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MEMORANDUM FOR THE RECORD

October 2, 1972

Sub: PHILIPPINES - Meeting of the Philippine Delegation
to the 1972 Annual Meeting with Mr McNamara on
September 29, 1972

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 Humphrey.

10/5
Mr McNamara opened the meeting by asking about the recent declaration of martial law. Secretary Virata said that he hoped the Administration would now be able to enact important economic measures which had been awaiting congressional approval for some time. A number of tax measures could now be promulgated and project legislation for the IDA Education Credit could now become law. He also hoped to modify the export incentive laws to give more scope for foreign investment geared to exports. In addition, the recommendations of the Commission on Banking would be put into effect and interest rates raised to help mobilise savings. Generally, it should now be possible to do things much faster since the Executive Branch would be reorganized and Congress would no longer be an obstacle. He recognized that when full civil liberties were restored there might be criticism and there could be some attempt to undo the measures promulgated during martial law. He hoped that relations with Consultative Group members would improve still further once the economic and social reforms began to show results.

Secretary Melchor said that President Marcos wanted to use martial law to remove some of the inequities in Philippine society. These inequities were only too plain, and the only question was how long it would take to remove them. The President needed the support of the people if martial law was to succeed in reforming society. The technocrats would be left to carry out the social and economic programs while the military maintained peace and order. He felt that the President hoped to relax martial law before the end of his present term.

Mr McNamara said that the Bank was anxious to do what it could to back economic and social reforms. In the past we had been disappointed that measures designed to achieve economic and institutional reforms had not received legislative approval. He added that, provided the political environment was stable and the Administration was making an effective attack on the fundamental economic problems, the Bank was fully prepared to more than double its current rate of lending if an adequate number of projects could be prepared in time. He was extremely disappointed by the size of

President has seen

the FY 1973 lending program which could turn out to be not more than \$30 million. He emphasized that the level of lending could only be significantly increased if the Philippine Administration devoted more resources to preparing projects.

In response to a question from Secretary Virata Mr McNamara explained the aim behind the reorganization of the Bank and in particular why a single Asia region had been recreated by merging the two existing Area Departments. The fact that the opposite action had been taken in the case of Africa did not in any way mean a loss of interest by the Bank in the affairs of Asia.

Secretary Virata asked Mr McNamara whether an interim meeting of the Consultative Group, to mobilise foreign support in the light of the new economic and social program, would be advisable. Mr McNamara said that it was too early to tell. Mr Goodman confirmed this but added that we would be prepared to have a short meeting back-to-back with a Korean meeting in December, if the Government felt that such a meeting would be useful and it had a definite program of action to report to the Group.

W. S. Humphrey
W.S. Humphrey

cc: Messrs McNamara
Knapp
Cargill
Goodman
Street
Ljungh

W. S. Humphrey
WSHumphrey/RJGoodman/dp

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: June 19, 1974

FROM: Raymond J. Goodman *RJS*SUBJECT: PHILIPPINES: Visit of Mr. Cesar Virata, Secretary of Finance

Mr. Cesar Virata, Secretary of Finance of the Philippines, called on Mr. McNamara on Friday, June 14 at 5:30 p.m., accompanied by Mr. Mapa. Mr. Bell and I were present.

Mr. Virata said he would like to discuss the problem posed for the Philippines by their need to put in hand a number of large industrial projects during the next few years. Owing to the nature of the technology involved the scale of these projects had to be rather large, which meant that the investment program would be "lumpy". The only project of this nature that Mr. Virata referred to was a proposed fertilizer plant which he considered of high priority because of the Philippines' present dependence on fertilizer imports. However, he is known to have in mind also steel, copper smelting and aluminum smelting.

6/20
Mr. McNamara said that the Bank was keenly aware of the importance of increasing fertilizer output generally and of helping particular countries to create new capacity where circumstances made this economical. The Bank would therefore first determine whether the proposed Philippine plant represented the optimal solution in terms of its location, scale, feedstock, timing and so on. If the answer to that question was positive, the Bank would undertake the responsibility of getting the plant financed. He hoped that it would be possible to secure the finance entirely or largely from sources other than the Bank, but we would consider making a contribution if need be. The Secretary should not take this as a promise but as an expression of keen interest in the proposal.

Mr. McNamara then took the occasion to review the salient points of the paper on the Five Year Lending Program 1974-78. He urged the Secretary to instruct his Executive Director and Alternate to give strong support to the paper and in particular to the scale of operations proposed for the Bank. Unless approval were given to a program on this order, which even so was inadequate to the needs of the developing countries, the Bank would be unable to help the Philippines to the extent that their circumstances warranted and the Bank was willing to consider. As the Secretary no doubt knew, we were already contemplating a very substantial increase in our lending to the Philippines and there was not a great deal more we could do. However, if the Government's policies continued to move in the right direction, they should not be too much worried about the lumpiness of the program. He did not think that securing financing would be unduly difficult.

In a reply to a suggestion by Mr. Virata, Mr. McNamara said he would like to visit the Philippines to observe the changes that were in progress, but had no immediate plans. They both noted that the 1976 Annual Meetings were likely to be held in Manila, for which a new conference center would be built.

Mr. McNamara said that the Board had been much interested in the recent third loan for Rural Banks and in the progress being made on land reform. Mr. Virata noted that the Government was planning to have the Land Bank, which had a major role in financing transfers under the land reform program, take over from the Central Bank its wholesaling function in respect of the rural banks.

In that connection the Secretary said he thought it would make sense for the Land Bank to take over some of IFC's investments in the Philippines. The Government's policy was to see that more savings were directed towards land development and would like at the same time to ensure that former landowners invested their compensation payments in industry. The Land Bank was the principal means for accomplishing this. Mr. McNamara said he would think about this suggestion.

On the matter of the forthcoming increase in the Bank's interest rate, it was noted that the Population and Power projects would go forward at the old rate, but that the Inter-island Shipping project would probably attract the new rate.

cc: Messrs. Knapp
Gaud
Bell
Votaw
Fuchs
Humphrey

RJGoodman/rf

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 13, 1974

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

1. Cesar Virata, the Philippine Secretary of Finance, will call on you at 5:30 p.m. on Friday. He wants to ask you about Bank financial support for some large industrial projects which are planned for the next few years.

6/13
2. I have been talking to Cesar about this. He mentioned a number of large industrial projects which need financing in the next two or three years and asked whether, in these circumstances, the Bank would be prepared to include them in our lending program because of the lumpy nature of these projects. I said that we were already contemplating a substantial increase in our lending to the Philippines for projects in agriculture and public infrastructure. I felt that our program should concentrate on these areas, which have been seriously neglected in the past, and I would be reluctant to see large industrial projects substituted for the kind we are now considering. Virata agreed with this and said he was hoping that the industrial projects might be in addition to the other projects. A specific project mentioned by Cesar is a large fertilizer plant to make ammonia and urea. A feasibility study for this plant has not yet been undertaken and we are trying to arrange for Sam Cottrell, who recently retired, to visit the Philippines in the near future (at GOP's expense) to take a first look at the proposal and advise on the scope of a feasibility study. He could also make a preliminary judgment whether a fertilizer plant, based on locally produced naphtha, is likely to be economical in the Philippines' circumstances.

3. We are now preparing a Special Program Paper on the Philippines which you will review in July. The size of the program for five years FY 75-79 is almost the same in real terms as that approved in April in connection with the FY 74-78 program exercise. The SPP will propose a lending program of about \$1,325 million in FY 75-79 or about \$265 million a year. About 40 percent of the lending would be for agriculture with the rest divided about equally among industry, power, transportation and other. In the program the 15 percent going to industry would be entirely in loans for DBP and for small industry in order to reach medium and small scale operations as well as the larger ones. The operations and lending programs for FY 75 and 76, as they are likely to be presented in the Special Program Paper, are set out below. At this stage, the FY 76 program looks to be strong, at least in terms of amount.

FY 75		FY 76	
<u>Project</u>	<u>Amount</u> \$ mil.	<u>Project</u>	<u>Amount</u> \$ mil.
Population	25 <u>1/</u>	Magat Multipurpose	100
Power VI	61	Highways III	50
Inter-Island Shipping	20	Education III	20
Tarlac Irrigation	18	Lanao Rural Development	15
Mindoro Rural Development	20	Livestock II	15
Small Industry	20	DBP II	60
Tondo Rehabilitation	35 <u>2/</u>	Forestry I	10 <u>2/</u>
Ports III	10 <u>2/</u>	Fisheries II	15 <u>2/</u>
Total Operations Program	209	Water Supply II	15 <u>2/</u>
Total Lending Program	164	Total Operations Program	300
		Total Lending Program	310

1/ Held over from FY 74 owing to crowded Board Schedule.

2/ Likely to be dropped or slip to following year.

4. In general the Philippines, with its strong private sector and good connections with financial institutions abroad, is as well placed as any LDC to find foreign capital for its industrial projects, particularly now that the reserve and debt situation is so much better than it used to be. IFC should be able to help, as it has in the past, provided the projects are not too large. However, Cesar feels that the proposed fertilizer plant may not be attractive to private capital, domestic or foreign, as the Government intends to sell fertilizer to rice and corn farmers - although not to producers of export crops - at prices below the world market. This would not be a problem for us so long as the factory gate price yielded an appropriate return on the investment in the plant.

5. A plant of the size proposed would cost perhaps \$150 million in foreign exchange. We obviously could not accommodate a loan of that amount in our FY 76 program, which is when the project could probably be ready for financing, without displacing other projects. We might consider a joint or parallel operation with supplier or official financing, or a combination of these, and thus limit the Bank loan to say \$40-50 million. This would still mean a large lending program in FY 76, although we could delay the second industrial loan to DBP (\$60 million) until FY 77 if the Government feels that the fertilizer plant has higher priority. However, the fertilizer plant itself may be delayed until FY 77, particularly since

joint operations take time to put together, and the program for that year is not quite as heavy.

Cesar Virata will not be looking for a decision now, but if you agree with the above suggestions you may wish to respond on these lines.

cc: Messrs. Knapp
Bell
Gaud

RJGoodman/WSHumphrey/rf

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OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: July 2, 1974

FROM: Raymond J. Goodman *RJG*SUBJECT: PHILIPPINES: Visit of Governor Gregorio Licaros

Mr. Gregorio Licaros, Governor of the Central Bank of the Philippines, called on Mr. McNamara on Monday, June 17, accompanied by Mr. Gabriel Singson, Special Assistant to the Governor and Mr. Ernest Leung, Representative of the Central Bank in Washington. Mr. Barco, Mr. Mapa and I were also present.

7/3
Mr. McNamara remarked that the Bank's relations with the Philippines were now much better than they had been. We had been particularly encouraged by the increase in government revenues in the last two or three years, the more effective management of the country's external debt and the improvement in reserves. These improvements in economic management had made it possible for the Bank to mount a much bigger lending program in the Philippines. He asked how the Governor saw the prospects for the balance of payments, noting that the Bank's commodity forecasts indicated a substantial decline in the prices of primary commodities as compared with those of manufactured goods. In general the terms of trade of the poorer countries had been deteriorating rapidly although he understood the situation was not nearly as bad for the Philippines as for some other countries. The Governor confirmed this view.

He said he expected a balance of payments deficit to reappear late this year or in 1975, although he hoped the international payments could be brought back into balance by 1977 or 78. In the meantime the Philippines had to cover its very much larger oil bill and he had thought it prudent to arrange standby credits with various foreign banks.

Mr. McNamara referred to the revised Five Year Lending Program, 1974-78, which represented an effort by the Bank to offset in part the deteriorating terms of trade of the developing countries. While IDA funds were necessarily limited, he considered it would be better even for the really poor countries to take a certain quantum of Bank loans rather than not to take them. The Bank itself was in a position both to borrow more and process more loans than in the past although an increase in the Bank's capital would be made later in the decade. He hoped that the Philippines would support the Five Year Lending Program when it came up for discussion in the Board early in July.

cc: Messrs. Bell
Votaw
Humphrey

RJGoodman/rf

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: June 17, 1974

FROM: Raymond J. Goodman *RJG*

SUBJECT: PHILIPPINES: Visit of Governor Licaros

1. The Governor of the Central Bank of the Philippines, Mr. Gregorio Licaros, will call on you at 6:30 p.m. today. Earlier this afternoon, he signed the loan agreement for the Third Rural Credit Project. He told me that he had no particular issues to raise with you but wanted to thank you for all the Bank is doing for the Philippines.

2. You might like to mention the much stronger balance of payments position of the Philippines, which is partly due to careful debt management over the last five years. The Central Bank has arranged about US\$650 million of standby credits with commercial banks abroad, to guard against a possible deterioration in the external position. We believe that the overall balance of payments position will improve again this year and that these credits will not be needed. You also might like to ask the Governor about monetary management in an economy where the inflation rate is almost 40%. So far the Monetary Board, of which the Governor is Chairman, has maintained interest rate ceilings for long-term loans at 12% for secured loans and 14% for unsecured loans. The Secretary of Finance told us last week that the Government was considering raising these ceilings, but did not indicate when this might be done.

cc: Messrs. Knapp
Bell

OFFICE MEMORANDUM

TO: Memorandum for the Record

DATE: October 3, 1974

FROM: W.S. Humphrey *W.S. Humphrey*SUBJECT: PHILIPPINES - Meeting with Secretary Virata
and Secretary Melchor at Annual Meeting

1. The Philippines Finance Secretary, Mr Cesar Virata, and the Executive Secretary to President Marcos, Mr Alejandro Melchor, met with Mr McNamara at 6 p.m. on Monday, September 30. Messrs Knapp, Chenery, Bell, Votaw and Humphrey were also present.
2. Balance of payments: Mr McNamara asked how Secretary Virata saw the Philippine economy developing over the next two years in the light of the oil crisis. Secretary Virata said that in addition to the rise in oil prices there had been a 30 to 50 percent rise in the price of non-oil imports, which was placing a heavier burden on the balance of payments in 1974 than the oil price increase. The two together would increase the 1974 import bill by about \$1.2 billion. On the export side, receipts from log and timber exports had been affected, particularly in the last two months, by the slowdown in construction in developed countries. Sugar prices were good and substantial nickel exports were expected in future. The overall balance of payments deficit in 1974, after taking account of aid and other capital inflows, might be about \$108 million. The deficit in 1975 would depend on what happened to both export and import prices. The Secretary felt that the deficit might exceed \$250 million.
3. OPEC membership in Consultative Group: Secretary Virata said that he was approaching Iran, Venezuela, South Africa and Kuwait about joining the Consultative Group. He hoped that the Bank could make a simultaneous approach to these countries. Mr McNamara fully agreed that such approaches should be made.
4. Foodgrains: In reply to a question from Mr McNamara about the cereal grain situation, Secretary Virata said that although the August floods had damaged about 5 - 6 percent of the crop, he hoped that replanting would make good the shortfall. He said that this year 200,000 tons of rice were imported, and he hoped imports next year would be minimal. Fertilizer was now being imported at \$450 a ton, and the farmers were being subsidized and charged two-thirds of the import price. The prospects for continued increase in rice production were good, although new disease resistant varieties were needed. There was now a separate program for corn based on a mildew resistant variety which was very promising. The Government had been quite successful in its campaign to mix corn with rice, and the consumption of corn was now becoming culturally more acceptable.
5. Agrarian reform: Secretary Virata said that they had now covered all farms down to 24 ha. Most landlords had been paid 10 percent of the

value of the land in cash and 90 percent in 25 year Land Bank bonds which carried an interest rate of 6 percent tax free. However, the smaller farmers wanted higher cash payments, and the problem was to help ensure that this cash went into productive investment rather than consumption. The Government wanted to channel these cash payments into industry and thus was trying to develop as many programs as possible to enable the former land owners to use their compensation payments productively. Some of this industrial financing needed foreign exchange resources, and he wondered whether there were ways in which the Bank could help. Mr McNamara asked Mr Bell to explore this possibility further. In response to a question from Mr Knapp, Secretary Virata said that he had looked into the Peruvian experience. He added that, if IFC was prepared to unload its Philippine portfolio, he would buy it and retail it to former land owners. He was also willing to extend loans to former land owners against the security of the 25-year bonds.

6. Mr McNamara asked whether production had held up in land reform areas. Secretary Virata said that the farmers had used more fertilizer and that the rural banks had provided more credit. Last January, immediately after the harvest, rice prices had stayed higher than expected largely because farmers preferred to hold stocks of rice and not sell the stocks to pay off their production loans. The transfer of income to rural areas was apparent, and factories were now selling a larger proportion of their output in rural areas. The Secretary stressed that irrigation was vital and that substantial investment in it would be required in future.

7. Domestic resource mobilisation: In answer to a question Secretary Virata said that high inflation rates had led to pressures for lowering taxes since the rates tended to be progressive. He felt that it was possible to increase sales taxation further.

8. Family planning: On fertility and birth rates, Secretary Virata said that the acceptance rate was high, but it was important to ensure that the acceptors persisted. He said that since 1972 no income tax deductions were permitted for any child after the fourth. Mr McNamara referred to the Singapore experience and said he felt that financial penalties were an important means of reducing population growth.

Cleared with and cc: Mr Votaw

cc: Messrs Ljungh (2)
Knapp
von Hoffman
Chenery
Bell
Goodman
Kirmani

WSHumphrey/dp

II. Delegation

Cesar Virata : Secretary of Finance (Governor, Bank
Alternate Governor, Fund)

Gregorio S. Licaros: Governor, Central Bank of the Philippines
(Governor, Fund)

Alejandro Melchor : Executive Secretary, Office of the President
(Alternate Governor, Bank)

Leonides Virata : Chairman, Development Bank of the Philippines
(Temporary Alternate Governor, Fund)

Benito Legarda, Jr : Adviser Deputy Governor, Central Bank of the Philippines

Biographical sketches of senior members of Delegation

Cesar Virata - Secretary of Finance

Mr. Virata has been the Secretary of Finance since the spring of 1970. He had earned widespread respect in his previous assignment as Chairman of the Board of Investments for his effective administration of the Industrial Incentives Act and this reputation has been enhanced by his efficient and honest management of the economy in very difficult times. He is considered to be one of the most capable technocrats in the Government today. He is the man most responsible for the spectacular increase in Government revenues in the last two years.

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

Alejandro Melchor, Jr. - Executive Secretary, Office of the President

Born in Manila in 1930, "Alex" completed most of his formal schooling in the U.S., including grade school, high school and college. He studied engineering at UP and later graduated from the US Naval Academy in Annapolis in 1952. His government service includes work at the

Program Implementation Agency and the Presidential Economic Staff. While at PES he helped establish a system of information reporting, review and control of foreign funded projects. Prior to his appointment as Executive Secretary to the President in February 1970, he was concurrently Undersecretary of National Defense, Deputy Director General of PES for Operations, and Presidential Action Officer for Foreign Funded Projects. He is presently Chairman, Power Development Council; Governor, Development Bank of the Philippines; and Alternate Governor, IBRD.

An exceedingly able administrator, Mr. Melchor has been one of the driving forces behind the program of economic and social reforms introduced since martial law was imposed. He was in charge of the task force responsible for the reconstruction and development program in Muslim Mindanao.

Gregario Licaros - Governor of the Central Bank

Mr. Licaros, born in 1909, received his undergraduate and law degree from Far Eastern University. His entire professional career has been spent in the Government. He joined the Budget Commission in 1936 where he worked throughout the Japanese occupation. Subsequently, he has worked as financial assistant in the Office of the President; Auditor of the Development Bank of the Philippines; Undersecretary of the Department of Economic Coordination; General Manager of the Government Service Insurance System; and Chairman of the Development Bank of the Philippines. He was appointed Governor of the Central Bank in the spring of 1969 and exercised strong control over the austerity program of the early 1970's.

Leonides Virata - Chairman, Development Bank of the Philippines (DBP)

He was born in Medicion, Cavite, in 1918 and was educated at the University of the Philippines (UP), Harvard and the University of Chicago. He was an instructor in accounting at UP 1940-41 and an Assistant Auditor, General Accounting Office, 1940-45. Mr Virata was with the Department of Research, Central Bank of the Philippines 1949-1952 and was Deputy Governor of the Central Bank 1951-52 and member of the Monetary Board 1954-56. During the 1950's and 1960's, he was active in the private sector serving as Director of a number of important Filipino firms. He was appointed Secretary of Commerce in 1969 and Chairman of DBP in 1970.

Under Mr Virata's Chairmanship, significant steps have been taken to improve the financial position of DBP including the introduction of the system of "watch listing" whereby firms with substantial arrears with DBP were denied facilities by the Central Bank for opening of letters of credit. DBP's project appraisal and supervision work has much improved. Since 1970, DBP has been used as a lending channel for four IBRD loans (Rice Processing, Livestock, Fisheries and Industrial Credit).

September 9, 1975

MEMORANDUM FOR THE RECORD

From: Bernard R. Bell (by Gregory B. Votaw)

Subject: Annual Meeting, Washington, DC, 1975 -
Meeting with Philippine Delegation

1. The following members of the Philippine Delegation called on Mr. McNamara at 2.00 p.m. on September 4, 1975:

Mr. Cesar Virata, Secretary of Finance
Mr. Alejandro Melchor, Executive Secretary to President Marcos
Mr. Cedito Mapa, former Alternate Executive Director to the Bank
and presently Manager, Philippine Commercial and Industrial Bank

Others present for the Bank were:

Mr. Burke Knapp, Senior Vice President
Mr. Hollis B. Chenery, Vice President, Development Policy
Mr. Bernard R. Bell, Regional Vice President, East Asia and Pacific
Mr. Gregory B. Votaw, Director, East Asia and Pacific Country
Programs Department
Mr. Ernesto Franco-Holguin, Executive Director
Mr. Michael A. Gould, Chief, Division B. East Asia and Pacific
Country Programs Department

2. Mr. McNamara asked for the full support of the Philippine Government in his efforts to raise contributions for the selective capital increase and the Fifth IDA Replenishment. He was hopeful that a formula could be found whereby the proposed capital increase could be brought about without a reduction in the three seats presently held by the Latin American Group. Secretary Virata said that his government fully supported President McNamara in his efforts to increase the capital of the Bank and replenish IDA resources.

3. Secretary Virata expressed the appreciation of President Marcos for the strong support of the Bank and its leadership of the Consultative Group for the Philippines. He said that the Government expects to receive commitments of official foreign assistance of \$600 million at the forthcoming Consultative Group meeting in October 1975 (compared to the \$500 million received last year). He hoped the Bank would maintain its share of total CG commitments by increasing its lending to the Philippines this year to \$300 million. He said that President Marcos was now giving very high priority to assisting small fishermen and asked whether the Bank could help

finance a project designed for this purpose. Mr. McNamara said that we would have the fisheries mission, which was currently in the field, take a preliminary look at the needs of that subsector. Secretary Virata also said that he hoped that the Philippines would be eligible for Third Window assistance and that such funds might be used to finance either the forthcoming urban or the education project. Mr. McNamara said that until the Third Window became effective it was premature to discuss allocations among countries; nevertheless, it would appear that the Philippines would be eligible for some Third Window lending and that the projects Secretary Virata mentioned would be quite suitable vehicles for such loans.

4. Mr. McNamara said that, given the shortage of Bank funds, it was important that the Government explore all possibilities for co-financing; the Bank staff would be willing to turn over part, or all, of the individual projects currently in our pipeline to other financing sources if we were asked to do so. Secretary Virata said that he was presently looking into the possibility of co-financing for the Fertiliser Project (included in our FY77 lending program), and he was hopeful that financial assistance would be available for it from the ADB and, possibly, from Kuwait. In response to a question from Secretary Virata, Mr. McNamara said that the Bank staff would be quite flexible in designing procurement procedures in cases where a project was financed by a variety of sources and saw no difficulty in this regard in the case of a fertiliser factory, since the Bank had already financed several fertiliser projects with diverse financial partners.

5. Secretary Virata also mentioned that the Government was hoping to be able to design local government development programs which would be suitable for financing by foreign donors. Mr. McNamara said that, in principle, he would be interested in looking into the possibility of financing such a project.

Cleared with Mr. Votaw

cc: Messrs. Burmester
Knapp
Chenery
Bell
Kirmani
Fuchs
Vergin
Howell

MAGould/GBVotaw/dp

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OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: November 18, 1975

FROM: Gregory B. Volaw

SUBJECT: PHILIPPINES: Your Meeting with Mrs. Marcos

1. The official brief is attached. I would like to add a few more personal comments in this note, which will have much more limited distribution.
2. Economic Policies: I feel we have come to a year of important decisions in the Philippines. Marcos has consolidated his power, he has fairly good standing internationally, the team of technocrats (e.g. Virata, Melchor) working with him is excellent, the major international issue (opening diplomatic ties with Peking) is settled and stated intentions regarding social and economic policies are excellent. Under Gus Ranis the ILO produced a provocative report, defining problems and outlining remedial policies; and our own "basic" report, while not supported by all the detailed studies prepared in the Malaysian case, will go into greater depth and take a longer perspective than other Bank reports in recent years.
3. The question is whether Marcos will follow through to implement reforms he has promised. He has not really pursued land reform with consistent vigor. Industry is protected and not much interested in exports. Agricultural agencies are working at cross purposes and probably do not yet have the properly diverse technological basis for a green revolution. Administration needs to be decentralized so that vast ~~untapped~~ energies outside Manila, or even Luzon, are tapped. I think Marcos knows all this, but he also knows that he lacks a national political party apparatus that can back him up throughout the country. The army is greedy. The old economic oligarchy is still very firmly in charge. The Bank can, and is helping to strengthen the institutional bases for meaningful reform; but the essential political problems and risks are ones which Marcos faces alone.
4. In short, we are increasingly critical and impatient in our private dialogue with Philippine economic policy makers, although publicly supportive, because we believe it is not in their own best interest to let 1976 pass without hard decisions to implement crucial programs.
5. The Manila Improvement Project: I am a strong supporter of this, as is Jaycox. We both know, as I am sure you do, the risks involved. One of these is Mrs. Marcos' attitude; she likes grander schemes, not the low-budget replicability we insist upon. Another is Marcos' distrust of local community organizations, because they tend to be critical of his repression of civil liberties; our missions working in the Tondo have been introduced to, steered away from, and reintroduced to citizens groups there. We understand their political role but think the project can be kept apolitical and can be successful only if community action groups believe in it. Finally, I should remind you that the Tondo itself is Manila's worst slum partly because it is close to the port; some argue that real estate values will skyrocket one day and all our improvements will be wiped out by speculators and developers. I repeat - I think all these risks are worth taking in this case; in addition

November 18, 1975

it has been a complex and difficult project to put together and will doubtless have its share of implementation problems.

6. The formal brief hints at a long history for this project - sector mission in 1973, various missions to Tondo since then. As in so many other cases, the Filipino authorities have expressed some frustration on this account. I share that frustration, but the fact of the matter is they have been slow to take organizational decisions, lax in appointing senior staff and therefore very far behind schedule in providing the kind of detailed plans and cost estimates that make implementation possible. It is because we wanted to ensure that implementation would be quick that we have not been willing to lend sooner; this is also the reason why what was mooted as a \$100 million scheme a year ago (on totally inadequate plans) is now foreseen as about \$50 million - with the possibility of early follow-up projects in the Tondo and in other areas of Manila if implementation of the first project proceeds quickly.

7. Mrs. Marcos remains an enigma. We have no reason to believe she is interested in, or understands, economic issues. We have a good deal of indirect evidence that she is very troublesome to some of our technocratic allies, and they count on IBRD support to win some policy battles with her. Furthermore, Imelda is widely associated with corruption stories. I do not know how much of this is true, but suffice it to say I wish you were meeting the President and not the First Lady tomorrow.

8. China: Mrs. Marcos made the first official contacts with Peking. I think this is an important and useful breakthrough for the future of the Philippines. She may have some insight into Peking's attitudes toward the Bank Group and the UN system. ✓

*Preparation Hong
commitments & data
prospects for the future
growth rates*

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

FROM: Gregory B. Votaw

SUBJECT: PHILIPPINES - Briefing for visit of Mrs. Imelda Marcos:
The Urban Sector in the Philippines

DATE: November 18, 1975

1. Mrs. Imelda Marcos, First Lady of the Philippines, and recently appointed General Manager of Metropolitan Manila, is visiting Washington in connection with the second annual meeting of the World Population Society. (A biographical sketch is attached as Annex I). With her in Washington are, inter alia

- a) The Honorable Jose A. Rono, Secretary, Department of Local Government and Community Development (DLGCD)
- b) Mr. Onofre Corpus, President, University of the Philippines and concurrently Director, Development Academy of the Philippines (DAP)
- c) Mr. T. Encarnacion, Assistant Secretary, Department of Public Works, Transportation and Communications (DPWTC) and concurrently Director, Planning and Project Development Office (PPDO) in the DPWTC
- d) General Gaudencio Tobias, Chairman, National Housing Authority (NHA)

Background Information

2. A Basic Economic Mission visited the Philippines in April 1975, and its report is under preparation; several members of the mission, Mike Gould (Acting Division Chief) and I will be in Manila November 27 - December 6 to discuss the draft. An Economic Memorandum dated September 3, 1975, was prepared for the 1975 CG meeting, which was held in Paris on October 1 - 2, 1975 (copy attached along with the Chairman's Report as Annexes II and III). At the meeting, it was agreed that the Government should aim at obtaining new commitments of at least \$600 million equivalent during 1976.

3. The Metropolitan Manila Government is an extremely recent creation originating from a Referendum held in February 1975, in which an overwhelming majority of the metropolitan electorate voted for some form of metropolitan government to be introduced as a replacement for the existing system of several separate local governments. The proposal amalgamates four cities and thirteen municipalities, which comprise the great majority of the over four and a half million population living in the Greater Metropolitan Manila Area. Mrs. Marcos has just been appointed to serve as the first General Manager of Metropolitan Manila which we are informed will be run by a Board of Commissioners. The detailed organization of the government has not been worked out, and the

form may not emerge clearly for several years. Even interim arrangements for carrying out the basic planning, programming and implementation measures have not been finalized, but several government task forces are now studying the issues involved.

4. Metropolitan Manila had a total population of 4.4 million in 1970 (date of the last census). Of this total, some 1.4 million (or 33 percent) were estimated to be living in slum or squatter housing. The population is growing at a rate of 5 percent per year, which results in an annual increase of roughly 250,000 living in slum or squatter housing. The dominant needs of urban slum dwellers and squatters are employment, transportation, shelter and sanitation. Similar situations exist in most provincial cities and towns, although not on the same scale. (Metropolitan Manila accounts for over one-third of the urban population of the Philippines.)

5. Until, recently, Government responded to Manila's problems by resettling squatters on four sites at the edge of the metropolitan area. Results have been poor, largely because inadequate consideration was given to employment opportunities, which resulted in the resettled squatters returning to the city core area; moreover, even the resettlement program has touched only a small number of the urban poor. Government housing programs carried out to date have been providing a standard of housing normally affordable by the middle class and even this is open only to government employees.

6. The Bank staff has been working with the Government to develop a program of ⁽¹⁾slum-upgrading "in situ" and ⁽²⁾low cost sites and services development on sites close to the city core area. This is designed to provide for the basic needs of the urban poor as noted earlier (viz employment, transportation, shelter and environmental sanitation). A central principle of this program is affordability by the beneficiary at a low cost so that its elements can be replicated in other areas of the metropolitan area. The Government has shown some hesitation accepting these ideas perhaps because they involve a radical departure from existing policies and perhaps also because Mrs. Marcos has identified herself with a few showcase projects, which we consider ineffective and which are a bit of a joke among knowledgeable Filipinos. (Her priorities are reported to be: (a) transportation; (b) flood control; and (c) garbage disposal.) Nevertheless, Alex Melchor (Executive Secretary to the President) and General Tobias (Chairman of the National Housing Authority) have both agreed to the basic principles outlined by us for a first Project, which we hope to negotiate shortly, for the Tondo Area. Your meeting with Mrs. Marcos will be the first opportunity to explain the Bank approach directly to her.

7. Mrs. Marcos is also sponsoring a low-income housing project, immediately adjacent to the area of the proposed Bank Project in Dagat-Dagatan. This will be the Philippine contribution to the U.N. Habitat

Conference to be held in Vancouver in 1976. It is our judgement that the Habitat project will in fact provide housing and a level of services not affordable by slum dwellers or squatters, but we have not expressed this view formally to the Government.

Urban Sector Work Program of the Bank

8. The share of social sector lending (urban development, education and population) in the Philippines Lending Program is planned to increase sharply from 7 percent of lending in FY69-75 to 17 percent in FY77-81. The proposed lending program FY77-81 will be considered by management in the course of the ongoing country program review, scheduled for your review in the first months of 1976. To date the Bank/IDA has made social sector loans for population (\$25 million in FY75), education (\$6 million in FY65 and \$12.7 million in FY73) and for Manila Water Supply (\$20.2 million in FY65). In FY76, we expect social sector lending to account for 19 percent of the lending program (Manila Urban I - \$30 million; Education III - \$21.0 million). The urban sector would account for most of the planned increase in lending during FY77-81 and includes series of slum upgrading and low-cost housing projects both in Manila and smaller cities. We are also proposing new projects for Manila sewerage (\$35 million in FY79) and provincial cities water supply (\$35 million in FY77). Preparation work on both projects is underway. (See Annex IV for the latest 5-year Lending and Operations Program).

9. The Bank carried out an Urban Sector Survey of Metropolitan Manila in 1973, and the draft report was given to the Government in early 1975 for their consideration and use. The Basic Economic Mission Report will contain a chapter on Urban Development covering both Manila and regional cities and towns. The chapter will focus on efforts to decentralize urban growth to secondary growth centers outside Manila and to improve the access of low income households to essential urban services and facilities. The Economic Mission in 1977 will examine government policy to develop regional growth centers, secondary cities and dispersal of industries.

Manila Urban Development Project

10. The proposed improvement project was appraised in July/August 1975. A post-appraisal mission is now in the field completing project execution arrangements prior to negotiations which are tentatively scheduled in February 1976.

11. The main components of the Project are:

- a) upgrading of the Tondo Foreshore (180 ha), one of Manila's worst slums with a population of about 180,000;
- b) development of a new sites and services area at Dagat-Dagatan (40 ha) for approximately 20,000 persons. Dagat-Dagatan is immediately adjacent to the Tondo Foreshore and will give priority to those few families expected to be displaced during the Tondo improvement.

c) construction and improvement of three trunk roads (R10, C2 and C3) in the area to provide improved access to Dagat-Dagatan and to the Port of Manila;

d) traffic engineering and management to finance provision of linked signals, traffic signs and road markings, bus and jeepney lanes, low cost junction improvements, footpaths, bus shelters, and other equipment, as well as a line of credit for the purchase of buses and jeepneys; and

c) financing of technical assistance for a land-use and transportation planning study, and fiscal programming studies for the Metropolitan area, and technical and managerial support for the NHA.

12. The estimated total cost of the project is \$47 million, of which the Bank may finance 50 percent. We expect that project costs may well increase somewhat as a result of detailed engineering reviews now being carried out by the post-appraisal mission.

13. The post-appraisal mission has been asked to consider the inclusion of two additional components in the project: (a) refuse collection equipment for the entire Metropolitan Manila area, and (b) flood control maintenance equipment (principally dredgers). These two components are being reviewed by the mission and will require further study here before a technical/economic judgement can be given to the Government.

14. The project will improve beneficiaries' standards of living by upgrading the quality of shelter, water supply, sewerage, surface water drainage, as well as other facilities such as roads, footpaths, schools and clinics. Two innovative features of the project are: a) the nutrition/health services component, designed to assist in a concerted attack on the severe malnutrition/health problems found in the project area; and b) a line of credit for cottage industry in the project area and associated technical assistance, designed to develop entrepreneurial skills and to provide additional employment opportunities in the project area.

Points to be raised with Mrs. Marcos

15. Metropolitan Manila Government - The Bank strongly supports the establishment of a Metropolitan Manila Government and stands ready to assist the Government with technical assistance and financing to tackle questions of organization and management, fiscal policy, programming and budgeting. For your information, police and water supply services are already organized on a metropolitan-wide basis (the Bank played an important role in organizing the latter in the mid-1960s through the first Manila Water Supply Project).

16. Strategies to attack Urban Poverty in the Philippines - Mrs. Marcos may ask what the Bank considers are the priorities in urban development in the Philippines. We suggest that you respond along the lines outlined in para. 6 stressing the need for low-budget schemes that are widely replicable as well as community participation in design and ←

implementation. You might also mention the need for Government to develop regional growth centers and secondary cities in order to slow migration to the Metropolitan Manila area.

17. You should be aware of one other issue relating to the proposed Tondo Improvement Project. We are anxious to include in the project a line of credit to finance buses and jeepneys to expand transportation capacity. However, this line of credit is contingent on Government coming up with a policy package to: (a) provide adequate incentive for private operators to start or expand operations (through a fare increase and improved regulation); and (b) ensure fair competition between the private sector and the Government-owned Manila Transport Corporation (MTC), which now enjoys substantial tax and import duty exemption privileges (by either abolishing MTC's present exemptions or extending them to the private sector). The Government wants to expand the operations of MTC. We agree with that, but do not wish it to be carried out at the expense of the relatively efficient and flexible private system. Mrs. Marcos is reported to favor the expansion of MTC.

Points which Mrs. Marcos may make

18. Mrs. Marcos may ask about the scale and scope of proposed Bank assistance for both the social and the urban sectors in the Philippines, because she is the driving force behind several population, health, nutrition and cottage industry programs in the Philippines. Information on past, present and proposed activities is contained in para 8 and Annex IV.

19. Mrs. Marcos may ask about the possibility of including refuse collection equipment and flood control maintenance equipment in the first Manila Urban Development Project. This item has just been identified by the post-appraisal mission now in the field (i.e. very late in the project cycle). It will be studied by the mission and Bank staff to determine economic and social justification. We will inform the Government as soon as possible of the Bank staff recommendation.

RVenkateswaran/DJSteel/MAGould dp
GBVotaw/dp

IMELDA ROMUALDEZ-MARCOS

Parents: Atty. Vicente Orestes ROMUALDEZ
Remedios Tinio (both deceased)

Born: July 2, 1928

Married: 1955, Ferdinand Marcos

Educational Background:

High School: St. Paul College (Tacloban City, Philippines)

College: Philippine Women's University (Manila)
Bachelor of Science

Doctor of Humanities (honoris causa)
Philippine Women's University

Children:

Imee (currently a Junior at Princeton University
major in Political Science)

Ferdinand, Jr. (currently a Freshman at Oxford University,
England, showing interest in and tendency toward
the Sciences)

Irene (currently in high school, in England)

Positions: First Lady of the Philippines, 1966 - present.
Appointed General Manager, Metropolitan Manila
(November, 1975)

Other Activities: Tulungan (National Welfare Action Programme
providing community centres), Nayong Filipino
(National Visitor's Center), Cultural Centre,
Pollution Research Centre, Philippine Heart Centre,
Nutrition program, Green Revolution program,
Population program, Cottage industry development
program, Urban development - Pasig River
beautification program in Manila and number of
other cultural activities

Mrs. Marcos has also been deeply involved in Philippine politics and was an active political campaigner. She has very considerable potential standing in her own right and has frequently been mentioned as a possible successor to President Marcos.

OFFICE MEMORANDUM

TO: Mr Robert S. McNamara

DATE: June 8, 1976

FROM: Gregory B. Votaw

SUBJECT: PHILIPPINES - Manila Urban Development Project -
Loan Signing

1. The First Lady, who has been travelling with President Marcos in Moscow, spoke Monday in Vancouver at the Habitat Conference, has business in Chicago on Tuesday and will arrive in Washington Wednesday morning for the signing and other meetings outside the Bank before going on to New York. She will be accompanied by Mr O.D. Corpuz, President of the University of the Philippines, Mr Jose Roño, Secretary of Local Government and Community Development, and Mr Bellisario, Charge d'Affaires of the Philippine Embassy.
2. As Governor of Metropolitan Manila she will have a very close association with the Bank project, which is designed to provide for low-cost upgrading of the Tondo area, a first phase sites and services project at nearby Dagat-Dagatan, a traffic engineering study of Metropolitan Manila, and technical assistance to the recently created National Housing Authority and to the Metropolitan Manila Commission. This project represents a new approach to urban development in the Philippines where the government directed previous efforts mainly towards relatively ineffective and costly resettlement programs. It would be appropriate for you to emphasize that your staff will count on continued close relationships with her's during implementation of this multifaceted project and that we hope elements in it can be replicated elsewhere in Metropolitan Manila and in other cities to provide low cost facilities and jobs to the maximum number of people.
3. It might also be useful to mention that the Bank's basic economic report has been completed and circulated to the members of the Consultative Group for the Philippines, which will meet with Secretary Virata in Paris next week. Central themes of this report are the critical need for the government to develop more effective policies to generate exports, particularly industrial exports, and to promote employment. We understand that the Government is presently reviewing its industrial incentives program and its tariff structure with a view to developing more effective policies for achieving these objectives. Continued emphasis on increasing public savings through the tax system will also be necessary if the Philippines is to meet its investment requirements and achieve its full development potential.
4. Attached is biographical information on the First Lady.

Att.

cc: Messrs Votaw, Hasan, Vergin, Howell, Jaycox, Ghoshal, Burmester,
Amin-Arsala, McCulloch, Cook, Forget

MAGould/GBVotaw/dp

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TO: Memorandum for the Record

From:

Bernard R. Bell *BRB*

August 26, 1976

Subject:

Meeting of Secretary of Finance Virata, Philippines,
with Mr. McNamara

On August 19, Cesar Virata, Secretary of Finance of the Government of the Philippines, at his request, met with Mr. McNamara. Mr. Bell was also present.

Mr. McNamara asked what was happening in the economy in the current year. Secretary Virata gave a concise summary indicating, among other things, that both agricultural and manufacturing production and export were increasing and were higher than in the same period in 1975, that the rate of price increases had been brought down to 6 or 7 percent per year, and that the current account balance of payments deficit for 1976 was likely to be lower than the preceding year. He also mentioned that the Philippines had been reasonably successful in obtaining loans from the international financial market. He mentioned the US Eximbank guaranteed bond issue which had just been concluded and which, together with direct Eximbank financing, was intended to provide the foreign exchange funds required for the Philippines' first nuclear power plant.

Secretary Virata, in behalf of President Marcos, asked whether Mr. McNamara and his staff could set aside time for a lunch in Manila. It was agreed that this lunch would occur on October 1.

Mr. McNamara told Secretary Virata that he did not wish the Government of the Philippines to know this but that there were two visits which he wished to make during his stay in Manila, one to the Tondo Project and one to IRRI. Secretary Virata confirmed to Mr. Bell subsequently that he understood clearly that Mr. McNamara wanted to make these visits without publicity, fanfare or ceremony.

Secretary Virata asked what Mr. McNamara regarded as the important points for discussion at the Annual Meetings. Mr. McNamara said he thought these were the following:

1. the necessity that the presently agreed ceiling on Bank lending be lifted even in advance of agreement on a general increase in Bank capital;
2. agreement by April 1, 1977 on an adequate IDA replenishment;
3. arrangements for the provision of funds for IDA commitment prior to July 1, 1977 and in advance of ratification and effectiveness of the IDA replenishment agreement.

August 26, 1976

Secretary Virata mentioned that the country group, of which the Philippines was a member, would be meeting just prior to the Annual Meetings in Los Angeles and that it would be very helpful in their discussions of positions they wished to take in the course of the Annual Meetings if, at that time, they could see a draft of the opening speech which Mr. McNamara planned to make. Mr. McNamara indicated that this would not be generally available in advance of the Meetings but that he would see to it that through Mr. Bell Secretary Virata obtained for his personal and careful use a copy prior to the meeting of the country group.

cc: Mr. McNamara's Office

BRBell:ea

No memorandum of conversation prepared for visit of Ambassador
Romualdez on 9/16:76.

MEMORANDUM FOR THE RECORD

Interview with Miss Imee Marcos
October 7, 1976

Present: Mr. McNamara and Miss Marcos

Q: Do you enjoy your visit to the Philippines ?

A: Yes.

Q: What are the problems connected with IDA replenishment ?

A: It is important to get a replenishment before July, 1977, and the level of the replenishment should show a real increase over the previous replenishment. The progress in the negotiations has been slow because of the recession in the developed countries. (Mr. McNamara then illustrated this with the U.S. as an example.)

Q: Is there a confrontation between the developed and developing countries ?

A: There is, but inter-dependency is by now becoming much more than just a word. However, it has not yet penetrated the understanding, so the traditional confrontation is still going on.

Q: What do you think of commodity stabilization?

A: Commodity stabilization around the market determined trend would be beneficial to both producers and consumers, and would, in fact, be a plus sum game. It would require agreement between consumers and producers and adequate finance for buffer stocks.

Q: Should the Third World be more strongly represented in the Executive Board ?

A: Philosophically, I would agree, and there has in fact been an increase in the shares of the Third World after the selective capital increase. However, in practice, shares and voting power are not so important. We have about 50 meetings a year, and only in 5-10% of them will there be a vote.

Q: What do you think of the prospects for the Philippine economy ?

A: I am not an expert, but the Philippines has tremendous agricultural, mineral and human resources. In particular, it has a literacy rate which is among the highest in its class of countries, so I am optimistic about the future of the Philippine economy.

SB

October 7, 1976

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara, President

DATE: July 25, 1978

FROM: Stanley Please (Acting RVP, AEA)

SUBJECT: PHILIPPINES - Second Manila Water Supply Project -
Loan Signing

1. As you know, you will be signing the above loan with Mrs. Imelda Romualdez Marcos at 11:00 a.m. on July 26 in your office. She will be accompanied by His Excellency, Eduardo Romualdez, Philippine Ambassador to the United States, as well as by a personal assistant and a photographer.

2. Mrs. Marcos has been Governor of Metro Manila since November 1975. In April of this year, under the newly introduced parliamentary system, she was elected to serve concurrently as a member of the Interim National Assembly, leading the slate of candidates from Metro Manila. In May she was appointed Minister of a newly created Ministry of Human Settlements and Ecology which gives her responsibility for the development of the country's 1,700 cities and towns. In her new position as Minister, Mrs. Marcos will have a direct influence on urban sector projects, for she is also ex-officio Chairman of the Board of Directors of the National Housing Authority (NHA), which is the executing agency for both the first and the proposed second Bank-financed urban development projects.

3. Our urban sector strategy involves not only the expansion of bulk capacity for important services such as water supply, but also the development of programs that ensure access to services by the urban poor. Within the Manila Urban Development Project, which you signed with Mrs. Marcos in June 1976, construction of improvements has been completed for an area covering about a third of the Tondo Foreshore Project area. The issuance of titles to families in this area has stimulated self-help and artisan construction to an even greater extent than previously expected. For many years the Government's policy toward squatter families was to move them to distant relocation sites. The success of the Manila project and the strong interest on the part of other squatter areas to receive similar improvements was the stimulus which led to the development of a nationwide slum upgrading program, decreed by President Marcos in June 1977, which established slum improvement in situ as the official Government policy. Mrs. Marcos strongly endorsed this concept of slum improvement prior to the recent national assembly elections; however, because of her known interest in the visual appearance of projects, there continues to be concern that she may not accept standards that are sufficiently low cost to make the program affordable and replicable. The proposed second urban project, which is due to be negotiated next month, involves slum improvement in the cities of Cebu, Davao, and Cagayan de Oro, as well as sites and services in Metro Manila. During our discussions of this project, we have learned that NHA's board members have been uncertain about Mrs. Marcos' relation to the low cost, low-standard solutions embodied in the project. We believe that a reference to these programs in your private conversations on the occasion of

July 25, 1978

loan signing might be of critical importance at this juncture. As presently conceived the nationwide slum improvement program is well designed and very innovative. Urban projects staff are impressed with the quality of thought and effort that have gone into this program and believe that if it can be kept on its present course it has the potential for becoming the outstanding shelter program in the region with important demonstration effects beyond the Philippines.

4. Mrs. Marcos has become increasingly important as a political leader in her own right as a result of the recent elections and her appointment as Minister. It would therefore be useful to mention the macroeconomic concerns which were reflected in the CPP review meeting in June. In particular, you may wish to stress the crucial importance of mobilizing domestic resources needed to finance the rapidly expanding public investment program (in this connection a 65% rise in water rates has recently been initiated, but a tariff rate increase for the National Power Corporation is still urgently needed), introducing policy reforms to foster the rapid growth of exports needed to alleviate the very tight balance of payments position, and pressing ahead with programs needed to redress the problem of poverty in the Philippines.

5. A copy of the proposed five-year lending program is attached.

Attachment

CLong:dp

Population: 43.3 million (mid-1976)
 Per Capita Income: \$410 (mid-1976)
 Area: 297,000 sq km
 Literacy: 75% (1974)

PHILIPPINES - ACTUAL AND PROPOSED LENDING THROUGH FY83 /a
 (US\$ million)

		Through FY72	Actual					Current FY78	Program					Total FY69-73	Total FY74-78	Total FY78-82	Total FY79-83
			FY73	FY74	FY75	FY76	FY77		FY79	FY80	FY81	FY82	FY83				
Other Agricultural Projects		73.3															
Rural Credit III	IBRD		22.0														
Rural Credit IV	IBRD						36.3										
Rural Credit V	IBRD																
DBP Ag. Credit I (Livestock/ Fisheries)	IBRD											45.0*					
DBP Ag. Credit II (Crops/ Processing)	IBRD									45.0							
DBP Ag. Credit III (Multipurpose)	IBRD										30.0						
Land Bank I	IBRD								15.0				90.0				
Land Bank II	IBRD												35.0				
Grain Processing II	IBRD					11.5											
Livestock II	IBRD					20.5											
Fisheries I	IBRD		11.6														
Fisheries II	IBRD					12.0											
Irrigation (Panaranda)	IDA			9.5													
Irrigation (Panaranda)	IBRD			9.5													
Irrigation (Tarlac)	IBRD				17.5												
Irrigation (Magat I)	IBRD					42.0											
Irrigation (Magat II)	IBRD							150.0									
Irrigation (Magat III)	IBRD								25.0								
Irrigation (Chico)	IBRD					50.0											
Irrigation (Jalsaur)	IBRD					15.0											
Irrigation (NISIP I)	IBRD					50.0											
Irrigation (NISIP II)	IBRD							65.0									
Irrigation (NISIP III)	IBRD																
Irrigation (Sector)	IBRD									75.0							
Watershed Management	IBRD											140.0					
Rural Dev. I (Mindoro)	IBRD			25.0						35.0							
Rural Dev. II (Land Settlement)	IBRD						15.0										
Rural Dev. III (Samar)	IBRD																
Rural Dev. IV (Mindoro II)	IBRD									30.0							
Rural Dev. V (Land Settlement II)	IBRD										50.0*						
Rural Infrastructure I	IDA							28.0					50.0				
Rural Infrastructure II	IBRD												45.0*				
Tree Farming	IBRD							8.0									
Forestry I	IBRD																
Supporting Services I	IBRD																
Supporting Services II	IBRD								25.0								40.0*
Rainfed Agriculture I (Panay)	IBRD										30.0*						
Rainfed Agriculture II (Mindanao)	IBRD								25.0								40.0*
PDCEP I-III	IBRD	65.0															
PDCEP IV	IBRD			30.0													
PDCEP V	IBRD							30.0									
DBP I	IBRD		50.0														
DBP II	IBRD					75.0											
DBP III	IBRD							80.0									
PISO I	IBRD							15.0									
DFCs I	IBRD																
DFCs II	IBRD										170.0*						
Small Industry I (DBP/IGLF)	IBRD			30.0									160.0				
Small Industry II (IGLF)	IBRD								30.0								
Regional Estates I	IBRD									25.0*							
Education I	IBRD	6.0															
Education II	IDA		12.7														
Education III (Textbooks I)	TW				25.0												
Education IV (Agricultural)	IBRD					25.0		2.0									
Education V (Ed. Radio T. A.)	IBRD																
Education VI (Fisheries/Maritime)	IBRD								25.0								
Education VII (Voc./Rural Trng.)	IBRD										25.0						
Education VIII (Textbooks/media)	IBRD											40.0					
Education IX (Regional)	IBRD												20.0				
Population I	IBRD			25.0													
Population II	IDA								30.0								
Population III	IBRD												45.0*				
Power I-V	IBRD/IDA	102.7															
Power VI	IBRD			61.0													
Power VII	IBRD					58.0											
Power VIII	IBRD																
Rural Electrification I	IBRD							60.0				85.0*					
Rural Electrification II	IBRD												75.0*				
Other Transportation Projects	IBRD	16.5															
Highways II	IBRD			68.0													
Highways III	IBRD						95.0										
Highways IV	IBRD																
Highways V	IBRD								55.0								
Ports II	IBRD			6.1									80.0				
Ports III	IBRD																
Shipping I	IBRD					20.0						30.0					
Shipping II	IBRD								25.0								
Manila Water Supply I	IBRD	20.2															
Manila Water Supply II	IBRD																
Prov. Cities Water Supply I	IBRD						23.0		88.0								
Prov. & Rural Water Supply II	IDA									35.0*							
Prov. & Rural Water Supply III	IBRD												65.0				
Manila Sewerage	IBRD																
Urban I (Tondo)	IBRD/TW					22.0/10.0											
Urban II	IBRD																
Urban III	IBRD								35.0								
Urban IV	IBRD									30.0							
													40.0*				
LENDING PROGRAM	IBRD	283.7	11.6	155.6	208.0	268.0	317.5	410.0	298.0	370.0	420.0	475.0	535.0	134.9	1359.1	1973.0	2098.0
	(TW)						(35.0)										
	IDA		12.7	9.5				28.0	30.0	35.0				22.7	37.5	93.0	65.0
Total		283.7	24.3	165.1	208.0	268.0	317.5	438.0	328.0	405.0	420.0	475.0	535.0	157.6	1396.6	2066.0	2163.0
No.		15	2	6	7	8	8	9	9	10	7	9		10	38	42	42
of which IDA			(1)	(1)				(1)	(1)	(1)				(2)	(2)	(3)	(2)

* Standby projects.

/a The magnitude of the program is subject to satisfactory performance of the economy in a number of areas set out in the postscript to the CPP dated June 30, 1978.

East Asia and Pacific Regional Office
 June 30, 1978

OFFICE MEMORANDUM

TO: Files

DATE: May 31, 1979

FROM: Hedayat Amin-Arsala, Senior Loan Officer

SUBJECT: PHILIPPINES - Mr. McNamara's Meeting with His Excellency Ferdinand E. Marcos
President of the Philippines

1. Mr. McNamara met with His Excellency Ferdinand E. Marcos, President of the Philippines, for breakfast on May 10, 1979. Present were the Hon. Imelda R. Marcos, the First Lady and Minister of Human Settlements, the Hon. Cesar Virata, Minister of Finance, the Hon. Vicente Paterno, Minister of Industry, the Hon. Gerardo Sicat, the Minister of Planning (Director-General of NEDA), Dr. Jose Conrado Benitez, Jr., Deputy Minister of Human Settlements and General Gaudencio Tobias, General Manager of the National Housing Authority. Mr. McNamara was accompanied by Messrs. Husain, William Clark, Koch-Weser and Amin-Arsala. Following were some of the points raised during the meeting.

Performance of the Industrial Sector

2. Mr. McNamara stated that the Philippines had indeed made significant progress over the past few years; public savings and investment had expanded significantly; project implementation capacity had increased; and the Philippines had succeeded in moving from a position of heavy reliance on food imports to being a net exporter of important agricultural commodities, such as rice. However, Mr. McNamara felt that the industrial sector had not been able to achieve its potential in terms of growth, employment and trade. It still remained highly protected and therefore inefficient and capital-intensive.

3. President Marcos responded that a number of measures had been adopted by the Government to improve the performance of the industrial sector; as a result, nontraditional manufacturing exports had increased at an average rate of over 30% over the last 3 to 4 years. However, the President agreed that there was a need for gradually eliminating the protection provided for the industrial sector in order to encourage efficiency and ensure competitiveness of the Philippine manufacturing products in world markets. He stated that this process, in fact, had already begun, and that as a first step the Government was planning to limit the maximum level of tariffs to 50%. This limit would be further reduced and gradually eliminated over the next few years on an industry-by-industry basis.

Income Distribution and Urban Development

4. In reply to a question raised by Mr. McNamara regarding the Government's efforts to improve income distribution, President Marcos indicated that the Government had adopted a number of programs to encourage and foster economic activities in the more depressed regions of the country and among the poor segments of the population. He referred to the Government's infrastructure programs, agricultural credit, and urban development programs, as examples of these activities. Furthermore, Minister Virata stated that the tax structure of the Government was becoming increasingly progressive and he hoped that this would have a positive impact on income distribution. With respect to the urban programs of the Philippines, the President and the First

May 31, 1979

Lady informed Mr. McNamara that in the housing program adopted by the Ministry of Human Settlements - BLISS - considerable attention was being paid to cost reduction and generation of employment; in fact, the Ministry had been able to reduce the construction cost in this particular program from the normal level of P 3,000 per sq m to about P 900. Mr. McNamara stressed the importance of designing housing schemes which are replicable and affordable. In the absence of such criteria, Mr. McNamara indicated, there was no possibility of meeting any significant part of the housing needs of the poor.

Resource Mobilization and Public Utility Rates

5. Mr. Husain mentioned the importance of adequate utility charges in resource mobilization. The President agreed and indicated that the Government had last December increased power rates and, more recently, transportation charges. Minister Virata added that the Government had hoped to further increase power rates during the month of May. However, because there were consistent brown-outs during this period, it was not advisable politically to increase power rates. He expressed the hope that the brown-outs would be diminished soon and that another increase would be effected in July.

Cleared with and cc: Mr. Husain

cc: Mr. McNamara (through Mr. Koch-Weser)
Mr. Please
Mr. Kirmani
Mr. Jaycox
Mr. Gould

Division B

HAmin-Arsala/LDavis:je

Drafted by Mr. Amin-Arsala and distributed in his absence.

TO : Memorandum for the Record

FROM : Stanley Please (Director, AEA) DATE: October 2, 1979

SUBJECT : PHILIPPINES - Meeting Between Mr. McNamara and the Philippine
Delegation, 1979 Annual Meetings, Sava Center,
Belgrade, Yugoslavia

1. Mr. McNamara met with members of the Philippine delegation on October 1, 1979. Present were: Messrs. Cesar Virata, Minister of Finance; Placido Mapa, Executive Director; Husain, Please and Koch-Weser.

2. Mr. McNamara said that he had read Mr. Please's report on his recent discussions of industrial and financial policy, and he asked Minister Virata to report where matters stood with the Government. Minister Virata reviewed the need for changes in industrial tariff policy and export promotion policy, and also the need for specific programs for industries such as cement, textiles, steel, etc. He also emphasized the growing acceptance of the need for changes in financial policy in order to channel more private savings into industrial development. Messrs. McNamara and Husain confirmed the Bank's willingness to support these policy initiatives through three possible operational activities - program lending, apex lending, and individual industry loans for rehabilitation and development. The program loan should be dovetailed into the possible EFF borrowing from the IMF. Mr. McNamara said that he was particularly anxious to see the program loan move forward as quickly as consistent with the needed policy measures having been taken. He requested that during Minister Virata's visit to Washington in mid-October, Mr. Husain draw up a schedule for the likely processing of the program loan and to let him have a copy of the agreed schedule.

3. Minister Virata expressed his concern over the delays in project implementation and the consequent lags in disbursements of World Bank loans. He said that he was taking steps to deal with some of the budgetary impediments to speedier disbursements.

4. As regards the future content of the Government's investment program, Minister Virata indicated that increasing emphasis would be given to projects with a social orientation, particularly those being presented for World Bank financing. Mr. McNamara welcomed this renewed emphasis for it was necessary in the Bank's view to ensure that the benefits of economic development went increasingly to relieving the worst aspects of poverty in a country. He hoped in this connection that a nutrition project could be prepared for Bank financing although he was aware of the enormous difficulties in doing so.

5. Minister Virata expressed the hope that the servicing schedules on Bank loans could be returned to the old formula of equal annual payments. Mr. McNamara agreed with the desirability of doing so and said that he hoped the change could be made once the capital increase was approved.

.../

October 2, 1979

6. Minister Virata reported that the Government had been able to obtain a French Treasury loan of, at the moment, an unspecified amount. Although tied to the purchase of French equipment the financial terms were very favorable — from three percent to four percent for between 15 and 20 years.

Cleared with and cc: Mr. Husain

cc: Messrs. McNamara
E. Stern
Jaycox
Kirmani
Hasan
Gould
Hawkins

SPlease:bce

OFFICE OF THE PRESIDENT

Meeting with Mr. Virata, Minister of Finance, The Philippines, December 17, 1979

Present: Messrs. McNamara, Virata, Stern

Philippines Program Loan

Mr. Virata reported that President Marcos had called for early elections in order to remove some of the constraints on the far-reaching economic policy decisions which he would have to make later next year. Mr. McNamara said that the Bank needed to develop a model of anticipatory program lending and that he hoped that the Philippines Program Loan could be brought forward as soon as possible during the current fiscal year. Mr. Virata agreed. It would be a difficult task to reach agreement within his Government on the measures to be taken under the Program Loan because many lobbyists were in strong opposition to the required tariff changes.

Development Committee

Mr. Stern reported that Mr. Virata had just received a rewrite of the program for the Hamburg Development Committee meeting in April 1980. He would like to be more cautious than Sir Richard King with regard to the agenda. As to program lending, the agenda should simply say that the Bank would make a presentation. With regard to cofinancing, a paper was being prepared which would address measures to be taken. With regard to the G-24 proposals, it should be stated that more work would be done on the selective measures in time for the September meeting. Messrs. McNamara and Virata agreed that the G-24 had to be more exact as to the substance of the measures proposed. Both Messrs. McNamara and Virata were presently being severely criticized by the Mexicans. Most of the G-24 criticism applied to the Fund and not the Bank.

As to the fall meeting of the Development Committee, Mr. Stern said that only a description of the work in progress and not an agenda would be presented. Among others, the meeting would focus on amounts and distribution of ODA by recipient countries.

Mr. Virata enquired whether the Brandt Commission's report could be discussed at the April meeting. Messrs. McNamara and Stern agreed that preliminary comments on the report could be received.

Mr. Virata pointed to the unfortunate fact that LDCs made declining use of the IMF's resources. The SFF was a very onerous facility because it contained double compensation for both exchange rate changes (based on a basket of currencies) and dollar interest rates. Mr. McNamara said that the current account deficits of the oil-importing development countries were now projected to rise to \$65 billion in 1980 because of the recent oil price increases; this amount could probably be financed in 1980 but he did not know where the additional financing required for 1981 through 1985 would come from. The toughest issue to be addressed by the Bank and the Fund over the next five years was whether the adjustment measures which the institutions would have to ask for were politically beyond realistic possibilities of LDC governments. Mr. Virata agreed; the required adjustment process would be extremely difficult for LDCs to handle because recent blows had been suffered in too close sequence.

Mr. Stern said that he had not realized before that Colombia and Costa Rica, i.e., the two countries which had spoken out at UNCTAD on energy issues, had since had problems assuring oil supplies from OPEC.

Mr. McNamara said that OECD and OPEC governments should try to work out a deal under which OECD would assure OPEC of full indexation of oil prices and maintenance of the value of OPEC's assets held in OECD countries; in return, OPEC would guarantee stable supplies and smoother increases in the real price of oil. Finally, OECD and OPEC would deal jointly with the problem of appropriate financing to be provided to LDCs.

CKW
January 15, 1980

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. E. Stern)

DATE: June 24, 1980

FROM: Montague Yudelman *m.j.*

SUBJECT: Meeting with Mr. Tanco, President, World Food Council,
June 24, 1980

1. Mr. Tanco has served as President of the World Food Council for almost four years and will step down this year. It appears that the next WFC President will be from Latin America; the most likely candidate is the Mexican or Colombian Agriculture Minister. Mr. Tanco is currently taking soundings about announcing his candidacy to replace the incumbent Director General of FAO. However, his prospects appear to be rather dim; Mr. Saouma has already secured the endorsement of Islamic countries and enjoys widespread support in developing country capitals.

2. Major initiatives of the WFC which Mr. Tanco may wish to discuss include: (i) food strategies, (ii) IMF food import financing facility, (iii) food storage and distribution systems, (iv) the future of the WFC.

Food Strategies: An initial draft of the Philippines food and nutrition plan has been prepared and is being reviewed in the Bank; government authorities have now indicated their wish to submit an action program related to this strategy that is suitable for discussion at the next Aid Group meeting. Mr. Tanco recently met with Nigerian officials, including the President to discuss their food strategy; he will probably suggest to you that Bank technical assistance be made available to Nigeria so as to support an expansion of food production, by building on existing area development projects. This approach is supported by the regions.

IMF Food Import Facility: The WFC has submitted a paper suggesting that the IMF study the establishment of a special concessional facility to finance exceptional increases in food imports by individual low income countries. The fund staff has proposed similar ideas, in the context of expanding the CFF, and it was discussed by the Development Committee. There was little support for the idea earlier and probably even less now. Our own analysis of the proposal indicates that the food issue is of minor significance compared with the impact of energy on the balance of payments of most LDCs. Suggestions that this proposal be seriously considered could detract from negotiations over the major issues related to financing oil imports and structural adjustment.

Mr. Robert S. McNamara
(through Mr. E. Stern)

- 2 -

June 24, 1980

Food Storage and Distribution: Bank work in this area has received attention in the FAO, WFC, Wheat Council and the Venice Summit. We are following up on it internally with the operational divisions concerned and at the Wheat Council (which Ministers have agreed is the proper forum for discussing international reserve systems).

Future of the WFC: The most recent session of the WFC was notable for the pervasive sense of frustration and relatively low level of representation. Most delegations, developing and developed, felt that the WFC was not the best organ to discuss most of the items on the agenda. Despite the leadership of Messrs. Tanco and Williams the WFC has been unable to have much tangible impact beyond endorsing agreements reached elsewhere (e.g. guaranteed flow of food aid agreed to at the Wheat Council). The utility of continuing the WFC is being questioned, partly at the instigation of FAO, supported by several (including the USA) governments. Although not directly involved, the scale of Bank investment dealing with global food issues has forced us into a prominent role in the Council's deliberations. Our experiences have been quite mixed. I believe some changes in WFC operations could prove useful. The WFC could well perform a valuable service as a forum and secretariat for the upcoming "Global Negotiations" that are to focus on energy and food. There remains a need for dispassionate and professional examination of issues such as food security, food self sufficiency, subsidized distribution and so forth, perhaps the WFC could provide this service.

MYudelman/CMLewis:icm

cc: Baum

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara (through Mr. E. Stern) *ES*

DATE: June 24, 1980

FROM: Montague Yudelman *MY*SUBJECT: Meeting with Mr. Tanco, President, World Food Council,
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We will, if requested. We started discussions with Nigeria 9 mos. ago when Mary First reported that Nigeria was eagerly seeking our help.

IMF Food Import Facility: The WFC has submitted a paper suggesting that the IMF study the establishment of a special concessional facility to finance exceptional increases in food imports by individual low income countries. The fund staff has proposed similar ideas, in the context of expanding the CFF, and it was discussed by the Development Committee. There was little support for the idea earlier and probably even less now. Our own analysis of the proposal indicates that the food issue is of minor significance compared with the impact of energy on the balance of payments of most LDCs. Suggestions that this proposal be seriously considered could detract from negotiations over the major issues related to financing oil imports and structural adjustment.

absolutely.

Mr. Robert S. McNamara
(through Mr. E. Stern)

- 2 -

June 24, 1980

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possibly-
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anything
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I would
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suggestions
in this
area of
WFC role
or
organization

MYudelman/CMLewis:icm

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara
(thru Mr. Ernest Stern)
FROM: S. S. Kirmani (Acting RVP, AEA) *SKR*

DATE: June 23, 1980

SUBJECT: PHILIPPINES - Food and Nutrition Plan

1. This memo is to brief you on the progress of the Philippine Food and Nutrition Plan for your meeting on Tuesday, June 24 with Arturo R. Tanco, Jr., Minister of Agriculture of the Philippines and President of the World Food Council. Mr. Yudelman and I both plan to be present at the meeting.
2. Background. On the basis of earlier discussions between you and Minister Tanco, we offered assistance to the Philippines in July 1979 to formulate a Food and Nutrition Plan for the country. Since then, two technical assistance missions led by Mr. Harry Walters (AGR) visited the Philippines to assist Government task forces to begin work on such a plan. Although a wide group of agencies were kept informed of the work on the plan, the members of the task forces were primarily from the Ministry of Agriculture and the technical agencies of the National Nutrition Council.
3. During the most recent Bank mission to the Philippines, a broad strategy for the Food and Nutrition Plan was finalized by these task forces and the essentials of the strategy were presented to the Philippine Cabinet on April 28. In a subsequent meeting, Minister Tanco explained the strategy to Mr. Husain and indicated that he hoped to present it in brief form to the World Food Council meeting June 2-4 in Arusha, Tanzania, and to discuss it subsequently with you in Washington if convenient. They agreed that it would also be desirable to present a fuller and more complete document, which would include project proposals, to the Consultative Group Meeting for the Philippines currently scheduled for January, 1981 in Manila.
4. Review of Findings. Developments in the 1970s included a rapid increase in food production, especially since 1974, with productivity gains concentrated in the rice sector, the major source of protein and calories, and in the commercial fruit and poultry and pork sectors. The improvements in the rice sector had broad beneficial effects on domestic consumption since rice farmers' incomes rose and the "real" price of rice to consumers declined. However, in recent years, benefits of production improvements have been limited by surplus management and pricing problems.
5. Productivity gains in fruit and livestock were highly concentrated and most of the growth in other food crops - corn, coconuts and sugar - was due to area expansion, which is rapidly reaching its limits. While real prices of rice declined, high export demand for coconut oil led to increases in real domestic vegetable oil prices of 300%. Prices of fish, the major source of animal protein, also increased despite rapid production growth, as did prices of meats.

6. Alleviation of absolute poverty during the decade was minimal, due to structural problems and regional concentration in industry which limited employment generation, uneven gains from improved agricultural technology, increased population pressure on limited land resources, and high inflation. Thus, despite evidence of some improvements in aggregate food availability per capita, malnutrition problems remain serious.

7. According to the 1978 National Nutrition Survey, energy inadequacy is by far the most serious nutritional problem in the Philippines. About 38% of both the urban and rural population was severely undernourished (less than 80% energy adequacy) and another 39% of the population was mildly undernourished (80 to 100% energy adequacy). Low incomes explained most of the variation in energy adequacy, with other factors reflecting varying availability and costs of food (region, access to home production, food expenditure) explaining the rest. By food group, the most serious deficiencies were in cereals, animal fats and vegetable oils, and certain fruits and vegetables. Protein was seriously deficient only in very low income households, and came mainly from vegetable sources. The survey also showed that the existing nutrition programs reached a very small fraction of those who were severely under-nourished, and a surprising proportion of well nourished people (over 110% energy adequacy), indicating a need to review the emphasis and design of the existing programs, and to devise better targeting mechanisms.

8. Recommendations. On the basis of these findings regarding past agricultural growth and the nature of the malnutrition problem, and evaluation of the nutritional impact of various agricultural production and price scenarios for the 1980s, the strategy proposes four "thrusts" to be pursued during the next decade:

- (a) stimulate the growth of the food economy, with emphasis on actions which will provide increased employment and increased incomes for the poor, while at the same time ensuring that ample supplies of food are available;
- (b) increase export earnings and provide import substitution through agriculture, in order that the agricultural sector may continue to contribute to the total economy;
- (c) assure that consumer food prices are maintained at reasonable levels through increases in production and market efficiencies and improved management of trade and price policies for certain key commodities; and
- (d) Move immediately and directly to correct the most serious nutritional deficiencies through targeted provision of inexpensive calorie-rich foods at reduced prices and through complementary health and education-oriented programs.

9. The first three "production" thrusts emphasize poverty alleviation and growth in production of calorie-rich foods, with corresponding changes in consumer prices which would lead to increased consumption of foods currently consumed but deficient in the diet of poor groups. Further measures which would help to diversify the diet and reduce food costs for all Filipinos (by stimulating production of a wider variety of foods in a more balanced pattern both regionally and seasonally) appear to require more major structural adjustment and require further investigation.

10. Under the scenario for the 1980s currently favored under the strategy, food crop area would expand at an annual growth rate of about 1%, irrigated area would expand at an annual growth rate of 1.7%, and yields of rice, corn and vegetable oils would improve at rates vaying from 2-4% a year. Concurrent with these production results would be gradually declining real consumer prices for rice and vegetable oil, and gradually rising real prices for corn, imported wheat, livestock and fish.

11. Further identification of programs and policies to help bring about these changes will be a major part of the work required in the next six months in finalizing the plan. In general terms, they will involve:

- (a) maintenance of producer incentives through: productivity gains; rising producer prices (other than rice and vegetable oils); expanded Government support services; and if necessary, fertilizer and other input subsidies should "real" production cost curves rise;
- (b) continued emphasis on increased productivity of the existing irrigated area and expansion of irrigation area as rapidly as possible;
- (c) expanded and diversified support services for crops other than rice, including in particular food crops with nutritional significance and promising commercial crops for export; and
- (d) special programs for producers not able to share in rapid productivity gains.

12. The fourth "consumption" thrust is included to complement and supplement the "production" thrusts. A new food assistance program involving some subsidy is proposed to be initiated immediately using available rice and vegetable oil stocks to be channeled to the poor through existing marketing systems which are highly efficient and have universal coverage in both urban and rural areas. Both rice and vegetable oil have very high price elasticities of demand among low income groups, which means that rather modest price decreases will result in sizable consumption gains, and that resale, a persistent problem with other existing food assistance programs, would be limited. To ensure adequate targeting and minimize leakage, the assistance program is proposed to be operated in close cooperation with existing community-based nutrition programs including preschool

and school feeding, food production, health and information programs. Although the commodity requirements of the program would be modest relative to projected rice and coconut oil production, monitoring and evaluation will be an important part of the program to ensure that unanticipated demand for rice and oil stimulated by the program does not result in price increases which offset or nullify the program's consumption effects.

13. The program would be targeted to the 4.6 million individuals with per capita annual income below ₱ 500 and energy sufficiency below 80%. To increase their energy intake by 300 kcal/capita/ day, 90,000 MT of rice and 20,250 MT of vegetable oil annually will be required. An annual cost of \$35 million is estimated, including about \$14 million in administrative costs which are already in agency budgets.

14. Nutritional Impact of the Strategy. By 1990, the first three "production" thrusts through price effects will result in the energy adequacy of the poorest groups (per capita income less than ₱500) increasing from 81% to 90%, and that of other poor groups (per capita income from ₱ 500 to ₱ 2,000) increasing to near 100%. If the fourth "consumption" thrust is implemented concurrently, energy adequacy of the poorest group would be further raised to about 98%. Since these impact estimates do not incorporate improvements in income distribution which may result from the "production" thrusts or the impact of presently undefined complementary programs focusing on nutritional problems affecting a smaller proportion of the population, they may well be conservative. The intention is that the coverage and subsidy proportion of the special assistance program be adjusted as required over time, based on monitoring of the distributional impact of both the production and price effects of the strategy.

15. Receptivity of Government and Other Major Donors to the Strategy. Following Minister Tanco's initial presentation of the strategy to the Cabinet, some Cabinet members expressed concerns which still remain to be resolved or accommodated in a revised plan. First, there was some questioning of the extent and nature of malnutrition reported, resulting in doubts on survey quality. These concerns were quieted relatively easily following further presentations on the survey methodology and coverage. However the Cabinet remains aware of the political sensitivity of acknowledging high malnutrition. Second, the Cabinet expressed concern that analytical assumptions underlying the strategy needed to be made consistent with those in national and regional plans currently being updated. These concerns resulted in Minister Tanco being authorized to present to the World Food Council only an abbreviated version of the strategy, which was to be considered a working paper of the Ministry of Agriculture, not a final document endorsed by the Government. Interagency committees have since been set up to reconcile the analysis of the strategy with the national and regional plans. Third, some of the Cabinet had reservations about the special food assistance program on the basis of costs, possible difficulties in targeting assistance and containing leakages, and difficult political decisions on possible diversion

of coconut oil exports for the program (only 4% of current exports would be needed). The probable need for a subsidy program has reportedly been accepted by Cabinet leaders, but the program design is still being debated, and technical task forces have been formed to resolve issues regarding targeting mechanisms, costs, source of vegetable oils, and linkages to existing nutrition programs.

16. Despite these lingering concerns, the Cabinet has endorsed presentation of a fuller, more complete plan to reflect a consensus of involved agencies at the Consultative Meeting (CG) scheduled for January 1981 in Manila. The revised plan would specify projects and further technical assistance to support the major thrusts of the plan. Major donors to the Philippines who have been kept informed on the progress of the plan - USAID, ADB, and UNDP - have expressed tentative support for the strategy and a keen interest in the presentation of project and technical assistance proposals at the CG.

17. Planned Bank Support for Finalization and Implementation of the Plan. Further technical assistance for finalization of the plan is being supported by the Bank through (a) technical assistance for field tests to assist in design of the food assistance program; (b) further assistance by Mr. Walters in refinement of analysis and presentation of the plan; and (c) support from the region and EDI for a grains seminar in the Fall to assist Government agencies to resolve rice policy issues.

18. In the next year, further assistance for plan implementation will begin with an Agricultural Support Services project, now being appraised, which could include components to support technical assistance for food planning and further project preparation, reorientation of research and support services to support priorities already identified, and technical assistance and pilot projects for nutrition. Also, an irrigation review, to investigate investment possibilities in the rice sector, is scheduled to be completed in early 1981. Other sector work and lending priorities will be reflected in the next CPP, scheduled for your review this Fall. We would expect further adjustments to our program to be made as new priorities and proposed projects emerge from the institutionalized plan monitoring and revision process proposed in the strategy.

Cleared with and cc: Messrs. Gould, Blaxall.

cc: Messrs. Stern, Please (VPO); P. Hasan, Jaycox, Kirmani, Baldwin, Blaxall, Golan, Price, Smith, ter Weele, Andreu, M. Cox, Gigliolo, Hawkins, Bussink, Hinkle, Keil, S. Khan, Parbery, Sidek, van Holst Pellekaan (AEA); Yudelman, Pickering, Christoffersen, Donaldson, Goering, Thoolen, Leeuwrik, Lewis (AGR); Evans, Berg, Schebeck, N. Khan, Carriere (PHN); Grimshaw, Kaltrat, Saadat, Merghant, Clearer, Hees and Hume.

DHill:dce

OFFICE OF THE PRESIDENT

Meeting with Mrs. Imelda Marcos, The Philippines, August 4, 1980

Present: Mrs. Marcos, Messrs. McNamara, Mapa, Constain, Husain

Mrs. Marcos expressed her Government's regret at Mr. McNamara's intention to resign from the Bank; she pointed to the Bank's important role in providing development assistance to The Philippines, using the examples of the loans to be signed today. She concluded that so much remained to be done in terms of development but time was running short.

Mr. McNamara replied that he was pleased with the progress of the development program of The Philippines. He pointed to the structural adjustment loan under preparation which was clearly needed. He argued that the reason for his leaving was that the problems would take a long time to be resolved. The Bank's lending had to be expanded in order to meet the additional demands of China, structural adjustment lending, energy and higher than expected inflation rates.

Mrs. Marcos argued that above all developing countries needed political stability. Mr. McNamara said that this was also true for the developed world. The U.S. was presently not stable and faced very difficult problems. Before he left, he would prepare a road map of how the Bank should proceed over the next 5-10 years. It should not be beyond the wit of man to deal successfully with the issues which lay ahead.

CKW
August 15, 1980

OFFICE MEMORANDUM

Mr. Robert S. McNamara

DATE: August 4, 1980
*Agri also
But more in urban areas
recognize large projects
nationalized
rural & protection
Think for budget
L. who after*FROM: S. Shahid Husain, AENVP *HL*SUBJECT: PHILIPPINES - Visit of Madame Marcos, Monday, August 4, 5 p.m.

1. Madame Marcos will be calling on you prior to signing the loans for the Watershed Management Project and the Livestock/Fisheries Project.
2. The rise in Madame Marcos' prominence in Philippine public affairs may be traced to the early 1970s, when certain government programs which she promoted in an unofficial capacity, such as population and nutrition, became known as "programs of the First Lady." In 1975 she was appointed Governor of Metropolitan Manila, a new unit of government amalgamating the various cities and municipalities in the Manila area. It was in this latter capacity that she signed with you the Urban I loan in 1976 and the Manila Water Supply II loan in 1978. During her administration, slum upgrading and site-and-service programs have been initiated, many trees have been planted, and the streets have been kept clean. There was also a building boom in Manila, including a Cultural Center, an Art Museum, Convention Center and a Heart Institute promoted by the First Lady; and about a dozen first-class hotels were constructed at the time of the 1976 World Bank/IMF Annual Meetings.
3. In 1978, she received the additional post of Minister of the newly created Ministry of Human Settlements. This Ministry has a broadly defined mandate for coordinating the provision of eleven basic needs of the Filipino people -- food, shelter, power, water, livelihood, mobility, etc. MHS is the implementing agency for only two of the identified basic needs, shelter and ecological balance. For the remaining nine needs, it "coordinates," in principle, the activities of other implementing agencies; but it lacks the capacity to do this effectively except on an ad hoc, localized, and episodic basis. There has naturally been some confusion as to the relative roles of MHS, and traditional core agencies such as the planning ministry (National Economic and Development Authority) and the Ministry of Local Government. The broad sweep of MHS' mandate gives the First Lady the opportunity to identify with herself almost any Government program in which she takes a strong personal interest. The MHS core staff is relatively small and weak, but the Ministry has a large number of attached agencies such as the National Housing Authority, the Home Mortgage Finance Corporation, the National Pollution Control Commission, and the Human Settlements Development Corporation.
4. Given the amount of time the First Lady spends in public appearances and in traveling, and the diversity of her interest, administration and policy-making in the Metropolitan Manila Commission and the Ministry of Human Settlements are largely in the hands of the Deputy Governor and the Deputy Minister, respectively.

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5. Presently there are three Bank-financed urban projects under execution in the Philippines, of which Urban II and Urban III are still at an early stage of implementation. The principal implementing agencies are the National Housing Authority, the Ministry of Public Works, and local governments; Deputy Minister of Human Settlements Benitez also plays a significant role. While the Bank-financed projects embody the concept of low-cost, replicable upgrading and sites and services, some other MHS housing programs, notably the relatively expensive BLISS program, do not represent replicable approaches to housing for poor people. The Bank's future urban lending program includes an Urban IV project for Regional Cities in FY83, and an Urban V project in FY84 for another time-slice of the ongoing Manila upgrading programs.

6. There are no specific issues that the Region believes need to be raised with the First Lady. For your information, we plan to do sector work in housing finance this fiscal year. You may wish to mention that the oil price developments of 1979 have raised the Philippine economy's dependence on foreign savings to 6% of GNP, a level which must be gradually reduced over the medium term. Important elements of the strategy for accomplishing this include a selective approach to new Government projects, in view of the very heavy expenditure commitments arising from ongoing projects; and a reasonable degree of cost recovery from beneficiaries of government projects and public services such as water and electricity.

7. In FY80, the Bank committed \$412 million to the Philippines for eight projects. In FY81, we plan to commit \$468 million for 5 projects. These include: the two agricultural projects which will be signed by the First Lady; the Structural Adjustment Loan; a financial sector Apex loan; and an agricultural supporting services project. Provided that a satisfactory plan for liberalizing import licensing is received soon (as we expect), the SAL documents will be circulated in late August for a Board meeting in mid-September.

Cleared with and cc: Mr. Jaycox, AEADR; Ms. Sewell, AEPUR

cc: Mr. E. Stern

BJones/sk