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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

PHILIPPINES
REGIONAL DEVELOPMENT FUND
PROJECT PAPER AMENDMENT

Number 2

492-0374

APRIL 1985

PROJECT DATA SHEET

1. TRANSACTION CODE

C
A = Add
C = Change
D = Delete

Amendment Number
2

DOCUMENT CODE

3

2. COUNTRY/ENTITY

Philippines

3. PROJECT NUMBER

492-0374

4. PROJECT TITLE (maximum 40 characters)

Regional Development Fund

4. BUREAU/OFFICE

Asia

04

6. PROJECT ASSISTANCE COMPLETION DATE (FACD)

MM DD YY
1 | 2 | 3 | 1 | 8 | 8 |

7. ESTIMATED DATE OF OBLIGATION
(Under 'B.' below, enter 1, 2, 3, or 4)

A. Initial FY 82

B. Quarter

C. Final FY 86

8. COSTS (\$000 OR EQUIVALENT \$1 =)

| A. FUNDING SOURCE | FIRST FY 82 | | | LIFE OF PROJECT | | |
|------------------------|-------------|------------|------------|-----------------|-------------|-------------|
| | B. FX | C. L/C | D. Total | E. FX | F. L/C | G. Total |
| AID Appropriated Total | | 20,000 | 20,000 | 500 | 189,500 | 190,000 |
| (Grant) | () | (20,000) | (20,000) | (500) | (189,500) | (190,000) |
| (Loan) | () | () | () | () | () | () |
| Other U.S. | | | | | | |
| 1. | | | | | | |
| 2. | | | | | | |
| Host Country | | | | | | |
| Other Donor(s) | | 2,000 | 2,000 | - | 19,000 | 19,000 |
| TOTALS | | 22,000 | 22,000 | 500 | 208,500 | 209,000 |

9. SCHEDULE OF AID FUNDING (\$000)

| A. APPROPRIATION PURPOSE | B. PRIMARY CODE | C. PRIMARY TECH CODE | | D. OBLIGATIONS TO DATE | | E. AMOUNT APPROVED THIS ACTION | | F. LIFE OF PROJECT | |
|--------------------------|-----------------|----------------------|---------|------------------------|---------|--------------------------------|---------|--------------------|---------|
| | | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan | 1. Grant | 2. Loan |
| (1) ESF | 280 | 100 | | 85,000 | | 105,000 | | 190,000 | |
| (2) | | | | | | | | | |
| (3) | | | | | | | | | |
| (4) | | | | | | | | | |
| TOTALS | | | | 85,000 | | 105,000 | | 190,000 | |

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

120

130

140

820

11. SECONDARY PURPOSE CODE

2. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

3. PROJECT PURPOSE (maximum 480 characters)

To improve socio-economic conditions in the Philippines through the provision of priority public infrastructure projects including associated technical assistance.

12. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
0 | 9 | 8 | 4 | 0 | 9 | 8 | 6 | 0 | 9 | 8 | 8 |

13. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page FP Amendment.)

Provides additional funding for local government capital assistance activities with emphasis on areas near U.S. military facilities, nationwide school facilities, and provides option to fund priority disaster area assistance efforts.

17. APPROVED BY

Signature

Title

Director, USAID/Philippines

Date Signed

MM DD YY
0 | 4 | 2 | 3 | 8 | 5 |

14. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

DRAFT PROJECT AUTHORIZATION
AMENDMENT NO. 2

PHILIPPINES

Regional Development Fund
Project No. 492-U374

A. The Regional Development Fund Project for the Philippines (Cooperating Country) was authorized on August 26, 1982 and amended on October 29, 1983. Pursuant to Part II, Chapter 4, Section 531 of the Foreign Assistance Act of 1961, as amended, that authorization is hereby further amended as follows:

1. The level of planned obligations is increased by One Hundred Five Million Dollars (\$105,000,000) to a total of One hundred Ninety Million United States Dollars (\$190,000,000) in grant funds. The amount of such increase shall be available for obligation over a two year period from the date of this Amendment, subject to the availability of funds in accordance with the A.I.D. OYB allotment process. The planned life of the project is increased by one year to December 31, 1988. In addition to the uses previously authorized, funds authorized for this project, as amended hereby, shall be used for U.S. dollar support for foreign exchange requirements of technical advisory services, training and commodities, as needed, as well as dollar transfer(s) in exchange for the Cooperating Country appropriating and using an equivalent amount of pesos to finance the local currency costs of roads, schools, markets, health facilities, and related activities throughout the Philippines.

2. The Amendment to the Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority shall contain, in substance, the following conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Conditions Precedent to Disbursement

Prior to disbursement of funds under the Amendment, or to the issuance of documentation pursuant to which disbursement shall be made, the Cooperating Country shall, except as A.I.D. may otherwise agree in writing, furnish documentary evidence of the following in form and substance satisfactory to A.I.D.:

(i) Standard designs and firm cost estimates have been prepared for the construction activities supported by any such disbursement under the Amendment.

(ii) Evidence that the appropriation and allotment to the Economic Support Fund Secretariat has been made in an amount of pesos, equivalent to the amount of the proposed U.S. dollar disbursements, to finance the local currency costs of activities supported under this Amendment.

8. The authorization, as previously amended, remains in full force and effect except as amended herein.

M. Peter McPherson

Date

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

It is recommended that : (1) the authorized level for the Regional Development Fund Project (RDF) No. 492-0374 be increased from \$85 million to a new life of project total of \$190 million; (2) the PACD for the project be extended by one year to December 31, 1988; (3) funds be allocated for the construction of infrastructure subprojects and related development activities throughout the Philippines. A portion of this funding is expected to be allocated for a special category of assistance for infrastructure repair and construction in areas affected by natural disasters.

B. Purpose

The purpose of this amendment is to assist the GOP in improving the economic and social conditions in the Philippines.

C. Description

The project amendment will finance infrastructure construction including markets, roads and bridges, health clinics, flood control, solid waste management, secondary schools and furnishing's, and miscellaneous subprojects such as elementary schools, drainage, potable water, and procurement of goods and services that support project objectives.

Project funds will also be available for training local government personnel working with project planning and implementation offices in the provinces, cities, and municipalities where subprojects are being implemented or planned.

D. Findings

Analysis of the proposed Amendment as well as experience under ongoing and previous projects such as the Regional Development Fund, Municipal Development Fund, Elementary Schools Construction Project and the Rural Roads Program indicate that the proposed amendment is sound as designed. The activities address priority rural needs as specified by the local governments.

Design and implementing procedures have been developed to address feasibility concerns and to assure that costs are reasonable and contracting procedures are followed. In many cases standardized design criteria have been developed for the various activities. Only simple site specific adjustments are generally needed to match the facility to the local requirements in these instances. Standard competitive procurement procedures are followed for feasibility work, design, construction, and supervision. The local implementing entity monitors construction. In addition, A&E firms are financed under the project to prepare detailed designs, supervise construction, and to certify payment requests from the contractors.

II. JUSTIFICATION FOR AMENDMENT

ESF II is the program of economic assistance that was negotiated in conjunction with the 1983 Memorandum of Agreement covering the operation of U.S. operated military facilities in the Philippines. Under the program, the U.S. has agreed to provide \$475 million in grant economic assistance to the Philippines over a five year period (Fiscal Years 1985-1989) on a best efforts basis. The ESF II program succeeds the \$200 million ESF I program that was negotiated in conjunction with the 1979 amendment to the 1947 Military Bases Agreement and that was provided during Fiscal Year 1980-1984. Development activities financed with ESF I included schools, roads, public markets, health facilities, municipal slaughterhouses, solid waste disposal activities, and other similar infrastructure subprojects.

A recent review of the 1979-1984 ESF I program in the Philippines was encouraging. The review, conducted in September, 1984 with assistance from AID/W concluded that the ESF I program objectives had generally been achieved and the mechanism for administration of the ESF program was sound and was carrying out the intentions of the Philippine and U.S. Governments. Although activities had been slow to start and many unforeseen problems had affected the GOP's ability to rapidly draw down the assistance, major problems appeared to have been addressed by the time of the assessment.

The September review led the Mission and the ESF Secretariat charged with implementation of the ESF program to conclude that a continuation of the types of activities already developed and underway was a sound use of ESF resources. This project amendment has been developed accordingly to provide funds from ESF II to complete the subprojects planned for ESF I and meet other high priority infrastructure development and related needs at the local level.

Additional funds are needed for subprojects planned under ESF I because the planning for the Regional Development Fund (RDF) and Municipal Development Fund (MDF) Projects for the six provinces and 23 municipalities in the U.S. Military Bases impact area was carried out at the \$115 million level. However, because of the economic crisis beginning in 1983, the GOP's need for dollar resources became critical, and the GOP requested AID to reprogram funds to rapid disbursing schools and roads activities so that dollar transfers could be accelerated. As a result, \$50 million was reprogrammed from planned FY 84 obligations to a nationwide schools and roads program under the RDF Project (RDF Amendment No. 1). This reprogramming exhausted the authorized funding level of the RDF Project. There is now an immediate need for ESF financing to restore these resources and complete the infrastructure activities planned for the FY 84 program. Moreover, during the ensuing year additional activities have been identified by the local government units for ESF funding should resources be available.

In addition to the above, funds under this amendment will be used to respond to the GOP's request for assistance for the Philippine school construction program. This component will provide funds for constructing secondary schools in a nationwide program that represents both a continuation of the successful ESF elementary school construction activity (Elementary Schools Project No. 492-0342 and RDF Project Paper Amendment No. 1) and a response to the increasing growth in secondary school enrollment and very crowded conditions at the secondary school level. USAID has had discussions with International Bank for Reconstruction and Development (IBRD) representatives who are planning a 1987 Secondary Schools Sector loan and who welcome an FY 85 AID effort to begin the necessary secondary school construction effort, which has lagged far behind elementary school construction to date.

Some funding is also expected for other high priority infrastructure activities outside the bases impact area, and in areas affected by the severe natural disasters that hit the Philippines in 1984 (two major typhoons and a volcanic eruption). The GOP is currently assessing needs and funding availabilities for priority infrastructure in the 1984 disaster areas and it is expected the GOP will request ESF to assist in providing critical infrastructure that meets RDF funding criteria. Other appropriate infrastructure development activities outside region III could be considered subject to the approval of the GOP and USAID. For example, should other natural disasters hit the Philippines during the life of the project, a portion of the assistance under this amendment could be utilized for the construction assistance where the GOP has declared a disaster and both the GOP and AID agree to reallocate funds.

The RDF project has made available funds for necessary technical assistance and training. This Amendment will continue to make available such funds for contracting technical advisory services to support project planning, design and/or implementation activities, and for training to improve local government's capabilities to plan and manage infrastructure projects.

III. DETAILED DESCRIPTION OF PROJECT

A. Background

There were two primary Regional Development Fund (RDF) objectives when the project was established in 1982: (1) to improve the condition of squatters around the perimeter of the military bases and on the reverted lands, and (2) to construct high priority growth related infrastructure subprojects in all six provinces of Region III which is the area impacted by the U.S. Military facilities. At the end of Fiscal Year 1983, a total of \$35 million had been obligated for the RDF project. In Fiscal Year 1984, the RDF project was amended to provide an additional \$50 Million to construct elementary schools and local roads throughout the Philippines.

A relatively early activity under RDF was a squatter resettlement subproject, the Sapangbato Resettlement Scheme. This was implemented for 106 families located along the perimeter of Clark Air Base. However, implementing agencies gave priority to the second objective (infrastructure development) because of the critical need for improved and expanded infrastructure. The development experience gained by the Provincial governments under previous USAID funded projects, such as the Provincial Development Assistance Project (492-0205/0256) and the Rural Roads (492-0272/0297) Project, provided a good institutional base for implementing other priority infrastructure projects under ESF.

The RDF project has provided a variety of infrastructure subprojects for rural people in the target areas. Twenty-eight provincial RDF infrastructure subprojects costing approximately US\$ 21.0 Million have either been completed or are presently under construction. A major regional level subproject, the Pampanga Export Processing Zone and Industrial Estate (ESF Fund level US \$8.0 Million) is also under construction.

RDF subprojects funded under ESF I were a part of the overall Region III Development Plan which in turn is an integral part of the current Five-Year Philippine Development Plan (1983-87). During the final year of ESF I (1984), the RDF played a particularly important role in capital improvement projects in Region III since other resources available to local governments for this type of activity were constrained by the financial crisis that has engulfed the Philippines. Indeed, it is unlikely that any of these subprojects would have been possible without ESF assistance.

The original RDF program financed with the first \$35 million was concentrated entirely in Region III, the area where the major U.S. military facilities are located. Although the activities carried out in Region III were eagerly sought after and well received by local beneficiaries, this region is also one of the most prosperous areas in the Philippines, and it may be argued that ESF would have greater developmental impact in poorer regions.

To help address this concern and because there exists limited national and local government resources for capital improvement projects throughout the Philippines, a decision was made by the GOP to expand RDF's area of coverage to other regions of the Philippines. This process was started with the RDF Schools and Roads Amendment in FY 1984 and will be expanded in this amendment to include other priority infrastructure. This amendment, however, will continue to recognize the special relationship of the U.S. military facilities with Region III. It accordingly will complete the delivery of resources planned for priority infrastructure in this region, particularly the immediate areas surrounding the Clark and Subic bases.

B. Detailed Description

1. General

This project amendment adds funds to continue to assist the GOP in improving the socio-economic conditions in the Philippines. The major components of the amendment include: local infrastructure assistance, secondary schools, and a disaster area assistance component.

2. Local Infrastructure Assistance

This component will use subproject implementation procedures developed during ESF I. Local governments will in most cases be the Implementing Agencies (I.A.) for subproject development and implementation. Project outputs will be a continuation of the same types of project outputs as under ESF I Program. The subprojects financed under this amendment will be those proposed by local governments and includes in their regional development plans. Most of the subprojects have progressed extensively in the planning stage and some are ready for bidding. The financial plan in Section VI shows an illustrative summary of the application of funds based on plans reviewed to date.

To assist in achieving greater local government participation and to strengthen their capabilities to plan and implement ESF subprojects, funds will also be available under this amendment to finance in-country training programs as these are identified and justified by local governments in support of infrastructure development activities. A portion of the funds may also be used for local technical assistance to assist local governments manage their subprojects where needed. Terms of reference for such assistance are developed by each local government with assistance as necessary from the ESF coordinating agency (the ESF Secretariat- see part VIIB.) Other local government initiated activities consistent with project objectives may also be considered for financing under the amendment. One such proposal under consideration by AID is commodity support for provincial mobile medical teams around Clark Air Base. This program is also assisted by U.S. Air Force civic action authorities and would involve a cooperative AID-U.S. Air Force, Ministry of Health, Provincial Government, and Philippine Military arrangement to support provincial medical team visits for rural areas.

3. Secondary Schools

By focusing on what is considered to be the weakest link in the Philippine educational system, this component seeks to assist the GOP to provide necessary infrastructure for secondary education.

Over the next ten years, secondary school enrollment is projected to increase at an average annual growth rate of 4.64 per cent, from 3.1 million to 4.3 million. (See Table 4, Annex C for Projected Secondary School Enrolment 1983-93). For the three year period beginning in 1985 to 1988, the GOP estimates that more than 3,000 additional classrooms will be required by public secondary schools. Since locally funded secondary schools comprise more than 80 per cent of all public secondary schools, (National high schools are funded by the central government) at least 2,400 additional classrooms will be needed by local government units during this time period. Under the Secondary Schools Component the project expects to construct approximately 85 school buildings, primarily at the local level, having from 6-18 classrooms, and equipped with individual desks, blackboards, teacher tables and chairs, and sanitary facilities. Assistance to national high schools will only be considered when no assistance to local high schools in the area is practical. Schoolbuildings will be constructed throughout the Philippines. (See Annex E for the selection criteria). Virtually all of the schools planned for construction under this component will be replacements for dilapidated buildings or additional facilities for schools already in use. In many cases, existing facilities are forced to accommodate 3 shifts so the new facilities will have a ready supply of both students and teachers.

Access to and availability of adequate library facilities and resource materials is a major problem in most secondary schools. One library room equipped with table, chairs, bookcases and card catalogue cabinets is planned for each school. The Asia Foundation has indicated its willingness to provide standard reference books for each library (See Annex G for generic listing of types of books to be provided). These books are expected to be obtained from U.S. sources under the Foundation's book program at no cost to the project. However, the related administrative, shipping and distribution charges from the U.S. to the individual schools will be eligible for financing under ESF. Depending on the needs of the individual schools, procurement of some textbooks under other arrangements is also possible under the amendment.

4. Disaster Area Assistance

A series of natural calamities in 1984 unmatched during the past 10 years included three major typhoons and a major volcanic eruption in Regions I, V, VI, VII, VIII and X. The calamities caused significant devastation to both human life and basic infrastructure. More than 2,000 people were killed or are missing and 200,000 families were left homeless. Total damage is estimated at \$500 million. AID has contributed more than \$6 million for emergency disaster relief efforts from the Office of Foreign Disaster Assistance (OFDA) and the PL 480 Title II food commodities program.

The GOP is now in the process of developing a "Disaster Rehabilitation and Reconstruction Program" which is planned to be implemented over a 5-year period at an estimated cost of \$100 million. Given the current economic problems, the GOP would be hard pressed to shoulder this burden alone, and donors have been requested to help. To assist the areas affected by these natural disasters, a portion of the funding from this RDF amendment will be made available for priority activities subject to mutual GOP/AID agreement. (Note: In addition to this expected assistance, USAID and the GOP are reprogramming approximately \$8.0 million under the Schools and Roads Amendment RDF Amendment 1 - to target more of this assistance on disaster areas.) Subprojects will be expected to meet the same criteria and procedures as the regular capital assistance efforts under ESF and may include but not be limited to drainage and flood control, water systems, erosion control, and the construction of typhoon resistant schools.

Funding for this component will be made available under the Amendment subject to GOP/AID agreement on the activities to be financed under this effort. Proposed subprojects have not been specifically identified but preliminary estimates are that \$5 million to \$10 million should be sufficient to meet priority requirements. Additional ESF resources could be requested by the GOP depending on the availability of funds from GOP and other donor sources.

C. Summary of Implementation Arrangements

1. Role of Provincial and City Governments

Local Governments will be the primary Implementing Agencies for this component. In the Philippines, the three elements of local government are the province, municipality and chartered city. These correspond roughly to the state, country and city governments respectively in the U.S. Chartered cities are independent local government units in the Philippines and are autonomous from provincial governments. While only the most prosperous municipalities can afford their own development staffs, experience under ESF I has shown that provinces and chartered cities generally have these staffs and can effectively organize and support subproject development and implementation. Accordingly, the Provincial or the City Development Staff (PDS/CDS) and the Provincial or City Engineer's Office (PEO or CEO) will be the responsible units for identifying, planning, and contracting the construction of subprojects under this amendment. In some instances, where provinces or cities are not capable to carry out the necessary work, the Ministry of Public Works and Highways (MPWH) may be requested to fill this role as has been the case under the RDF Schools and Roads Amendment.

As in the case of all local infrastructure projects, local government implementing agencies will set up pre/post qualification committees (PBACs) responsible for qualification of contractors and, conduct of bidding and recommending award of contracts financed under the amendment. Each PBAC generally consists of a chairperson who is a ranking member of the local government, an executive officer and secretary, and designated technical officers.

Local government units will form Project Management Teams (PMTs) to monitor construction. PMTs will be funded by the provinces/cities implementing ESF subprojects and will consist of staff from the local implementing agencies. Generally such staff includes a project manager, project engineer, finance officer, administrative assistant, monitoring officer and other technical staff required. Their role is to represent the interests of the local government by contracting and monitoring construction. PMTs also prepare and process the necessary documents needed for change orders, fund releases, etc. MPWH will also designate staff for PMTs in cases where MPWH is appointed as the implementing agency.

To help assure that detailed designs are prepared properly, bidding documents are uniform, adequate technical review of bids is performed and construction is sound, Architect and Engineering firms will be financed under the amendment to prepare designs, help prepare bid documents, analyze bids, assist in preparing construction contracts and supervise and certify construction work. A&E firms generally will report to the PMTs responsible for each subproject and will participate in the PBACs as a technical resource. To assure continuity in the process, the same engineering firm contracted for design of a subproject will perform the other functions indicated above.

2. Role of Municipal Governments

Although all subprojects under this amendment are expected to be implemented by the provinces or cities (and in some cases by MPWH) the municipalities will play a role in the process. Within the Philippine development process, it is the municipalities that propose development projects based upon recommendations made at the Barangay level. This is done because each province is composed entirely of municipalities and accordingly provinces depend on them for the first level of development planning. Each municipality prepares a Municipal Development Plan which is consolidated by the provincial government into a Provincial Development Plan. The plans are then integrated into a Regional Development Plan which forms part of the National Development Plan. Subprojects under this amendment are included in the various Development Plans. The selection process is described in more detail under Section 5a below. For every subproject proposed by municipalities, the municipal government will usually have a representative on the PMT. The provincial government will coordinate with the municipal governments at various stages of subproject development and implementation and will provide them the technical assistance for planning when needed.

3. Past USAID Experience

Most provinces and cities participating in this component have had experience with USAID funded projects. Depending upon the local government, this experience includes the Flood Rehabilitation Project 1972-76, Provincial Development Assistance Project (1968-1982), Rural Roads Projects I & II (1978-1984), RDF and MDF subprojects funded under ESF I (1982-1985), Barangay Water Project (1977-1985), and the RDF Schools and Roads Amendment (1984-1985). All of these programs have increased local governments' technical capabilities, and experience under ESF I has shown that provinces with this experience can successfully implement ESF activities.

4. Economic Support Fund Council

The ESF Council is the current policy body for the ESF program. The Council was set up in October of 1984 and it replaced the Management Advisory Committee described under ESF I. The Minister of Human Settlements (MHS), and Deputy Secretary General of the National Economic Development Authority (NEDA) are designated Chairperson and Vice Chairperson respectively. The ESF Council is attached to the Office of the President and is comprised of the Ministers of the following Ministries or Offices:

- Finance
- National Defense
- Local Government
- Trade and Industry
- Agriculture and Food
- Public Works and Highways
- Education, Culture and Sports
- Budget and Management
- Presidential Assistant for Legal Affairs

5. Economic Support Fund Secretariat (ESFS)

The ESFS is the coordinating and implementing arm of the ESF Council. It is made up of more than 100 technical and administrative staff and headed by an Executive Director. The ESFS oversee the day to day operation of the ESF program. The ESFS has proven itself to be an effective manager of ESF subprojects during implementation of ESF I (See Status Review of ESF Projects, September 1984) and will continue its role under ESF II. To strengthen the technical capabilities of the ESFS as the ESF program expands, the ESFS is planning to contract with a reputable engineering management firm to review designs and monitor the contracting and construction process. The ESFS in coordination with AID has developed a complete set of project development and management manuals for administering the ESF program. These have been modified from time to time and constitute the basic implementation procedures for the ESF Program. The procedures applicable to activities under this amendment are summarized below.

a. Subproject Identification and Design

The GOP and AID have agreed on the types of subproject eligible for funding (See Annex F). This listing comprises a number of subproject activities that contribute to the project objectives of improving socio economic conditions in the Philippines. Local government units are guided by the list as they select subprojects from their local development plans for funding under ESF. However, additional activities not on this list but that support the project objectives can be considered on a case by case basis, subject to GOP and AID approval.

When specific subproject activities are proposed by the local implementing agency to the ESFS, the proposed activity is evaluated on its potential benefit and cost in a prefeasibility document usually prepared by the implementing agency. This document is used by the ESFS and AID to determine whether to proceed with subproject development and to provide an initial cost estimate for earmarking funds. AID involvement at the prefeasibility level is generally limited to reviewing subproject proposals not on the "pre-approved" list and reviewing all subprojects costing more than the local cost equivalent of \$1.0 million, although the ESFS may request AID comments on any other proposed activity. Also, AID may review any particular subproject at this time if it deems it necessary.

The ESFS generally contracts and finances with ESF funds feasibility studies for those activities selected for possible funding. However, for relatively small, standardized activities such as elementary schools and small local roads, LGUs may prepare the limited feasibility studies required to assess subproject soundness. AID reviews all feasibility studies for subprojects costing more than \$1.0 million, all standard designs for subprojects, and any other studies that may be of interest because of technical or other concerns.

Following the approval of the feasibility study, the detailed engineering plans generally are prepared by an A&E firm with financing under the RDF project. Procurement of these services is done competitively following standard GOP procedures as approved by AID. Detailed Plans for all projects costing \$1.0 million or more are reviewed by AID engineers prior to the issuance of the Invitation for Bid on the subproject. Subprojects costing less but presenting technical issues are also reviewed.

b. Subproject Implementation and Monitoring

The tendering for construction services is managed by the concerned implementing agency. The tender is advertised and the tender documents follow a format approved by the ESFS and AID. Bid evaluation follows the normal competitive procedures with award made to the lowest responsible and responsive bidder. The A&E firm responsible for detailed design will be required to make a recommendation in this respect. In all tenders, a GOP cost estimate for the proposed work is prepared by the ESFS in advance and this is included in the advertisement for bids, with the understanding that the estimated cost figure cannot be exceeded by bidders. Once the contract has been awarded, the contract along with the A&E recommendation and the bid award data demonstrating the justification for award is submitted to the ESFS for appropriate GOP approval. If the contract is in excess of the peso equivalent of \$500 thousand, then it is simultaneously submitted for AID approval. Once the contract is approved by the GOP and AID, the Notice to Proceed is issued to the contractor by the implementing agency.

The implementing agency monitors the contractor's performance, issues needed change orders, and approves requests for progress payments. The same A&E firms contracted for detailed design also supervise construction and ensure compliance with plans and specifications. These firms also report construction progress and deficiencies, recommend change orders, and certify payments.

The ESFS has established a field subproject reporting system from the implementing agencies and supervising engineers and in turn provides detailed reports to AID. A quarterly progress report is submitted to AID on each subproject and monthly activity reports are provided on upcoming events. This information along with the AID engineers inspection data (See AID Monitoring, below) are compiled in the USAID automated Project Management Information System.

D. Aid Monitoring

1. General

AID monitors the ESF program in conjunction with the Economic Support Fund Secretariat. USAID/Philippines actively monitors important areas of: subproject design, engineering, contracting, construction, financial and other aspects of implementation as necessary.

2. Construction

USAID/Manila's Office of Capital Development plans to continue to devote one full time USDH capital development officer, one full time FSN program assistant, and major portions of time from two USDH engineers, two US PSC engineers and 13 FSN engineers to the amended RDF project. ESF I experience shows that USAID engineers are able to inspect RDF subprojects in Region III as well as nationwide subprojects on a regular basis.

Engineers prepare regular construction monitoring reports for each subproject visited noting any problems or deficiencies. Where problems are noted, USAID advises the ESF Secretariats and follows up to ensure corrective action is taken. All subproject reports are consolidated into a comprehensive RDF report which is incorporated into a computerized management information system. A statu report is printed from this data.

USAID information is supplemented by ESFS monthly activity and quarterly status reports based upon their staff visits and the CMS reports. Any major discrepancies between USAID information and ESFS reporting are resolved through joint meetings.

3. Implementation Process

The USDH RDF Project Officer actively monitors project implementation by attending selected subproject planning and development meetings, pre-bid conferences, actual subproject bidding, and regular field subproject reviews. In addition one full time US/PSC with an office at Angeles City in Region III monitors project implementation in the field and maintains close contacts with implementing agencies and other field level personnel associated with the ESF program.

E. Relationship to GOP and Other Donor Programs

1. GOP Development Programs

The goal of this project is in consonance with the major national goal to bring about sustained economic growth through a more equitable distribution of development in the rural areas in order to increase livelihood opportunities and provide an improved quality of life. Under ESF this has been done through the development of rural infrastructure and the provision of related social infrastructures such as water supply, schools and health facilities.

In the updated Philippine Development Plan (1984-1987), the infrastructure program investment requirements are stated to be approximately P76.6 billion (or approximately \$3.8 billion), (See Annex I). Due to current economic problems, it is doubtful that the GOP can fund a significant share of these requirements from internal resources.

2. USAID and Other Donor Programs

This project amendment complements both USAID and other donor programs. The relationship between the activities proposed under this amendment and some of these other programs is indicated below.

a. USAID

Beginning with the Provincial Development Assistance Project (PDAP), USAID has funded or is funding a number of projects which strengthen the institutional capacity of local governments to manage development projects. Aside from PDAP, these USAID projects include the Kural Roads Project, Barangay Water Project and the latest project started in 1982, the Local Resources Management (LRM) Project. LRM now operates in Regions V, VI and VIII, and in 1985 is planning to expand its financial revenue generating and management activities to Region III. The activities under LRM in Region III accordingly complement the thrust of this amendment.

b. IBRD

The IBRD is active in the education sector. In September 1983, the Ministry of Education, Culture and Sports (MECS) in association with the IBRD conducted a sector overview of Philippine education. The main concentration of the study was secondary education and was in response to the need to prepare the system for the expected effects of the Program for Decentralized Educational Development (PRODED) currently being implemented under an IBRD Loan in the elementary schools. The PRODED project seeks to improve participation and improve the quality of elementary school graduates through a new elementary school curriculum.

As a result of the study, the IBRD has indicated it may focus on funding barangay high school construction under a proposed secondary education sector loan. The barangay schools were chosen for possible IBRD emphasis because the technical and financial problems at that level are severe. National high schools are funded almost entirely by the GOP. This leaves provincial, city and municipal high schools without funds from the national government for physical resources. Thus, Schools at this level are an appropriate target for ESF assistance since they are under local administration and financially dependent on local governments, and because both IBRD educators and MECS agree that the need for facilities at this level is a most serious problem. The secondary school component of this amendment would help to meet this need.

IV. TECHNICAL ANALYSIS SUMMARY (See Annex D for complete analysis)

A. General

Experience under ESF I has shown the types of subprojects contemplated for funding under this amendment to be technically sound, and the review process adequate. Subprojects are chosen through the regular GOP regional planning process described under IIIC above and go through a feasibility analysis process before being funded. Contracting is done in accordance with standard GOP rules and regulations which are considered adequately competitive and sound to meet AID requirements. Past experience has shown there is an adequate supply of qualified contractors to compete in the subproject biddings. Architect and Engineering Firms carry out final design and supervise the construction activities. USAID engineers monitor the process as described under IIID above.

B. Secondary School Component

Additional secondary schools are badly needed. Overcrowding of classrooms is a problem and some schools have up to three shifts of students a day. There is an annual need for approximately 1000 new classrooms. Since the GOP has limited resource to finance new construction, provision of classrooms is an appropriate use of ESF resources. A basic two storey typhoon resistant secondary school building has been designed with 12 or 18 classrooms which may be adapted to suit actual site requirements. If necessary the design could be further adapted to other size school buildings (e.g. 6 or 10 rooms). The designs include a library, laboratory facilities, water system, toilets and lighting, but the provision of each type of facility will be dependent on whether it is available already at the site or not. Annex D provides more details on the technical soundness of the secondary school component.

V. SOCIO-ECONOMIC ANALYSIS

A. Social-Soundness Analysis

This project amendment provides assistance to improve socio-economic condition in the Philippines primarily through the provision of needed infrastructure at the local level. The amendment would finance construction of various infrastructure projects such as public markets, roads and health clinics. Beneficiaries of this assistance are residents of participating provinces throughout the Philippines. Productive growth in rural areas is constrained without additional physical infrastructure as these are the necessary building blocks upon which both public and private investment result.

The erection of public markets provides a convenient trading place for entrepreneurial farmers and fishermen to dispose of their produce. Markets have also been shown to facilitate acquisition of the consumers of various goods and services. Markets also stimulate the growth of trading of existing commodities and may even spur new ones.

The impact of local roads is related to their ability to improve agricultural production in more remote rural areas by reducing the costs of transporting farm inputs and produce to the market places. The construction of additional roads would mean time savings decreased transportation expenses, reduced spoilage of goods, more marketing intermediaries and increased incomes.

A 1981 impact evaluation of the AID Rural Roads Project (RRP) confirmed that the effort promoted agricultural growth benefitting small farmers, fishermen and entrepreneurs. The impact of local roads is also related to their ability to enhance the access of rural households to health, educational and other social service facilities. Road projects had a significant impact in many communities on the frequency of visits by doctors and nurses but even more important to rural residents was the quicker and better access they had to doctors, and health clinics in neighboring towns and beyond. Finally, the need for quick and efficient medical services is very basic, and justifies the need for health care facilities.

Secondary school facilities are badly needed throughout the country. The school building construction component in this amendment should improve the learning environment in target areas by lowering the student to classroom ratio and providing more adequate education facilities, leading to an improvement in the quality of the local education system. The need for the project is supported by the increasing secondary level enrollment in both private and public schools. In 1980-1981, the secondary level enrollment was 3.015 million or almost 63 per cent of the secondary schooled population. Enrollment in the same level in 1960 was only 29 per cent of the population. In fact, the Philippine Government has projected that growth in enrollment rates will be higher at the secondary level than at any other level of formal education during the 1983-1987 plan period. Demand may even increase more rapidly than predicted if the PROCED (Program for Decentralized Educational Development) project is successful in raising graduation rates at the primary level. As it is, Philippine secondary schools are already overcrowded, with an average of more than 50 pupils per classroom. It has also been noted that the geographical distribution of schools in the country is uneven, with the less developed regions having a lower ratio of classrooms to school age population.

Parts of the funds under the Amendment are expected to provide Disaster Area Assistance, for the construction and rehabilitation of various infrastructure in disaster affected areas. The same benefits are expected to accrue from this disaster assistance as from other infrastructure assistance since the activities will be similar, except that they will be targeted on disaster areas.

The obvious need for the activities discussed above and their known contribution, in addition to the potential impact of similar subprojects, are in themselves sufficient reason for implementation. The major task becomes one of determining how one can get the most benefit from investments under the project. Selection procedures targeting areas of demonstrated need appear to be addressing this concern for the secondary schools component, (Annex E) and the local governments should also see this in their best interest for the other components. All in all, it is expected that the interventions proposed under the project amendment will contribute significantly to the quality of life of the population residing in benefited rural areas of the Philippines.

B. Economic Analysis

To be eligible for funding, subprojects proposed should have a reasonable economic rate of return. When recurrent costs are present, the implementing agency or institution should provide assurances that incremental funding is or will be in place to fund such costs. Feasibility analyses are conducted for all proposed subprojects under ESF except for small subprojects for which such analysis is considered unnecessary, (e.g. 3 room elementary schools). Generally, the following economic and financial questions are addressed in the feasibility studies as specified:

1. Adequate identification of issues that affect the proper use and financial viability of subprojects.
2. For revenue-generating subprojects or for subprojects where benefits are quantifiable, the activity should show an economic internal rate of return (IRR) that is close to the social discount rate as estimated by the National Economic and Development Authority (NEDA); currently the social discount rate is 15 percent.
3. For subprojects where benefits cannot be quantified, care should be taken that costs are reasonable, and least cost alternatives are explored.
4. For subprojects where recurring costs are expected, the local governments should provide assurances that adequate resources will be made available for recurrent costs.

While feasibility determinations for the secondary schools component may be fairly standard, account should be taken of the existence of other schools in the area, the availability of Ministry of Education and Culture personnel and counterpart investment and recurrent costs for the specific area, and the demand for such education services. These concerns are generally met by the MECS criteria in Annex E.

VI. FINANCIAL PLAN AND ANALYSIS

A. General

The total cost for this amendment's activities is estimated to be \$115.5 million. The Economic Support Fund (ESF) would provide \$105 million and the remainder is an estimate of in kind contributions for local management, land allocations, etc. The host country contribution is based on usual practices and is not a requirement under the ESF program. The ESF is expected to be allocated for: local infrastructure assistance and related activities - \$73.4 million including possible local government technical assistance, training and community support activities; secondary school construction - \$31.6 million including related library reference books. Except for some minor commodity items, all costs are local and expected to be paid in local currency from the special accounts set up under ESF.

B. Financial Implementation Procedures

The existing financial procedures developed for RDF are planned to remain in effect for the activities that are to be carried out under this amendment. The procedure basically entails AID providing dollars to generate peso funds for special accounts maintained by the Philippine National Bank. Transfers of dollars take into consideration the outstanding balance of local currency funds in the accounts and the expected implementation needs of the program. Early arrangements under ESF involved transferring dollars based on projections of annual needs, but this has been shortened to projections of approximate quarterly needs because of the difficulty in making accurate annual projections.

Withdrawals from the special accounts for construction services are authorized by AID after certification of contractor claims by the concerned local government implementing agency, supervisory engineering firm, and ESFS. Variations of this process have been implemented including the Fixed Amount Reimbursement (FAR) system. Local currency advances to local governments may also be considered in light of the Country's current economic situation.

C. Local Infrastructure Assistance

A pipeline of subprojects have been identified and preliminary design analysis began. The activities tentatively identified for financing under this amendment consist of those priority infrastructure activities with relatively short construction periods, and related activities such as commodities and equipment support, training and technical assistance. The ESF Secretariat has developed, for many infrastructure activities, standards of construction (standardized designs) and current cost factors including costs of detailed engineering and engineering supervision based on works underway, and these have been used in determining the related peso and dollar equivalent costs for the activities to be funded by this amendment. The pipeline of subprojects includes many public markets, health facilities and roads. This reflects the priority needs of the local governments and is consistent with experience to date under ESF I. As has been the case under ESF I, except for

relatively small, standardized activities such as elementary schools and small local roads, each activity will undergo a feasibility study to assess the technical, financial and socio-economic soundness of the proposed subprojects. These are funded from the ESF Project Design Project which is separate from the RDF Project.

D. Secondary School Construction

The Ministry of Education, Culture and Sports has worked closely with the ESF Secretariat and USAID to identify secondary schools for construction under this amendment. The schools would conform to a standardized design that has proven quite reliable in the Philippines. The cost for each type of school has been based upon our current experience plus estimates for inflation and runs approximately \$280,000 for a twelve classroom school and \$380,000 for an eighteen classroom school. While the demand for secondary schools far outstrips what we can provide, this effort is viewed as an initial step in the GOP overall education development program to meet the most pressing needs. The schools to be built in most cases will be complete units including blackboards, desks, furnishings, rest rooms, two laboratories and a reference library.

Experience with earlier school construction efforts in the Philippines has shown that one of the most important items to both students and teachers is an adequately stocked reference library. To this end, AID and the ESFS have worked with the Ministry of Education, Culture, and Sports to develop a standardized library (See Annex G) that should provide adequate reference materials for the key subject areas being taught. Due to the need for good quality books and the local desire for most of the texts to be in English, it is contemplated that most of the items will be provided through the Asia Foundation's Book Program. This arrangement would be at no cost to the project except that project funds would be provided to defer such costs as shipping and handling. Discussions with local Asia Foundation representatives indicate this is feasible. A unit library cost of \$5,000 would be adequate to cover the expected cost of some books provided through local sources as well as the costs for selection, shipping, storage and distribution of a comprehensive basic library through the Asia Foundation program to each school as it is completed.

Table 1
Illustrative Application of Funds

| <u>Project Component</u> | <u>Quantity</u> | <u>Peso Amount (Millions)</u> | <u>U.S. Dollar Equivalent (20:1) (Millions)</u> |
|--|-----------------|-----------------------------------|---|
| A. <u>Local Infrastructure Assistance</u> | | | |
| - Infrastructure Development | | | |
| Roads/Bridges/ Fish Docks | 61 | 440.4 | 22.0 |
| Water Resources | 26 | 327.6 | 16.4 |
| Training/Education Facilities | 9 | 90.4 | 4.6 |
| Markets | 19 | 216.9 | 10.9 |
| Waste Management | 8 | 95.2 | 4.8 |
| Health | 13 | 119.4 | 6.0 |
| Others | 6 | 178.9 | 8.7 |
| Sub-Total | <u>142</u> | <u>1,468.8</u> | <u>73.4</u> |
| B. <u>Secondary Education</u> | <u>85</u> | 631.2 | 31.6 |
| <u>Total ESF Contribution</u> | | <u>2,100.0</u> | <u>105.0</u> |
| <u>Estimated Cost of Land and Other Local Contribution</u> | | <u>210.0</u> | <u>10.5</u> |
| <u>Total Cost of Amendment Activities</u> | | <u>2,310.0</u> | <u>115.5</u> |

VII. IMPLEMENTATION AND EVALUATION PLAN AND ADMINISTRATIVE ANALYSIS

A. Implementation Schedule

The additional municipal, provincial, secondary schools and associated activities being financed by this amendment should be completed within a three year life of project period. Since the current PACD is December 31, 1987, it is proposed that the new PACD be December 31, 1988.

Implementation of the planned activities within a three year period is feasible since:

1. Due to the pipeline of municipal and provincial projects already developed for possible ESF financing, many of the activities to be financed under this Amendment already have initial feasibility studies virtually completed. Experience and an analysis of the proposed subprojects indicates that 18 months-two years is sufficient for completion of construction once work is started, barring unforeseen difficulties.

2. The schools to be constructed would follow agreed upon standard designs already familiar to local contractors.

3. USAID has been working closely with the local governments in areas recently affected by natural disasters. Accordingly, USAID already has the contacts and basic cost information necessary to expedite construction in these areas.

Recent disbursement rates under ESF I indicate the absorptive capacity for the entire ESF program presently exceeds P120 million (\$6.0 million) per month, and there appears to be considerable room to increase these rates if the economic/financial situation normalizes in the Philippines and the target areas for assistance expand.

B. Evaluation

In addition to annual reviews carried out by ESFS and USAID, current plans call for an evaluation in 1986. That evaluation would follow the evaluation program set out in this activity's project agreement and include the following:

1. Assessment of progress toward attainment of project objectives.
2. Identification and recommend necessary adjustments to overcome problem areas or constraints which may prevent or have prevented the attainment of the objectives.
3. Appraisal, to the degree possible, of the overall development impact of the project on participating areas and beneficiaries.

VIII. CONDITIONS PRECEDENT AND COVENANTS

The following Conditions Precedent have been reviewed with the GOP and no obstacles are foreseen in negotiating them into the Amendment.

A. Conditions Precedent to First Disbursement Under the Amendment

Prior to disbursement of funds under the amendment, or to the issuance of documentation pursuant to which disbursement shall be made, the Government shall, except as A.I.D. may otherwise agree in writing, furnish documentary evidence of the following in form and substance satisfactory to AID:

1. Standard designs and firm cost estimates have been prepared for the construction activities supported by any such disbursement under the Amendment;
2. Evidence that the appropriation and allotment to the Economic Support Fund Secretariat has been made in an amount of pesos, equivalent to the amount of the proposed U.S. dollar disbursements, to finance the local currency costs of activities supported under this Amendment.

ANNEX A

The original logical framework contained in the RDF PP is still basically valid except that this amendment (1) extends the impact area of the project to all areas of the Philippines (2) adds \$105 million of ESF resources.

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SC(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:
3.1. applies to all projects funded with Development Assistance loans, and
3.3. applies to projects funded from ESF.

GENERAL CRITERIA FOR PROJECT

1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(a) Congress will be notified in accordance with Congressional notification procedures.

(b) Yes

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes

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3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? Not Required
4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.) To the extent applicable, yes.
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? Yes
6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. No

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to:
- (a) increase the flow of international trade;
 - (b) foster private initiative and competition;
 - (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations;
 - (d) discourage monopolistic practices;
 - (e) improve technical efficiency of industry, agriculture and commerce;
 - (f) strengthen free labor unions.
- (a) No
- (b) Yes. The infrastructure activities will provide the needed support services for the expansion of private initiative and competition.
- (c) N/A
- (d) N/A
- (e) Yes. The infrastructure activities should contribute to improve technical efficiency.
- (f) N/A
8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
- Any off-shore goods or services will be of U. S. source and origin.
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.
- The host country will contribute to deferring the local costs of the activities to be undertaken.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- No

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes
12. FY 1985 Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? No
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program taken into consideration the problem of the destruction of tropical forests? Yes
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

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13. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria N/A

2. Development Assistance Project
Criteria (Loans Only)

N/A

3. Economic Support Fund Project
Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? Yes
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No
- c. FAA Sec. 534. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? No

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d. FAA Sec. 609. If
commodities are to be
granted so that sale
proceeds will accrue to the
recipient country, have
Special Account
(counterpart) arrangements
been made?

N/A

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington D.C. 20523

ANNEX C

REGIONAL DEVELOPMENT FUND AMENDMENT

PROJECT NO. 492-0374

Certification Pursuant to Section 611 (E) of the
Foreign Assistance Act of 1961, as Amended

I, Frederick W. Schieck, the principal officer of the Agency for International Development in the Philippines, having taken into account, among other things, the maintenance and utilization of projects in the Philippines previously financed or assisted by the United States, do hereby certify that in my judgment, the Philippines has both the financial capability and the human resources to effectively maintain and utilize the proposed amendment to the Regional Development Fund Project.

This judgment is based upon the project analyses as detailed in the amended Regional Development Fund Project Paper and is subject to the conditions imposed therein.

Frederick W. Schieck
Director, USAID/Philippines

DETAILED TECHNICAL ANALYSIS

A. General

The proposed project amendment is supported by local government proposals which will be developed into feasibility studies for approval. The subproject proposals include schools, provincial roads, public markets, health facilities, and related infrastructure. The individual subprojects are selected based on established criteria and a determination that such subprojects contribute to the overall development objectives of the GOP. Each proposal meets the general project criteria agreed upon between USAID and the GOP. A feasibility study (FS) is then prepared that incorporates all pertinent technical, financial, economic, social, administrative and environmental analyses. If it passes all the tests, work begins on the detailed engineering.

The detailed engineering plans for infrastructure will be standardized wherever possible to reduce costs and to assure maximum functionality. Appropriate ministries, such as the Ministry of Education, Culture and Sports (MECS) and the Ministry of Public Works and Highways (MPWH) will be involved in the development of plans in keeping with their basic standards for such infrastructure. Facilities, where appropriate and necessary, will be provided with basic equipment while each school will receive a complete inventory of furniture for pupils and teachers.

B. Design Consideration

The design of infrastructure (public markets, hospitals, etc.) will follow the standards and modular systems developed under ESF I with improvements in application, use of resources, and ease of maintenance based on an evaluation of completed projects. The acceptability of the project design to local government representatives and target beneficiaries will also be a major consideration.

The design of the roads will be based on MPWH planning standards. Roads will be constructed in accordance with the MPWH standard specifications for highways and bridges. The typical provincial road will consist of a total surface width of 6.10 meters, asphalt or concrete pavement, with 1.50 meter graded shoulders. Drainage will be provided by means of side ditches together with pipe culvert cross drainage and reinforced concrete bridges.

The scope of work for detailed engineering will include the conduct of necessary field surveys and tests such as soils and materials surveys, including sub-surface investigation for foundation designs, drainage and hydrologic studies. The results of these studies and surveys will be incorporated in the designs.

C. Contractor Availability/Performance

Following the procedures in ESF I, the municipalities, provinces and MPWH maintain a list of prequalified contractors for infrastructure work. The lists are reviewed and updated regularly.

The type and scale of works planned under this project are especially suitable to labor-intensive operations. Small and medium sized contractors whose mode of operations is labor based, will be the successful bidders in most cases. Contractors in these categories are plentiful and competition should be keen given the present economic conditions. There is no shortage of labor and most of the construction materials to be utilized in the projects are produced locally and readily available.

Close monitoring of ESF I construction by the implementing agencies and USAID has contributed substantially to the improved performance of local contractors. During construction of early subprojects, substantial corrections were required to plans and contractor performance but recent experience has shown clear improvements in their performance. A similar level of monitoring is being planned for this project. With few exceptions, contractors have completed their contracts in a timely and satisfactory manner. If necessary, unfinished projects can be completed through direct administration but such action has not been required to date.

D. Contracting Procedures/Controls

Contracting procedures used under ESF I will be adopted for the construction of subprojects approved under this amendment. Implementing agencies will implement the construction of subprojects through contract after competitive public bidding in accordance with Presidential Decree No. 1594 and its implementing rules and regulations. Engineering supervision of projects will be done by Engineering firms to ensure compliance with plans and specifications, check quantities, quality control, and to certify to work accomplished. Monitoring of progress, construction quality and general contract compliance will be done by ESFS and USAID.

E. Maintenance Provisions

Maintenance of provincial roads will be performed by the Provincial Engineer's Offices under the technical supervision of the MPWH District Engineers and with financial assistance from the national budget.

The provincial governments submit programs of work and budgets to MPWH on an annual basis for road maintenance works. The amount of national government aid for provincial road maintenance corresponds, at present, to 75 per cent of the basic allocation per Equivalent Maintenance Kilometer (EMK) of national roads for each kilometer of provincial road approved by the MPWH or P11,342 per kilometer of provincial road per year, including both routine and periodic maintenance operations. The local government provides the remaining 25 per cent in funds. Funds are released by the national government on a quarterly basis.

The maintenance of schools is facilitated by the involvement of PTA groups and students who enthusiastically cooperate in community projects to improve and decorate the classrooms and landscape and beautify the areas surrounding these schools.

Technical Soundness of Secondary Schools Component

A. Status of Secondary Education in the Philippines

In the mid-1970s, a shift in Philippine development strategy and human resource development took place. Throughout the 1960s and early 1970s, emphasis was on agriculture, traditional exports and large-scale industry development. During the mid and late 1970s, the GOP recognized that to support its development strategy, improvement in the quality of basic education was needed.

In 1981, a World Bank financed 10-year development program for elementary education was started. The program included curriculum development, provision of textbooks, related materials, facilities and equipment, staff development and sector evaluation.

Prior to the granting of this loan, the World Bank had previously supported six education projects in the Philippines primarily at the vocational and higher educational levels. From the early 1970s to the present, USAID has supported the elementary school development program through the nationwide construction of three classrooms school buildings with a few 10 room and 18 room units constructed in Region III.

Secondary education is the shared responsibility of the public and private sector. There are five categories of public secondary schools based on funding sources: national, provincial, city, municipal and barangay. The last four are considered part of the local government. Table I shows the distribution of national and local secondary schools. Approximately 62% of all secondary schools were publicly funded in 1983 with more than 50% of the total being funded by local governments. From SY 1984-1985 to SY 1987-1988, the enrollment of public secondary schools will increase by 219,565 students. Using a standard class size of 36 students per class with two classes allotted one classroom, a total of 3,052 new classrooms will be required.

Of all the public secondary schools, provincial and city schools receive the least national government assistance. Only 4 percent of their recurrent funds comes from the national government. Municipal secondary schools receive 15 per cent of their recurrent funds from the national government, while barangay secondary schools received 46 per cent, and national schools 88 percent. (See Table 2). Efficiency indicators show that locally funded secondary schools have the highest student to classroom ratio of all secondary schools (See Table 3), and many local schools must run up to three shifts of students in each classroom per day.

Locally funded secondary schools have the least access to funds for improvement with barangay high schools suffering the most. The Ministry of Education, Culture and Sports (MECS) is still studying the future direction for barangay secondary schools and the World Bank is considering a sectoral assistance program targeting barangay secondary schools. The problems of maintaining a reasonable standards of education at the barangay level, however, are considerable and more work is needed to assure a technically sound approach at this lowest level of government. The municipal and provincial level schools are a more appropriate target for an ESF program since while the need is still great, the technical issues are less severe.

The GOP is aware of the above problems but has limited resources to finance the construction of sufficient physical facilities for secondary schools, especially in the current economic environment. Generally, provincial, city and municipal secondary school officials are left to their own resources to address the need for new classrooms, although the national government contributes a token amount of the total recurrent expenditures for these schools. Providing new secondary school infrastructure at the local level thus appears to be an appropriate use of RDF resources in view of the need and impact of such a program.

B. Design Consideration

Detailed engineering plans for the school subprojects proposed under this amendment will be prepared by A&E firms or in some cases by engineering offices of the implementing agency in accordance with GOP design standards and specifications. Whenever the implementing agency prepares the plans, an A&E firm will be required to certify it.

The two-storey secondary school buildings (see preliminary plan that follows) will be designed as typhoon resistant structures capable of withstanding winds up to 200 kilometers per hour. A basic design of 12 and 18 classrooms is planned though variations in the arrangement of the classrooms may also be adopted to suit the actual site requirements. Each school building will have a library, laboratory facilities, water system, toilets and lighting. Normally, buildings will be constructed of reinforced concrete beams and floor slabs, hollow block walls and partitions, wooden roof trusses, doors and windows, and corrugated metal roofing.

TABLE 1, ANNEX D
DISTRIBUTION OF NATIONAL AND LOCAL SECONDARY SCHOOLS
SY 1983-1984

| REGION | : Total : : Govern- : ment | : % | NATIONALLY FUNDED | | | | | | | G O V E R N M E N T | | | | |
|--------|----------------------------------|-------|-------------------|---------|------------------------|---------|------------|-----------|---------|---------------------|--------|----------|----------|-------|
| | | | : Total | : SCUHS | : VOCATIONAL/TECHNICAL | | | | : Total | : LOCALLY FUNDED | | | | |
| | | | | | : Agri.: | : Trade | : Fishery: | : H.I.C.: | | : Provin-: | : City | : Muni-: | : Brgy.: | |
| N C R | 117 | 3.5 | 15 | 6 | 7 | - | 1 | - | 1 | 102 | - | 75 | 21 | 6 |
| I | 426 | 12.8 | 70 | 7 | 34 | 10 | 11 | 6 | 2 | 356 | 7 | 1 | 15 | 333 |
| II | 164 | 4.9 | 67 | 5 | 16 | 22 | 18 | 6 | - | 97 | 3 | - | 13 | 81 |
| III | 259 | 7.8 | 32 | 8 | 4 | 5 | 9 | 3 | 3 | 227 | 17 | 2 | 13 | 195 |
| IV | 463 | 13.8 | 53 | 6 | 15 | 7 | 13 | 9 | 3 | 410 | 15 | 4 | 25 | 366 |
| V | 285 | 8.5 | 51 | 2 | 23 | 6 | 10 | 9 | 1 | 234 | 9 | 1 | 5 | 219 |
| VI | 404 | 12.0 | 77 | 6 | 34 | 11 | 14 | 9 | 3 | 327 | 23 | 31 | 21 | 252 |
| VII | 200 | 5.9 | 25 | 2 | 3 | 4 | 8 | 8 | - | 175 | 9 | 3 | 17 | 146 |
| VIII | 287 | 8.6 | 78 | 9 | 10 | 26 | 17 | 10 | 6 | 209 | 2 | 1 | 19 | 187 |
| IX | 164 | 4.9 | 36 | 4 | 11 | 8 | 8 | 5 | - | 128 | - | 1 | 4 | 123 |
| X | 226 | 6.5 | 52 | 3 | 30 | 7 | 7 | 4 | 1 | 174 | 3 | 8 | 28 | 135 |
| XI | 213 | 6.4 | 26 | 1 | 7 | 7 | 7 | 4 | - | 187 | 10 | 3 | 27 | 147 |
| XII | 146 | 4.4 | 23 | 3 | 8 | 4 | 6 | 2 | - | 123 | - | 1 | 25 | 97 |
| TOTAL | 3,341 | 61.68 | 603 | 62 | 200 | 117 | 129 | 75 | 20 | 2,738 | 98 | 131 | 233 | 2,207 |

Abbreviations

SCU HS - High Schools in State Colleges & Universities
Agri - Agricultural

H.I./C. - Home Industries/Craftsman
Brgy. - Barangay

TABLE 2, ANNEX D
 SOURCE OF FUNDING FOR RECURRENT EXPENDITURES
 AS A PERCENT OF TOTALS AND BY TYPE OF SCHOOL, 1982

| School Type | Source of Funds | | | | |
|--------------------|---------------------|------------------|-------------|------------------------------|------------|
| | National Government | Local Government | Tuition | Income Generating Activities | Others |
| National | 88 | 11 | 1 | - | - |
| Provincial/City | 4 | 87 | 8 | 1 | - |
| Municipal | 15 | 66 | 19 | - | - |
| Barangay | 46 | 35 | 18 | - | - |
| <u>All Public</u> | <u>45</u> | <u>48</u> | <u>6</u> | <u>1</u> | <u>0</u> |
| Sectarian | - | - | 99.9 | - | 0.1 |
| Non-sectarian | - | - | 88.0 | 3 | 9.0 |
| <u>All Private</u> | <u>-</u> | <u>-</u> | <u>93.0</u> | <u>1</u> | <u>6.0</u> |

Source: Philippine School Cost Study, 1982

TABLE 3, ANNEX D
EFFICIENCY INDICATORS ACROSS TYPES OF SCHOOLS

| | <u>Teacher/Student Ratio</u> | <u>Book/Student Ratio</u> | <u>Students/ Classroom</u> |
|------------------|----------------------------------|-------------------------------|--------------------------------|
| National Schools | 1:30 | 1:3.2 | 53 |
| Local Schools | 1:31 | 1:4.1 | 71 |
| Private Schools | 1:43.5 | 1:2 | 50.5 |

Source: BSE/MSI and Regional Plans

TABLE 4, ANNEX D
 PROJECTED SECONDARY SCHOOL ENROLLMENT
 SY 1983-1984 to SY 1992-1993

| <u>School Year</u> | <u>Total</u> | <u>Public</u> | <u>Private</u> |
|--------------------|--------------|---------------|----------------|
| 1983-1984 | 3,109,482 | 1,766,808 | 1,342,674 |
| 1984-1985 | 3,233,748 | 1,837,416 | 1,396,332 |
| 1985-1986 | 3,376,861 | 1,918,732 | 1,458,129 |
| 1986-1987 | 3,492,928 | 1,984,682 | 1,508,246 |
| 1987-1988 | 3,620,347 | 2,057,081 | 1,563,266 |
| 1988-1989 | 3,724,906 | 2,116,492 | 1,608,414 |
| 1989-1990 | 3,857,977 | 2,192,103 | 1,665,874 |
| 1990-1991 | 4,022,386 | 2,285,520 | 1,736,866 |
| 1991-1992 | 4,177,824 | 2,373,840 | 1,803,984 |
| 1992-1993 | 4,344,752 | 2,468,688 | 1,876,064 |

Note: Enrolment projected using transition rates and target cohort survival rates.

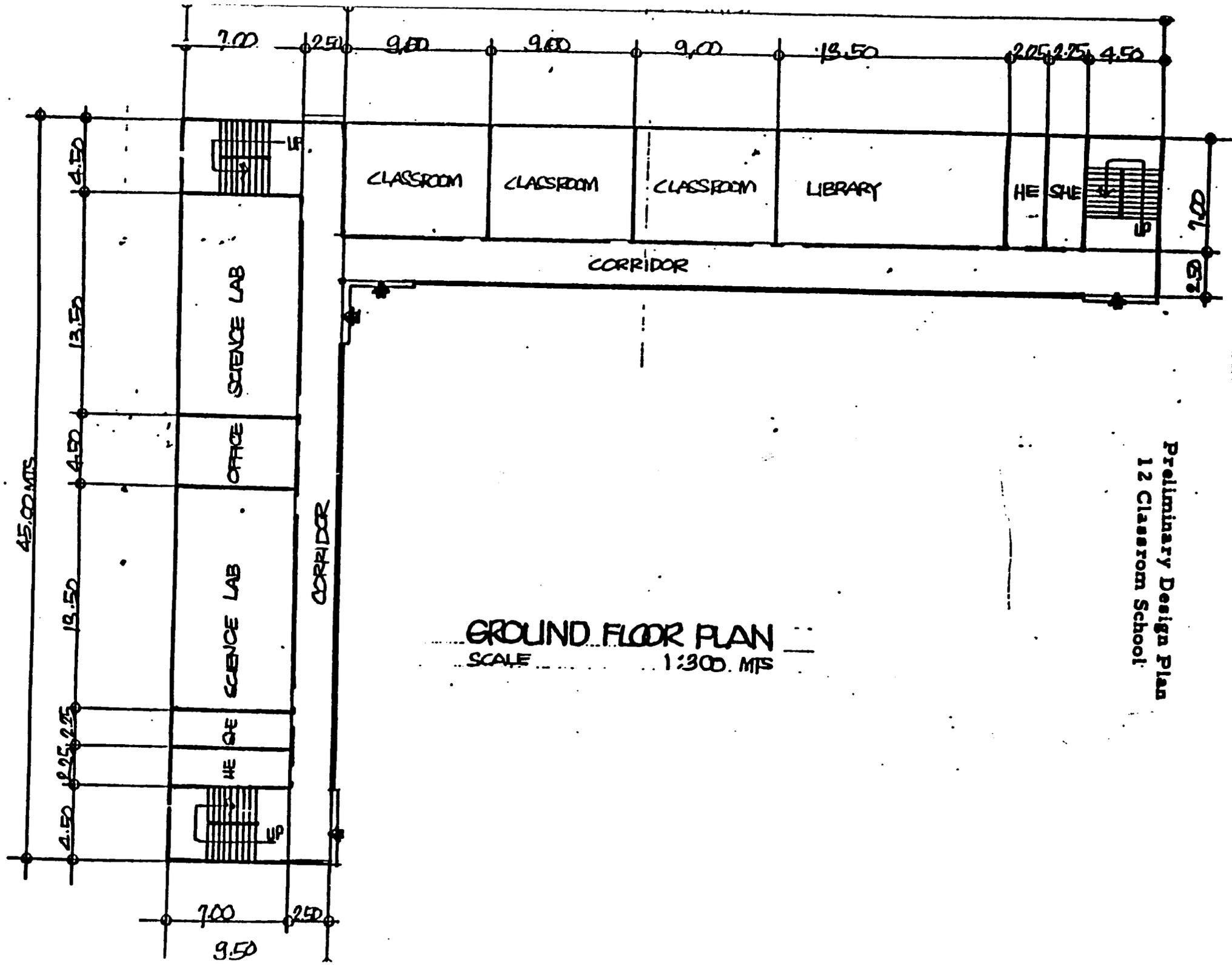
Source: OPS

TABLE 5, ANNEX D
INCREMENTAL ACCOMODATION REQUIREMENTS OF THE
PUBLIC SECONDARY SCHOOLS
SY¹/1985-1986 to SY 1987-1988

| <u>School Year</u> | <u>Enrolment</u> | <u>Enrolment Increment</u> | <u>Classrooms Required</u> | <u>Sc. Laboratories Required</u> |
|--------------------|------------------|----------------------------|----------------------------|----------------------------------|
| 1984-1985 | 1,837,416 | | | |
| 1985-1986 | 1,918,732 | 81,316 | 1,130 | 377 |
| 1986-1987 | 1,984,682 | 65,950 | 916 | 306 |
| 1987-1988 | 2,057,081 | 72,399 | 1,006 | 336 |

NOTE: On the average, two classes are allotted one classroom while six classes are allotted one science laboratory or an equivalent space. The class size used in determining accomodation requirements is the average 36.

¹/School Year



GROUND FLOOR PLAN
 SCALE 1:300. MTS

Preliminary Design Plan
 12 Classroom School

**Selection Criteria and Process for Selection
of Secondary Schoolbuildings Sites**

The following criteria shall be satisfied for school projects to be eligible for financing.

1. Priority in project selection will be given to the reconstruction or replacement of schoolbuildings/classrooms that are completely destroyed or dilapidated beyond economic repair and those that are condemned by the Ministry of Public Works and Highways District and City Engineer as being unsafe for occupancy on the National Building code.
2. Additional rooms will be considered only to accommodate the portion of the projected increment in enrollment that cannot be absorbed by the existing overcrowded classes and achieve the desired pupil/room ration of 36:1.
3. New schools will be established only:
 - a. in communities with a threshold population of 240 children age 13-16 years old or a total of population of about 1,600 or where existing schools are housed in rented facilities and there are available government sites.
 - b. on a case by case basis, in small communities which are isolated or distant (about six (6) kilometers or more) from existing schools.
 - c. where there are available government owned sites within 3 kilometers (walking distance from the community to be served).
 - d. where the MECS can provide the required additional teachers and operating budget for the new schools.

Based on the criteria mentioned above, the recommended project sites should be endorsed by the Provincial or City Schoolbuilding Committee in accordance with existing GOP rules and procedures. Each committee is composed of the Provincial Governor/City Mayor as Chairman and has as its members the MECS Division Superintendent of schools, MPWH District/City Engineer and the Ministry of Local Government Provincial/City Development Officers as members.

**Types of Projects Eligible for Funding -
Criteria Used for Selection and Approval**

Project types eligible under this RDF Amendment are as follows:

| <u>Project Type</u> | <u>Project Component</u> |
|--------------------------------|--|
| 1. Transport Development | - Roads and Bridges |
| | - Fishing piers |
| 2. Water Resources | - Flood Control Measures (e.g. rip-rapping, dikes, diversion canals, small scale dams, drainage) |
| | - Water supply and/or disposal system |
| 3. Social Infrastructure | - Elementary Schools |
| | - High Schools |
| | - Provincial Trade and Vocational Manpower/Training Center |
| | - Provincial and Emergency Clinics |
| | - Community/Rural Health Centers |
| | - Resettlement sites and services |
| 4. Public Enterprise/Utilities | - Slaughterhouses/Abattoirs |
| | - Public Markets |
| | - Solid Waste Management |

The following criteria shall be satisfied for projects to be eligible for funding.

- o Subprojects shall be certified by the Regional Development Council (RDC) as beneficial and of high priority for socio-economic development, employment creation and private growth in participating provinces;
- o Subprojects generally will be included in the Regional/Provincial Development and Municipal Development Plan.
- o All subprojects shall be technically sound and economically justifiable; full consideration shall be given to such factors as size of population benefitted, economic externalities, and quality and extent of socio-economic impact;
- o Proposals for revenue-generating subprojects shall demonstrate that they are self-sustaining in terms of operating and maintenance costs; such subprojects should demonstrate a high cost recovery rate, recovering a large proportion if not all of the initial investment, as well as all operating costs;
- o Proposals for non-revenue generating subprojects shall insure that adequate arrangements are made for the provision of resources to cover operating and maintenance costs, and that cost-effective activities are planned;

ANNEX G

BASIC LIBRARY
Illustrative List of Types of Books

| | <u>Number of Volumes</u> |
|-------------------------------------|------------------------------|
| General Reference | 75 |
| Yearbook, Almanacs and Dictionaries | 25 |
| Library Organization and Management | 25 |
| History/Social Studies | 150 |
| Chemistry/Physics | 100 |
| Science and Health | 200 |
| Math | 100 |
| English/Literature | 100 |
| Home Economics | 75 |
| Industrial Arts | 100 |
| Physical Education/Sports | 75 |
| Social Science | 100 |
| Religion | 25 |
| Assorted Novels/Literature | <u>350</u> |
| | |
| TOTAL | <u>1,500</u> |

ANNEX H

NATIONAL INFRASTRUCTURE PROGRAM INVESTMENT REQUIREMENTS^{1/}
(In Million Pesos at 1984 Prices)

| | <u>1983</u> | <u>1984</u> | <u>1985</u> | <u>1986</u> | <u>1987</u> | <u>'84-'87 Total</u> | <u>1984-1987 % Share to Total</u> |
|---|-----------------------------|------------------------------|----------------------------|----------------------------|----------------------------|---------------------------------|---|
| POWER AND ELECTRIFICATION | <u>11,938</u> | <u>7,962</u> | <u>6,198</u> | <u>6,121</u> | <u>8,114</u> | <u>30,390</u> | <u>40</u> |
| Power Electrification | 11,029 909 | 7,046 916 | 7,547 646 | 5,059 1,062 | 6,522 1,592 | 26,174 4,216 | |
| WATER RESOURCES | <u>3,995</u> | <u>4,985</u> | <u>5,000</u> | <u>5,337</u> | <u>5,634</u> | <u>20,956</u> | <u>27</u> |
| Irrigation Water Supply Flood Control, Drainage and Shore Protection | 1,777 1,744 474 | 1,778 2,934 273 | 2,583 2,184 233 | 2,648 2,453 236 | 2,346 3,040 248 | 9,355 10,611 990 | |
| TRANSPORT | <u>6,265</u> | <u>5,910</u> | <u>3,801</u> | <u>4,213</u> | <u>4,454</u> | <u>18,378</u> | <u>24</u> |
| Highways Railways Ports Airports and Airways | 3,959 1,737 488 81 | 3,543 1,227 828 312 | 2,751 256 643 151 | 3,062 245 788 118 | 3,207 284 846 117 | 12,563 2,012 3,105 698 | |
| SOCIAL/RELATED INFRASTRUCTURE | <u>1,216</u> | <u>1,430</u> | <u>1,070</u> | <u>1,352</u> | <u>1,479</u> | <u>5,331</u> | <u>7</u> |
| Schoolbuildings Health Facilities Urban Infras- tructure National Buildings | 760 266 101 89 | 1,146 157 115 12 | 712 228 125 5 | 808 322 154 68 | 918 329 159 78 | 3,584 1,036 558 158 | |
| COMMUNICATIONS | <u>420</u> | <u>261</u> | <u>317</u> | <u>241</u> | <u>538</u> | <u>1,357</u> | <u>2</u> |
| Telecommunications Postal Communications | 386 34 | 215 46 | 189 128 | 212 29 | 508 30 | 1,124 233 | |
| OTHERS | <u>16</u> | <u>22</u> | <u>34</u> | <u>74</u> | <u>79</u> | <u>269</u> | |
| T O T A L | <u>23,850</u> | <u>20,570</u> | <u>18,415</u> | <u>17,338</u> | <u>20,298</u> | <u>76,621</u> | <u>100</u> |

* Less than one percent.

^{1/}1983 figures are actual using the average exchange rate of P11.11:\$1; 1984 figures are based on the average exchange rate of P16:\$1; and 1985-1987 figures are based on mid-1984 prices using the exchange rate of P18:\$1. Includes the requirements of MPWH, MOTC, MLG, MAR, MHS, MOH, NPC, NEA, NIA, FSUC, MWSS, LWUA, RWDC, PNR, NIA, PPA, MIAA, State Colleges and Universities, MTC and MECS.