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Fonds: Records of the Office of the President

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Washington, D.C.

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The World Bank  
1818 H Street NW  
Washington DC 20433  
Telephone: 202-473-1000  
Internet: [www.worldbank.org](http://www.worldbank.org)

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McNamara Papers

Contracts  
Philippines (1958-1971)

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Contacts with member countries: Philippines - Correspondence 01

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PHILIPPINES



PHILIPPINES

- 7/23/68 Erasmo D. Ancheta, Office of the President of the Philippines  
Antonio V. Raquiza, Dept. of Public Works, Philippines  
Jose Imperial, Charge d'Affaire, Philippine Embassy
1. 7/24/68 Eduardo Romauldez, Secretary of Finance  
A. Raquiza, Secretary of Public Works
  2. 8/19/68 Ambassador Fernando Lopez  
Alejandro Melchor, Deputy Director General for Operations, Presidential  
Economic Staff  
Minister Pablo Suarez, Embassy
  3. 4/2/69 President Ferdinand Marcos (at the Shoreham Hotel)  
Secretary Carlos P. Romulo  
Ambassador-designate Ernesto V. Lagdameo
  4. 5/7/69 Ambassador Ernesto V. Lagdameo  
Pablo Suarez, Minister of Economy
  5. 6/16/69 Amando Doronila, Manila Times  
7/18/69 Armand Fabella, Vice President, Jose Rizal College, Mandaluyong, Luzon  
(Aspen -  
Eisen.Ex.)
  6. 2/2/70 Gregorio Licaros, Governor, Central Bank of the Philippines  
Ambassador Ernesto V. Lagdameo
  7. 9/19/70 Cesar Virata, Minister of Finance  
(Copen.)
  8. 8/11/71 Ambassador Lagdameo (farewell call)
  9. 10/4/71 Cesar Virata, Secretary of Finance  
Alex Melchor, Executive Secretary to the President
  10. 10/26/71 Ambassador Eduardo Romualdez
  11. 11/12-14/71 - Impressions on trip to Philippines (*Filed in Melchor office*)  
11/12/71 Alejandro Melchor, Executive Secretary, Republic of the Philippines  
(Manila) Cesar Virata, Secretary  
" Dinner hosted by Secretary of Finance and Mrs. Cesar Virata  
Mr. and Mrs. Gilberto Toedoro (Administrator, Social Security System)  
Mr. and Mrs. Roman Cruz (President, Government Service Insurance System)  
Mr. and Mrs. Leonides Virata (Chairman, Development Bank of the  
Philippines)  
Mr. and Mrs. Eusebio P. Villatuya (President, Philippine National Bank)  
Mr. and Mrs. Jose B. Fernandez (President, Bankers Association of the  
Philippines)  
Mr. and Mrs. Carlos P. Romulo (Secretary of Foreign Affairs)



- 11/13/71  
(Manila)
12. " President Ferdinand E. Marcos  
Alejandro Melchor, Executive Secretary  
Cesar Virata, Secretary of Finance  
David Consunji, Secretary of Public Works and Communications  
Juan L. Manuel, Secretary of Education  
Estefania Aldaba-Lim, Secretary of Social Welfare  
Gerardo Sicat, Chairman, National Economic Council  
Gregorio Licaros, Governor, Central Bank of the Philippines  
Vicente Paterno, Chairman, Board of Investments  
Apolinario Orosa, Director-General, Presidential Economic Staff  
Armand Fabella, Chairman, Commission on Reorganization
- " Luncheon hosted by President and Mrs. Marcos  
Mr. and Mrs. Alejandro Melchor (Executive Secretary)  
Mr. and Mrs. Cesar Virata (Secretary of Finance)
13. " Meeting with Congressional Leaders  
Gil J. Puyat, President, Philippine Senate  
Cornelio Villareal, Speaker, House of Representatives  
Jose Roy, Senate President Pro-Tempore  
Gerardo Roxas, Senate Majority Floor Leader  
Ramon Mitra, House Minority Floor Leader  
Helena Benitez, Chairman, Senate Committee on Housing, Urban  
Development and Resettlement  
Jose W. Diokno, Chairman, Senate Committee on Economic Affairs  
Lorenzo Teves, Chairman, Senate Advisory Committee  
Benigno Aquino, Jr., Senior Minority Member, Major Senate Committees  
Lorenzo Sarmiento, Chairman, House Committee on Economic Affairs  
Natalio Castillo, Chairman, House Committee on Ways and Means  
Fernando Veloso, Chairman, House Committee on Banks, Currency and  
Corporations
14. " Meeting with Business Leaders  
Manuel Elizalde, Sr., President, Elizalde & Company, Inc.  
Julio Francia, Jr., President, Philippine Chamber of Industries  
Alfredo Montelibano, Sr., Chairman, Philippine Commercial and  
Industrial Bank  
Sixto K. Roxas, President, Bancom Development Corporation  
Antonio Roxas-Chua, Chairman, Pacific Banking Corporation  
Pablo Sarmiento, President, Sarmiento Enterprises, Inc.  
Jose Soriano, Chairman, A. Soriano Y Cia  
Washington Sycip, Chairman, The Sycip, Gorres, and Velayo Group  
Roberto T. Villaneuva, President, Private Development Corporation  
of the Philippines  
Enrique J. Zobel, President, Ayala Corporation
- " Dr. Arthur Hill, Assistant Representative, The Ford Foundation  
John Quinn, Program Adviser in Education, Asia and Pacific,  
International Division, The Ford Foundation



15. 11/14/71  
(Los Banos,  
Laguna) Meeting at the International Rice Research Institute (IRRI)  
Cesar Virata, Secretary of Finance  
Arturo Tanco, Secretary of Agriculture and Natural Resources  
Jose Drilon, Under Secretary of Agriculture  
Dr. Robert Chandler, Director, IRRI  
Dr. Dilbagh Anthwal, Assistant Director, IRRI  
Dr. Gurder Khush, Rice Breeder, IRRI  
Vernon Ross, Rice Production Specialist, IRRI
16. " Luncheon at the College of Agriculture, University of the Philippines  
Arturo Tanco, Jr., Secretary of Agriculture and Natural Resources  
Cesar Virata, Secretary of Finance  
Jose Drilon, Jr., Under Secretary for Agriculture and Natural Resources  
Dr. Robert Chandler, Director, IRRI  
Dr. Faustino Orillo, Dean, University of the Philippines, College of  
Agriculture  
Dean Domingo M. Lantican, Officer-in-Charge, University of the  
Philippines, College of Agriculture  
Dr. Florentino Herrera, Dean, University of the Philippines, College  
of Medicine
- 11/14/71  
(Bay, Laguna) Dr. Paulo Campos, Project Director, Comprehensive Community  
Health Program
17. 11/14/71  
(Manila) William M. Harding, Resident Representative, UNDP  
Thomas M. Unwin, Deputy Resident Representative, UNDP
18. " Meeting with Asian Development Bank  
Takeshi Watanabe, President  
C.S. Krishna Moorthi, Vice President  
Douglas C. Gunesekera, Secretary  
S.M.A. Kazmi, Treasurer  
Lewis A. Carroll, General Counsel  
Howard Farrelly, Director of Operations  
Sam Chung Hsieh, Director of Projects  
Shinsaku Kudo, Director of Administration  
P.S. Hariharan, Chief Information Officer  
Perry P. Chang, Assistant Chief Economist  
Cornelio Balmaceda, Director, Philippines  
Alejandro Melchor, Jr., Temporary Alternate Director, Philippines  
K.S. Islam, Alternate Director, Pakistan  
Enno Carstensen, Director, West Germany  
Alexander A.W. Landymore, Alternate Director, Australia  
L.J. Downey, Director, Indonesia, New Zealand  
R.A. Kartadjoemena, Alternate Director, Fiji, West Samoa  
Yves Louis Fievet, Director, Italy, France, Belgium  
Robert Lempen, Alternate Director, Switzerland  
Tatsuakai Hirai, Director, Japan  
Keiya Nagamatsu, Alternate Director, Japan  
D.S. Joshi, Director, India  
A.T. Bambawale, Alternate Director, India  
Poul H. Kryger, Director, Denmark



- 11/14/71  
(Manila) Meeting with Asian Development Bank, cont'd  
Ian Bruce Robertson, Alternate Director, Canada  
Lee Keng Tuan, Director, Singapore  
Moh. Yusoff Bin S.A. Rahim, Alternate Director, Singapore, Nepal  
J.C.G. Lloyd, Director, Australia, Hong Kong  
J.M. Starey, Alternate Director, Papua, New Guinea  
William Tennekoon, Director, Ceylon  
Abdul Wahab Haider, Alternate Director, Afghanistan  
Bong H. Kay, Director, Korea  
Buu Hoan, Alternate Director, Vietnam  
Artemus Weatherbee, Director, USA  
George R. Jacobs, Alternate Director, USA
- " Dinner aboard the Presidential Yacht  
President and Mrs. Marcos  
Mr. and Mrs. Cesar Virata (Secretary of Finance)
- 6/26/72 Mauyag Tamano, Eisenhower Exchange Fellow
19. 9/29/72 Cesar Virata, Secretary of Finance  
Alex Melchor, Executive Secretary to the President
- 1/24/73 Mrs. Ymelda Marcos
- 5/9-12/73 Dr. Mercedes B. Concepcion, Director, Population Institute,  
(Bellagio III University of the Philippines  
Population Mtg.)
20. 6/14/74 Cesar Virata, Secretary of Finance
21. 6/17/74 Gregorio Licaros, Governor of the Central Bank  
Gabriel Singson, Special Assistant to the Governor  
Ernest Leung, Representative of the Philippine Central Bank in Wash.
22. 9/30/74 Cesar Virata, Secretary of Finance  
Alejandro Melchor, Executive Secretary to President Marcos
- 6/12-13/75 Cesar Virata, Secretary of Finance  
(Paris-Dev.  
Cte.)
23. 9/4/75 Cesar Virata, Secretary of Finance  
Alejandro Melchor, Executive Secretary to President Marcos  
Placidio Mapa, President and General Manager, Philippine Commercial  
and Industrial Bank
24. 11/19/75 Mrs. Ferdinand Marcos, First Lady  
1/6-10/76 Cesar Virata, Secretary of Finance  
(Dev.Cte.,  
Kingston)
25. 6/9/76 Mrs. Ferdinand Marcos (Loan signing)
26. 8/19/76 Cesar Virata, Finance Minister



27. 9/16/76 Ambassador Eduardo Z. Romualdez
28. 10/7/76 Miss Imee Marcos  
(Manila)  
" Cesar Virata, Minister of Finance (with ASEAN Group)  
(Minutes filed Singapore)
- 11/22/76 Cesar Virata, Minister of Finance (re Development Committee)
- 12/17/76 Narciso Reyes, Ambassador to the UN  
(New York) At luncheon hosted by Amb. Akhund of Pakistan)
- 9/22/77 Cesar Virata, Minister of Finance
- 9/25/77 Cesar Virata, Minister of Finance - host at lunch for Development  
Committee (Annual Meeting)
- 10/10/77 Gerardo Sicat - Research Advisory Panel on Income Distribution  
and Employment
- 5/24/78 Cesar Virata, Finance Minister (Lunch)
29. 7/26/78 Imelda Marcos - First Lady of the Philippines  
(Loan Signing and visit with RMcN alone)
- 8/2/78 Cesar Virata, Minister of Finance (lunch)
- 11/17/78 Cesar Virata, Minister of Finance *here*  
(At lunch with Mr. de Larosiere - Development Committee)
- 12/11/78 Cesar Virata, Minister of Finance *(Inf)*  
(lunch with Mr. de Larosiere - Development Committee)
- 3/5/79 Cesar Virata, Minister of Finance (Development Committee)  
(with Mr. de Larosiere in Mr. McNamara's office)
- 4/23/79 Cesar Virata, Minister of Finance  
(Lunch hosted by Mr. de Larosiere at the Fund)
30. 5/9-10/79  
(Manila) President Ferdinand Marcos
- 7/10/79 Cesar Virata, Minister of Finance - Development Committee  
Sir Richard King  
Mr. Mapa (ED)
31. 10/1/79 Cesar Virata, Minister of Finance  
annual Placido Mapa, Executive Director  
meeting
- 10/15/79 Cesar Virata, Minister of Finance - Development Committee  
Sir Richard King  
Mr. William Dale  
Mr. Qureshi
32. 12/17/79 Cesar Virata, Minister of Finance



- 1/29/80 Cesar Virata, Minister of Finance (with Mr. Mapa)
- 3/28/80 Cesar Virata, Minister of Finance (Lunch)
33. 6/24/80 Arturo Tanco, Minister of Agriculture and President  
of World Food Council
- 6/27/80 Cesar Virata, Minister of Finance (Lunch at the IMF)
- 7/3/80 Cesar Virata, Minister of Finance (Lunch at the WB)  
and chairman, Development Committee
34. 8/4/80 Mrs. Ferdinand Marcos, First Lady of the Philippines
35. 9/10/80 Cesar Virata, Minister of Finance  
Mr. Mapa, Executive Director
- 5/28/81 Cesar Virata, Minister of Finance





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7/24

## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 23, 1968

FROM: Raymond J. Goodman *RJG*SUBJECT: PHILIPPINES - Visit of Secretary Romualdez

The Secretary of Finance of the Philippines, Mr. Eduardo Romualdez accompanied by Mr. A. Raquiza, Secretary of Public Works, will be calling on you at 5:00 p.m. Mr. Romualdez called on me this morning; I attach a note of that meeting.

His visit to you is mainly a courtesy call. He also wishes to emphasize to you that the Marcos Administration is working as hard as it can to get its tax proposals through Congress and that he hopes that a reasonable portion of these measures will be passed by the end of August.

The Secretary of Public Works will probably mention the Upper Pampanga Project - a large irrigation project - which we have agreed to appraise in September. The total cost of this project is about \$66 million of which our financing might amount to about \$20 million, although these figures will continue to be uncertain until after the appraisal. The loan, of course, could only be concluded if there is the necessary congressional action on taxes.

Attachment

President has seen



Files

July 23, 1968

William S. Humphrey

PHILIPPINES - Visit of Secretary Romualdez

Mr. Eduardo Z. Romualdez, Secretary of Finance of the Philippines called on Mr. Goodman at 11:00 a.m. on July 23. Messrs. Humphrey and Wang were also present.

General

Secretary Romualdez said that the Marcos Administration was working very hard to get its tax proposals through Congress. If a reasonable portion of the proposals have not been passed by the end of the present Special Session in July, President Marcos would call another special session to meet early in August. He was hopeful that by the end of August taxes yielding P350 to 400 million on an annual basis would have been passed. Among these would probably be an increase in the gasoline tax on higher octane fuels, a travel tax and increases in the taxes on cigarettes and liquor. One of the problems in securing passage was independent-minded senators of the Government Party so that the Government's majority in the Senate did not help much in getting the measures through.

Secretary Romualdez also reported an encouraging rise in the collections of existing taxes. Internal revenue taxes were up 16% on an annual basis from last year and customs duties were up 13%. The latter was particularly notable since customs duties last year were 38% higher than the previous year.

The Secretary commented that export performance was not so encouraging. The Philippines would be unable to fill its sugar quota this year. Coconut prices and volume were also low. However, the extractive industries were doing better and exports did appear to be running about 12% higher than the very low levels of last year.

Mr. Goodman said that the Bank was most anxious to resume lending in the Philippines and therefore hoped that a reasonable portion of the taxes before Congress would be passed as soon as possible. He mentioned that we were planning to appraise a second rural credit project in August and the Upper Pampanga Project in September so that these loans could be carried to their conclusion as soon as the tax measures were passed. He also mentioned our willingness to consider a grain storage project.

National Waterworks and Sewerage Authority (NWSA)

Mr. Goodman mentioned Mr. Cargill's two letters to the Secretary of June 12 and July 15 indicating the Bank's concern about NWSA's management and the delays in the construction of this project. The Secretary said that he had proposed to President Marcos that the management of the Bank project should be separated from the other administrative duties of NWSA and that a full time person of high caliber should manage the project. He said President Marcos had agreed in principle but so far no one had been selected.



National River Corporation (NPC)

Mr. Goodman handed the Secretary a letter drawing his attention to the cash problems of NPC pointing out three items where government action could help. The Secretary said that the National Economic Council had already approved NPC's use of reparation materials. On the exchange rebate to NPC from the Central Bank, he said that the legality of this payment was under consideration by the Secretary of Justice. He would look into the question of sinking funds when he returned to Manila. Mr. Goodman made clear that the Bank's concern was that NPC should have adequate funds to execute the project and carry out its functions rather than how the cash position was restored.

cc: Mr. Molnar

WSHumphrey:hj  
IBRD



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: July 22, 1968

FROM: Raymond J. Goodman *RJG*SUBJECT: PHILIPPINES - Request for Appointment for the Secretary of Finance and the Secretary of Public Works

Your office has been requested for an appointment for you to see the Secretary of Finance of the Philippines, Mr. Eduardo Z. Romualdez, who is also Governor for the Bank, and the Secretary of Public Works, Mr. Antonio Raquiza. They will be accompanied by a Mr. Martin Nementz, a U.S. citizen who I understand is a New York financial consultant. The purpose of their visit is not known.

Secretary Romualdez is coming in to see me at 11:00 tomorrow. I do not know what he wishes to discuss but will let you know what emerges before he sees you.

I suggest that you see both the Secretaries. The Embassy informs us that one reason Mr. Romualdez is in Washington is to sign an Ex-Im Bank loan of \$3.6 million for airport development. Mr. Raquiza is said to be exploring possibilities for financing for public works projects.

Secretary Romualdez has been Secretary of Finance since January 1966. He is concurrently a member of the Central Bank's Monetary Board and also of the National Economic Council. In the early 1950's he headed a private bank - the Philippine Trust Company. Later he became Chairman of the Rehabilitation Finance Corporation. Secretary Raquiza was formerly a member of the House of Representatives.

We have taken the position that further Bank lending in the Philippines could only go forward if there was congressional action on a reasonable proportion of President Marcos' tax proposals. This position was communicated by Mr. Cargill to Secretary Romualdez in a letter dated May 27, 1968. Since that letter was written we have not heard of any congressional action on the tax program. However Mr. Alisbah of this department is returning from the Philippines next Monday to report on the latest position. We have agreed to appraise two projects (the Upper Pampanga Irrigation Project and the Second Rural Credit Project) with the understanding that these cannot be concluded until Congress has acted on the taxes.







*Mr. McNamara - to see please.**ABS 8/21*

## OFFICE MEMORANDUM

TO: Records

DATE: August 20, 1968

FROM: Raymond J. Goodman *RJG*SUBJECT: Visit of Ambassador López

The new Ambassador of the Philippines to the United States, Mr. Fernando López, called yesterday on Mr. McNamara, accompanied by Mr. Alejandro Melchor, Deputy Director General for Operations, Presidential Economic Staff, and Minister Pablo Suárez of the Embassy in Washington. I was also present.

After an exchange of courtesies between the Ambassador and the President, Mr. Melchor did most of the talking. He referred to the very large increase in rice production as a result of the new seed varieties, and said that the Philippines were about to become significant exporters of rice, particularly to Indonesia. He thought that before long the Philippines would be cutting severely into Thailand's markets in a number of places. In connection with these developments he stressed the importance of the second rural credit project now being appraised by the Bank, and of other possible projects, including roads and food storage, which would assist development in the agricultural sector.

Mr. Melchor referred to Mr. Woods' letter of 1966, which made the passage of new tax legislation a precondition of Bank lending, and to President Marcos' violent reaction to it. However, he said that President Marcos had put, and was continuing to put the strongest pressure on Congress to pass his tax proposals and would go on calling special sessions until it did. In view of this action and other evidence of good performance, he suggested that the Bank withdraw its precondition for lending. Mr. McNamara gave him no encouragement on this point.

cc: Mr. McNamara  
Mr. Chadenet  
Mr. Kamarck



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: August 14, 1968

FROM: Raymond J. Goodman *RJG*SUBJECT: Philippines

The Ambassador of the Philippines to the United States, Mr. Salvador P. Lopez, has an appointment to call on you on Monday, August 19, at 5:30 p.m. We understand from the Embassy that this is a courtesy call. Appointed to this post last April, he has been making a round of such calls in Washington.

Mr. Lopez is about 57 years old. He has been, and still is, the Government's Permanent Representative to the United Nations since 1964. From 1961 to 1964 he was Undersecretary of Foreign Affairs. Before that post, he was Ambassador to France.

President has seen







AIDE MEMOIRE

Subject: Call of Mr. McNamara on President Marcos

Mr. Robert S. McNamara, President of the World Bank (IBRD), called on President Marcos at the Shoreham Hotel on 2 April 1969. He was accompanied by Mr. J. Burke Knapp, Vice President, and Mr. Raymond J. Goodman, Director of East Asia and Pacific Department. Secretary Carlos P. Romulo and Ambassador-Designate Ernesto V. Lagdameo were also present.

The following subjects were discussed:

1. \$25 million loan to the Philippine National Bank (PNB) for Relending to the Private Development Corporation of the Philippines (PDCP).

The World Bank requires a guarantee of the Philippine Government. For certain technical and legal considerations, this has not been found feasible to execute.

2. Upper Pampanga River Irrigation Project  
(\$35 million)

Negotiation of this loan has been held up by (a) assurance of availability of peso costs of the project (b) restrictions under existing laws on international competitive bidding which is an essential requirement under World Bank loans.

Proposed legislation has been drafted to remove these difficulties. The World Bank has already submitted their comments on the draft. The bill seeks (a) to appropriate ₱200 million for peso costs of the project (b) remove the existing restraints on international bidding (c) special arrangements for preferences for local suppliers and contractors.

3. Central Bank-IBRD Farm Mechanization Credit Program (\$12.5 million)

Negotiation has been scheduled for  
3 April 1969.



4. Other Matters

a) President Marcos praised Mr. McNamara's program to double IBRD's lending, and said that this has "excited" the peoples in Asia.

b) President Marcos briefed Mr. McNamara of the steps he had to take to strengthen the management of NAWASA, and of the recent fund releases he had authorized to bolster the financial position of the Corporation.

c) Mr. McNamara acknowledged the resolute efforts of the President to ensure passage of his tax program, and to strengthen the revenue-collecting agencies of the Government.

d) President Marcos informed Mr. McNamara that in addition to the passage of new revenue measures, he was also seeking to remove tax exemptions granted under existing laws. This would equally provide additional revenue as new tax laws.

e) Mr. McNamara assured the President that the World Bank would do everything possible to assist the Philippines, but that this would be possible only if the Philippines built a strong fiscal base.

f) Mr. McNamara inquired as to the use made, and the progress of the work done by the 10 engineering construction battalions which were equipped by the United States during his incumbency as Secretary of Defense. President Marcos, assisted by General Yan, briefed Mr. McNamara of the work being done by the engineering construction battalions.

g) The President extended an invitation for Mr. McNamara to visit the Philippines.

2 April 1969



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## OFFICE MEMORANDUM

TO: Files

DATE: May 8, 1969

FROM: C. W. Wang *CW*SUBJECT: PHILIPPINES

Mr. Ernesto V. Lagdameo, Ambassador of the Philippines to the United States, accompanied by Mr. Pablo Suarez, the Economic Minister, called on Mr. McNamara on May 7. Mr. Fontein and I were also present.

The Ambassador said that he had been in Washington for only about two months and wanted to take the first opportunity to pay a courtesy call on Mr. McNamara, although they had met briefly during President Marcos' visit to Washington in early April. He congratulated Mr. McNamara on his recent speech on population. He mentioned that his country had a population problem as its population is the 15th largest in the world.

He expressed his appreciation to Mr. McNamara for the Bank's sympathetic consideration of several current projects. He stressed that he would try his best to help solve any problems the Bank may have in its operations in the Philippines. Taking advantage of this offer, Mr. McNamara mentioned the problem of the Government guarantee for the proposed loan for the Third PDCP Project. The Ambassador was aware of this matter and promised to cable President Marcos later in the afternoon. (After the meeting I told the Ambassador that we had cabled Mr. Benedicto, President of the Philippine National Bank, on April 29 and May 6, about this, but had received no reply. At his request, I later read over the telephone the text of these two cables to Mr. Suarez.)

CWWang:aga/aos  
IBRD

cc: Mr. McNamara  
Mr. Fontein/Street  
Mr. Gibbs  
Mr. Powell/Mathew  
Mr. Loh  
Mr. Rigby

President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Douglas J. Fontein *DJF*

SUBJECT: Philippines Ambassador Ernesto V. Lagdameo

DATE: May 7, 1969

Ambassador Lagdameo (pronounced Lagdameo) will call on you at 12.15 p.m. on Wednesday, May 7, 1969.

Ambassador Lagdameo was appointed Ambassador to the United States in February 1969. He is 56 years old. He is a prominent businessman in the Philippines with interests in a wide variety of industries, as well as in banking and insurance. Press reports have given considerable emphasis to his friendship with President Nixon which reportedly began in 1960.

We are planning to present the proposed loan of \$12.5 million for the Second Rural Credit Project to the Executive Directors on May 27, 1969. We are also preparing the third loan (\$25 million) for the Private Development Corporation of the Philippines (PDCP) for the Executive Directors' consideration in June. However, we will be unable to invite negotiations (which must begin not later than May 19 if we are to meet the timetable) until the Government has confirmed its willingness to give a guarantee in the same form as for the two previous loans. You discussed this with President Marcos on April 2; we cabled on April 29 and have had no reply. We cabled again yesterday.

Negotiations of a loan of \$35 million for the Upper Pampanga River Irrigation Project can begin when Congress has enacted the necessary legislation - we have tentatively scheduled negotiations to begin on June 16.

President has seen



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## OFFICE MEMORANDUM

TO: Mr. Rainer Steckhan

DATE: June 13, 1969

FROM: Julian Grenfell *JG*SUBJECT: Mr. Amando Doronila of the Manila Times

Mr. Doronila, columnist for the Manila Times newspaper and television chain, the largest in the Philippines (two English language dailies, a Spanish language daily, several weekly magazines and a TV station) has arrived in Washington and leaves for Manila Monday night.

He wonders whether he might see Mr. McNamara "for a few minutes" sometime Monday. He has read his recent speeches and would presumably seek some further comment.

*10 minutes  
back to back*

Doronila is a former recipient of the Filipino "Journalist of the Year" Award and is highly thought of in his country.

If Mr. McNamara did have say ten minutes available, we would be very pleased if he would agree to see him. But we understand the difficulties.

Apologies for the short notice.

*420  
aw 6-16*



6



Mr. McNamara  
to see  
lec  
2/6

## OFFICE MEMORANDUM

TO: Records

DATE: February 5, 1970

FROM: Douglas J. Fontein *DF*SUBJECT: Visit by Governor Licaros on Monday Afternoon, February 2, 1970

Mr. Gregorio S. Licaros, newly-appointed Governor of the Central Bank of the Philippines called on Mr. McNamara. He was accompanied by the Philippines Ambassador Mr. Ernesto V. Lagdameo and Mr. G. Itchon, Associate Director of the Department of Economic Research of the Central Bank of the Philippines. Mr. Knapp and I were present.

Governor Licaros expressed the Government's appreciation for Mr. Goodman's mission. He said that Secretary Romualdez hoped that this mission would lead to full-fledged assistance for the Philippines. Governor Licaros said that if the Bank should decide on an economic mission to the Philippines, he hoped that it could be as soon as possible. Congress would be in session from the middle of March to the end of June and President Marcos hoped that Congress would enact new tax legislation.

Mr. McNamara said that he hoped we would send an economic mission in March or April but this would depend on the Government's working out a sensible stabilization program and on favorable action by the Congress on necessary reform measures. We would have to rely on the judgment of the Government whether these two events were likely to happen. Mr. McNamara said that without them, the Philippines Government could not hope for external financial support. Now was the time to push for the necessary reforms; stabilization of prices, monetary stability and taxes were the important goals to be achieved.

Governor Licaros said that his country faced serious problems, but he believed that the seriousness of the situation and the fact that the President had wide support in Congress would make it possible to get measures approved which were unpalatable.

The Ambassador then changed the subject to family planning. He said that the President had endorsed family planning and a committee had been appointed to recommend a program. Governor Licaros said that family planning was now gaining headway. Although the Philippines was a predominantly Catholic country, the Government and the people were now aware of the problem.

There was some further discussion of the importance of family planning without any direct reference to the Philippines.

President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 2, 1970

FROM: Douglas J. Fontein *DJF.*SUBJECT: Philippines: Visit of Mr. Gregorio Licaros~~CONFIDENTIAL~~

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MAY 09 2013

WBG ARCHIVES

As I mentioned in my memorandum of January 30, 1970 on this subject,  
I attach a copy of the letter Mr. Goodman sent to you from Manila.

Copies have been given only to Messrs. Knapp and Cope.

Attachment



Manila  
January 28, 1970

Mr. Robert S. McNamara

CONFIDENTIAL

Dear Bob:

DECLASSIFIED

MAY 09 2013

WBG ARCHIVES

Here is a brief background note to your meeting on Monday with Greg Licaros. His appointment earlier this month as Governor of the Central Bank was announced as having been made in anticipation of the Fund and Bank missions. He is an able man and quite close to President Marcos. He has managed the Development Bank of the Philippines as well as anyone could, given its political orientation, although he bears some of the responsibility for the spending spree during the recent election. Given the President's backing he is tough enough--which his two predecessors were not--to administer the stiff treatment prescribed by the Fund.

As to the latter, the Fund mission had failed to reach agreement at the official level by last Friday and had made arrangements to leave. The gap between the two sides was not so much over the stabilization program as over the exchange rate, the President being committed himself during the campaign not to devalue. Apart from that, however, there is a widespread view in the Administration--shared by the Secretary of Finance--that the present rate for the peso (P3.9 = \$1) can be defended. Whether the President himself is of this view I don't know, but in any case he took up the negotiations directly with Savkar, leader of the Fund team, and accepted one of the alternatives offered to him. He denied this yesterday in his State of the Nation Message to Congress, but that was to be expected. The details of the exchange rate action will not be given to the Fund Board until the day before it is taken, probably on February 20th, and at Savkar's request I have not told my own team here. At a lunch-time meeting with the President today I congratulated him on taking this right political decision and he said he had no alternative. I think he realizes that the whole financial community, including the Bank, would have sat on its hands until the Philippines accepted the discipline of an agreement with the Fund. Had they failed to agree, as last year, even the New York banks were determined this time not to roll-over their credits beyond March. The Governor is now able to start discussions with them, which he will do immediately after his visit to Washington. However, I doubt they will agree to any new arrangements until the Fund package is announced and they have some indications of follow-up action by the Bank.

The credit restrictions and exchange measures imposed by the Fund as a condition of its stand-by should be radical enough to mop up the excess liquidity in the system and jerk the economy around in the direction of external balance. However, it will also slow down the rate of growth in the short term, possibly by as much as one or two percentage points. This will come at a time when the Congress will be asked to consider a new tax program aimed at raising an addi-



tional P 650 million over the next two years. The President is relying on his recent electoral victory (which gave him a plurality larger than Magsaysay's) and the fact that many new members of the Congress owe their seats to him, to get his program through. However, Congress has frustrated bold programs in the past and the Administration will need assurances of outside help to offset the austerity program at home. (The Fund Standby itself will provide only \$27.5 million.) In these circumstances, and assuming that the development program now being prepared makes sense, I think we should start organizing the Consultative Group as soon as possible. Indeed, I told President Marcos that this would be my recommendations; he mentioned the U.S., Japan, Australia, Canada, Germany, Italy, the Netherlands and probably the U.K. and France as being the countries he would like to see included. Spain perhaps also for sentimental reasons and to have someone "to speak up for us." He is reluctant to approach the U.S. himself as he feels that this might be mis-interpreted as an attempt to influence the forthcoming Laurel-Langley negotiations. However, we can do that for him.

We have an economic mission scheduled to come here in March/April, by which time the development program should be completed. If the first meeting of the CG is to await the full report of the mission, this would mean having it in the autumn. But--always assuming things move as they should--this in my judgement would be too late. We should aim to have a meeting by the middle of the year, based on an interim statement of the Bank. One of the objectives would be to persuade some of the members to provide quick-disbursing aid. If sufficient action has not been taken by the time the mission returns--e.g. on the tax program-- we shall have to call off the meeting, or postpone it until later in the year. We will develop these ideas more fully in the forthcoming Country Program Paper on the Philippines.

January 29

At a private meeting today with Governor Licaros, I outlined the above plan with which he is in agreement. I encouraged him to talk it over with you on Monday and give you his own frank assessment of the situation here and of the likelihood that the Administration will finally face up to the problems confronting the Philippines. He is fully aware that there is much skepticism about his country, not only in Washington, but in New York and other financial centers.

Yours,


Ray



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: January 30, 1970

FROM: Douglas J. Fontein SUBJECT: PHILIPPINES: Visit of Mr. Gregorio Licaros

1. Mr. Licaros, the newly appointed Governor of the Central Bank, will call on you on Monday, February 2 at 4 p.m. (A brief note on his personal background is attached.) He will be accompanied by Ambassador Ernesto V. Lagdameo whom you have met.
2. As Mr. Goodman cabled you on January 27, the purpose of Mr. Licaros' visit to Washington is to continue discussions with the IMF which were begun earlier this month by an IMF mission in Manila. This mission has just returned from Manila and is trying to work out the terms and conditions under which the Government may obtain a further credit tranche from the IMF. We understand that IMF staff members are optimistic about reaching agreement with the Government. Governor Licaros will also call on the New York banks to continue the negotiations with them for the roll-over of the short-term debt owed to them by the Central Bank of the Philippines. Mr. Goodman has written you a letter about Mr. Licaros' visit to the Bank. The letter is being carried by a Bank staff member who is returning to Washington Sunday. I will send the letter to you early Monday morning.
3. During his visit to the Bank in December, Mr. Sixto Roxas, a consultant to the Government, explained to us the plans to solve the Government's short term debt problem and tried to sound out the Bank's views on setting up a Consultative Group for the Philippines. After consulting you, Mr. Knapp told him that the Philippines might qualify in principle for such a Group, but the feasibility of establishing it would depend on what countries would be willing to join, the quality of the development program prepared by the Government, evidence of the administration's determination to carry it out and of support for it from the Philippine Congress, and how effective the present efforts to cope with the short term debt problem would turn out to be. Mr. Knapp also said that the arrangements between the Government and the IMF would probably be a key factor both in obtaining a satisfactory accommodation with the Government's short term creditors and, from our point of view, in considering a Consultative Group.
4. Although I do not know what subject Mr. Licaros will raise with you, it appears most likely that he will raise the question of the Bank's organizing a Consultative Group for the Philippines. In this connection, I attach a copy of Mr. Goodman's memorandum of November 28 to you on the subject.

Attachments.



Background on Governor Gregorio Licaros

Born:	In 1909
1949:	Auditor of the Central Bank of the Philippines
1954:	Chairman of the Board of Trustees of the Government Service Insurance System
1955:	Special Assistant to the Governor of the Central Bank
1958-61 & 1966-69:	Chairman of the Development Bank of the Philippines
1970 -	Governor of the Central Bank



file

Mr. Robert S. McNamara

November 28, 1969

Raymond J. Goodman

Philippines

Ambassador Lagdameo has asked for an appointment with you for himself and Mr. Sixto Roxas. The date and time has still to be confirmed. They will probably be accompanied by Miss Villafuerte, a consultant to the Secretary of Finance and a former member of the Bank staff, and Mr. Itchon of the Central Bank's Research Department.

The purpose of the meeting is to sound out the Bank's views on setting up an "aid group" for the Philippines.

Mr. Roxas is President of the Bancom Development Corporation, a private investment bank in the Philippines, owned 40% by Bankers Trust of New York. He was the first Director General of the Program Implementation Agency, the predecessor of the Presidential Economic Staff (PES) from 1962-1964. Mr. Roxas was employed by the Government early in 1969 to study and make recommendations on the management of the Philippines' external debt. He is now in Europe following up one of his recommendations, namely, that commercial imports should be financed on terms of 15-20 years under agreements between the Government of the exporting country and the Philippine Government. Italy, Germany and the UK have apparently expressed some interest in the idea but as the proposed terms are nearer "aid" terms than "commercial" terms, the Governments have indicated that they would want regular reporting arrangements to be set up with the Philippine Government. The Philippine Government's present thinking is that this might best be handled by a "group" organized by the Bank. Mr. Roxas hopes to negotiate similar export agreements with the US, Canada, Japan and Australia, who, presumably, would wish to participate in a group if one were formed.

In 1966 when President Marcos took office, the US Government informally asked the Bank for its views on a multi-lateral approach to the Philippines' aid problems. We took the position then that because of the deficiencies in the recent performance of the Philippines, with regard to economic and fiscal policies and in carrying out projects, the organization of a consultative group would merely give wider publicity to what was wrong and was therefore unlikely to induce a greater flow of aid. We were also doubtful whether any countries other than the US, and possibly Japan, would be interested in joining such a group.

President Marcos, who was re-elected in November for a second term, cannot, under the present Philippine Constitution, run again. He therefore has a unique opportunity to take steps to put the Philippines



November 28, 1969

economy in order. If he is determined to do this, Bank support for his efforts will be important and we should be ready to assist him.

There has been a considerable improvement in sectoral planning and project preparation and execution in the public sector under the Marcos administration. Despite the progress made in increasing government revenues, they are still well below the requirements of the economy and a further major effort will be necessary to finance an adequate infrastructure investment program. Moreover, the Government has been particularly unsuccessful in correcting the deterioration in the balance of payments with the result that the Government has had to increase substantially its short-term borrowings.

In considering a request that the Bank sponsor a consultative group for the Philippines, we shall need to assess the adequacy of the Government's proposed policies for dealing with the country's problems over the next four years and evaluate the content of the next five-year plan which is now being prepared. It will also be necessary to make a judgment on the determination of the administration to carry through its policies and plans and the support it may receive from Congress. A prerequisite would be that the Government and the IMF are in accord and that the IMF is willing to participate in a consultative group. The Philippines has already drawn its second credit tranche from the Fund and any further help from the Fund would probably involve an exchange rate adjustment which the Fund considers necessary if the Philippines is to avoid returning to controls which past experience has shown she cannot administer effectively. However, in the recent election campaign and since his election, President Marcos has publicly committed his administration not to devalue the peso during his term of office.

A further consideration would be whether the countries which provide the bulk of Philippine imports and have existing aid programs in the Philippines are willing to join the group. In addition to the UK and Germany, the group would have to include the US and Japan and, probably, Canada to be effective. Mr. Roxas plans to include visits to the US, Canada and Japan before returning to Manila. Finally, it will be necessary to determine whether the Asian Development Bank would feel that it should sponsor a consultative group for the Philippines, the site of its headquarters.

I am planning to visit the Philippines towards the end of January and we have scheduled an economic mission for April. The IMF proposes to carry out its next consultation in January. The visitors may be told that a decision to organize a consultative group should await the results of these visits.

cc: Messrs. Knapp  
Friedman  
Hoffman



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## OFFICE MEMORANDUM

To: Files

From: Gordon M. Street

Subject: Philippines - Meeting with Mr. McNamara at the Royal Hotel, September 19, 1970

9/19  
Mr. McNamara  
Mr. Knapp  
Mr. Cope  
September 25, 1970

Present for the Philippines was Mr. Cesar Virata, Minister of Finance, present for the Bank were Messrs. McNamara, Knapp, Goodman and Street.

The Minister opened the meeting by describing recent economic developments. The Philippines are still adjusting to the currency devaluation, the peso now stands at 6.40 to the dollar and still rising, because the debt payment schedule is particularly heavy at the moment and exports are seasonally low at this time of the year. However, Mr. Virata expects the peso rate to level off before the end of the year because the present slowdown in the economy is expected to dampen the Christmas import demand, which in previous years has caused a marked jump in imports at the end of the year. He noted that prices are now 18% above those of September 1969 and expects prices to level off about 20% in excess of last year. He noted, however, that there had been a 14% increase of prices prior to the devaluation so that a large part of the increase of present prices over those of a year ago cannot be ascribed to the effects of the devaluation. The Minister hopes that they will be able to keep prices under control.

Mr. McNamara welcomed the Government's efforts to hold prices down, but reminded the Minister that the Bank had to insist on an increase in power rates as anomalous as this might seem. He explained that we could not consider a loan for the second Bataan power project unless NPC raised the rates sufficiently to enable NPC to earn a satisfactory return. The Minister then informed Mr. McNamara that the Dean of the Business School of the University of the Philippines was now in the process of studying the power rate situation and would shortly be making his recommendations to the Government. Mr. Virata expects that the Philippine position on power rates, after reviewing the Dean's recommendation, will come close to meeting the Bank's position even though the Government hopes to keep rates as low as possible in order to encourage industrial development, particularly in the metallurgical field. It was left that the Bank would review the proposal received from the Government, but Mr. McNamara warned the Minister of the dangers of hidden subsidies, such as low power rates for the industries.

Mr. McNamara informed the Minister that he was aware of the request of the New York Commercial Banks to receive a positive pledge in various forms to secure about \$210 million of short-term debt as part of an agreement to extend the repayment of this debt over a period of six years. He explained that such a pledge would be in violation of the negative pledge clauses in the various loans made to or guaranteed by the Government of the Philippines and, therefore, he very much wanted the Minister and the Governor of the Central Bank to discuss the matter in Copenhagen with Bank staff in an effort to reach agreement on an acceptable solution, which would then be proposed to the New York commercial banks.

In response to Mr. McNamara's query the Minister outlined briefly the situation in the social sector.

President has seen



Land reform movement has been slow. The difficulty arises from the fact that the Government has not been, and is not in a position to marshal sufficient resources to buy land from present owners; consequently it has had to use lease arrangements. Moreover, since the owners are the principal sources for crop financing the Government must maintain the owners' cooperation until new organizations to serve this function are set up. Therefore, it has moved very slowly in this field. The Minister then stated that efforts were being made to increase the food supply of the people. Now that rice production was approaching the point of self sufficiency, the Government was concentrating on the construction of storage facilities to handle the increased production and harvests, during the wet season, of the new quick growing varieties of rice. Moreover, the Government aims to increase the protein diet of the people and has therefore been moving towards increased livestock production. However, difficulties have been encountered due to the fact that feedgrain prices are high resulting in high meat prices. The high feedgrain price, the Minister thought, was due to low productivity of the corn growers; consequently the Government now has instituted a program to develop high yielding strains of corn seed suitable for production in the Philippines as it did for rice a few years ago.

With regard to income distribution Mr. McNamara pointed out that this constituted a serious problem for the Bank, not only because it produced inadequate revenues for the Government, but because the regressive system favored the haves over the have nots. The Minister answered that little progress could be made due to the fact that the country is dependent on the family capital groups for development in the private sector and cannot, therefore, make any radical changes without losing their support. He did state, however, that they were raising the tax rates for the higher levels and that the regression in the tax system stems primarily from tax on liquor and cigarettes rather than from direct income tax. He pointed out that since 1961 there had been a shift of only 1 to 2% in income distribution, but that due to better management of the tax system, the wealthy were making a greater contribution to Government revenues. He also noted that the Government was now considering a tax on agriculture, which Mr. McNamara welcomed since a large part of the devaluation windfall received by the plantation producers was not subject to tax.

In answer to the Minister's query as to whether the Philippines could obtain the same financial assistance in the form of IDA credits, Mr. McNamara listed a number of reasons that precluded consideration of this proposal. In the first place, the economic performance of the Philippines had been, and is still relatively weak; tax revenues at 10% of GNP are considerably below most of the other developing countries; income distribution is bad; project performance has not been satisfactory, in fact most of the projects in the Philippines have given us more difficulty than those in any other country. Finally, he mentioned that the Philippines' debt service was concentrated in the next few years creating a serious short-term problem but that in the longer run the Philippines were credit-worthy for Bank loans. He went on to say that we have for some time, and still, want to increase the Bank's lending program in the Philippines, but could not and cannot, do so in the absence of considerable improvement in the country's performance. Mr. McNamara noted that he was delighted with the devaluation, but that there were many other steps that remained to be taken.



With regard to the upcoming meeting of donor countries to consider the advisability of the formation of a consultative group for the Philippines, the Minister remarked that he expected to review for the participants the present state of economy and the efforts being made by the Government to achieve sound development. He hoped that the formation of a consultative group would result in increased aid and increased coordination of aid. Mr. McNamara warned the Minister that he should only expect results from the consultative group over a long period of years and not immediately. He explained that for the very reasons that the Bank had not been able to do more in the Philippines, other donors were similarly inhibited. Due to poor general economic performance and poor project implementation, they probably had not given the Philippines as much as they might have otherwise. He pointed out that the Minister, coming to the scene with a good record for management and intelligence, had an excellent opportunity to impress the participating members of the group of the government's determination to improve the situation and over a period of time to demonstrate the satisfactory results of the changes in government policy. Mr. McNamara felt that the donors viewed the Philippines as a country having a very large corruption problem and they would, therefore, be reluctant to assist the Philippines financially. He thought, however, that if on the basis of future performance they began to sense that the Government was following realistic policies and was facing up to its problems, the attitude of the donors would change. He warned the Minister that with a higher flow of funds, which he fully expected, the donors will demand higher standards of performance since they will become more involved in the affairs of the Philippines.

In response to the Minister's request that the Bank supervise the use of aid from bilateral sources, Mr. McNamara indicated this would be a complicated matter and not one that he wished to take up. Moreover, he pointed out that quite likely the aid would become more and more untied and he expected to see a dramatic change in this situation in the next year or two.

With regard to the future of interest rates, Mr. McNamara informed the Minister that he thought the rates were likely to decrease on the average over the next few years, albeit very slowly, and that while he hoped there would be no further increase in the Bank's lending rate, it would be a long time getting back to 6%. He pointed out that capital was still extremely scarce and that today the Bank's rate was a subsidized one, measured against market rates. Under these circumstances, he found it difficult to envisage a rapid decrease from the present 7-1/4% rate.

In conclusion the Minister invited Mr. McNamara to visit the Philippines, to which Mr. McNamara replied that he wished very much to do so as he had never been to the Philippines and it would give him an opportunity to talk to the ADB at their Headquarters. He promised, therefore, to consider seriously a stop in the Philippines the next time he visits the area.

GMStreet/rf

cc: Mr. McNamara, Mr. Knapp, Mr. Cope  
Messrs. Goodman, Fontein, Street, Gilmartin  
Loh/Sella, Evans, Hoffman, Division B



8



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: August 11, 1971

FROM: Raymond J. Goodman *RJG*SUBJECT: Philippines' Ambassador Ernesto V. Lagdameo

I understand that Ambassador Lagdameo (pronounced Lagdamayo) will make a farewell call on you at 6 p.m. today. Ambassador Lagdameo has been in charge of the Philippine Embassy since February 1969: he is 58 years old. He is a prominent businessman in the Philippines with interests in a wide variety of industries as well as in banking and real estate. At the time of his appointment, press reports had given considerable emphasis to his friendship with President Nixon whom he entertained in the Philippines when the President was out of office.

The Ambassador's daughter is married to a nephew of Vice President Lopez of the Philippines. President Marcos and his Vice President have been at serious odds since January this year. However, Ambassador Lagdameo was reported to have asked to be relieved of his duties even prior to the break with the Lopez family because of his wife's ill health. He was persuaded to stay on, and most of his energies this year have been devoted to preserving the Philippine sugar quota in the legislation revising the US Sugar Act. In both the House and Senate Committee versions of this Act, the Philippine sugar quota, which stood at 1.5 million tons last year (basic quota plus share of others' deficits) is to be reduced. The House Committee version provides for an effective overall quota of 1.3 million tons while the Senate version would reduce it by an additional 60,000 tons. It was only last year that, with the establishment of new milling capacity, the Philippines was able to meet its quota of 1.5 million tons and there is much resentment in Manila - which Ambassador Lagdameo has expressed publicly and with increasing bitterness - over the cut, resulting as it does in a loss of foreign exchange earnings estimated at some \$30 million per annum. The House and Senate Committees are scheduled to meet in conference in September.

Ambassador Lagdameo was present last April at the inaugural meeting of the Consultative Group for the Philippines in Paris. As a follow up to that meeting the Philippines was successful in negotiating last month a loan from Japan amounting to \$65 million (\$40 million commodity plus \$25 million project aid) repayable over 20 years at  $3\frac{1}{2}$  percent. This loan brings to \$200 million the amount of official aid (other than Japanese reparations) committed or likely to be committed in the present fiscal year, as suggested by the Bank at the Consultative Group meeting. You may wish to express your pleasure to the Ambassador at this good start for the Consultative Group and take the occasion to say that it is a gesture of support for the Philippines which you hope they will continue to earn. A copy of the Country Program Paper which we are to review with you on August 12 is attached.

Ambassador Lagdameo is scheduled to leave Washington on August 23.

Attachment

President has seen



9



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.

President has seen



PHILIPPINES

- 2 -

October 7, 1971

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

*ma. Gould*

cc: Messrs. McNamara  
Knapp  
Cope  
Goodman  
Fontein  
Street  
Christoffersen







## OFFICE MEMORANDUM

TO: Files

FROM: Douglas J. Fontein *DJF*

SUBJECT: Call on Mr. McNamara by Ambassador Romualdez

DATE: October 27, 1971

Yesterday at 4:45 p.m. the new Philippine Ambassador to the United States, Mr. Eduardo Romualdez, accompanied by Dr. Mapa, called on Mr. McNamara. I was also present.

Ambassador Romualdez said the purpose of his visit was to present his respects to Mr. McNamara. Mr. McNamara said that he was delighted at the prospect of his visit to the Philippines where the Bank had an active lending program. He hoped to learn more about the country's problems and possible ways in which we might help to solve them. In response to a remark by Ambassador Romualdez, Mr. McNamara said that he would expect the Asian Development Bank, the World Bank and bi-lateral donors, including in particular Japan, to increase their activity in the East Asia and Pacific region significantly in response to the increasing needs of the area. He said that while in the Philippines he would call on Mr. Watanabe, President of the Asian Development Bank with which we had close working relationships.

Ambassador Romualdez said that President Marcos hoped to convene a meeting of Asian lenders in Manila to discuss the effects of the decrease in U.S. involvement in the area and other matters of common concern.

Commenting on a remark by Dr. Mapa that Mr. McNamara would have a meeting with leaders of the Philippine Congress, Mr. McNamara said that he was anxious to meet them in order to get a better understanding why the Congress did not act more expeditiously on such matters as taxes and utility rates. He felt that the Philippines were paying a severe price for the failure of Congress to act and he wanted the Congressional leaders to understand how serious the problem was. Ambassador Romualdez said he hoped Mr. McNamara would meet with Senators Villareal who should have returned from Russia by the time of Mr. McNamara's visit, Puyat (President of the Senate) and Diokno. In conclusion, the Ambassador wished Mr. McNamara a pleasant stay in the Philippines. Mr. McNamara said he was sure he would enjoy his stay and expressed his appreciation to President Marcos and his associates for all the arrangements made for his trip.

DJFontein:gwh

cc: Mr. McNamara  
Mr. Christoffersen  
Dr. Mapa  
Mr. Street  
Mr. Gould

OCT 28 3 58 PM '71

CENTRAL FILES  
RECEIVED

President has seen



## OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: October 22, 1971

FROM: Douglas J. Fontein

SUBJECT: PHILIPPINES: Visit of Ambassador Eduardo Z. Romualdez

Ambassador Romualdez will call on you on Tuesday, October 26, 1971 at 4:45 p.m. Mr. Romualdez was appointed Ambassador in September 1971 and presented his credentials to President Nixon on October 13, 1971. Formerly influential in financial and business circles having held a number of important positions in the private sector, Mr. Romualdez served as Secretary of Finance from 1966 to 1970. He is the uncle of Mrs. Marcos and was semi-retired when asked by the President to become the Ambassador to the United States. He is 62 years old.

Since his arrival in Washington, the Ambassador has been involved in discussions with the U. S. Government on two major issues:

- (i) the Philippine Sugar Quota - under the terms of the U.S. Sugar Act which is expected to be signed by the President soon, the Philippines Sugar Quota which stood at 1.5 million tons last year (basic quota plus other deficits) will be reduced to 1.3 million tons. The Embassy has sought unsuccessfully to restore the original quota as the reduction will result in a loss of foreign exchange estimated at \$30 million per year.
- (ii) the U.S. 10 Percent Import Surcharge: About 40 percent of Philippine exports to the United States are exempt from the surcharge as they come in duty free or under special quota arrangements. The U.S. Government has ruled that the remainder of Philippine exports to the United States will be subject to an 8 percent surcharge, as under the terms of the Laurel-Langley Agreement, Philippine products are subject to only 80 percent of the regular rate of customs duties. Philippine officials have maintained that under the terms of the Agreement, there is no authority to apply any surcharge to Philippine products.

Mr. Romualdez's visit is mainly a courtesy call and he is not expected to raise operational matters, though he may mention your trip, the arrangements for which appear to be well in hand at the present time. If the Ambassador asks, you might mention that we hope to be able to begin negotiations for a livestock loan in December and for a power loan in January. There are also reasonable prospects for presenting to the Executive Directors loans for education and the Private Development Corporation of the Philippines (PDCP) during the present fiscal year. A copy of our current lending program is attached.

Attachment

President has seen



POPULATION: 35.9M

PAGE 49

GNP PER CAP: \$ 180

IVA PHILIPPINES - 5 YEAR OPERATIONS AND LENDING PROGRAMS  
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM		1972	1973	1974	1975	1976
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6-PHL-AC-03 AGRICULTURAL CREDIT III	IBRD		15.0*			
6-PHL-AC-04 AGRIC. CREDIT IV	IDA					15.0
6-PHL-AF-01 FISHERIES	IBRD		5.0			
6-PHL-AF-02 FISHERIES II	IBRD					10.0
6-PHL-AI-02 IRRIG. II (NUEVA ECIJA)	IBRD			10.0		
6-PHL-AI-03 IRRIGATION III MAGAT	IBRD					35.0
6-PHL-AL-01 LIVESTOCK	IBRD	5.0				
6-PHL-AL-02 LIVESTOCK II	IBRD				10.0	
6-PHL-AN-02 RICE PROCESSING II	IBRD				20.0	
6-PHL-AP-01 COCONUT REHABILITATION	IBRD			5.0		
6-PHL-AX-01 AGRIC. UNIDENTIFIED I	IDA				5.0	
6-PHL-AX-02 AGRIC. UNIDENTIFIED II	IDA					10.0
6-PHL-CX-01 TELECOMM. UNIDENTIFIED	IBRD			10.0		
6-PHL-DD-04 PDCP IV (DFC)	IBRD	20.0				
6-PHL-DD-05 PDCP V (DFC)	IBRD			20.0		
6-PHL-DD-06 PDCP VI (DFC)	IBRD					20.0
6-PHL-EE-02 EDUCATION II	IDA	10.0				
6-PHL-EE-03 EDUCATION III	IBRD				10.0	
6-PHL-NN-01 POPULATION	IDA			4.0		
6-PHL-PP-02 POWER VI	IBRD			20.0		
6-PHL-PT-01 POWER V	IBRD/I	32.0				
6-PHL-QQ-01 TOURISM	IBRD				10.0	
6-PHL-TH-02 HIGHWAYS II	IBRD		35.0			
6-PHL-TH-03 HIGHWAYS III	IDA				25.0	
6-PHL-TP-02 PORTS II	IDA		10.0			
6-PHL-TP-03 PORTS III	IDA				10.0	
6-PHL-UX-01 URBANIZATION-UNIDENT.	IDA					5.0
6-PHL-WU-02 WATER SUPPLY II	IDA			20.0		

\* Due to the slow disbursements under Agricultural Credit II, it has now been decided that this operation should be postponed to FY 1974. EA&P 10/21/71



POPULATION: 35.9M

GNP PER CAP: \$ 180

IVA

PHILIPPINES - 5 YEAR OPERATIONS AND LENDING PROGRAMS  
(BY FISCAL YEAR - AMOUNTS IN \$ MILLIONS)

OPERATIONS PROGRAM

1972 1973 1974 1975 1976  
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	1964-68	1969-73	1972-76
IBRD	68.2	195.8	282.0
IDA		30.0	124.0
TOTAL	68.2	225.8	406.0
NO	5	13	28

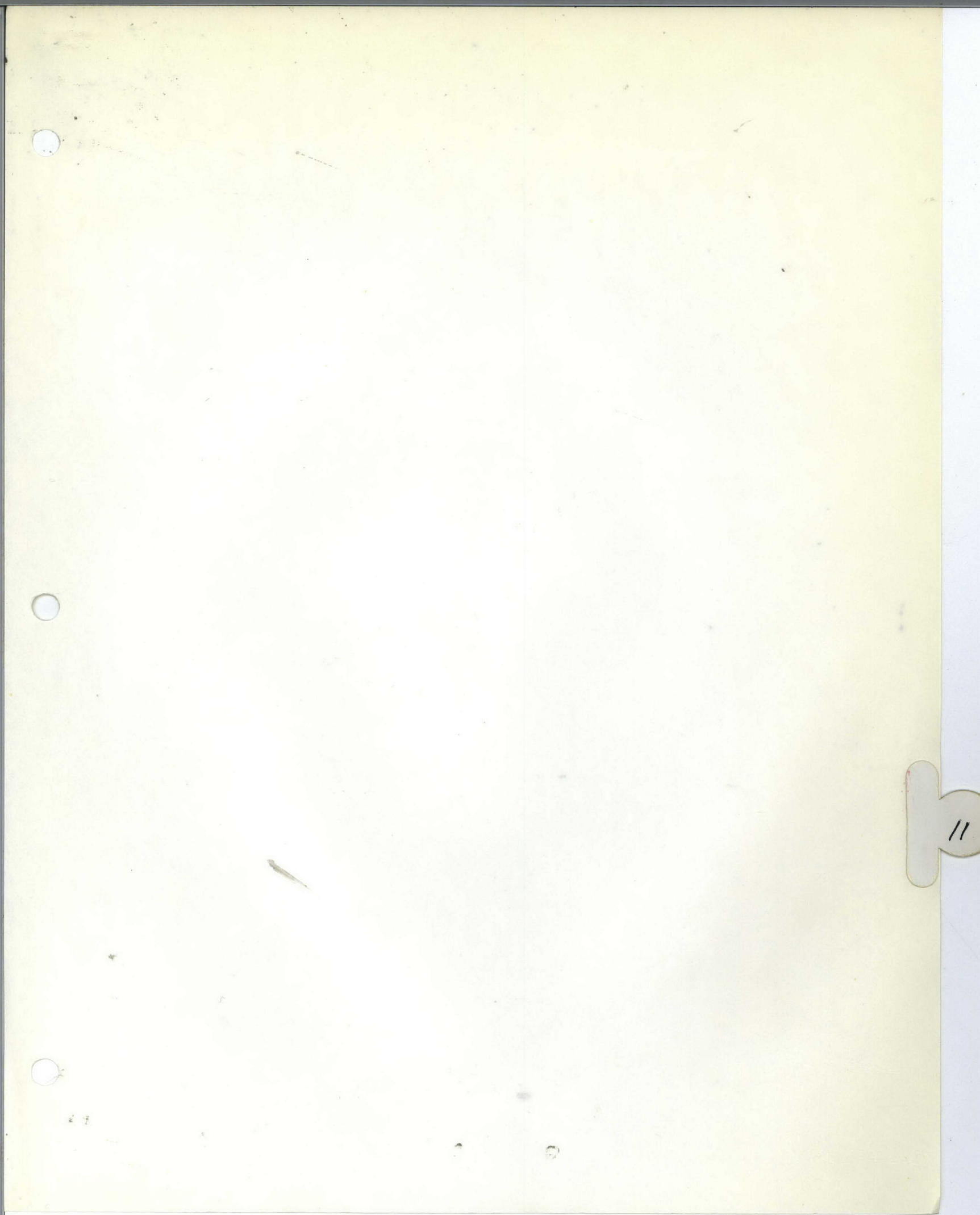
IBRD	47.0	55.0	65.0	50.0	65.0
IDA	20.0	10.0	24.0	40.0	30.0
TOTAL	67.0	65.0	89.0	90.0	95.0
NO	4	4	7	7	6

LENDING PROGRAM ( 8/16/71)

IBRD	68.2	180.8	217.0
IDA		30.0	10.9
TOTAL	68.2	210.8	227.9
NO	5	12	22

IBRD	47.0	40.0	60.0	40.0	30.0
IDA	10.0	20.0	20.0	29.0	30.0
TOTAL	57.0	60.0	80.0	69.0	60.0
NO	3	4	5	5	5











November 24, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Mr. McNamara's Visit to the Philippines:  
General Meeting at Malacanang, November 13, 1971,  
9:00 - 12:00

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After a brief private meeting with the President, Mr. McNamara was briefed by leading government officials on major economic issues and development programs. Present for the Government were President Marcos (part time) and other top officials. Present for the Bank were Messrs. McNamara, Goodman, Clark, Christoffersen and Gould.

President Marcos welcomed Mr. McNamara to the Philippines and outlined the Government's recent developmental efforts. He stressed improvements in Government administration indicating the importance of technocrats in high levels of Government, the Government reorganizational reform proposals to be introduced to Congress in 1972 and regional planning. He also said that the Government was giving particular priority to social projects in the fields of housing, rural electrification and community development. Finally, he pointed out that the Government had made substantial efforts to increase taxation and that public revenues had grown at a rate of 13 percent a year between 1965 and 1970, a rate of growth unprecedented in Philippine history. He also said that his administration clearly recognized the importance of continuing tax efforts in order to redistribute wealth in the economy and to raise funds necessary for public infrastructure and social programs and for expanded efforts in national defense to combat Maoist-type subversion. Finally, he stressed the importance of foreign assistance to the Philippines development efforts and expressed his appreciation for the Consultative Group, the members of which had provided \$200 million in foreign assistance to the Philippines.

Mr. McNamara said that recent economic initiatives in the Philippines gave "the strong impression of immense progress". He particularly congratulated President Marcos for recent improvement in the fields of taxation, debt management and family planning.

President Marcos said that he had recently notified Congress of the need for an additional ₱800 million to support development programs. He said that Senate President Puyat was a strong supporter of this taxation and that the Congress was now more favorably inclined towards new tax measures. He also said that he was presently seeking a reapproachment with the political opposition and was prepared to allow Liberal Party members to participate actively in the Government.

The following briefing discussions then took place:

1. The Four-Year Development Plan. Mr. Sicat discussed the following development objectives:



- (a) Increase in per capita income - the plan projects that GNP will grow at a rate of 6.5 percent in 1972 and 7 percent a year thereafter. Per capita income is therefore expected to grow at a rate of about 4 percent per annum during the plan period.
- (b) Improve income distribution - the Government is re-orienting its taxation and expenditure policies to assist the poorer strata. Particularly important will be social expenditure for rural infrastructure, land reform, education, vocational and technical education, water supply and rural transport.
- (c) Provide additional employment - in rural areas the Government will liberalize agriculture credit, conduct an expanded program of public works and encourage the development of local industries. In its general industrial planning policies, the Government expects to give higher priority to employment considerations.
- (d) Encourage regional industrialization and development - of particular importance in this area are efforts to improve regional planning in the fields of transport, telecommunications, tourism and family planning.

Mr. McNamara asked why there was little information on income distribution contained in the Plan and whether the Government had collected any data on this.

Mr. Sicat said that the basic structure of income distribution had not changed over the last 15 or 20 years. While the tax structure had some regressive features, the effects of these were to a large degree compensated by the fact that Government expenditures had benefitted mainly the lower classes.

Secretary Virata said that the Government hoped to initiate tax measures during the next year or two which would provide about ₱800 million. An increase of this magnitude would have the effect of raising the ratio of public revenues to GNP from 14 to 16 percent.

Mr. Goodman said that the Bank was concerned not only about the magnitude of taxation but the regressive nature of the tax structure.

Secretary Virata said that the regressiveness of the tax structure was often overstated as many of the indirect taxes had progressive features. Sales taxes on luxury items, for example, were highly progressive in their impact. He also said that one major problem was how to tax effectively the agriculture sector.



2. Family Planning. Dr. Lorenzo reported that the Commission on Population (POPCOM) presently estimated that by 1976 50 percent of eligible couples would have at one time or another practiced family planning. If this target was reached the rate of population growth would drop from 3.1 to 2.3 percent in 1976. Family planning efforts are presently concentrating on increasing the number of family planning clinics to 1,870 by 1974; training increased numbers of doctors, nurses, mid-wives and extension workers; research activities to study retention rates and age specific fertility rates; and public information activities. Expenditures for family planning activities are expected to increase from ₱65 million in 1972 to ₱80 million in 1976 with the direct budgetary component increasing from ₱6.0 million to ₱15.0 million during the same period. In response to a question from Mr. McNamara, Mr. Lorenzo said that about 50 percent of acceptors used pills, 20 percent IUD, 20 percent rhythm and the rest other methods. The cost of a loop would be about .17¢ while the cost of pills would be about ₱5 per month.

Mr. McNamara complimented Mr. Lorenzo on the very impressive beginning of the Philippines Family Planning Program.

3. Education - Mr. de Alba outlined the main issues for Philippine education indicating that substantial improvements in the quality of education were required. The high output of educated personnel had led to substantial numbers of educated unemployed, but nonetheless shortages of critical skills remain. He pointed out that 83 percent of the National Government's educational expenditures are for primary education and that 60 percent of secondary and 92 percent of higher educational school expenditures are privately financed. Secondary education is the weakest link of Philippine education and instruction in science and mathematics has been particularly weak. Mr. de Alba then listed the main projects which the Government had submitted for IBRD financing:

- (a) Secondary schools - the proposed new schools would have a strengthened vocational program and would provide better training in science and mathematics.
- (b) Regional National Science Training Center and 10 regional manpower training centers.
- (c) Three high quality regional agricultural colleges to produce agricultural technicians and professional manpower.
- (d) Three regional technical institutes and upgrading of existing trade schools.
- (e) A management study of the Department of Education.

4. Employment and Industrial Policy - Mr. Paterno said that about 18 percent of the population are visibly unemployed in the Philippines. The situation in rural areas is particularly difficult where large numbers of agricultural laborers work less than 20 weeks a year. There is thus a need for irrigation expansion and crop diversification to allow the land to be worked more months



of the year. Cottage industries may also play an important role. In this connection, DBP is giving emphasis in its lending policies to small and medium scale industries.

With regard to industrial policy, Mr. Paterno reported that the exports of BOI registered industries are increasing. In the area of automobile and appliance manufacturing there is a need to increase gradually the percentage of components which are locally made. There are also plans for regional specialization with other Asian countries to allow for economies of scale.

Mr. McNamara asked Mr. Paterno to inform the Bank if there is anything the Bank can do to assist in the promotion of such regional specialization.

Mr. Paterno then referred to the BOI foreign investment study which would provide the information necessary to make rational decisions with regard to foreign investment. He also pointed to the need for cooperation between the small and medium industries of developed and developing nations.

Mr. Virata also suggested that there was a need for PDCP to lower its minimum loan size to assist small and medium industries.

Mr. McNamara said that he agreed with the need to encourage small industries and said that we would look into the question of Bank restrictions on the minimum size of PDCP's loan when he returned to Washington.

Mr. Paterno in response to a question from Mr. Goodman said that there was now much less concern about foreign disinvestment resulting from the expiration of the Laurel-Langley Agreement.

5. Government Reorganization - Mr. Fabella said that the main guidelines for his report were that the recommendations were confined to the executive branch, should result in no increase in the cost of Government operations and would be submitted to Congress on an all or nothing basis.

The main recommendations are:

- (a) Decentralization - reduction in the cabinet size from 19 to 15 and the decentralization of the departmental structure - the country would be divided into 10 administrative regions and PES is now drawing up regional development plans. The eleven existing development authorities would be replaced by 10 regional development councils.
- (b) New Planning Machinery - PES and NEC would be amalgamated into the National Economic Development Authority which would oversee all Government planning activities.
- (c) Reduction in the number of agencies reporting to the President.
- (d) Rationalization of departmental structure.



Mr. Fabella said that discussions with Congress are presently underway and while a few compromises might be necessary the prospects for Congressional approval are favorable.

6. Present Administrative Activities - Mr. Orosa described PES regional planning activities and called to Mr. McNamara's attention the publication, Towards a Regional Development Strategy. He also said that the Government's line agencies were not producing a sufficient number of new projects and that a project formulation office had been established within PES to undertake this task. Possible future projects are being studied in the areas of land resettlement, sugar production, hospitals and rural water supply.

Mr. McNamara said that he was pleased with the improvement in project implementation which had taken place in the last two years or so and was impressed with the efforts of the Government to further strengthen its implementing capacity. He also stressed the importance of building up an adequate project pipeline to ensure that the Government could make effective use of available foreign assistance.

7. Rural Electrification - Only about  $7\frac{1}{2}$  million of a total population of 39 million receive electric services. Of those having electric services, about half live within a radius of 20 miles of Manila. Power consumption is low by international standards and is poorly distributed within the Philippines. Rural electrification is considered to be one of the most effective means of arresting urban migration as it improves the standard of living and increase productive possibilities in rural areas. In the next two years, the Government plans to set up and service 36 electricity cooperatives of 100,000 - 200,000 people each. The total costs are about ₱600 million and financial assistance will be provided by USAID and Japanese reparation payments. Two projects in Mindanao and the Visayas are about to begin operation and six more are now being designed. It is hoped that it will be possible to electrify the entire country within about 20 years.

Mr. Melchor stressed the employment generating aspects of these projects both in terms of direct construction employment opportunities and the indirect employment created through the encouragement provided to industrial and agricultural production.

Mr. McNamara said that it was exceedingly important to reduce urban migration and that rural electrification was one important means of accomplishing this objective.

8. Development of Financial Institutions - Governor Licaros said that in the past there had been too much reliance on the Central Bank which had provided about half of all credit needs. The financial sector is weak in the Philippines and a study of this question is being undertaken in consultation with the IMF. The Government has plans to expand the number of rural banks from 500 to 1,000 during the next five years.



November 24, 1971

Mr. McNamara noted the rural credit was particularly important in the Philippines where fertilizer consumption is very low by international standards.

Governor Licaros said that the Central Bank Certificates of Deposit were being used as a means of transferring funds to rural areas.

Secretary Tanco reported that disbursements under the IBRD-financed rural credit project had increased from ₱600,000 to ₱1.5 million per month during the last six months. He also welcomed Bank loans for rice processing and livestock which are to be channelled through DBP.

Michael A. Gould

cc: Messrs. McNamara  
Knapp  
Aldewereld  
Clark  
Diamond



13



November 26, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Congressional Leaders at Savoy Hotel  
November 13, 1971  
15:01 - 16:30

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Present at the Meeting for the Philippines were Secretary Virata; Senators Puyat, Aquino, Benitez, Diokno, Roxas and Teves; and Congressmen Villareal and Sarmiento. Present for the Bank were Messrs. McNamara, Goodman, Christoffersen and Gould.

Senator Puyat opened the meeting by saying that the expansion in lending contemplated by the Bank would necessitate an increase in local tax revenues.

Secretary Virata said that it was necessary to increase the ratio of taxes to GNP by 2 percent which would create a need for an additional ₱800 million in tax revenues.

Congressman Villareal said that there was a widespread impression that the Philippines was being discriminated against as it was not receiving IDA assistance. If IDA funds are made available, Congress would be willing to approve additional taxation.

Mr. McNamara said that during the period 1964-68 the Bank had provided an average of \$15 million a year which is a relatively small amount given the economic needs of the Philippines. We have already begun to increase the level of our assistance to the Philippines and with high standards of performance on the part of the Philippines, it should be possible for the Bank to lend at least \$50 million a year. We have not provided IDA assistance in the past because we did not consider that it was justified in view of the Philippine relatively poor economic performance including:

- (a) failure to provide the local resources required for development;
- (b) poor implementation of Bank assisted projects stemming from weak administration, complex legal problems involved in getting projects started, and political difficulties in fulfilling provisions of loan agreements, particularly in connection with required rate increases; and
- (c) weak financial management of the economy which has led to an acute foreign debt situation.

Mr. McNamara, however, pointed out that the Philippines has made great progress on all of these points in the last  $1\frac{1}{2}$  - 2 years. The Bank would be willing to lend to the Philippines \$50-70 million a year,  $1/4$  -  $1/3$  on IDA terms assuming the following conditions are met:



November 26, 1971

- (a) the Government is able to continue to increase the level of public resources available;
- (b) the Government formulates a sound development program which provides for reasonable increases in the rate of economic growth and for income equalization; and
- (c) an adequate pipeline of projects which can be expected to be well administered is provided for.

Congressman Villareal said that Congress is ready to increase taxation, but that success in doing so will depend on the availability of IDA assistance.

Senator Roxas said that the main difficulty in increasing taxation is the widespread feeling in the country that those public resources which have been raised have not been put to good use. The first step is therefore to improve administrative performance.

Senator Aquino said that present Government priorities are misguided. Only 21 percent of present Government expenditures are for economic development. Much of existing Government resources are diverted to a so-called social fund which is no more than a "kitty" for political purposes. He was also alarmed by the increase in defense expenditure.

Congressman Villareal asked what percentage of taxation to GNP could be considered as sufficient.

Mr. McNamara said that anything less than 16 percent should be considered as poor.

Senator Diokno said that the Philippines is a democratic country and that it is therefore necessary to convince the people that they are getting something in exchange for the taxes they pay. He said that it might be difficult to raise public revenues by ₱800 million on the basis of Bank lending of \$50-70 million. There is a need for a clear cut program and an assurance that the Bank will finance this program.

Mr. Goodman also suggested that it was necessary to take into account the level of official aid provided by the Consultative Group, chaired by the Bank, which amounted last year to \$200 million compared to a total public sector requirement of \$550 million.

Senator Pelaez said that he was pleased that the Bank was considering increasing its assistance to the Philippines and noted that agriculture deserved first priority. He also stressed the need for technical assistance in developing projects and for effective implementation of projects. He said that too much emphasis had been given in the past to infrastructure and that efforts to increase nutrition are of critical importance.

Mr. McNamara said that he had been impressed by recent Government efforts in the field of rural electrification, particularly since rural electrification would be a primary means of retarding urban migration.



November 26, 1971

Congressman Sarmiento said that he fully supported an expanded tax program but the Senate had been the primary obstacle in this regard.

Senator Teves stressed the need to increase agriculture production and asked the Bank to provide a concessional loan for feedgrain production.

Senator Benitez presented a memorandum on housing to Mr. McNamara and said that housing deserved higher priority than the Government was presently according to it.

Mr. McNamara said that the housing requirements of most underdeveloped countries were immense and far exceeded the ability of the Bank to provide assistance. He did, however, say that the Bank would in some cases be willing to provide limited amounts of assistance for sites and services.

Michael A. Gould

cc: Messrs. McNamara  
Knapp



SAT.

M. T. W. / C. H. G.  
LEADERS

For 15.00 hrs.  
M. T. W.

REPUBLIC OF THE PHILIPPINES

Housing

As you may note from the attached newspaper clipping, Senator Helena Z. Benitez, Chairman of the Senate Committee on Housing, Urban Development and Resettlement will probably raise with you the possibility of Bank assistance for housing development in the Philippines. She has previously discussed this matter with the Bank's Special Projects Department in Washington and with Mr. Gould this week in Manila. She has been told that while the Bank can, in principle, finance "site and services", our ability to do so would be dependent on the formulation of an overall national housing policy and on the preparation of feasibility studies providing technical, financial and economic justifications for the proposed investments. In this latter connection, it has been suggested that the Government might first approach UNDP if high priority is attached to eventual foreign financing of housing projects.

The Government estimates housing requirements at 470,000 dwellings per annum, about 100,000 of which



would represent urban housing needs. The number of slum squatters in Manila alone is conservatively estimated at about 200,000 people.

The urban housing problem is particularly serious because of the relatively high costs estimated at ₱17,500 per lot and house. It is estimated that only 12 percent of urban families can finance these costs from their own or commercial sources, and 23 percent more can afford mass-produced housing on government-owned or controlled land financed by Government supported loans. The remaining 65 percent would require even more highly subsidized housing.

During the period 1966-70, the People's Home-site and Housing Corporation, the Bureau of Public Works, the Armed Forces and the National Housing Corporation built 1,852 units having a total cost of ₱10 million. Government housing loans from the Government Social Security System, the Social Security System and the Development Bank of the Philippines financed the construction of an additional 51,000 units having a total cost of over ₱1 billion.

The Government will probably expand its housing



program very substantially during the next four or five years and this makes all the more evident the need for an overall housing policy, consideration of the priority to be given to housing relative to other development objectives, the rationalization of the activities of the large number of existing housing agencies and attention to the careful preparation of feasible projects. We will be discussing this matter further with the Government to determine whether the Government is interested in moving ahead in these directions and whether the Bank can be of assistance.

If asked, you may want to point out to Senator Benitez that an expansion in the housing program will primarily depend on the availability of local currency resources as the foreign exchange component of such investment is low. If the Philippines is committed to an expansion of housing, legislation authorizing additional local taxation for this purpose will be required.







November 26, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Businessmen at Savoy Hotel  
November 13, 1971 16:30 - 18:00

Present for the Philippines were Messrs. Virata, Chua, Elizalde, Montelibano, Roxas, Sarmiento, Soriano, Sycip, Villanueva and Zobel.

Present for the Bank were Messrs. McNamara, Goodman, Christoffersen and Gould.

Mr. McNamara opened the meeting by saying that the Bank had in the past provided only relatively small amounts of assistance to the Philippines and that development depended primarily on the efforts of the Philippines themselves. He asked about

- (1) whether the business community is willing to support increased taxation;
- (2) the reaction of the business community to the Government's development programs; and
- (3) how the Bank might best assist the Philippines in the future.

Mr. Elizalde indicated that initial investment costs for new industries are extremely high and that there is a significant need for Government capital support. He said that the trouble with increasing taxation was the widespread feeling that not everyone is required to pay.

Mr. Soriano said the Government should increase its efforts in housing.

Mr. McNamara said that the housing requirements of developing nations are immense, but that the Bank is prepared to provide limited amounts of sites and services assistance.

Mr. Montelibano said that he favored local food processing industries which provided maximum employment with a minimum amount of capital. He indicated that the first priority requirement of the Philippines was for agriculture and supporting transport and processing facilities.

Mr. Sycip said that the business sector will support increased taxation if it felt that the money is being well spent. He said that there has in the past been too much political intervention in the areas of tax collection and provision of credit.

Mr. Villanueva cited the "Philippine Businessmen for Social Progress" as an example of the willingness of the business community to tax themselves in order to provide for the country's needs. The goal of this organization is to mobilize one percent of total business profits for public purposes. The business community will be willing to bear increased taxation so long as they are convinced that:



- (1) the purposes of the tax are justified; and
- (2) the tax will be implemented uniformly.

Mr. Sycip suggested the possibility of a special tax for IBRD projects.

Mr. McNamara pointed out that it is not just the Bank which is involved but other donors as well.

Mr. Roxas said that the Government emphasis on taxes which are easy to administer has led to discrimination against certain industries. The export tax is a prime example. He also said that income taxes involving withholding provisions were progressive in theory, but regressive in fact. Moreover, import duties are poorly administered as smuggling is rampant and most customs officials are under the protection of politicians. Industry would be greatly benefitted by an improvement in transport facilities, particularly railways.

Mr. Villanueva said that there is a need for greater Bank assistance to the industrial sector, but pointed to the following problems:

- (1) Bank requirement of a Government guarantee makes private corporations vulnerable to political pressures. Though this has not happened in the case of PDCP, there may be a case here for increased IFC assistance in many countries;
- (2) the requirement applying to PDCP in the Philippines to provide assistance only to BOI approved industries creates a bias towards established enterprises;
- (3) there is a need for local currency financing under Bank loans to development finance companies as present Bank policies encourage foreign imports at the expense of local products for which credit is in short supply;
- (4) the Bank's debt equity requirements are too stringent and eliminate otherwise qualified borrowers in rural areas; and
- (5) the Bank's minimum loan limits are too high and prevent private development companies from lending to qualified smaller borrowers.

Mr. McNamara said that the Bank would need to continue to rely on Government guarantees, but that we would be prepared to review points (3) - (5) upon return to Washington.

Mr. Zobel described the resettlement scheme which his family had financed which is based on the Israeli Kibutz.

Mr. McNamara said that the Bank was prepared to finance any system of agricultural production so long as it was efficient and equitable.

cc: Messrs. McNamara  
Knapp  
Clark  
Diamond

Michael A. Gould





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November 29, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting at International Rice Research Institute (IRRI)  
November 14, 1971 9:30 - 10:30

Mr. Chandler, Director of IRRI, reported that new strains of rice had permitted a doubling of rice yields under proper management conditions. Water and fertilizer are the essential inputs and with further experimentation it may be possible to eliminate the need for insecticides and fungicides. The net profit accruing to farmers as a result of using new varieties is 53 percent. Of critical importance are extension services which link experimental results to the farm situation. In response to a question from Mr. McNamara, Mr. Chandler said that the ratio of extension officers to farmers in the Philippines is 1/1,200 compared to 1/3,000 in Thailand.

Secretary Tanco said that there was a need for a four-fold increase in the number of extension officers in the Philippines. There is also a need for improved transport facilities for extension officers so that they can visit the field more frequently.

Mr. Chandler said that IRRI is now beginning to work on upland rice varieties with a view toward breeding in drought resistance and higher protein content. The latter is particularly difficult as in general protein content varies inversely with yield.

Mr. McNamara asked whether IRRI should provide on a regular basis advice to Asian Governments on agricultural policy.

Mr. Chandler said that IRRI had done this only on an informal basis in the past.

Michael A. Gould

cc: Messrs. McNamara  
Clark







November 29, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting at Los Banos, November 14, 1971 10:30 - 12:30

Mr. McNamara visited the University of the Philippines College of Agriculture (UPCA) campus and after a short briefing session at the student center was given a brief tour of the campus. Following lunch, Mr. McNamara visited a family planning center at Laguna de Bay and met with a small group of local farmers.

Michael A. Gould

cc: Messrs. McNamara  
Clark



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November 29, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with Mr. William Harding, UNDP Resident  
Representative, at Savoy Hotel November 14, 1971  
16:00 - 16:30

Mr. Harding said that the UNDP Country Programme Proposal for the Philippines had recently been completed and expressed his appreciation for the Bank's comments which had been taken into account in drafting the final version. The pre-investment component of the \$ 20.0 million program is 27½ percent.

With regard to the current economic situation, Mr. Harding said that during the last year and a half with the elevation of the "Technocrats" to positions of influence the country had begun to make more effective use of its considerable physical and human resources. There is perhaps a need to increase the salaries of high level personnel to ensure the continuance of quality at this level of Government.

Mr. McNamara said that he, too, had been impressed with the intelligent articulate people in influential positions who are contributing to the measurable progress of the Philippine economy. He said that he was pleased with UNDP's Country Programme proposal and endorsed the need for a world-wide comprehensive review of pre-investment requirements.

Mr. Harding noted that the Philippines could effectively utilize a 50 percent increase in UNDP's technical assistance program. He said that he would like to roll into one the three road studies included in UNDP's Country Programme.

Mr. Goodman said that a highway mission would arrive in the Philippines in December and that this would be a suitable occasion to discuss this matter further.

Mr. Harding said in response to a question from Mr. McNamara that UNDP-ADB relations had improved noticeably during the last two months or so and that ADB had agreed to serve as executing agency for two Laguna de Bay projects. He also said that there has been substantial improvement in UNDP's relations with the Bank, though relations were still uneven. There is a need for more in-depth country discussion.

Mr. McNamara asked Mr. Harding to inform the Bank if any problems in this regard arose in the future.

Mr. Harding, responding to a question from Mr. McNamara, said that he was somewhat less optimistic than USAID about the prospects for family planning in the Philippines as existing statistics are open to question and there is little information on retention rates.

Mr. McNamara concluded the meeting by stressing the need for UNDP assistance to IRRI as the annual requirements of the institute of \$3 million will not be met without the active assistance of the U.N. family.

cc: Messrs. McNamara  
Knapp  
Demuth  
Clark

Michael A. Gould



18



November 29, 1971

MEMORANDUM FOR THE RECORD

SUBJECT: Meeting at President Watanabe's Residence with ADB Directors  
and subsequently, Board of Executive Directors, November 14,  
1971 17:00 - 19:00

Mr. Watanabe said that the question of Nationalist China did not pose as serious a question for ADB as for IBRD because ADB is not an official member of the U.N. family, Nationalist China joined ADB after the China division and there is no provision in ADB's Charter for eliminating a member country once membership procedures have been completed. He said that two projects had been submitted to ADB's Executive Directors and that it was expected that these would be approved during the next several weeks. Loan Commitments to Nationalist China to date amount to about \$65 million, of which about \$5 million have been disbursed. In response to a question from Mr. McNamara, Mr. Watanabe said that ADB was planning small bond issues in Austria and Belgium and that the underwriters had not yet raised issues regarding the China question.

Mr. McNamara said that the situation of IBRD and ADB were similar as the countries represented on the respective Boards of Executive Directors were about the same and that therefore similar political considerations would apply.

Mr. Watanabe said that if the China and Pakistan projects did not go through ADB would not realize its target of surpassing last year's level of loan commitments of \$245 million. He said that a \$21 million project for the Karachi power transmission was ready for Board submission, but that this was being held up pending an improvement in Pakistan's economic situation.

Mr. McNamara said that Pakistan projects had been removed from the Bank's agenda because the economy is presently so disrupted that it would be impossible to employ external resources effectively. The Consortium Members are also very reluctant to assist West Pakistan at the present time and a meeting scheduled to provide debt servicing accommodations had to be cancelled because of the lack of support of Consortium Members.

Mr. Watanabe expressed his satisfaction with cooperation on the Mekong and asked whether the Bank would provide assistance to Laos, Cambodia and South Viet Nam.

Mr. McNamara said that the Bank was not likely to become involved until the economic situation improved, particularly since the U.S. was already providing substantial capital assistance, but the Bank might become more active in these areas once a military settlement was reached.

Mr. Krishna Moorthi asked about the Bank's role in the Cambodian exchange stabilization fund.



Mr. Goodman said that the fund was essentially a problem for the IMF, but the Bank was prepared to participate as an Observer. However, many of the developed countries did not support this scheme so that it might not actually come into being.

Mr. Watanabe said that ADB was prepared to help Laos, Cambodia and South Viet Nam so long as feasible projects can be found.

Mr. Krishna Moorthi in response to a question from Mr. McNamara, said that ADB's had received \$170 million in soft fund contributions, of which about \$80 million will have been committed by the end of 1971. ADB hopes to initiate a first Special Fund replenishment in 1972 which would provide untied funds.

Mr. McNamara commented that the situation looked favorable, particularly if the US \$100 million contribution was received. Mr. McNamara then mentioned that he was very impressed with the work of IRRI and expressed his hope that ADB would be willing to provide some assistance to the Institute.

Mr. Krishna Moorthi said that ADB would be willing to contribute to IRRI and it had already provided funds to the Asian Vegetable Center. However, project assistance would be preferred to budgetary support.

Mr. McNamara said that IRRI's real need was for budgetary support.

Mr. McNamara then met for a few moments with ADB's Executive Directors and answered a number of questions about the Bank and its operations.

Michael A. Gould

cc: Messrs. McNamara  
Knapp  
Demuth  
Shoab