocation of reparations to the rural electrification program and would be prepared to consult with international agencies or other donor countries to ensure the smooth implementation of the program. Mr. Roderick O'Connor, leader of the U.S. delegation, said that his Government attached the highest importance to the development of the power sector and had allocated $20 million of their programmed bilateral assistance for FY 1972 to assist in financing the program for rural electrification. A copy of his statement is attached as Annex XI.

28. Sectoral discussions also covered the transport sector where reference was made to the proposed reorganization of the Department of Public Works, Communications and Transport and the need for careful transport planning and coordination to ensure the most effective use of domestic and external resources for development of this sector. Considerable importance was also attached to meeting the peso requirements of the infrastructure program in general and transportation projects in particular.

29. There was also a brief discussion on investment potential in the agriculture-cum-irrigation fields and in the education, telecommunications and water supply sectors. It was noted that some of the pre-investment and technical studies in agriculture and education could be financed from bilateral sources and representatives of some donor countries indicated that they would alert their authorities to these possibilities.

(d) Development Assistance in Prospect

30. Consideration was given next to the capital requirements of the Philippines for the calendar years 1971-1974. The Chairman explained that while the summary of balance of payments projections in the Bank's Report

indicated a financing gap in the order of $1840 million (or $460 million per annum) the debt service figures did not include provision for amortization payments on the debt that would have to be incurred in order to finance the gap. If new debt during 1971-1974 were assumed to have an average maturity of eight years (somewhat longer than the average maturity of existing debt, which was about seven years) additional gross capital requirements for the period would be about $380 million. This would increase the financing gap to about $2220 million during 1971-1974, or an average inflow in the order of $550 million a year.

31. The above figures were indicative of the importance of liberal repayment terms and, particularly, of adequate grace periods in providing official assistance to the Philippines. There was a trade-off between the amount required by way of capital inflow and the terms on which the inflow was financed: the softer the terms the smaller the requirement. If more official assistance was forthcoming on appropriate terms, the burden of supplier credit financing - on which the Philippines must continue to rely for much of its capital needs - would be correspondingly reduced. The Chairman suggested that for the next year or two the Group endeavor to provide annual commitments of official aid in the order of $200 million, or about twice the amount of official aid in the pipeline at the end of 1970, three-quarters of which represented the undisbursed balance of World Bank loans. This might reduce the total annual requirement from $550 million to $500 million, of which official aid would then be covering 40 percent. Assuming that financial institutions such as the IFC and US and Japanese Export-Import Banks were able to provide part of the balance of the requirement, say $100 million, on relatively favorable terms, the Philippines would need supplier credit financing of only about $200 million a year.

32. The Chairman said that the Bank's estimates of external financing needs did not include technical assistance grants or Japanese reparations which were included in the current accounts. He noted that the UNDP expected to provide technical assistance in an amount of about $4 million a year; and that some delegates had indicated that while they could not commit their governments to an increase of official aid, consideration would be given to expanded technical assistance programs.

33. As regards the prospects of official capital aid, the Chairman, speaking for the IBRD, indicated the Bank's willingness to present loans for the approval of its Executive Directors in an amount of about $50 million a year provided suitable projects were prepared for financing. The ADB delegation indicated that, on a similar basis, commitments of about $25 million per annum in the next two years could be expected from their organization.

34. The United States representative said that his government expected to commit, subject to Congressional approval, about $45 million (excluding technical assistance funds of $10 million) on concessional terms in FY 1972. The Spanish delegate referred to the $10 million line of credit which his government had extended of which $5 million per annum could be committed in 1971 and 1972. The German representative confirmed that a loan equivalent to $3.5 million for port development that had been under discussion for some time was to be negotiated shortly. The Philippine delegation referred also to a recent loan of $4 million from the Government of Denmark and a Belgian line of credit of $1 million. The representative of Japan indicated that his Government was prepared to extend effective and adequate assistance, in

conjunction with the rest of the Group, to help the Philippines tide over its present difficulties and embark on its development program. Formal statements by delegates as to their plans for official aid were made by representatives of the USA (Annex XII) Japan (Annex XIII) and the Asian Development Bank (Annex XIV).

Future Meetings

35. It was agreed that the next regular meeting of the Consultative Group would be held in April 1972. The Group accepted, with pleasure, the invitation of the Japanese Government to hold the meeting in Tokyo. It was also suggested that one of the other Consultative Group meetings scheduled for later this year might be the occasion for a short interim meeting on the Philippines. Since the Bank was engaged in computer assisted studies to determine a range of debt forecasts geared to a variety of assumptions, it was felt that further discussions on the Philippines capital requirements, based on this additional information, would be useful. The Chairman said that he would consult with members about this later.

Conclusion

36. Secretary Virata expressed his delegation's appreciation to the World Bank for organizing the meeting and to all the participating delegations for their helpful and constructive comments. He acknowledged the specific offers of assistance made by some delegations and his Government intended to explore additional areas of technical cooperation with those countries whose representatives had indicated an interest in this field. His delegation had taken note of the suggestions made for improved development performance. He was encouraged, in particular, by the interest displayed in the foreign investment potential of the Philippines. A Plan of Operation had been signed during the meeting for a technical assistance project to the Board of Investments to be financed by UNDP and executed by the IBRD. He welcomed the suggestion that funds available under this project be used for a study related to the prospects of foreign investment in the Philippines. He also thanked the Japanese delegation for their invitation to hold the next regular meeting in Tokyo. He hoped that members of the Group would be able to visit the Philippines, either before or after the meeting, so that his Government might brief them in the field on the progress and objectives of the Philippines' development program.

37. Following agreement on a Press Release (Annex XV) the Chairman paid tribute to the Philippine delegation for the competent presentation of their case and the careful preparation which had preceded it. He thought it had been a good meeting and although time did not permit him to sum up the matters which had been discussed, he intended that his Report of Proceedings should cover as much of the ground as possible. He expected also to circulate to participants the additional information on aid requirements referred to in paragraph 35, as soon as this information was available. He thanked the Group for their contributions to the meeting and the Bank staff for their support.

East Asia & Pacific Department
May 7, 1971

ANNEX I

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

LIST OF DELEGATES

BANK	Mr. Raymond J. Goodman	Chairman
	Mr. Parvez Hasan	
	Mr. D.A. de Silva	
	Mr. Donald King	
	Miss Hillegonda J. Goris	
	Mr. Vittorio Masoni	Information Officer

COUNTRIES PARTICIPATING AS MEMBERS

AUSTRALIA	Mr. K.R. Douglas-Scott	Head of Delegation
	Mr. B.W. Fraser	
	Mr. C.R.S. Rodgers	
JAPAN	Mr. Masao Sawaki	Head of Delegation
	Mr. Kaichi Kawaguchi	
	Mr. Yoshisuke Takiguchi	
	Mr. Atsuhiko Yatabe	
	Mr. Kazuo Ito	
	Mr. Mitzukazu Ishikawa	
	Mr. Masaki Orita	
SPAIN	Mr. Luis Marti Espluga	Head of Delegation
	Mr. Eduardo Octavio de Toledo	
UNITED STATES	Mr. Roderic O'Connor	Head of Delegation
	Mr. Herman Barger	
	Mr. Cleo Shook	
	Mr. Michael Cross	
	Mr. Thomas Niblock	
	Mr. Albert Cizauskas	
	Mr. Eugene E. Oakes	
	Mr. Harrison Baker	

COUNTRIES PARTICIPATING AS OBSERVERS

CANADA	Mr. Earl G. Drake Mr. F. J. Chambers	Head of Delegation
GERMANY	Mr. K.H.Winter Dr. W-D. Ernert Dr. Heinz Herrmann	Head of Delegation
INDIA	Mr. A.B. Gokhale	
NETHERLANDS	Mr. H.K. van Egmond	Head of Delegation
NEW ZEALAND	Mr. D.G. Holborow	
SWITZERLAND	Mr. Jean-Eugene Toendury	
UNITED KINGDOM	Mr. B.A. Mitchell	

INTERNATIONAL AGENCIES

ASIAN DEVELOPMENT BANK	Mr. Howard Farrelly Mr. King Hedinger	Head of Delegation
INTERNATIONAL MONETARY FUND	Mr. D.S. Savkar Mr. Douglas A. Scott Mr. H.P.G. Handy	Head of Delegation
OECD/DAC	Mr. A.D. Redding Mr. W. Schwendenwein	
UNDP	Mr. William M. Harding	

PHILIPPINES

The Honorable Cesar E.A. Virata — Head of Delegation
Secretary of Finance

The Honorable Gerardo P. Sicat
Chairman, National Economic Council

H.E. Luis Moreno-Salcedo
Philippine Ambassador to France

H.E. Ernesto Lagdameo
Philippine Ambassador to the
United States

H.E. Luis Gonzales
Philippine Ambassador to Spain

The Honorable Vicente T. Paterno
Chairman, Board of Investments

Dr. Virgilio Barco
Executive Director, IBRD

Dr. Placido Mapa, Jr.
Minister (Alternate Executive Director, IBRD)
Philippine Embassy, Washington, D.C.

The Honorable Armand Fabella
Chairman, Presidential Reorganization Commission

Mr. Pacifico A. Castro
Minister-Counsellor
Philippine Embassy, Paris

Dr. Benito Legarda, Jr.
Special Assistant to the Governor
Central Bank of the Philippines

Mr. Gabriel Itchon
Director, External Debt Management Office
Central Bank of the Philippines

Mr. Antonio Laurel
Central Bank Representative and Economic Attache
Philippine Embassy, Tokyo

Mr. Carlos Leano, Jr.
Executive Director
Infrastructure Operation Center

Mr. Ramon Ravanzo
General Manager
National Power Corporation

PHILIPPINES
(cont'd)

Mr. Julio Macuja
Governor, Development Bank of the Philippines

Mr. Panfilo Domingo
Vice-President, Philippine National Bank
London Representative Office

MEETING OF CONSULTATIVE GROUP FOR THE PHILIPPINES

MESSAGE FROM HIS EXCELLENCY, FERDINAND E. MARCOS PRESIDENT OF THE PHILIPPINES

It is with a combined sense of hope and gratitude that the whole Filipino people, through its representatives here today, addresses this distinguished assembly. An aura of optimism permeates our presence in this gathering today, as you are here to assist in the program of economic progress for the Philippines. We come to present our case to you, confident that a progressive future, given world understanding, need no longer be a distant reality for the Philippines.

Last year, I made decisions to correct the serious balance of payments problem which confronted our economy. This was done largely through the adoption of a floating exchange rate policy, complemented with a program of fiscal discipline. Still, the gains from the success of these corrective measures can be greatly aided by your intended efforts to arrange for an orderly inflow of external financial assistance suited to our development aspirations and long-run development potentials.

Today, the external position of my country is considerably improved from what it was a year ago. These major adjustments have attested to the resiliency and strength of our economy. We have corrected a fundamental balance of payments problem by expanding exports and reducing imports. Also maturing loans have been favorably restructured. There are measures which now shift the direction of progress properly into areas in which our economy enjoys a comparative advantage on an international basis. We have weathered serious price increases brought about by our corrective policies and by unexpected and unduly bad weather conditions.

The corrections we have undertaken provide the necessary road for the reorientation of our development program towards one consistent with internal social and economic stability and with economic efficiency and progress. Our government is openly committed to fiscal discipline, as is made evident in the matching of our domestic tax and revenue resources with the demands for public expenditure. This is precisely the record that we have shown through our fiscal stabilization measures in 1970 and this year.

You are probably aware that we are holding mid-year elections this year. In anticipation, the government will exercise extreme fiscal caution. The stabilization act passed last year explicitly restricts the allowable amount of government borrowing from the Central Bank. Realizing this, we are accelerating increased efforts at improving tax collections and raising our tax capability by introducing permanent revenue measures to finance major development projects. In this connection too, our expenditure program is being undertaken through a better-managed disbursement system for the government.

At the same time that the above efforts are being pushed, it is becoming increasingly apparent that the tax effort is already approaching the boundary beyond which additional taxation would only impede the development program. At this point, however, the government is sparing no effort in improving the tax performance as long as opportunities allow. Forums such as this help provide the inducement to strive for a stretching of the tax effort to its limit, especially if concessionary financial assistance is to be successfully negotiated.

Thus, it is important to state that, given the vision of our economic future, we need resources beyond the ones immediately at our command. This is precisely the role that we expect the Consultative Group of countries to play: to assist us in our short-run difficulties so that we may be better able to realize the full potentials of our own long-run economic capabilities. In such a way, we shall be able to increase our present resources to assure us of a far more prosperous future.

Signed: Ferdinand E. Marcos

April 22, 1971

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Chairman's Opening Statement

It is with great pleasure that I welcome delegates to this inaugural meeting of the Consultative Group for the Philippines. Let me say first that we in the Bank are considerably encouraged that so many countries which were represented at the preliminary meeting in October have decided to participate in meetings of this Group. I am sure that this not only reflects the interest of your Governments and agencies in the affairs of the Philippines but signifies also your recognition of the considerable efforts which the Philippines have made, this past year, in the management of their economy. I should like to extend a special welcome to the Delegation of the Philippines which has sent a strong team headed by the Secretary of Finance, the Hon. Virata.

Delegates who were present at our last meeting may recall that I spent some time, then, explaining the purposes which we thought a Consultative Group for the Philippines could serve. It so happens that the whole subject of aid coordination is being reviewed at a meeting today in Washington under the auspices of the World Bank. I have, therefore, additional reason for not wanting to pursue this theme now. May I, however, say this. I hope that all delegates - whether their countries or agencies are represented here as members or observers - will participate in these discussions. As you will see, we have - in deference to the express wishes of some governments and agencies concerned - made the distinction between members and observers in the list of delegates. However, I trust that this will not restrain any delegate from contributing freely to these discussions. I should add that I do not intend to attribute to individual delegates or the countries and agencies they represent any comments in the discussions which are subsequently incorporated in the Chairman's Report of the proceedings, except, of course, at their specific request.

Let me turn now to the developments which have taken place since our last meeting. I would not wish to dwell too much on these since you will be hearing shortly from Secretary Virata and Dr. Savkar on the progress which the Philippine authorities have made in restoring fiscal and monetary stability. Later this morning, the principal author of the Bank's report - Mr. Parvez Hasan - will refer to the longer term prospects of the Philippines in the context of past developments, current problems and economic potential. While I do not wish to anticipate what they will say, I thought it would be appropriate if I were to refer briefly to what I think should be the main themes of this meeting.

If I begin with the debt problem it is not merely that I wish to highlight what is clearly the most serious issue which confronts the Philippines. Delegates will recall that this was the overriding concern at our preliminary meeting, as well. What has changed since last October are the dimensions of the problem. We can no longer speak of the debt service in terms of a hump which could be surmounted in a few years with effective financial management. The Bank's economic report suggests that the ratio of debt service to gross foreign exchange earnings would stay close to 30 percent through 1974 even on the assumption that there will be some improvement in the terms on which new loans are secured. What is of more serious concern however is that despite the sustained high growth of exports, which it would be reasonable to forecast, the debt service ratio will continue to be high throughout the seventies. Our preliminary calculations suggest that even assuming only a modest net transfer of resources the ratio is not likely to be less than 25 percent through 1979 unless there is a substantial change in the terms on which the Philippines is able to borrow.

The new dimensions of the debt problem reflect more exact information than we had, last October, on the structure and the size of existing debt; as well as a more complete analysis of the likely terms on which additional new funds could be secured.

This new perspective in no way diminishes the skill which the Philippine authorities have displayed in coping with the problem. Debt service payments of $468 million were actually effected last year and the composition of total indebtedness does not now weigh as heavily on the short end as it did in 1969. The need for skillful management of the external debt has also been recognized by the Philippine Congress in its passage of legislation imposing ceilings on foreign borrowings by the public and private sectors. While the debt limitation clause in Republic Act No. 6142 does restrict, to some extent, the Government's freedom of manoeuvre in the next couple of years, it should exercise a salutary influence over the longer term.

It is clear, however, that these efforts can only be sustained with international support - specifically, a willingness on the part of donor countries and agencies to make a larger inflow of longer-term capital available to the Philippines on more liberal terms. We estimated at our meeting last October that the gross capital inflow requirements of the Philippine economy for the period 1971-74 would be in the order of some $350 million a year. As the Bank's report indicates, these requirements are now substantially higher. It is not the quantum of the desired inflow, however, which is a fundamental problem. The Philippine authorities have been able to obtain external resources of this magnitude in the past. What is important is that the Philippines can no longer afford to finance their requirements through recourse to short term borrowings. It is in this context that the need for improved terms of assistance assumes crucial importance.

Since the Philippines must continue to rely on private suppliers' credits for the bulk of its gross capital requirements, it would clearly be desirable for official assistance to take the form of commodity loans or quick disbursing project aid on favorable terms. I would hope therefore that our discussions would be addressed particularly to the nature and the terms of the assistance which should be made available to the Philippines in the next four years. As far as the Bank is concerned, we are already considering ways in which we can adjust the terms of our assistance to meet the country's special circumstances.

In my remarks at our meeting last autumn I referred to the importance of an appropriate climate of foreign investment in the Philippines which would ensure that private capital continues to flow into the country at the required levels. We noted the statement of Secretary Virata, that although the areas of such investment had been limited, the terms on which foreign investors were invited to the Philippines had been liberalized. We also welcomed his assurances that consistent policies would be pursued by the authorities to increase the flow of private capital from abroad. While it is true that not all foreign investment necessarily serves the long term interests of a developing economy, careful consideration should be given to determining the types of investments which will. Given the right conditions, foreign private investment would do much more to ease the debt service burden of the Philippines than private suppliers' credits on even the most favorable terms. We look forward to hearing from Secretary Virata as to his thinking on this point.

The need to mobilize its own resources for development is no less important than the Philippines' requirements for external capital. Reference has been made in the Bank report - as indeed in all our previous reports - to the inadequacy of the tax effort. I think it important that we continue to stress this in our discussions. Speaking for the Bank, I would say that while we recognize the efforts on the part of the executive branch to close tax loopholes and improve collections, there is a clear case for the speedy enactment of additional tax legislation. I would invite attention to those sections of the Bank report relating to fiscal trends - in particular the recommendation that the export tax be maintained at least at the 1970-71 levels. Unless there is a considerable improvement in the fiscal performance of the Philippines the possibility of reviving the lagging investment activities of the Government will clearly be limited. It is important also to note the conclusion of the Bank's report that an inadequate fiscal effort will tend to accentuate income disparities - which are already quite glaring - in the Philippines.

I hope it has been possible for delegations to examine the projects listed in the document "Major Development Projects" which the Philippine Government has circulated to participants. It would be very helpful if delegations were in a position to indicate - during the discussions scheduled for later this afternoon - those sectors in which capital assistance could be considered by their governments and agencies.

Since aid coordination is one of the objectives of a Consultative Group I trust that we may also have a fruitful discussion on at least two sectors - transport and power - where the need for such coordination has been identified. It has been the Bank's experience that duplication of effort can be avoided if , once priority needs have been identified, governments consult jointly with those countries and agencies that are interested in providing external finance and technical assistance to meet such needs. The existence of local coordination machinery for this purpose could play a positive role in the coordination of such aid. I would commend, in this connection, the practice adopted in some countries of regular meetings of representatives of donor countries and agencies chaired by the Minister or senior official of the recipient government.

As I indicated at our meeting last October the Philippine context is not an easy one in which to maintain a determined social and economic advance. Although there has been some progress in such fields as land reform and community development in recent years there is still considerable scope for social reform. It is difficult enough in the best of circumstances to meet the demands for social change, economic growth and reasonable stability - all at the same time. Last year, the Philippines was struck by a series of typhoons which made it the more difficult for the authorities to cope with these challenges. Nevertheless, a serious effort is underway in the Philippines to meet them - and much of the credit for this should go to the able men who have been in charge of the country's economy since early last year. They have faced formidable problems which they have tackled with courage and imagination. I would express the hope that they continue in these positions of responsibility especially during this difficult stage in the country's development.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Opening Statement of the Philippine Delegation

By the Honorable Cesar Virata, Secretary of Finance

On behalf of the Philippine Delegation, I would like to thank the countries and institutions represented here today for having made possible the formation of this Consultative Group for the Philippines under the auspices of the World Bank. Your help will be important in reinforcing my people's efforts to reach a better tomorrow.

When we met last October, the major economic policy line of 1970, namely, the stabilization program had been in force for just a little over half a year. At that time also, the results of certain past policies and investments were just beginning to the visible. Together all of them combined to effect a substantial improvement in the country's external position which we are in a position to appreciate more fully now that the figures for the year are available.

Foreign exchange receipts in 1970 exceeded disbursements by $112 million, in contrast to the $68 million payments deficit in 1969. Exports, including non-monetary gold, rose by 24.3 percent to $1,082 million, the highest export level in Philippine history and the first time to reach and surpass the billion-dollar mark. Of the increase, 14.7 percent was due to a quantum increase and only 9.6 percent to price influences. This was the fruition of several years of investment in expanding the productive capacity of a number of major export industries such as copper mining, sugar milling, and coconut oil extraction. Some new exports such as bananas, where productive capacity had also been previously built up, showed high growth rates although their quantitative impact was as yet minor compared to the traditional exports.

Imports, under the influence of certain measures of restraint and of the cost effects of the stabilization program dropped by 4 percent to $1,090 million, resulting in the narrowing of the merchandise trade gap from $257 million in 1969 to only $8 million in 1970. The international reserve stood at $236.6 million at the end of 1970, $110.7 million higher than the previous year's level.

Other measures of restraint also worked to decelerate the rise in domestic credits and to reduce the money supply during the greater part of the year, with the lowest level being reached in August. Thereafter money supply again began to climb slowly, but this was primarily due to improvements in the international reserve.

The price for the improvements in the external situation was a slowdown in the growth rate and an upsurge in the price level. GNP grew at 4.4 percent, compared to 6.2 percent in 1969. Downtrends were noted in real estate, construction, transportation and durable manufactures, counterbalanced by slight gains in non-durable manufactures, advances in agriculture, and spectacular growth in mining.

Prices at the end of the year were 21 percent above those a year previous, and little could be done about them as they were largely traceable to the main item in the stabilization program, the floating exchange rate. Reinforcing upward pressures on prices and costs were increases in statutory minimum wage rates and in public utility rates, the demonstrations and civil turbulence which disrupted business operations, an atmosphere of apprehension which spawned speculative activities, and the series of destructive typhoons which damaged crops and idled industrial establishments for several weeks in the latter part of the year.

While these events were unfolding, the Government was actively taking measures to improve things further, lay the groundwork for more rapid growth, and build in fiscal and monetary safeguards. Some of these efforts were anticipated in the World Bank review of the economy in August 1970, but they were accomplished in a much shorter time.

New laws were passed to introduce self-checking mechanisms for the future and increased public resources:

1. A revised foreign borrowing law introduced guidelines and built-in safeguards for the orderly regulation of the external debt. This law assures that bunching of maturities of external debt can now be avoided and the economy can fully realize its long run debt potentials.

2. A 3 percent stock transaction tax has raised public resources for the maintenance of peace and order conditions.

3. A law for the election of constitutional convention delegates pointed to major changes in the present election code. The application of the constitutional convention law last November has influenced discussions for a revision of the present election law for national and local elections now already pending in Congress.

Executive and administrative leadership has introduced changes which corrected past policies, increased tax resources, and strengthened the government leverage in the direction of economic activities.

(1) The President, taking the advice of duly authorized agencies, raised tariff rates on crude oil, on beverages, on some fruits, and on catch-all "others" commodity categories. These measures will result in increased revenues and in more effective administration of customs laws. In addition, tax rulings are being reviewed whether they still conform will current revenue policies. The total yearly revenues that are initially anticipated from these changes would amount to as much as ₱100 million.

Therefore, the government has more funds to devote to development activities. The tariff hike on crude oil, complicated by developments in the Middle East, sparked a series of civil disorders. Yet under determined leadership, the tariff increases were sustained, which under pressures of social discontent a weaker leadership would have revoked.

(2) Two incentives priorities plans have been adopted following the passage last September 1970 of an export incentives law.

(3) A liberalization of imports, especially for export-oriented industries, was effected.

(4) A "watchlisting" of companies with arrearages in government financial institutions not only raised the viability of such institutions by raising their collection rates: it is also creating favorable pressures for market redirections among many import-dependent firms.

(5) The reorganization of the executive branch of the government is progressing and anticipates the reduction of agencies to remove duplication, promote economy and efficiency, and effect a reduction by five percent of the total wage bill. The reorganization plan is due for submission to Congress very shortly. When reorganized, the government will be able to allocate tax resources more for public investment.

(6) In the meantime, to make existing executive departments more responsive to the challenge of development, a development performance audit has been initiated. It is being performed by teams of officials coming from other departments, headed by a department secretary. Such development performance audits are designed to increase development consciousness under the present organization of government. One of the objectives of reorganization is also to promote further development orientation.

(7) Moreover, a growing specialization of planning agencies within the present framework is being undertaken so the Presidential Economic Staff is being reorganized more into a central projects initiation and implementation office.

(8) Shortly after our gathering here last October, our Central Bank finally signed a restructuring agreement involving $200 million in maturing short-term debt with a consortium of U.S. banks. It had earlier secured an extension of maturities on over $25 million borrowed from European and British banks.

(9) Since September, we have secured two World Bank loans totalling $22 million plus a peso loan amounting to ₱28.6 right after the typhoon, three ADB loans totalling $31 million, a Belgian loan of $1 million and a Danish loan of $3.9 million, and an agreement under U.S. Public Law 480 involving $20 million worth of agricultural commodities, and CCC credits amounting to about $44.7 million.

(10) Only last month, the Executive Board of the IMF approved a new stand-by for the Philippines, in effect extending the previous stand-by for another year.

The efforts at improving institutional and organizational capacity for development as well as raising public tax resources are continuing. In the present Congress, there are pending a number of tax proposals which were submitted in the current budget message of the President. These proposals, when approved, will further sustain and raise the tax effort. Most important among these tax measures is the bill designed to contain the deceleration in the applicable rates of the stabilization tax on main exports. The revenues to be derived from this will be used to finance land reform and agricultural development. We recognize the need for pushing a more aggressive tax effort.

Congress is also studying a bill on the simplification of the tariff systems. This will make the tariff better suited to development, strengthen its revenue productivity while removing from its structure the built-in bias against industrialization which is based on economic efficiency and international competition. Also, a bill on interest rate policy reform is being considered, now strengthened by the submission of a government report on the effects of present interest rate policy on economic development.

A bill was also recently passed (on second reading), the House of Representatives of Congress advocating a population policy and providing a government organization designed to implement such policy.

While all of these are going on, it must be pointed out that the four-year development plan is being updated and evaluated. Parts of the new emphasis are already contained in the budget program for the year which is part of the budget message of the President. Some of the major factors that have influenced its evaluation naturally led to major developments in 1970 which were partly induced by economic events but more largely so by natural calamities.

The damage of the 1970 typhoons was estimated to have reached two-thirds of a billion pesos. The implications of such developments on the uses of scarce government and private resources are obvious: a disruption of a development effort in infrastructure construction had to be correspondingly made by scaling down the program and shifting resources to rehabilitation. These typhoons have affected agriculture to the point that for the first time in years, the government had to certify a shortage in rice for buffer stock purposes and corn recently, to seek a measure of relief from some imports (although of relatively small magnitude to contain price increases in these staples). Furthermore, just recently, a large fire consumed a heavily congested section of the city of Manila, bringing with it a new demand on governmental social services that cannot be ignored and which can only be met by shifting resources. In all these calamities, eventually some strain on the capital development program in the public sector partially results. By good fortune, we have not been without international friends in these calamities. Among others, we wish to make of record our gratitude to the United States and Japan for making possible some relief in resources for our rehabilitation efforts from these calamities.

The Export Incentives Act, approved in September 1970, is already being implemented. As of March 31, twelve enterprises had been approved by the Board of Investments for registration and for export incentives under this Act. The Fourth Investment Priorities Plan was approved by the President this month and will be in effect in May. The Plan lists 99 areas of investment, of which 43 are non-pioneer, 44 are pioneer and 12 may be either depending on the production processes to be used.

The pioneer areas in the Investment Priorities Plan have always been open to foreign investment up to 100% ownership of the pioneering project. A major feature of foreign investment policy will be placed into operation in June of this year. When seven non-pioneer areas in the First Investment Priorities Plan are liberalized, they will be open to enterprises owned up to 100% by non-Philippine nationals, because project applications received and approved by the Board of Investments therein have been inadequate to fill the measured capacities for these investment areas. The Investment Incentives Act specifically provides for this action.

The above developments since October last year and the natural course of economic policies such as in foreign investment policy, highlight our efforts and achievements in improving the long term prospects for development of our economy. Furthermore, they also indicate the extent of complications on our immediate economic programs which are caused by natural factors not within our control. These complications may have slowed but have not discouraged our development efforts and with the mobilization of additional resources from external sources on more liberal terms, there is no reason why we cannot go forward at a faster pace, especially with better coordination as our Chairman suggested.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Statement by Mr. Savkar, IMF Delegation

Mr. Chairman, it is a pleasure for me to represent the Fund at this, the first meeting, of a Consultative Group comprising representatives of countries and international organizations interested in facilitating the flow of long-term development resources to the Philippines.

The Philippine economy was confronted with serious financial problems at the beginning of 1970. Increasing fiscal deficits and relatively easy credit policies contributed to the pressure on the balance of payments during the period 1966-69. As international reserves declined, confidence in the peso weakened. Faced with this situation of growing external imbalance, the Philippine authorities introduced measures to stabilize the domestic economy and to strengthen the balance of payments, thereby facilitating an orderly servicing of the foreign debts.

The stabilization program which was introduced in February last year was supported by a stand-by arrangement with the Fund in the amount of $27.5 million, which was fully utilized during the year. In addition the Fund agreed to postpone repurchase obligations amounting to $55 million which would have fallen due during 1970. In March 1971 the Fund entered into another stand-by arrangement, in an amount of $45 million, and also agreed to the postponement of repurchase obligations amounting to $27.5 million due during 1971. Following a drawing of $20 million under the current stand-by arrangement, Fund holdings of Philippine currency currently are at 155 percent of the new quota of $155 million. Repurchase obligations to the Fund during the remainder of 1971 amount to $16.5 million. The cumulative allocations to the Philippines of special drawing rights amount to SDR 35.1 million; they have been fully utilized for conversion.

The IBRD memorandum "Prospects and Problems of the Philippine Economy" describes the economic developments during 1970. There was a marked improvement in the balance of payments which, including substantial debt service payments, showed an over-all surplus of $38 million. Credit expansion moderated, largely because of the improved fiscal performance. However, the rate of economic growth declined compared with the three preceding years, partly reflecting the adversities caused by the severe typhoons and the measures adopted during the year to arrest the deterioration in the balance of payments. There also was a pronounced increase in domestic prices. The exchange reform introduced in February resulted in the elimination of most restrictions on imports and current payments; the introduction of a floating exchange rate facilitated an adjustment in cost price relationships and contributed to the improvement in the balance of payments. The immediate burden of servicing external debts was eased in the latter part of 1970 following the refunding of more than $220 million of Central Bank short- and medium-term obligations. However, because of the relatively short-term character of much of the capital inflows since 1966, the Philippines continues to face a difficult external debt servicing problem.

The policy program for 1971, which forms the basis of the current stand-by arrangement with the Fund, seeks to achieve a further improvement in the balance of payments, a moderation in the rate of price increase, and a higher rate of economic growth than obtained in 1970. The important elements in the domestic financial program which the authorities have adopted are the continued implementation of a non-inflationary fiscal policy and the maintenance of limits on the credit operations of the Central Bank. The credit program comprises criteria for the net creation of primary credit, the increase in net credit to the public sector, and the extention of credit to the Philippine National Bank. Past experience in the Philippines has shown that appropriate credit policies, while necessary, are not sufficient to manage aggregate demand so as to avoid undue pressure on the balance of payments or on domestic prices. In recent years the banking system has financed the residual deficits of fiscal operations. It is in view of this that the successful implementation of the Government's intended non-inflationary fiscal policy will be of great importance to the success of the over-all program for 1971. It is envisaged that the large external debt service payments will continue to be met; therefore, the program provides for only a $45 million improvement in net international reserves during 1971, including movements in all Central Bank foreign liabilities. Measures were taken during 1970 to improve the registration and management of foreign debts of all government institutions and private enterprises, including legislation which established a limit for the ratio of debt service payments to foreign exchange receipts. The program for 1971 provides for a limit of $300 million on the amount of new foreign borrowings approved for the private and public sectors with an initial maturity of one to fifteen years; of this not more than $60 million will be for periods of one to five years. However, foreign borrowings of the banking system (which are reflected in the anticipated balance of payments performance) and loans from international organizations are outside the scope of this limitation.

Mr. Chairman, the stabilization program which was introduced in February last year required difficult and courageous decisions to alter the course of events. The policies reflected in the current program are designed to consolidate the principal gains resulting from those decisions, while allowing for the needed credit expansion to revive production. The management of the external debt will continue to present difficult problems and will require that the authorities exercise strict control over contracting new foreign debts, especially those of relatively short maturity.

A sustained effort to raise the rate of real economic growth requires a larger level of investment, matched by policies and investment decisions aimed at improving the allocation of resources, and by measures to increase national savings. A successful development effort also will require an increase in the net transfer of resources from abroad. For this to be consistent with the present difficult external debt problem means that greater reliance should be placed on attracting long-term development capital. It is in this way that the orderly retirement of current international obligations can be achieved while continuing to meet the requirements for larger investment resources. Therefore, an adequate inflow of official assistance on reasonable terms is of great importance to the Philippines at this time.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday April 22 and 23, 1971

DEVELOPMENT PROSPECTS FOR THE PHILIPPINES

Statement by Mr. Parvez Hasan

The notable success achieved by the Philippines in bringing about a better balance in fiscal, monetary and foreign exchange position of the Philippines during 1970 has already been brought out in the remarks of Secretary Virata and Mr. Savkar. I will, therefore, address myself primarily to the prospects and problems of the economy during the next several years. This would also help to place the short term problems in some perspective.

Though the financial problems have dominated the economic scene in the Philippines during the last couple of years and indeed are likely to remain in the forefront for some time to come, very considerable economic progress has been made during the last decade. The overall growth rate of GNP during the sixties was well over 5 percent per annum and thus despite rapid population growth, average real per capita income increased by about one third between 1960 and 1970. This was a respectable performance by standards of most developing countries. But the achievement would have been even greater if slow expansion of export agriculture and industrial output had not dampened the growth trend. Certainly the growth potential of the Philippines is considerable. She has large resources in the form of agricultural land, mineral deposits and above all, a level of literacy and general education almost unique in South East Asia. She also has a dynamic private sector. Awareness of business opportunities and willingness to take risk for profit is widespread among the population and material advancement ranks high among personal and social values.

However, in order to sustain the Philippine growth rate in the immediate future at around 5 percent per annum it seems essential to mobilize sufficient domestic and foreign resources to reverse the decline in investment level noticed during the last two years. In the longer run, the ratio of fixed investment to GNP which had declined from the peak of 21.3 percent or more as a pre-requisite to a more rapid growth and a larger measure of social development which should be possible in the second half of the seventies.

Mr. Chairman, as already mentioned by you, the gross foreign capital requirements estimated at about $500-550 million per annum during 1971-1974 would go mainly to finance debt service payments. The net transfer of foreign capital is, therefore, likely to make limited contribution to the Philippine investment effort during the next four years and gross capital formation during this period will be determined almost entirely by domestic savings. It is thus obvious that in the period before the debt service burden is brought down to a reasonable level, the domestic saving effort would be absolutely crucial. As the economic report points out, the overall saving rate of the Philippines improved during 1970 and at around 17 percent of GNP does not compare unfavorably with most developing countries. But it must also be mentioned that the saving rate during the mid-sixties averaging about 21 percent of GNP had been much more favorable. There is need for the availability of external resources on growth to be minimised. In any case the need and the scope for raising public savings remains particularly large and to this subject I shall now turn.

A unique feature of the Philippine economy is that private investments account for nearly 90 percent of total investment. The large private investments have undoubtedly been a fundamental factor in the rapid economic growth of the Philippines. But it is generally agreed that public investment in the Philippines continues to be inadequate and would increasingly become a constraint on further economic development. Moreover, capital outlays for social services, notably urban development and health, have been very small and the progress of land reform has been limited mainly due to funding problems. Both for social and economic development, the Government must play an increasingly important role in the Philippines. It was disappointing, therefore, that the trend noticed since 1966 towards an increasing share of public investment in total investments was reversed in 1970. The lost ground in public investment would have to be recovered quickly if the four-year program is to have even a moderate chance of success. The revised infrastructure program, which is smaller than the original program, envisages a marked acceleration in infrastructure spending between FY 1971 and FY 1972. This will require both larger foreign loans and local currency needs would increase sharply. The availability of local currency funds would depend almost entirely on the revenue effort of the Government. As the Economic report points out the growth of 26 percent in tax revenues during 1970-71 while impressive in itself, improved the ratio of revenues to GNP only moderately from 12.9 percent in FY 1970 to 14 percent in FY 1971. Furthermore, the export tax imposed last year to mop up part of the windfall gains accruing to exporters from the devaluation was approved by Congress for four years only and at gradually decreasing rates. As a result, the proposed infrastructure investment for FY 1972 is critically dependent on the additional taxation proposals in the President's budget message. We welcome Secretary Virata's remarks on the subject and it is reassuring that the administration is pushing with determination additional tax proposals.

We are looking forward to his further remarks on the prospect of additional tax revenue collections in FY 1972. I may add however, that the problem of improving tax revenues is not only a question of additional taxation but also of elasticity of the tax system, i.e., to make the tax structure more responsive to income changes. A sustained increase in the availability of local currency funds for development is important not only in itself but also because it is one of the important pre-conditions of a sharp increase in official assistance which, hopefully, can come on easier terms.

It is clear, that the growth prospects of the Philippines in the near future would inevitably be affected by the slow rise in investment and it may not be easy to reach the Plan growth target of 5.6 percent per annum, which in itself is a modest goal. This stresses the importance in the short run of growth-orientated policies by the Government and commodity assistance which would enable the Philippines to maintain a reasonable flow of intermediate goods imports. It also indicates the need to maintain the momentum of agricultural growth which has played such an important role in raising the output level in recent years.

In order to support the Administration's efforts to encourage crop diversification, expansion of livestock and the development of fisheries, the Bank will send an Agriculture Sector Review Mission early next year to review the entire agricultural situation in the context of self-sufficiency in rice and the need to increase the productivity of major agricultural exports.

In the industrial field, it is encouraging to note that the Administration is fully cognizant of the shortcomings of past policies which provided excessive protection, unrealistically low interest rates and easy availability of foreign exchange credits and have resulted in development of excess capacity, high cost and a slow down in industrial growth. The creation of new industrial capacity is now carefully screened by the Board of Investments, which also administers the various incentives. However, a large part of the increase in industrial output during the next few years would come from existing capacity and, therefore, tackling the difficult problem of excess capacity through encouraging exports and reducing costs deserves high priority.

While substantial resources from abroad would continue to be needed for the Philippines' economic development in the foreseeable future, the outlook for exports is promising and would be an important factor in strengthening the balance of payments. Merchandise exports which showed a marked increase of 22 percent during 1970 are projected to grow by 8 percent per annum during 1971-74. The average annual growth of 10 percent expected between 1969-74 would be in sharp contrast to an expansion of less than 5 percent per annum during the sixties. It is also noteworthy that while the satisfactory export performance during 1960 was attributable partly to a reduction in unrecorded exports and partly to an improvement in export prices, the entire increase in earnings during the next four years is expected to come from an increase in the volume of exports. The impressive increases expected in output of some of the major export commodities, notably copper, sugar, are closely related to past and prospective investments in key sectors. At the same time, the non-traditional exports which showed an increase of about 30 percent during 1970, are expected to show a further increase of 100 percent during the next four years, rising to $300 million by 1974, as a result of the exchange rate adjustment and the determined efforts to promote exports.

There are certain export fields, however, which have not received due attention. Coconut products and forest products, which together account for nearly half of total exports, have suffered from neglect and a lack of clear direction in Government policies. There is an urgent need for a national program of expansion and rehabilitation of coconut production and the rationalization of the forestry and wood industries beginning with a redefinition of the whole forestry management policies of the Government. This would fit in well with the shift in agricultural strategy which is now being planned by the new leadership in agriculture.

To conclude, the prospects for long term growth of the Philippines remain good, notwithstanding the likely persistence of financial difficulties for some time. The outlook for exports is particularly encouraging. But in the next few years, before the debt problem is brought under control, the mobilization of domestic resources for development, especially in the public sector, and careful economic management would be critical. But if the past year is any indication, there is no doubt that the economic leadership of the Philippines would rise to the challenge.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Statement of Secretary Cesar E. A. Virata

May I be allowed to digress for a short while and convey our appreciation to the World Bank staff for their Report on the Philippine economy. Appreciation of their work stems from our awareness of the strong time pressure that attended the preparation of the comprehensive and, in a number of points, critical Report. We note the critical aspects of the Report in the light of the constructive spirit that evidently motivated the entire work program.

In regard to the item on our agenda, I think we can add very little to the analysis of the World Bank staff on the prospects of the economy and the need for external financial assistance of the Philippines. As we understand the Report, the conclusions derived from their analysis may be summarized as follows:

1. The prospects for expansion in production and growth in exports appear good.

2. The prospective growth of imports will increase at a "minimum" annual rate of 6.8 percent during the Plan period. The projected imports will allow investment to grow at only a slightly faster rate than GNP and imports of investment goods to increase by 11 percent between 1969 and 1974.

3. With the projected modest increase on imports and growth in export earnings, the economy will still require annual capital inflows of about $500 million a year during the Plan period. Nine-tenths of the total gross inflow will be offset by debt service payments and the resulting net transfer of foreign funds will average less than $50 million a year.

4. The capital inflow requirements reflect the complex debt problem engendered not by the total amount of outstanding debt but, rather, its large component of short maturities. The distorted structure stemmed largely from heavy reliance on private trade credits in the past. This gave rise to substantial but not intolerable debt service burden.

5. The terms on which external capital are made available to the Philippines will be crucial to the future growth and stability of the economy. Unless the country obtains a larger inflow of capital on terms more favorable than those of private commercial credits, the government might be forced to take a very short term view of both balance of payments and growth.

6. This underlines the need for more liberal assistance to the public sector, and more particularly a portion of the assistance should be in the form of long term commodity loans or quickly disbursing project aid.

Since the World Bank staff has provided us with a comprehensive report on the economy, I would like to address myself to a few issues that require some clarification. To start with, it was observed in the staff report that our stabilization program had an adverse effect on my country's economic growth and investments, notably, public investments, in 1970. In the light of the population and unemployment situation, this setback was particularly costly from a social standpoint. Unfortunately, such a slow-down was unavoidable for the following reasons:

Firstly, the stabilization program provided for contraction of Central Bank credits by $300 million or 8 percent between December 1969 and July 31, 1970; with credits to the government sector accounting for at least one-half of the contraction.

Secondly, the adjustment in the exchange rates increased domestic consumer prices in our country by 21 percent during 1970. This gave rise to a second generation effect of raising minimum wage levels and government current expenditures.

Finally, the combination of a higher than anticipated exchange rate and tight credit policy made it difficult for private business firms to meet their external loan obligations. A large portion of these obligations was guaranteed by government financial institutions. Since the stabilization program did not allow the Central Bank to extend additional credits, the government was constrained to set aside part of its limited resources to assist these financial institutions in meeting their guarantee obligations. The maintenance of the credit standing of these institutions is top priority.

During the latter half of the one-year stabilization program, an allowance was made for the restoration of one-half of the credit contraction, i.e. a credit expansion of ₱150 million was permitted. However, the natural calamities created claims on government funds for rehabilitation of destroyed infrastructure facilities and for replanting of agricultural crops.

In view of these serious financial difficulties, the government had no option but to cut back on its postponable expenditures because of competing demands for basic government services.

A major issue raised in the staff report is the need to mobilize additional tax revenues with which to finance government investment projects. In this connection, I would like to submit that my government has performed creditably during the past 3 years, increasing the revenue by 60% and the increase this fiscal year is over 24%. We realize the need for additional revenue and a number of bills are being considered to raise revenue by ₱269 million in the next fiscal year budget. The revenues of these our new tax measures are programmed to increase the capital budget.

We are following the pattern of the stabilization tax where revenues generated shall be used as counterpart funds to external financial assistance. This provides the incentive and a focus to the emphasis of the tax effort of the government.

In the light of our experience in the late sixties, Government economic policy has emphasized its export program as the leading sector for the future growth of the economy. At this time we are hoping that the non-reciprocal trade preferences to be given to developing countries will be implemented by the third quarter of this year.

The Government has also adopted policies and established administrative units for an improved management of our country's foreign borrowings and implementation of projects under such programs. This movement gained impetus from the enactment of a law last November that prescribed a limit on the debt service burden (20 percent of average foreign exchange receipts) for the country. To forestall the emergence of an intolerable debt service burden within the context of the law, my Government will not approve the availment of suppliers' credit that has a maturity period of less than 5 years. It will also limit the use of medium term suppliers' credit as much as possible to firms engaged in export activities.

In this connection, it may be worthwhile to mention that efforts of our Government to bring about an orderly program of foreign borrowings for the public and private sectors started as early as November, 1969. Exploratory work undertaken at that time indicated the need for a multilateral approach to the problem of improving the terms of credits made available to my country. As a result, my Government requested the World Bank to organize a Consultative Group for the Philippines for this purpose.

In support of the Philippines development program the estimated external financial assistance that my country requires during the next four years consists of:

a. Quickly disbursing external financial assistance in the form of commodity loans;

b. More liberal credit facilities for Government projects, e.g. ADB and World Bank Group blended loans; and

c. Credit facilities to the Government including long-term general purpose trade credits, which will lighten the economy's burden of meeting debt service obligations on supplier credits to the private sector.

In addition, I would like to state very clearly that since 1967 my Government has adopted the policy of defining more clearly the role of direct foreign investments; especially in industrial pioneer areas in the Philippines characterized by substantial capital requirements and sophisticated technology. It is generally recognized that foreign investments in these areas will allow further developments in the industrial sector without the corresponding foreign exchange outflow immediately. In accordance with the Investment Incentives Law, investment areas where desirable capacity buildup is necessary will be offered and liberalized accordingly.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

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PROJECTS AND AID COORDINATION ON SECTORAL PRIORITIES

Statement by Mr. Gerardo P. Sicat

National Economic Council

The sectoral priorities of the Philippine economy are contained in the Four Year Development Plan for Fiscal years 1971 to 1974. This document contains the basic sectoral goals for a) agriculture, b) related infrastructures like irrigation, transport, power, telecommunications and water supply and sewerage, c) education, d) industry, e) housing and public health maintenance.

In agriculture, the basic goals are the following: (a) to maintain the momentum in staples crop production and diversify into other feed grains, (b) to increase the production of protein-rich foods, (c) to improve productivity in existing commercial crops designed for exports and expand the new range of new commercial export crops, (d) to promote a more effective utilization of natural resources, and (e) to attain the above objectives in the context of other social objectives like land reform.

In the infrastructure program, our aim is to provide the basic economic infrastructure necessary to carry out other sectoral programs in industry, commerce, and agriculture, while balancing such objectives with the desirable promotion of regional dispersal of economic benefits. Infrastructure activities cover a wide variety of programs that affect not only the locational distribution of economic benefits but also the continuing claims of regions with already relatively well developed facilities because of previous developments.

Programs of irrigation development, road, ports, and other transport facilities, telecommunications, electrification and power, and water systems development relate to major sectoral programs which are engaged in direct production. It is a major point that without their early identifications, they will cause not a facilitation of development objectives but a stumbling block to such development. As a prelude to the identification of priority projects, a program of project feasibility studies is in order. Further, large projects require pre-investment and engineering studies to determine major costs and identify engineering problems. Such studies require the disbursements of scarce resources and point to external sources of funds when such are not domestically available.

We have identified financing requirements for agriculture, education, infrastructure, and industry in the document that we are submitting for consideration, Major Development Projects. The projects identified for agriculture represent a variety of pilot studies and feasibility studies designed not only to promote the major agricultural development objectives but also link them with social development, like the promotion of cooperatives and of land reform. Eventually, too, the sector program for agriculture finds itself highly linked with infrastructure development, like irrigation, transport and power. One might add that the basic rationale of rural electrification, for instance, is not only to find light for the night, but power for pumps and light industries.

Such requirements show not only the magnitude of our development objectives but also the basic statement of requirements where foreign external assistance is necessary. The graphic details of such statements will be presented later.

The projects in education are a natural result of the educational objectives contained in the report of the Presidential Commission on Education. They are designed to foster the development of a manpower complement which is responsive to our growth requirements and objectives.

Our program for the implementation of a population policy is contained in our development plan. Projects in tourism although not specifically enumerated in the Development Projects document, are partially integrated within our infrastructure program, such as for instance the Manila Bay road project.

The projects in industry are listed as private development projects. Yet it must be mentioned that power, transport, and communications projects are not independent of these private projects. Of the private sector projects, it must be pointed out that they are done so on an indicative basis. They will be elaborated later.

Before we go to more details, it is necessary to refer to one question: that of organizing external resources. In turn this points to the need for coordination among participant institutions and countries. This will facilitate specialization and complementation, rather than a duplication of efforts, in raising our domestic capability, not only in terms of resources generation but also in terms of organizational efficiency.

I am happy to note that on previous occasions, aid coordination has already been in existence, not only between the UNDP and the USAID in Manila, but also between a wider group of agencies. There is room for a lot more if our objectives are to be fulfilled. Some of the aid resources we have from UNDP and USAID are feeding directly into our requirements for feasibility and pre-investment studies. We certainly would want not only more intensified participations on their part but also an increase in the number of participant organizations and countries. Such efforts directly increase the number of bankable projects that are the essence of assistance we seek principally from the World Bank and the Asian Development Bank. In our attempts to program aid requirements, be it in UNDP assistance, USAID or in other bilateral programs, the objective of deriving coordinated aid reduces not only our own organizational investments but also conserves precious time and study on the part of those engaged in external assistance for us.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Statement by Mr. Paterno, Philippine Delegation

The preferred areas of industrial investment, both pioneer and non-pioneer, are listed in the Investment Priorities Plan annually formulated by the Board of Investments. The Fourth Plan, as with previous plans, defines preferred areas of investment, listing projects which are export-oriented, further process primary products, result in backward linkages, and produce capital goods.

The Fourth Plan was approved by the President in April, after this document was printed. The approval contained the condition that any foreign debt service requirement of the petrochemicals project listed in the Plan must be derived out of net foreign exchange earnings of the petrochemicals project through export of its products.

Each plan has listed projects with a specification of the new production capacity needed in the particular investment area. With each project approval, the capacity approved is subtracted from the initially listed amount of capacity. The investment area is deleted from the Plan when enough production capacity has been registered to meet the estimated demand for that product. In this manner, capacity regulation is achieved, to avoid overinvestment by the economy in unneeded production facilities, and avoid the overcrowding of industries that has taken place in the past. Thirty-nine industries have been identified as being overcrowded, and the Financial and Fiscal Policy Committee has taken steps to prevent new production capacity from being added in these industries until demand shall have risen to a point where new production capacity will be required.

The project listing in the Fourth Investment Priorities Plan provides an idea of the criteria which have been followed in delineating the investment areas which have been identified to be economically desirable and estimated to be commercially feasible. However, examination of the project listing may not sufficiently indicate all the objectives and some of the strategies that are proposed to be followed to channel industrial development into the most desirable directions in the forthcoming 4-year period.

There is a critical need for accelerating the generation of jobs in industry. Several specific actions are being taken to induce this development:

1. Progressive local content programs have been formulated, calling for a gradually increasing proportion of the components of certain products to be domestically manufactured. Such programs have been formulated for automobiles and for motorcycles. These programs aim to induce the present assemblers of these products to develop and assist small manufacturers with existing facilities to manufacture components to international standards and lower their costs of production, thus placing them in a position eventually to export these and other products requiring similar processes and production skills, possibly on a subcontracting basis.

2. Export trading firms are being encouraged to be established. The functions of locating and developing markets for specific products of existing enterprises whether manufactures or handicrafts are more efficiently and effectively undertaken by commercial enterprises marketing a number of product lines than by individual manufacturers with a narrow range of products who probably do not have the necessary skills and organization for export marketing. There is already a variety of manufactured products that have been exported in 1970, but in rather small volumes so far. These provide the beachheads for export traders.

3. Investor consciousness needs to be awakened and investments promotion, particularly for export projects, needs to be carried out in the areas outside of Manila. The Board of Investments has initiated such an investments promotion program last December. It has been found necessary to draw up feasibility studies for small scale projects in order to be able to inaugurate concrete investments activities. An agreement for technical assistance to the Board of Investments was executed today with UNDP and with World Bank as executing agency. The technical assistance will be employed in the review of performance of previous priorities plans, the strengthening of project investigations, the preparation of more intensive pre-feasibility studies for several of the major projects and programs in the IPP, and the examination of various measures to maximize the contributions of key manufacturing sectors to the economy. The listing of products for potential exports is contained in the 2nd Export Priorities Plan, which with the rationale of this Plan are discussed in the Philippine document.

As has been said elsewhere, industry is a private sector activity. Desirable directions for industrial development have been defined by the Investment Priorities Plan, but this is only an indicative listing of projects, and incentives are provided to attract investments in these projects. The suggestion has been made that government should plan a more direct and active role towards bringing about the establishment of projects which have greatest benefits to the economy, and in the case of the largest projects initiate feasibility studies and organize prospective project participants into a group which would actively consider the project and help shape the project even at the stage of the feasibility studies. This is now being done on two projects - copper smelter and primary steel. The formation of these investor consortia should contemplate eventual invitations to prospective foreign direct investors, as the resulting studies more clearly define the optimum role of foreign investment.

One criterion that we are observing particularly for capital-intensive projects is that the scale and the design of the project must be such as to put the project in position to export a portion of its output against international competition. The limited size of the domestic market does not in many instances allow establishment of capital intensive projects which are internationally competitive unless a portion of the first several years' production is to be exported. However, this criterion of international competitiveness must be observed, for to do otherwise would burden the economy with high costs of primary materials for industry and seriously impede the export orientation of secondary industries which must be achieved as early as possible.

The capital expenditures in the forthcoming five years for the projects in the Investment and in the Export Priorities Plans are estimated to total US$508 million and ₱2.2 billion. The basis is not as firm for estimating capital expenditures to establish new capacity in private industrial and public utility enterprises which are not registered with the Board of Investments, but this may be estimated at US$420 million and ₱1.7 billion, so that the estimated foreign exchange capital expenditures for the private industrial and public utility sector requiring long-term financing would total US$928 million for the forthcoming five-year period.

Considering the annual payments by the economy of interest and amortization to service existing foreign exchange obligations plus those on new debt to be incurred; in view of the larger size of private sector capital expenditures compared to public sector projects; and realizing that in the past such expenditures for overseas equipment and services have been largely financed by supplier credits, the need will be appreciated to consider measures to assist in lightening the burden on the economy in meeting debt service obligations.

Such measures might include government-to-government commodity loans. In addition to agricultural commodities now being financed by such loans several industrial commodities, forming the inputs to industrial plants, have been identified whose imports exceed US$5 million annually. These industrial commodities include polyethylene, polypropylene, synthetic textile fibers, dried milk powder, steel billets and slabs, and zinc metal. The expected combined annual imports of these mentioned commodities would exceed $100 million in each of the next four years, with steel slabs and billets forming about 60% of the total.

It is proposed that the industrial users of these materials continue to make payments for them in pesos at present commercial terms; government could use the funds thus generated until their repayment dates for pursuing one or more vital infrastructure projects specified in the commodity loan agreement, such as roads, portworks, irrigation, schools, and others. In this manner assurance would be gained that Philippine factories do not suffer from lack of inputs due to foreign exchange problems, while at the same time supplementary funding is obtained for domestic and indirect foreign exchange costs of infrastructure requirements.

ANNEX X

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

UNDP Activities in the Philippines

By

W. M. Harding, UNDP Resident Representative in the Philippines

I wish to first extend the greetings of Mr. Paul G. Hoffman, Administrator, United Nations Development Programme, to this first meeting of the Consultative Group for the Philippines. The UNDP believes that the action of establishing this group is extremely timely in respect to the development potential of the Philippines and the clear intentionsof the Government. The UNDP wishes to extend its sincere thanks to the IBRD for the initiative it has taken to help those assembled to organize to achieve recognized and mutually important goals.

At the meeting to consider the establishment of this Consultative Group, held in October 1970, the United Nations Development Programme submitted a detailed statement on its activities in the Philippines, particularly in relation to investment requirements. In order to avoid repetition, that statement is attached for the information of members as Annex A in our presentation today.

Three further projects which have since been approved or will be submitted for approval by the Governing Council of UNDP at its June 1971 meeting are:

PHI 23 - Philippine Coconut Research Institute (FAO)

PHI 39 - Export Promotion (UNCTAD)

PHI 43 - Highway Technical Assistance and Feasibility Studies (IBRD)

In addition, as mentioned by Chairman Sicat, feasibility studies on four ports projects will be initiated under contingency arrangements within the next few months.

There is a clear investment potential in all of these projects. Chairman Paterno referred to the role of the IBRD executed BOI project in maximizing private investment potential. It is our hope that the Export Promotion project will assist the Government to give attention to problems such as that referred to by the delegate from Switzerland. The highway feasibility study which will be executed by IBRD is directly related to a proposed IBRD loan.

The significant development in the United Nations Development Programme since the October meeting of the Group is the initiation of the new system of "Country Programming" of UNDP inputs under "Indicative Planning Figures" for periods of up to five years. This procedure is being adopted as a result of the now well known Governing Council Consensus of June 1970, subsequently approved and adopted by the Economic and Social Council and the General Assembly.

The Government of the Philippines has decided to take immediate advantage of these new procedures and the preparation of its Country Programme for submission to the Governing Council in January 1972 is already in a well advanced stage. The principles, procedures and time schedule of this exercise are outlined in Annex B. It is a matter for satisfaction to report that the deadlines of the very tight time schedule are being met.

Subsequent to the preparation of Annex B, the Philippine Government has decided to program its UNDP input for the full five-year period, 1972-1976 inclusive. This will be supplemented by an Annual Review which will be coordinated with preparations for the Consultative Group Meetings.

The Indicative Planning Figure (IPF) established for the Philippines for these five years is US$20 million. Commitments for continuing projects amounting to approximately $5.5 million represent a first charge against the IPF; the Government will therefore have some $14.5 million available for programming of new UNDP inputs.

It would be premature to speculate on the content and emphasis of the Country Programme now in preparation. It is not unlikely, however, for considerable pressure to develop for the inclusion of detailed feasibility and engineering studies, projects at the so-called action end of the pre-investment cycle. This may be deduced from the ambitious and highly commendable investment program of the Government, as outlined in the document "Major Development Projects", the needs of which will form a serious part of our joint thinking in the preparation of the Country Programme.

I would like to take this opportunity to comment on the pre-investment role of UNDP. Our interest in pre-investment is well demonstrated: it was the raison d'etre of the Special Fund Programme. In its broadest sense pre-investment can be conceived as embracing all forms of technical co-operation designed to stimulate new investments as well as to render existing investments more effective. Thus, at one extreme an adviser in the development or strengthening of an institutional framework for, say, telecommunications planning, and the training of local personnel of such an institute is a pre-condition for new investment as well as for realising the full potential of existing investments in this field. At the other end of pre-investment activity is the design study for the telecommunication network or for a road, a port, or a sewerage system.

An effective and continuing development process requires a careful and balanced allocation of scarce technical expertise at all critical points of the pre-investment cycle. Too much emphasis at the beginning of the cycle may endanger urgent investment needs while concentration at the end of the cycle may equally create a vacuum in the investment pipeline.

Any pressure to focus UNDP resources on the action end of pre-investment arising from the nature of Government's current investment program would correspondingly weaken UNDP's important role in assisting research, training, institution-building and other fields which are as essential from a long-term point of view as are the investment-oriented activities in the short run.

I consider it appropriate to make this point at this meeting for the following reason: The Government, relying heavily on foreign sources of finance to implement its investment program, will have to strike a delicate balance between commercial and concessionary type loans not only to minimize the debt repayment burden but also, indirectly, for the optimum utilization of UNDP resources. To the extent that commercial type loans have to be incurred, there will be a pressure to use UNDP grant funds for investment-oriented feasibility studies, including design studies. This could seriously inhibit UNDP activities of a longer range character.

There is one other matter on which I wish to comment. In the October 1970 meeting we went to some effort to explain an ambitious program of development which Government was contemplating as a result of the United Nations study of the Laguna de Bay region which Chairman Sicat outlined in his presentation. We were at that time proposing a "Funds-in-Trust" arrangement in order to obtain grant funds for further studies connected with this unusual resource with high multi-purpose development potential. Events have overtaken us on this proposal. Country programming now provides the means for using UNDP resources for these studies. The Funds-in-Trust proposal has therefore been somewhat relegated to the background for the time being. Your interest and support in financing the investments associated with the project are, however, as urgently required as ever, and you will have noted that the Government has included the Laguna de Bay complex in its document on Major Development Project.

Finally, I wish to associate the UNDP with the proposal of the Chairman in his Opening Statement that the Government take some initiative in the entire matter of foreign aid coordination at the country level. This Consultative Group will make a very useful contribution to coordination of capital inputs. The Country Programming Exercise will be useful in co-ordination of technical cooperation and pre-investment inputs. The annual reviews of these inputs will assist in the coordination of pre-investment and investment plans.

In the final analysis, however, the responsibility for coordination of external inputs lies with the Government. Further, the most effective location for this coordination is in the country itself.

It is significant to report to this meeting that the Government has taken some initiative in this matter in connection with the Country Programming Exercise. The UNDP Resident Representative has been asked by the Government to keep the bilateral representatives in the Philippines informed of the purpose and nature of this exercise. This is an important step towards improved coordination.

UNDP Activities in the Philippines & their Relation to Investment

W. M. Harding, UNDP Resident Representative in the Philippines

The UNDP and UN family programme in the Philippines touches most sectors of the economy and has gone into considerable depth in a number of these, some with a fairly early need for investment follow-up.

The total investment in technical assistance from 1960 to 1970 inclusive will total approximately US$ 9 million. In the Special Fund sector a total of 21 projects, to a value of over US$ 18 million of UNDP contribution, have been approved by the Governing Council. Seven of these have been completed, another five are near completion, five are ongoing and the other four are at the start-up stage. A number of others are in the pipeline, at least two for consideration by the January 1971 Governing Council.

Substantial and significant TA inputs have been injected through SIS in recent years.

Spending of UNDP funds on an annual base is now upwards of US$ 5 million.

World Food Programme assistance has been injected into fifteen projects and is valued at US$ 7.5 million. Substantial inputs have also been made by UNICEF and from the regular budgets of the Specialized Agencies.

For the purposes of this paper comments about the programme are limited to those aspects either in operation or in prospect, which have more or less immediate investment follow-up implications.

Agriculture & Natural Resources

The programme in agriculture and natural resources has been concerned with animal production and health, soil fertility and classification, plant protection and production, marketing, agricultural and credit and co-operatives, irrigation development, inland, coastal and deep-sea fishing, forestry and watershed management.

The current emphases of the programme, which have major significance for investment, are on studies of groundwater for irrigation, exploration of tuna resources, development of fish farming, training of technicians for the grain drying, storage and processing industry and coconut research, particularly disease control. The training of technicians for the grain industry is directly related to an IBRD loan for the construction of drying, milling and storage facilities. Groundwater research is clearly related to IBRD investments in development of the Upper Pampanga river basin. Private investment opportunities may emerge in deep-sea fishing activities depending on the outcome of intensive investigations now underway. Rationalization of the coconut industry will require considerable investment depending on the studies which are now underway and which should be strengthened by a Special Fund input hopefully starting next year. Fish farming activities, presently aided by both technical assistance and WFP assistance, may give promise for considerable investment.

Past studies and assistance on livestock, both production and health, have logically led to an FAO/IBRD Mission to investigate loan potentials in this sector, presently scheduled for October 1970.

Major investment requirements will develop with the general restructuring of the agricultural sector per se. The concern of the rural community and the Government for land reform is very high. Technical assistance has been and is being given in many of the related fields. The substantial restructuring which seems indicated will require very considerable capital investment and funds for working capital.

Similarly with forestry. Basic studies have been completed and technical assistance will continue. Restructuring of the industry and protection of the resource will call for substantial investment both from the public and private sectors.

Industry and Mining

The major input of UNDP has been to strengthen the Government institutions. At the planning and priority level the Board of Investments will be backstopped, hopefully, by a Special Fund Project executed by IBRD. At the resources development level, a Metal Industry Development Center will be established with the assistance of another Special Fund Project to be executed by UNIDO. The manpower level is presently the concern of an ILO executed Vocational Training Special Fund Project. Finally, another Special Fund Project in the pipeline, which will assist in the establishment of a National Testing and Standards Center, will be concerned with the quality control element.

These current projects supplement and complement earlier projects such as the Institute of Applied Geology and the Survey of Coal Resources in Mindanao. In addition, extensive assistance has been and is being given by UNIDO under SIS and by the United Nations in marine geology, exploration geology, marble development, steel, chemicals and in industrial development generally.

The Programme is comprehensive and closely related to Government priorities. Investment opportunities will be enhanced and will flow from the private sector assisted by a well-balanced organization of Government institutions culminating in the Board of Investments.

Transportation

A Special Fund Transport Survey assisted the Government to establish priorities in this field and investment for some of the priority road projects is going to be negotiated with the IBRD and ADB. Additional pre-investment studies on roads are now being considered. Further studies on port facilities will soon be initiated to provide a valid basis for further investment in this sector. Concurrently IMCO is assisting Coast Guard authorities in more efficient administration of inter-island shipping. The Regional Transport Survey being executed by the Asian Development Bank will assist in identifying the overall investment requirements of the Philippines as a member of the region.

Power

The Special Fund pre-investment study on power requirements and potentials in Luzon has not been fully utilized as an investment guide, probably partly because of the concern of the project for nuclear power and the general sophistication of the report.

Government is now reviewing the possible potential of geothermal energy for power production and may request assistance in this field.

Telecommunications

A Special Fund Telecommunication Training Institute was conducted for five years, ending in 1968. Presently three ITU technical assistance advisers (organization, planning, and microwave) are working with the Government with the assignment of setting up a National Telecommunication Planning Board. The logical next move would be the development of a Master Telecommunication Plan. Such a proposal is on the list of Government priorities for Special Fund Assistance.

Water Supply Sewerage

"A Master Plan for a Sewerage System for the Manila Metropolitan Area" has recently been submitted to Government as the final report of a WHO-executed Special Fund Project. There is now an urgent need for the engineering design of a first stage construction programme. This is high on the Government's list of priorities for further assistance and is presently estimated at US$863,000 UNDP contribution. The total cost of the construction for the first phase is currently estimated at US$27.3 million. The urgency of this project, as well as drainage and flood control of the greater Manila area, cannot be overemphasized, as evidenced by recent human and property damage.

Education

A Government Commission, assisted by advisers provided by the Ford Foundation, is currently completing a study designed to prescribe structural and content changes for the entire educational system of the Philippines and to identify the technical assistance and capital requirements of the proposed changes. It is expected that UNDP will be requested to provide a UNESCO Educational Planner to assist in the bridging operation from the Commission's report to the development of concrete project proposals. It is too early to forecast the investment needs but it is obvious these will be substantial.

Housing

Advisory services have been provided in low-cost housing, housing finance and housing policy development. The Special Fund assisted Institute of Planning of the University of the Philippines maintains a continuing interest in the housing sector as an important element of regional and urban development. Some consideration is now being given to a more specific and appropriate input for further development of the housing sector.

Health and Welfare

An extensive program on general health services is continuing, with coordinated UNDP, WHO and UNICEF assistance.

Advisory services are also being provided through a WHO project devoted to improvement of community water services in the outlying cities and towns of the Philippines.

REGIONAL DEVELOPMENT

One Special Fund Project for which the Final Report is now in preparation is worthy of mention at this meeting. This is the Feasibility Survey of the Laguna de Bay Complex.

Laguna de Bay is the largest freshwater resource in the Far East. Its area is 90,000 hectares. It occupies 30 percent of the area of Laguna and Rizal provinces in Luzon. It is immediately adjacent to metropolitan Manila where population is expected to grow from 3½ million to 20 million by the year 2000. The protection development and utilization of this resource and the region of which it is a part is clearly a matter of prime national interest. Further, there is a particular urgency about this development because of the obvious possible misuse and destruction of a very sensitive resource if development and use is not fully rationalized.

During the project period the Government has established a Laguna Lake Development Authority with wide powers and with regional development responsibility. The authority is fully supported by both Rizal and Laguna provinces and by many of the municipalities therein. It is staffed and funded by local resources. The Authority has already started activities and investments in fish farming, truck farming and industrial estate development.

During the course of the study it became clear that the hydraulic control of the lake was a feasible proposal and, if this was done, that a number of economically viable developments would follow.

The first step, therefore, is the control structure - a 12-meter gated spillway dam and navigation lock on the Pasig River at its junction with the Marikina River and Napinden Channel. This will both prevent the inflow of saline and polluted water and control lake levels.

Prior to construction three pre-investment studies are required:

1. Control structure design studies;

2. Irrigation feasibility study;

3. Water quality and management and water supply study.

USAID has begun implementation of the irrigation feasibility study. The three studies are estimated to cost from $1.0 to $1.2 million. The control structure itself is estimated to require capital investment of $3.5 to $4.0 million, of which the foreign portion would be 40 to 50 percent.

These three studies have been grouped into the first phase follow-up because they are so closely related. The feasibility of the control structure is directly related to irrigation potential, water quality and water supply. The Feasibility Survey estimated a ₱7.6 million net annual benefit from the irrigation of 12,000 hectares of lands of prime suitability and a savings of ₱200 million over the next least costly alternative supply of water for Metropolitan Manila until the year 2000.

It is imperative, therefore, that the control structure design and the water study be initiated without delay. It will require two to three years to construct the control structure, eighteen months beyond that for the water to become fit for irrigation and another minimum eighteen months for the water to be of acceptable standard for human consumption. Furthermore, with a rapidly growing population the resource itself is already under pressure and every month of delay will clearly lengthen the period for cleaning up the lake even longer.

The second phase consists of technical assistance and pre-investment studies of potential developments which become feasible once the control structure is proved up in the first phase. These studies would be initiated as soon as the first phase has reached the stage where clear decisions could be made - hopefully in late 1971. The pre-investment studies of the second phase are as follows:

1. <u>Industrial Estate Development.</u> In a pre-feasibility study of an industrial estate of 360 hectares the cost of development was estimated at ₱50 million and the internal rate of return at over 50 percent. The estimated long-range requirements to 1990 is 2,500 hectares of industrial estate. The cost of this pre-investment study is estimated at $350,000.

2. <u>Warehouse and Cargo Transfer Center.</u> This would permit bypassing the traffic congestion of Manila and rationalizing both warehousing and movement of cargo. The pre-feasibility study proposes a 650 meter dock and 52 hectares of warehousing complex at an estimated cost of ₱35 million. The IRR is 60 percent. The cost of this pre-investment study is estimated at $200,000.

3. Land Reclamation. Shallow areas on the margins of the lake offer prime considerations for reclamation for agriculture and fish farming. Pre-feasibility studies were conducted. Reclamation appears to be financially feasible in spite of difficult soil conditions. Pre-investment studies are estimated to cost $300,000.

4. Agro-business. Pre-feasibility studies indicate a good potential for a much more highly market oriented agriculture around the lake. The proposed pre-investment study, estimated to cost $150,000 would examine in depth requirements for an animal feed production installation and for added processing of foods for the rapidly growing Manila market.

5. Steel Billet Plant. The Government plans, within the next 10 years to initiate construction of a 1,000,000 ton integrated steel-making facility. Meanwhile the price of billet steel in the past two years has increased from $80 to $120 per ton. The pre-feasibility study proposes a 100,000 ton electric smelter and steel billet plant to serve the local bar and rod producers. This appears profitable and sound. The pre-investment study is estimated to cost $100,000.

6. Mangahan Floodway. Flooding of Manila is largely caused by the Marikina River, a tributary of the Pasig, generating flows up to ten times the capacity of the Pasig. This could be controlled by a diversion channel known as the Mangahan Floodway. The floodway would cost ₱50 million, the overall drainage and flood control measures ₱300 million. Estimated cost of the total drainage pre-investment study is $180,000.

7. Technical Assistance

a) Advisory Consultant Services - to help scope and define the proposed study programs, estimate cost and otherwise advise in developing each programme at an appropriate time and manner.

Estimated Cost: $750,000

b) Pilot Programs in Agriculture - in cooperation with U.P. College of Agriculture and IRRI, to study potentialities of large-scale land reclamation and reorientation of existing agriculture towards production of crops such as sorghum, soybeans, corn and truck garden types and away from purely sustenance crops.

Estimated Cost: $350,000

c) Pilot Programs in Fisheries - the lake supports about 7,500 fishermen and the yield is only 400 kg. per hectare. A variety of pilot programs are suggested for increasing overall yields and for increasing returns through better marketing.

Estimated Cost: $350,000

d) Regional Transport and Planning - the LLDA has been given regional planning responsibilities. These must be fulfilled in cooperation with the relevant Government agencies. The studies proposed would be regional framework type studies so that local planning agencies would have a sound basis for decision making on short and long-range endeavours in development planning, control and new construction.

Estimated Cost: $950,000

Summary

Phase 1 Follow-up	Pre-investment cost	Investment
1. Control structure designs	$400,000	$3.5 to 4.0 million
2. Irrigation feasibility study	$350,000	
3. Water Study	$400,000	
Phase 2 Follow-up		
1. Industrial Estate Development	$350,000	$8.0 million
2. Warehouse and Cargo Transfer	$200,000	$6.0 million
3. Land Reclamation	$300,000	No estimate
4. Agro-business	$150,000	
5. Steel billet plant	$100,000	
6. Mangahan Floodway	$180,000	$8.0 million
7. Technical Assistance		
Advisory services	$750,000	
Pilot programs - agriculture	$350,000	
Pilot programs - fisheries	$350,000	
Regional studies	$950,000	
	$4,830,000	

Government has requested UNDP to assist in establishing a mechanism for the conduct of this essential follow-up work. The scope and magnitude of the task place it beyond the resources normally available for a follow-up Special Fund project. It is proposed, therefore, to request the assistance of bilaterals for the financing of the follow-up in view of the obvious high potential of the area for investment in economically viable and socially productive projects of prime national importance.

The proposal of Government is to establish a Funds-in-Trust arrangement under the Administrator of the UNDP to which funds could be allocated by the Government of the Philippines and by other Governments which accept the invitation to cooperate in the endeavor. UNDP would then implement the planned program in a systematic orderly manner.

The UNDP administration favors this proposal and is prepared to provide the leadership necessary to formulate a clear-cut proposal for the consideration of the Governing Council. We would expect the proposal, with all necessary documentation, will be available early in 1971.

For practical reasons it may be necessary to exclude phase one of the follow-up from the Funds-in-Trust arrangement. As mentioned earlier, USAID has already started on one of the three projects of phase one. There is great urgency to initiate the balance of these phase one studies. The time required to establish a viable Funds-in-Trust arrangement and to submit this to the Governing Council would not meet the urgency of the situation.

It would be extremely useful to the Government and to the UNDP if some indication of support in principle of this proposal could be obtained.

ANNEX B
(to UNDP Statement)

PRINCIPLES AND PROCEDURES FOR

COUNTRY PROGRAMMING IN THE PHILIPPINES

INTRODUCTION:

The underlying principle of the Country Programming Exercise (CPE) is that the basic responsibility lies with the Government for initiating and producing the Programme. The corollary of this is that the United Nations system will fully cooperate with Government throughout the exercise, under the leadership of the UNDP Resident Representative, in a spirit of mutual trust and confidence.

The Government of the Philippines has decided:

1. that it wishes to prepare a programme covering the same period of time as its Development Plan - four years;1/

2. that it wishes to programme all elements of UN assistance, not only that portion to be financed by UNDP;

3. that it wishes to conduct the exercise, in the first instance, with assistance limited to expertise and advice available locally; i.e. local, bilateral and international personnel working in the country;

4. that the normal planning and coordinating machinery of Government will be used for the CPE, with the National Economic Council as the central authority;

5. that a United Nations Adviser will be attached to the National Economic Council to assist and advise in the CPE, in addition to his other functions.

The Government will thus work, on its side, with the continuous advice and assistance of a UN Adviser who will be responsible for the preparation of draft documents and working papers. The advice and guidance of the UN system will be coordinated through the UNDP Resident Representative who will establish a working committee of Agency representatives, including selected Project Managers and Advisers, to best present the available capacity and expertise of the UN system to the Government. This Committee will meet at every stage of the process and agency representatives will be fully involved in all discussions of their respective agency. Other Project Managers and Advisers will be utilized on an ad hoc basis as required.

Coordination for the entire exercise will be effected through the Chairman of the NEC and the UNDP Resident Representative.

1/ Whether this should be January 1, 1972 to December 31, 1975, remains to be determined as the Government plan period is on a fiscal year basis (July to June) and is now being "rolled" annually to better utilize the mechanism of the recently established IBRD Consultative Committee for the Philippines.

PREPARATION OF BASIC DOCUMENTS:

Three basic documents will be required to establish the parameters of the CPE and to identify the major criteria for the subsequent selection and phasing of projects.

1. Background Information

A paper providing background information will be required. This will be a brief description of the physical, economic and social characteristics of the country. It will be largely derived from the latest IBRD report and other material immediately available. It will become the introductory chapter of the Country Programme and will be the basic information framework against which the proposals of the Country Programme will be assessed, both during the process and by the Governing Council. An outline for this paper is attached at Annex I.

2. Objectives and Priorities

The Government will also prepare a brief statement of the overall objectives of the Government's development plan. This would be derived from the Plan, the State of the Nation Speech, the documentation prepared by the IBRD Consultative Committee and other relevant documentation. Necessary qualifications based on judgements of past experience, social stability factors, political timing, etc. will be required. This statement would be very general and multi-sectoral, dealing with such things as GNP growth rate, export-import objectives, population/human resources policy, quality of life objectives, income distribution objectives and the like.

The overall objectives would be spelled out in more detail in a supplementary statement in which the priorities of Government during the plan period are specified within the overall objectives, e.g. the objective may be export promotion within which the priority may be increasing coconut exports.

This statement would become the second chapter of the Country Programme document. It will provide one of the basic sets of criteria against which all project needs which are later identified by the CPE would be checked.

3. Principles for Selection

It will also be necessary to prepare a list of principles for selection which will later be applied to identify those required inputs which are most appropriate for UNDP or UN system financing.

PREPARATION OF WORKING PAPERS

In addition to the above basic documents the following working papers will be required for various stages of the CPE. In total these are intended to identify and organize the needs or gaps which require inputs of one kind or another.

1. Pipeline Projects

One of the clearest indications of the "felt needs" of Government is the so-called "pipeline". Over the years needs have been identified and requests for projects have resulted. For various reasons projects have not resulted. However, this is clearly the time to reassess these requests within the framework of the Country Programme and to subject these to the same scrutiny as will be given to new proposals. Thus a list of pipeline projects, with a brief description of each, will be required.

2. Unimplemented Recommendations of Previous Projects

Similarly, recommendations from previous project studies are an expression of "assessed needs" for development. To the extent possible these recommendations should be extracted from the various reports and fed into the process for review and scrutiny.

3. Ongoing Projects

Ongoing projects represent the clearest indication of the needs of Government for external assistance. These too must be identified, evaluated and subjected to careful scrutiny within the framework of the overall Country Programme.

4. Pre-Investment Needs

The Government has prepared an investment programme for the coming five years and, within this, there are sizeable requirements for pre-investment studies. As appropriate, pre-investment studies will be added to the pipeline projects when identified.

After review of the above working papers, which will obviously involve some additions and deletions when subject to careful scrutiny, the entire group of required inputs indicated in the working papers will be combined into one master list organized on a sectoral basis. A common format for the presentation of the material in Working Papers will therefore be required: this is provided in Annex II A (for approved projects) and Annex II B (for proposed projects).

5. A list of all regional and inter-regional projects will also be prepared. The purpose of this will be to ensure that national requests do not overlap services available from the outside.

6. Services provided by bilateral, foundation and other sources will also require identification to avoid overlapping.

THE PROCESS

Basic documents and working papers will be reviewed, revised and approved by the NEC after receiving comments from the UN system committee.

When the consolidated working paper identifying needs by sector is ready the UN system will prepare comments for Government's consideration and for this all locally available expertise will be utilized.

The sectoral reports which are thus arrived at, after review by NEC and appropriate Government agencies, will form the basis of the first draft of the substantive chapters of the Country Programme.

At this stage it is proposed to formally contact all Executing Agencies to obtain the comments of their various substantive branches. Informal contacts with other aid donors will also be valuable at this stage.

When all comments have been received then the criteria established earlier, i.e. the basic documents, will come into play. They will be used to select the projects of various orders of priority.

The final draft of the Country Programme will then be prepared.

The diagram on the following page illustrates the process envisaged. The time schedule, based on the target date of September 1 for submission of the Country Programme to UNDP Headquarters, is also indicated.

Attachment to Annex B of
UNDP Statement

Deadlines	Adviser	Government National Economic Council with appropriate consultations as required		United Nations UNDP Resident Representative with Agency Representatives
1 April	Advise and Assist →	Preparation of Basic Documents 1. Basic Information 2. Objectives and Priorities 3. Principles for Selection	←	Comment and Consult Advise
1 May	Advise and Assist →	Preparation of Working Papers 1. Pipeline Projects 2. Unimplemented Recommendations 3. Ongoing Projects 4. Pre-investment Needs 5. Regional, Inter-Regional projects 6. Bilateral, Other Inputs	←	Advise and Consult
15 May	Advise and Assist →	Consolidated Working Paper on Sectoral Basis	←	Advise and Consult
1 June	Advise and Assist →	First Draft Country Programme	←	Advise and Consult ↓ Distribute to UN Agencies ↓
10 July	Advise →	Receive Comments	← Transmit Advise	Receive comments
20 July	Advise and Assist →	Final Draft Country Programme	←	Advise and Consult
1 August	Advise and Assist →	Final Review and Revision	←	Advise and Consult
1 September		Printing Final Draft Submit to R.R.	→	Submit to UNDP, Agencies

ANNEX I
(to UNDP Statement)

BACKGROUND INFORMATION

(CHAPTER I OF THE COUNTRY PROGRAMME)

OUTLINE

1. Location and Topography
2. Climate
3. Natural Resources
4. Cultural Background
5. Language
6. Government Structure
7. Population
8. Economic Situation

ANNEX II
(to UNDP Statement)

UN SYSTEM ASSISTANCE

A - SUMMARY OF APPROVED PROJECTS

1. Project Title and Code No.

2. UN/Government Agencies concerned and source of UN financing.

3. Brief description of the Project, Justification, Objectives.

4. Inputs UN$000 Government ₱000
(Please indicate full details of inputs on reverse of this sheet)

5. Operational Status:

   a. Actual/proposed date of commencement

   b. Duration

   c. Progress made, problems encountered/anticipated, solutions suggested.

6. Relationship of the Project to completed, approved, or proposed UN and other projects.

7. Future of the Project. (State here any recommendations already made or foreseen for follow-up of project with external/government resources, on termination of project activities. In particular, refer to any pre-investment studies that may be necessary and prospects for investment generation resulting from project activities).

8. Details of inputs. (List experts, counterparts, fellowships by title, m/m and recruitment status. Include details regarding equipment, transport, office space, secretarial facilities).

ANNEX II
(to UNDP Statement)

UN SYSTEM ASSISTANCE

B - SUMMARY OF PROPOSED PROJECTS

1. Project Title.

2. UN/Government Agencies concerned and proposed source of UN financing.

3. Brief description of the Project, Justification, Objectives.

4. Proposed Inputs UN$000 Government ₱000
(Please indicate full details of inputs on reverse of this sheet)

5. Proposed date of commencement

6. Relationship of the proposed Project to completed, approved or proposed UN and other projects.

7. Proposals for continuation of the Project after UN assistance is withdrawn.

8. Details of inputs (List proposed experts, counterparts, fellowships by title and m/m. Include details regarding equipment required, the availability of transport, office space and secretarial facilities).

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

STATEMENT ON U.S. PARTICIPATION IN THE POWER SECTOR

By the Honorable Roderic L. O'Connor-

Assistant Administrator for East Asia

Mr. Chairman:

On behalf of the U.S. Delegation I would like to lend our strong support to your comments about the need for new techniques and procedures for coordination of economic assistance to the Philippines. We feel particularly strong about the need for such coordination in some of the investment sectors highlighted in the Philippine Government's presentation here today and as reflected in the listing of proposed development projects.

Of most immediate interest in this regard to the U.S. is development of the power sector. We are pleased to see that special attention is being given to the power sector. I am particularly pleased to see that both the IBRD and the ADB will start discussions in Manila on the development of the Luzon and Mindanao grid systems in June of this year.

The United States anticipates a bilateral U.S. aid level in FY'72 in the magnitude of \$50-55 million. \$20 million of this assistance consists of proposed development loans on concessional terms, to assist in financing a program of electrification for the rural areas we plan to start discussions on the first tranche of this loan within the next few weeks. Our assistance for FY'72 and any other additional development loans in the future is of course contingent on U.S. Congressional action and completion by the Philippine Government of a program for utilization of this assistance including the development of a detailed project which would be financially sound and economically viable.

The thrust of our proposed assistance in the area of electric power will be directed towards electrification of the rural areas, patterned after the two pilot electric cooperative projects which are scheduled to come on line this year.

We understand the Philippine Government has allocated ₱50 million to be generated by this year's \$20 million PL 480 program, for the peso costs of constructive co-ops and a similar amount is planned to be allocated from the anticipated PL 480 for FY'72.

In reviewing our interest in electrification, I would be remiss if I did not stress the importance we place on development by the Philippine Government of an integrated National Electrification Plan.

A considerable amount of detailed feasibility work and systematic planning has been done in the power sector in the Philippines over the course of the last five years. However, despite the excellent quality of much of this work the power sector program has suffered from the lack of integration of these studies into an overall plan.

From the U.S. viewpoint proceeding with a rural electrification program without development of such an integrated National Plan would be unwarranted. Central station generation, and extension of transmission facilities, is integrally tied with the development of a large portion of the proposed rural distribution systems and is central to any long term effort to electrify smaller municipalities and rural areas in the Philippines.

When I speak of the coordination required for achieving an acceptable national plan, I refer to a number of distinct aspects of this coordination.

First, on the technical level we will be looking for integrated planning of the generation, transmission and distribution systems that will make up such a plan. In this context I hope consideration will be given by the Philippine Government, and the external donors, to a fuller working meeting in Manila soon, between the Philippines and the interested donors that will allow participation by technical experts in the field of power. These experts can focus on the specifics of an integrated electrification plan that are beyond the capability of this Consultative Group meeting to consider today.

Secondly, to clearly delineate the operating responsibilities within the Philippines, there will need to be much closer co-operation between the various public sector institutions such as the National Power Corporation and the National Electrification Administration. Additionally, there will need to be more coordination between the public sector institutions and the private power groups such as the Manila Electric Company, the private electric power operators and the growing group of electric co-ops.

Finally, implementation of an integrated plan of this nature, on a national scale, will in our view require close coordination and exchange of views between the Philippine Government and all of the interested external aid donors.

In commenting about the need for coordination in the technical, institutional and aid donor areas, I would like to indicate that we are greatly encouraged by the reports we have received in recent months as to the progress being made by the Philippine Government in pulling together available studies, selecting priorities and defining the respective roles of the various public and private sector institutions involved in the Philippine power development. We therefore look forward to the Philippine Government's presentation at an early date, of a National Power Plan that will meet the needs of interested external donors including the World Bank, and of course ourselves. As I indicated, this will be necessary if the U.S. is to proceed with our proposed assistance in the rural electrification area.

As a closing comment on power sector development, I would like to commend the Philippine Government on the excellent new legislation passed a year and a half ago to establish a new National Electrification Administration. This legislation for the most part sets forth an excellent framework for the establishment of the institutional capability required to handle the long-term problem of nationwide electrification. However, I feel constrained to emphasise that a critical need exists to develop as rapidly as possible the administrative and organizational capability to bring the NEA into full bloom as an operating entity capable of effectively administering the rapidly expanding rural electrification program. From our viewpoint this institutional development is not only essential to effective implementation of our AID assistance but is in the long run the critical factor if an ongoing program in electrification is to be sustained over the 15 to 20 year period that will be required to accomplish this task. We view the 600 million peso initial rural electrification program - for which we understand financing has now been arranged, and with which AID is happy to be able to participate - as but the beginning of comprehensive electrification of the Philippines. We assume that if this program is efficiently carried out and if the National Electrification Administration develops into a strong intermediate lending institution that the program can be extended widely in succeeding years, making full use of international lending institutions for foreign capital.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Statement of the Honorable Roderic L. O'Connor

Assistant Administrator for East Asia

Mr. Chairman:

On behalf of my Government I wish first to express my pleasure for the interest shown by other nations and international institutions represented here today in establishing a Consultative Group for the Philippines; and, secondly, to commend the Government of the Philippines for its excellent performance toward overcoming its economic adversities. In the half-year that has passed since we first convened to explore the formation of a Philippine Consultative Group, we have witnessed a continuation of the highly commendable performance already demonstrated, at that time, by the Philippine Government. In this respect I should like to associate myself with our Chairman's comments regarding the high quality of the economic leadership being provided by Secretary Virata and his very able colleagues. We believe the performance of this team in carrying out the sound policies of President Marcos is an important ingredient in gaining and maintaining the confidence of the international financial community which can, and I hope will, do so much to assist a soundly conceived economic development program of the Philippine Republic.

The Philippine Government can be justifiably proud of its accomplishments. It has sharply reversed the negative trend of its trade balance and eliminated the severe trade deficits of recent years. Domestically, the budgetary situation has dramatically improved from both the expenditure and receipts side. Progress has also been made in restructuring GOP external debt although, as the Bank's excellent report points out, this will remain a severe problem for some years to come. The balance of payments and debt structure problems were important elements in the limitation of Philippine growth to 4.4% in 1970. As the Bank report makes clear, this will be a continuing problem and sources of funding for Philippine economic development must be one of the important considerations of the Group. Equally commendable is the intensity with which the Government continue to pursue its development goals despite the many difficult obstacles encountered along the way, not the least of which were the destructive floods and typhoons of last November.

In the light of this excellent performance, my Government is happy to be able to increase its level of assistance to the Philippine Government within the context of this Consultative Group, the establishment of which we warmly welcome.

United States economic assistance to the Philippines has already increased from $20 million in fiscal year 1969 to $29 million in 1970, and $32 million in 1971. In the coming year, FY 1972, we are anticipating a level approaching $50-55 million. All these figures are exclusive of MAP, Peace Corps, Ex-Im and CCC flows, none of which fall within the DAC definition of Official Development Assistance. In composition this targeted level is made up of technical assistance, PL 480 sales and donations, development loans, and excess property transfers.

All of this assistance will continue to be highly concessionary with grants and long-term soft loans making up the entire amount. This assistance will be concentrated largely in two sectors: (1) Agriculture and Rural Development, including an increased emphasis on rural electrification; (2) Population and Health, with some funds going to Public Safety and General Participant Training. The rural electrification project referred to above is a major project involving many donors with a number of preconditions which will be discussed in detail later.

Less concessional, but nevertheless contributive to the Philippine overall economic development has been the capital flow of U.S. Export-Import bank loans and guarantees. For the period FY 1969, 1970 and the first nine months of FY 71, loans authorized totalled $83.8 million. Thus it is clear that Ex-Im participation in the development of the Philippine economy has been significant in the past and will continue to be of importance in the future.

While being mindful that these inputs are but a portion of the total requirements needed by the Philippines from external sources, I am convinced that they will be utilized with increasing effectiveness to help achieve some of the targets set forth in the Philippines Four-Year Plan. Indeed I am hopeful that with the additional resources which might be marshalled under the auspices of this Consultative Group, a higher rate of economic growth can be achieved consistent with financial stability than that presently contemplated under the Four-Year Plan.

We welcome the opportunity to discuss within this forum the activities and programs we are engaged in in the Philippines.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

General Statement by Mr. Masao Sawaki

Head of the Japanese Delegation

On behalf of the Japanese Delegation, I would like to express our deep appreciation to the World Bank for holding the Consultative Group for the Philippines at this timely juncture, in which to hear at first hand the economic situation of the Philippines by those who are at the helm of the economic policies of the country and to exchange and coordinate the views of the international organizations and donor countries concerned.

I also pay high tribute to Secretary Virata and other Philippine friends who have given such well-prepared and candid explanations on difficulties of the Philippine economy and their policies and determination to tackle and solve them.

The traditionally friendly relations between Japan and the Philippines have become even closer year by year in every aspect of human activities and our participation in this group signifies the deep interest with which we look at the economic difficulties of the Philippines.

We have found discussions at this meeting most useful and hope earnestly that this can provide an impetus for the observers to attend the next meeting as full members. With more active participation of the donor countries concerned, this Group will play an increasingly important role in the development of the Philippines.

We believe that the recent economic performance of the Philippines is marked by two features; one heartening and the other disheartening. The heartening feature is the unflagging and courageous effort with which the Philippine Government has implemented a rigorous stabilization program in consultation with the IMF. Their decision to pursue another stabilization program for this year is a clear and welcome sign that they propose to tide over the present difficulties with a firm resolve to withstand austerity for the sake of future development.

What is disheartening, however, is that, despite their efforts, their embarkation on a path for development is encumbered with the never-diminishing burden of external debt. I am sure that the recent Bank Report is a sobering reminder of the enormity of the difficulty. The Report points out with more alarm than in the last year's report the accumulation of external debt service burden and projects an enormously high debt service ratio for the coming four years. We can entertain no false optimism on the import of these sombre predictions. The problem is no longer transitory and the danger is real. I am sure that many of us here share this concern and hope ardently that the Philippine Government fully exert their capacity for self-help to tackle this vexing problem. What is most desired in this respect is that the regulatory measures on external debt both in the public and private sectors, as provided for in Republic Act 6142, be fully implemented from a long-range point of view.

It is also true that self-help is the most important factor for the smooth and sound implementation of the Infrastructure Program which forms an essential part of the Four Year Development Plan. I reiterate this point made by our representative at the October meeting last year, simply because its importance cannot be minimized. The Infrastructure Program, even at the reduced scale compared to the Four Year Development Plan, does not seem easily realizable. Aids have to be attracted to finance the foreign exchange requirements. Planning has to be done with care and foresight and projects have to be well prepared. Peso counter-part has to be funded. And, last but not the least, administrative requirements have to be met to ensure the smooth and successful execution of the projects. The problems are manifold but, I believe, not impossible, as long as the Philippine Government is determined to grapple four-square with them. With confidence in their ability to do so, let me express my hope that realistic targets be set and achieved steadily and gradually. In this connection, the Bank Report adequately points to the direction in which immediate efforts should be channeled, namely, the increase of tax revenue. In view of the abundant potential capacity of the Philippine economy and the impressive achievement during this past year in increasing the tax revenue, I believe that further endeavors to rectify and realign the tax structure and enlarge the scale of public finance will greatly enhance the capability for advance.

Another area to which efforts should be directed is export promotion, which is as necessary as liberal aids from abroad for the purpose of tiding over the present exchange reserve difficulties arising from the debt service burden. The Bank's projection of annual export growth at 10 percent shows that abundant capacities exist in this respect. We hope naturally that the capacities will be fully exploited and that effective measures will be taken to improve the system of foreign exchange control.

Self-help has naturally to be complemented by external assistance. It is also true that external assistance will not be easily forthcoming unless there are solid grounds of self-help upon which assistance can be absorbed and utilized effectively. We expect that the Philippine Government realizes this fully and will endeavor accordingly. With this expectation, our Government is prepared to provide, as and when necessary, effective and adequate assistance in consonance with international organizations such as the World Bank, and other donor countries to help the Philippines tide over the present difficulties and embark upon a path for unfettered development.

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

Statement by the ADB Delegation

Mr. Chairman, Ladies and Gentlemen:

As you undoubtedly all know, ADB Headquarters is in Manila so that we have relationships other than merely operational with the Government of the Philippines. It is accordingly a very real pleasure for me to represent the Asian Development Bank at this inaugural meeting of the Consultative Group for the Philippines. Discussions of the kind that will prevail at meetings such as this can only be useful for all concerned.

Now may I proceed directly to a brief review of ADB assistance to the Philippines, some of which our C. S. Venkat Rao mentioned at the meeting here last October.

The Bank's first project in the Philippines was technical assistance in 1968 to the National Irrigation Administration to strengthen water management techniques, initially, in several pilot areas. In 1969, this assistance was extended for one additional year, and emphasis was placed on training of technicians in all 85 NIA systems, and on system-wide management. This project was successfully ended in 1970, and the NIA is continuing the program on its own.

Last year, the Bank approved technical assistance to advise the National Food and Agriculture Council on methods of improved fish marketing. The consultant has recently reported for duty, and his study is now underway. This project in a way complements our Bank's loan for the fishing port at Navotas in Manila Bay, for which the Bank initially extended Technical Assistance for project preparation and to which on March 4 of this year we have approved financial assistance of nearly $5.6 million for construction. The port will become operational by mid-1974 and will make a very substantial contribution to the goal of national self-sufficiency in fish production.

The Cotabato provinces in Southwest Mindanao have been recipients of assistance from the ADB. In 1969 the Bank extended a loan of $2.5 million on concessional terms for development of three irrigation systems. Increased production of rice and corn will be very substantial; Philippine Government agencies are providing necessary support through physical inputs, pilot demonstration farms, and advice on double cropping and other improved farm practices.

In December of last year, a loan of $10.6 million was approved for construction and improvement of the 209 kilometer road between Cotabato City and General Santos. While this project was justifiable on the basis of road-user savings alone, improved surface transport will obviously lead to other beneficial development in this high-potential area.

Also in Mindanao, the Bank has approved technical assistance for investigation of the Iligan/Cagayan de Oro/Butuan highway. When these technical and economic studies have been completed, it may then be possible if all proves satisfactory for the Bank to consider financial assistance for construction.

The largest single beneficiary of ADB loans in the Philippines has been the Private Development Corporation of the Philippines (PDCP). A first loan of $5 million was used to provide foreign exchange to a wide variety of industrial, infrastructural and agro-industrial undertakings; a second loan of $15 million was approved late last year for the same purposes. Consultants appointed by the Bank have also conducted a study of the present and future potential of the Philippine industrial sector.

In summary, this brief review indicates that the ADB is already quite active in agricultural, infrastructural and industrial development banking sectors of the Philippine economy spread throughout the whole nation. Loan commitments total $38.7 million, of which $3.5 million is on concessional terms. Technical assistance has been advisory as well as for project-preparation and project implementation. T/A on grant basis to date totals $468,000 plus additional amounts this year already approved.

The Philippines has also been included in several Bank studies of regional scope; perhaps the most important of these is the Regional Transport Survey, the draft final report of which is expected to be submitted soon. Digestion of the findings and recommendations of this survey will take some time, but a first impression is that the survey is likely to lead to many important projects in the crucial transport sector - both in the Philippines and in the other Southeast Asian countries concerned. For the Philippines, the survey has drawn many useful findings from the Philippine Transport Survey conducted earlier under World Bank and UNDP auspices.

The Bank has not waited for submission of the draft report to begin looking at several new project proposals involving transportation. The ports of Cebu and Cotabato have been identified as possible projects for Bank loan and/or technical assistance; further studies and evaluation of existing data are underway or will be shortly.

From a list of several domestic airports, the Bank is now in early stages of considering selection of two or three priority projects for technical assistance to conduct feasibility studies for expansion and improvement. In land, sea and air transport, we thus expect the Regional Transport Survey to provide a most useful framework within which to consider further projects in this sector.

Preliminary findings suggest that some other pipeline projects may be promising. Tapping the economic potential of the Laguna de Bay region for water supply, irrigation, fisheries and other agricultural and industrial use will require, as a precondition, erection of a water control structure on the Pasig River to prevent further salinization and pollution in the lake. The UNDP has sponsored extensive studies on development of this area; these may provide further project opportunities.

A brief comment on the ADB's possible role in the power sector is perhaps in order. The Bank has no objection to assisting the Philippine Government in its overall plans for electric power development. Bank assistance to specific projects would of course depend on an evaluation of the proposals, keeping in mind the importance of sound economic criteria. We have already had some exchanges of thinking with the World Bank and U.S. AID as to how to co-ordinate our respective activities most efficiently in this sector, and further discussions are being held during the course of this meeting. We see no particular logic in dividing power projects in such a way that one institution would assume support for, say, the generation phase, and the other institution would support the transmission. Rather, a preferable arrangement would be for our two institutions to consult and agree on manageable packages made up of both phases. We welcome the degree of flexibility in this regard which the World Bank has indicated to us and we have after consultation with the Philippine Government indicated our willingness to look immediately at a Mindanao power package which will involve F/E around $33 million.

In conclusion, Gentlemen, continuation and expansion of the volume of assistance extended to the Philippines by ADB will depend on a well-stocked pipeline of projects. There are several which are taking shape, but the pipeline is not bursting at the seams. I would like to stress that we have full capacity to provide technical assistance to prepare projects; and - as a result of recent Bank bond issues and contributions to the Bank's resources as announced at our Fourth Annual Meeting last week as well as the decision taken to review our Capital stock - our resources position should be adequate for the next couple of years although we still have relatively scanty special funds resources. The Bank takes pride in having developed into a position of independence and strength in the space of the relatively few years since the Bank opened its doors. Within the planning framework of the Philippines Government and in the full spirit of co-ordination which underlies this meeting, the ADB expects to play an expanded role in assisting priority projects in the Philippines, in terms of both monetary amount and of sectoral distribution . Thank you.

PRESS RELEASE

MEETING OF THE CONSULTATIVE GROUP FOR THE PHILIPPINES

Paris, Thursday and Friday, April 22 and 23, 1971

The following was released today by the European Office of the World Bank, Paris:

"The inaugural meeting of the Consultative Group for the Philippines was held in Paris on April 22 and 23, 1971, under the chairmanship of the World Bank. Representatives of the following countries were present: Australia, Canada, Germany, India, Japan, the Netherlands, New Zealand, Spain, Switzerland, the United Kingdom and the United States. Also represented were the International Monetary Fund, the United Nations Development Programme, the Asian Development Bank, and the Organization for Economic Cooperation and Development. The Philippines delegation was led by the Honorable Cesar E.A. Virata, Secretary of Finance.

"The meeting was informed in a message from President Marcos that the Philippines intended to continue a development program consistent with social and economic stability and was committed to maintain fiscal discipline. The President's message stressed that the stabilization measures introduced by the Government would be greatly assisted by the orderly inflow of external financial assistance, suited to the country's development needs and potential. The Group discussed a report prepared by the World Bank on the problems and prospects of the Philippine economy. It was agreed that the Government's policies of fiscal and monetary restraint had during the past year been implemented with admirable courage and determination. There had been a significant decline in the rate of monetary expansion in 1970 and an improvement in the Government's fiscal position. Export earnings had increased by 22 percent during the year resulting in an improved balance of payments position. The Group recognized the need for continuing stabilization measures and agreed that the implementation of a non-inflationary fiscal policy would help to moderate increases in the general price level and reduce pressures on the balance of payments.

"The need to regain the momentum of growth, which had been restained by the stabilization effort and affected by typhoon damage was stressed. The meeting noted that the overall investment level had declined and that a major effort at domestic and external resource mobilization was required if the GNP growth rate was to be sustained at the targeted average of 5 percent per annum over the next four years. It was also agreed that an even higher rate of growth was desirable and could be attained given favorable developments. Reference was made in this connection to the declining share of public investment in total investment and to the urgency of mobilizing additional tax revenues to reverse this trend. The Philippine delegation indicated that the Government recognized the need for a more vigorous tax effort and that in addition to administrative measures which had raised additional revenues several tax measures were awaiting congressional approval.

"The Group heard statements from the Philippine delegation on the revised targets of the Government's Four Year Development Program including a presentation on major development projects for which foreign assistance was being sought. It was noted that the level of infrastructure spending had been reduced but that the investment priorities were broadly in line with the needs of the economy. It was agreed that the absorptive capacity of the public sector and the allocation of adequate local funds were important considerations in obtaining external finance. The vital role played by private investments - both domestic and foreign - in meeting capital requirement for development was discussed. The Group was informed by the Philippine delegation that seven non-pioneer areas contained in the First Investment Priorities Plan of the Board of Investments will be liberalized for non-Philippine nationals in June of this year in accordance with law.

"The meeting of the Consultative Group provided an occasion for the signing of a Plan of Operation for a technical assistance project by representatives of the Government of the Philippines, the United Nations Development Programme and the International Bank for Reconstruction and Development. The project would cover the costs of consultants' services required by the Board of Investments estimated at $803,000. The funds would be provided by the UNDP and IBRD would be the executing agency.

"The Honorable Virata indicated that he would welcome a survey relating to foreign investment in the Philippines to be financed from funds available under the project.

"In considering the longer term prospects of the economy, the Group expressed concern that despite the promising outlook for Philippine exports and for long term growth, the balance of payments would continue to reflect, through the seventies, the serious debt service burden caused by the accumulation of short and medium term obligations. They were encouraged, however, by the legislative and administrative measures which had been taken to keep external indebtedness within manageable limits. It was also recognized that while the Philippines had the capacity to service this debt it could do so only by foregoing opportunities for growth. The Group was therefore of the view that there was need for quick disbursing aid and the Philippines merited assistance from capital exporting countries and international institutions on as liberal terms as practicable.

"The importance of aid coordination was discussed with particular reference to the power and transport sectors. As a result of discussions between the Philippine delegation and representatives of some participating countries and international agencies it was determined that there were good prospects for a package of international financing in the power sector - amounting to $120 million - to meet the immediate foreign exchange requirements of power generation, transmission and rural electrification projects. Similar possibilities for aid coordination exist in the transport sector.

"It was agreed that the next regular meeting of the Consultative Group would be held towards the end of April 1972. The leader of the Japanese delegation invited the Group to hold the meeting in Tokyo."