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<b>AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT IDENTIFICATION DOCUMENT FACESHEET (PID)</b>				1. TRANSACTION CODE <input type="checkbox"/> A = Add <input type="checkbox"/> C = Change <input type="checkbox"/> D = Delete		Revision No.		DOCUMENT CODE <b>1</b>	
2. COUNTRY/ENTITY <b>Philippines</b>				3. PROJECT NUMBER <b>492-0401</b>					
4. BUREAU/OFFICE <b>Asia Near East</b>				5. PROJECT TITLE (maximum 40 characters) <b>Rural Water Supply and Sanitation</b>					
6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION				7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )					
A. Initial FY <b>8 6 </b>				FUNDING SOURCE		LIFE OF PROJECT			
B. Final FY <b>8 8 </b>				A. AID		\$18,750,000			
C. PACD <b>9 10 </b>				B. Other U.S.		-			
				1.		-			
				2.		-			
				C. Host Country		\$ 6,250,000			
				D. Other Donor(s)					
				TOTAL		\$25,000,000			
8. PROPOSED BUDGET AID FUNDS (\$000)									
A. APPRO- PRIATION		B. PRIMARY PURPOSE CODE		C. PRIMARY TECH. CODE		D. 1ST FY <b>86</b>		E. LIFE OF PROJECT	
				1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) HE		500		18,750	-	11,679	-	18,750	-
(2)									
(3)									
(4)									
TOTALS								18,750	
9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)								10. SECONDARY PURPOSE CODE	
545		544		541		549		569	
								530	
								280	
11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code		BR		BU		DEL		PART	
B. Amount								TNG	
								BWW	
								TECH	
12. PROJECT PURPOSE (maximum 480 characters)									

To develop the capabilities of Local Government institutions in the country and through them to implement successful water supply and sanitation projects in selected rural communities throughout the Philippines.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

Staff: Multidisciplinary Team with expertise in water and sanitation engineering, institution and human resource development, community development and health training, financial management and water quality.

Funds PD&S = \$126,660

14. ORIGINATING OFFICE CLEARANCE		Signature				15. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION			
		Title <b>Frederick W. Schieck Director, USAID/Philippines</b>		Date Signed MM DD YY					
16. PROJECT DOCUMENT ACTION TAKEN						17. COMMENTS			
<input type="checkbox"/> S = Suspended <input type="checkbox"/> A = Approved <input type="checkbox"/> D = Disapproved <input type="checkbox"/> CA = Conditionally Approved <input type="checkbox"/> DD = Decision Deferred									
18. ACTION APPROVED BY		Signature				19. ACTION REFERENCE		20. ACTION DATE MM DD YY	
		Title							



PROJECT IDENTIFICATION DOCUMENT (PID)

for  
RURAL WATER SUPPLY AND SANITATION

PART I - PROGRAM FACTORS

A. SUMMARY:

The USAID Mission has identified a new water and sanitation project for rural communities to continue the effort started under the Barangay Water Program. The preliminary design of the proposed project provides for a two phased effort over a period of six years (1987-1992). The project is designed to provide adequate safe water supplies and sanitation to approximately 860,000 rural community residents in seven (7) regions and fifty six (56) provinces. Approximately 392 rural communities will be provided water supply systems and associated sanitation facilities. The first phase of the project is planned to provide adequate safe water supplies and sanitation to approximately 370,000 beneficiaries in three (3) regions and 24 provinces. Technical assistance and training will be financed by the project to upgrade local government unit capabilities in water and sanitation system development, operation and maintenance. The decision to proceed with phase II will depend on the results of the evaluation in 1988 and availability of AID funds for this purpose.

The total cost of the project is estimated at 60 million dollars, of which approximately 40 million dollars is for the construction of water supply systems and sanitation facilities, 9.0 million dollars is for improving operations and maintenance, and 11.0 million dollars is for institutional development activities, including technical assistance, training, commodities monitoring and evaluation. The Phase I cost is estimated at 25 million dollars, of which approximately 16.0 million is for construction, 4.0 million is for operations and maintenance and 5.0 million is for institutional development activities.

B. JUSTIFICATION FOR AID ASSISTANCE:

The scale of the physical needs for safe, adequate, accessible and reliable water supplies and sanitation is now compounded by the economic conditions of the country and its ability to supply these needs. The population of rural barangays is about 33 million, and about 28 million are believed to lack pipe water supplies. Between 12 to 21 million have unsafe or otherwise unsatisfactory water supplies. About 24 million persons in rural barangays lack flush or pour flush toilet facilities in their houses. Few development projects have a greater potential for directly benefiting the living conditions of the rural poor than water supply and sanitation improvements. The benefits which accrue to potable water projects are associated with the four components of supply. These are improvement in water quality, quantity, accessibility and reliability.

While various programs in water supply and sanitation are underway, the rate at which new facilities are being provided is less than the rate of net rural population increase each year. The population growth rate for the Philippines is estimated at 2.70 percent per annum. At this rate, approximately 871,000 people will be added to the rural population in 1986 alone. The combined projects financed by the World Bank, OECF and ADB will provide water and sanitation to less than 500,000 people per year. Moreover, the failure rate in rural water systems in donor financed projects is extremely high, estimated at between 35% and 50%. Reasons for failure are many, but basically centers around weak management and maintenance of the completed systems.

International and other bi-lateral lending agencies other than AID have oriented their rural water supply and sanitation assistance towards the development of physical infrastructure and little effort is directed at management, operations and maintenance. An institutional development program to improve management, operations and maintenance is badly needed to ensure safe and reliable water supplies. By concentrating in this area, AID is in a position to exert a developmental influence that will far exceed the impact of any assistance program targeted exclusively on water supply infrastructure development.

#### C. EXPERIENCE UNDER THE BARANGAY WATER PROGRAM:

The Barangay Water Program (bWP) is an AID-assisted on-going domestic water supply program started in 1978 under the direction of the Ministry of Local Government (MLG). The purpose of the program is to develop the capability and capacity of local governments to provide safe and plentiful water for drinking and household purposes to small (under 5,000 people) rural farming and fishing communities. Like the communities served, the water supply systems are small, generally consisting of the development of wells or springs, elevated storage tanks, and transmission lines and distribution systems. Water is delivered to the consumer through either handpumps, standpost faucets, or by individual house connections. The type and size of the systems vary from community to community, but they all are owned, managed, operated and maintained by the local communities through Rural Waterworks and Sanitation Associations (RWSAs).

The bWP is implemented by the MLG through local Provincial and City Governments. There is a project management office and staff located in the Ministry of Local Government in Manila which sets policies, standards, procedures, and guidelines for project approval, financing, implementation, operation and maintenance, and also, provides training in all these areas to the Local Government Units (LGUs). The LGUs plan, design and construct the water supply systems in coordination with the local communities. They assist the communities in establishing and training the staff of the Rural Waterworks and Sanitation Associations in each community. The RWSAs are expected to finance the operating and maintenance recurrent cost and varying percentages of the construction costs; 0% for handpumps, 0-100% for standpost faucets depending on ability to pay, and 100% for house connections. However, experience has shown that the financing of the recurrent cost is the maximum affordable and the recovery of all or even part of the construction costs is not practical due to the limited income at the rural level.

The Barangay Water Project I (BWP I) was started in 1978 as a three year project. AID provided 3.0 million dollars initially and an additional 3.0 million dollars for construction in 1980. Under BWP I, 108 water supply systems were constructed and 391 handpumps were installed and put into operation to provide safe drinking and household water to approximately 216,000 people. Also, the BWP I established 108 Rural Waterworks and Sanitation Associations in the rural communities and trained the personnel and staff of the LGUs and RWSAs to plan, finance, manage, operate and maintain the water supply systems and handpumps.

The Barangay Water Project II (BWP II) was started in 1981. AID provided dollars 22.2 million for BWP II. The BWP II plans for construction were too optimistic based on the downturn of the economic situation of the Philippines in the years 1983 and 1984 and AID deobligated dollars 5.5 million in September 1985 based on the recommendations of a WASH Team feasibility study conducted in 1985. This study recommended that the BWP II project be terminated and that a new follow-on project be designed to continue the program and to overcome the problems encountered by BWP Program. However, USAID has extended the project for 12 months to complete certain on-going activities critical to an orderly close-out of the project while preparing for a new project.

As of December 1985, the BWP II had completed construction of 138 water supply systems and the installation of 530 handpumps serving approximately 271,000 people. It also had an additional 68 water supply systems under design and construction, 82 test wells under development for new water systems, and 48 handpumps under installation. All these systems are expected to be completed under the Project. This will bring the total population served by the BWP to 874,000 at an average cost of construction of approximately \$20.48 per person. The average cost per person to date has been \$13.00 for handpumps, \$36.00 for standpost faucets, and \$67.00 for house connections. The BWP has established 350 RWSAs and trained staff in 45 provinces and 14 cities and in 350 RWSAs.

The BWP has appealed to LGUs as a good way to provide safe water supplies to small rural communities as demonstrated by the 59 LGUs which have signed agreements with the Ministry of Local Government under the BWP. The BWP is presently being carried out in 12 of the 13 regions of the country. Also, the BWP appeals to the Barangay residents. This has been demonstrated by the successful establishment and operation of 350 Rural Waterworks and Sanitation Associations in rural communities.

#### D. PERCEIVED PROBLEMS IN RURAL WATER AND SANITATION SECTOR:

An evaluation of the BWP in early 1985 identified several deficiencies in the on-going BWP II project and recommended that actions be taken to improve project implementation in the areas of these deficiencies. Some actions are presently being accomplished under the BWP II project to the extent possible prior to the revised PACD of December 31, 1986.

Based on the evaluation findings, the USAID Mission conducted a feasibility assessment of whether there should be a continued AID concern and participation in the rural water and sanitation sector. The feasibility study concluded that AID could continue to play a valuable role in the vital water and sanitation sector, but that the on-going BWP II had serious design and implementation problems which could best be improved or corrected by the design of a new project rather than continuing the existing project. A new project would provide the opportunity: (1) to establish realistic goals; (2) to find the most efficient and effective Government of Philippine Agency for implementation; (3) to devise a responsive financial plan that is realistic in today's economic situation; (4) to try a different organizational set-up of decentralization; (5) to locate and staff the organizations with qualified and experienced staff; (6) to make provisions for participation of experts on community participation and organization inputs; (7) to develop water quality monitoring and testing programs that are effective; and (8) to develop effective operation and maintenance procedures for the water systems.

The feasibility assessment identified eight basic deficiencies of the on-going BWP. These deficiencies are discussed below and will be addressed by this project.

1. Overly Centralized Management and Control:

The centralized management and control of the BWP has compounded the problems of project approval and implementation by delays in project approval, financing, design, contract award, contractor payment, system acceptance by the government, and reimbursement of cost by USAID.

2. Poor Financial Management:

The MLG has not obtained adequate and timely budgets for implementation of the BWP. The fixed amount reimbursement (FAR) system of financing used by USAID is simply not appropriate under the present economic situation when combined with the slow and unreliable disbursement process of the GOP. Construction funds are not allocated to the LGUs in a timely manner. Payments to contractors are not made in a timely manner. Certification of completed projects are not made by the LGUs to the MLG in a timely manner. RWSAs are not collecting adequate revenues for operation and maintenance costs of the water systems and for repayment of the capital cost. Adequate training has not been provided to the LGUs and RWSAs in the procedures and methods required for collecting, budgeting and expending local revenues.

3. Poorly Selected, Trained and Motivated Personnel:

Many of the project management staff at the central and local government levels are poorly qualified and poorly trained for their jobs. Most of the staff have not received technical and professional training for the job to be done. This lack of job knowledge, skills, confidence in their work and sense of authority has filtered down to the provincial, city and barangay levels which is jeopardizing the entire program.

4. Inadequate Involvement of the Beneficiary Community:

The importance of community organization and participation is recognized by all, but there is no mechanism for adequately involving them in mobilizing the community to assist in site selection, to define local needs and preferences for levels of service, and to assist in the mobilization of potential users for gathering information on ability and willingness to pay as well as for setting fees for service. All are essential for successful project implementation.

5. Lack of Adequate Maintenance of Completed Water Systems:

The MLG and the LGUs have not set up a system that will ensure that the constructed water supply systems are adequately maintained. The RWSAs have not been properly trained in the need and reasons for maintaining the systems. There is no organization that can provide technical assistance and repair parts for maintenance and repair of the water systems when needed.

6. Poor Source Selection and Development:

The LGUs, in many cases, do not have adequate staff or available staff to perform the required hydrogeological investigations that are necessary to ensure the selection of an adequate water supply. As a result, the quality of water is poor in many cases, sources have become inadequate during the dry season, and the wrong size casings, screens and pumps for wells are sometimes being used. Adequate training and technical expertise in this critical area are essential for ensuring continued water availability and quality.

7. Little or No Control on Water Quality:

The Ministry of Health has the responsibility for testing water quality on a regular basis to ensure good safe water is being provided. This is seldom being done. An organization needs to be staffed, trained and equipped to do this necessary job.

8. Lack of Health and Hygienic Education of the Beneficiaries:

The users of the new water systems are not being trained adequately in the hygienic use and disposal of water for drinking and household use.

Despite these shortcomings that need to be addressed, the BWP's results to date have been impressive, and virtually all levels of the GOP would like to see the program continued and improved. Indeed USAID Philippines has received many cables from provincial governors asking that the program be continued and citing its many benefits. Also, the GOP has already formally requested USAID to continue assistance to the rural water and sanitation sector.

E. CONFORMITY WITH GOVERNMENT OF PHILIPPINES PROGRAM AND STRATEGY:

The conformity with GOP programs and strategy is difficult to assess at this time because the new Aquino Government currently is formulating development priorities and writing a new development plan. However, early signals from the new GOP indicate that generation of productive employment and programs that improve the quality of life of poor people in rural areas are high priority. The proposed project clearly is consistent with these signals. Improved rural water systems will improve quality of life. Experience from AID Barangay Water I and II Projects indicates that upgraded water systems can generate and expand productive activities such as piggeries, duck raising, vegetable gardening, food preparation, etc.

The objective of the current plan is to support development activities that will directly support the drive for increased productivity, balanced agricultural and industrial development and self reliance, as well as for increased livelihood opportunities and an improved quality of life. At the same time, the plan will intensify its role as a vital tool to reduce regional disparities in social and economic conditions and opportunities, and thereby promote more balanced urbanization and population distribution. In this regard, greater attention will be given to the less developed and more depressed areas of the country. Water supply and sanitation is a key factor in improving productivity and the quality of life of the rural population.

F. RELATIONSHIP TO USAID CDSS:

The proposed project contributes to several aspects of the CDSS. The strategy for rural economic growth identifies the need for both increasing public sector investment in essential rural infrastructure as well as improving the capability of local government and the private sector to provide services and needed inputs to those dependent on agriculture and rural enterprise (p. 42). The proposed project meets both of these needs. In addition, the CDSS specifically cites rural water as an intervention for achieving CDSS objectives (p. 54).

Unresponsive, inefficient local government and inadequate rural water and sanitation infrastructure act as constraints to increasing rural productivity, health and well being of the people in the Philippines. Priority attention should be given to improving the capabilities of local government units to plan, implement and maintain rural water supply systems as well as constructing needed infrastructure in water supply and sanitation. The proposed Water and Sanitation for Rural Communities Project will implement this strategy by building on the progress already achieved through previous Barangay Water Project I and current Barangay Water Project II.

The primary focus of the proposed project will be on improving the capability of provincial and city government units to plan, design, and construct rural water systems as well as to train local communities to finance, manage, operate and maintain their own water supply systems. The project will also focus on regional development organizations such as the "Regional Development

Councils" and the regional offices of the Ministry of Local Government to enhance their capabilities to provide support to local government units.

The project is a follow-on to the Barangay Water Project II and will be related very closely to the new Local Government and Infrastructure Development and Maintenance Project proposed for FY 1987. The project proposed herein will build on the program begun under the Provincial Development Assistance Project which improved the capabilities of local provincial governments to develop and implement development projects with their own resources.

#### G. OTHER DONORS IN RURAL WATER SUPPLY AND SANITATION SECTOR:

There are four other donors who are active or are developing programs in the rural water supply and sanitation sector. USAID will coordinate closely with these donors during the design and implementation of the project to assure there are no overlaps. The following is a list of current donors in water supply and sanitation sector.

1. World Bank (IBRD & IDA)
2. Japan (OECD)
3. Asian Development Bank (ADB)
4. UNICEF

### PART II - PROJECT DESCRIPTION

#### A. PROJECT GOAL AND PURPOSE:

The goal of this project is to improve the health and well being of all the people in rural communities under 10,000 population by the year 2000 by providing safe domestic water supplies and adequate sanitary facilities. This project will contribute to this goal by developing local government institutions which are capable of providing the necessary water supply and sanitation facilities.

The purpose of this project is to develop the capabilities of local government institutions in three regions of the country and through them to implement successful water supply and sanitation projects in selected rural communities throughout the country. This project will develop a reservoir of skills, institutional memory, staff structures, manuals and handbooks, and linkages to local contractors, so that LGUs will have the means to continue to promote RWSAs and to implement projects in water supply and sanitation. This approach will maximize effective utilization of existing government structures and will take advantage of the positive developments derived from the barangay water Projects I and II. This project will accomplish the purpose by building water and sanitation capabilities at the regional, provincial and city levels and rural waterworks and sanitation associations at the community level; and by the construction of sanitary latrines and water seal toilets in small rural communities.

B. EXPECTED PROJECT ACHIEVEMENTS AND ACCOMPLISHMENTS:

The successful development of water supply systems and sanitation facilities in the small rural communities will reduce diseases that are water borne or caused by poor sanitary conditions. This will improve the health of the people by reducing human energy loss, death rates, medical expenses, lengthen life expectancy, and allow the people to be more productive in both agricultural and industrial production. This will result in improved living standards and well being of the individual families. The following outputs are expected under the project.

1. A small trained staff in the central office of the Ministry of Local Government which are capable of planning and budgeting for rural water supply and sanitation systems for the country.
2. Three functioning water and sanitation planning and monitoring offices located in the regional offices of the Ministry of Local Government with a trained staff which are capable of planning, administering and implementing rural community water systems on a continuing basis.
3. Functioning Rural Waterworks and Sanitation Associations (RWSAs) in 168 barangays with trained staff and members which are capable of managing, operating and maintaining community water supply systems.
4. Twenty four LGUs with functioning water and sanitation management offices with a trained staff which are capable of planning, designing and constructing water supply systems and assisting RWSAs in operating and maintaining water systems on a continuing basis.
5. Completed and operating rural water supply systems in 168 rural communities of the country.
6. Completed and operating water seal toilets in 33,000 households in 168 rural communities of the country.
7. An effective water quality testing and monitoring program institutionalized in 24 LGUs.
8. An effective health and hygienic education program which is being implemented by the 24 LGUs on a continuing basis for rural communities.

C. PROJECT ELEMENTS:

The proposed project will have two elements consisting of institutional development and the design and construction of water supply systems and sanitation facilities.

1. Institutional Development

a. Organization and Project Management:

This activity will consist of decentralizing most of the planning, budgeting, financial allocations, project approval, training and technical assistance

functions now performed by the central offices of the BWP of the Ministry of Local Government to the Regional Development Councils and offices of MLG, and Local Government Units (Provinces and Cities).

b. Planning and Financial Management:

This activity will focus on improving planning, financial management, budgeting, flow of project funds, accounting for expenditures, and billing and collection of water user charges at the regional, provincial, municipality and barangay levels.

c. Operations and Maintenance:

This activity will develop and implement an operation and maintenance program that will provide the RWSAs with the necessary capability to operate and maintain the water supply systems. It is expected to provide the LGUs with the capability to support the RWSAs with operations and maintenance problems which are beyond their capability. It will establish, train and equip water supply maintenance centers in each province and city covered by the project.

d. Water Quality:

This activity will develop, establish, train and implement a water quality testing and monitoring program that will provide the RWSAs with a limited ability to test the quality of the water in their systems. It will develop the necessary capability at the LGU level to test the water quality on a regular basis and to monitor and follow-up to see that problem systems are corrected immediately. Appropriate training programs will be implemented in water quality testing and monitoring.

e. Community Participation:

This activity will provide the LGUs with the necessary capability to establish Rural Water and Sanitation Associations in each community where new water systems are constructed and to organize the communities into an effective organization that can participate in all stages of planning and implementation of water supply and sanitation facilities.

f. Health and Hygienic Education:

This activity will provide for developing and implementing training programs to make the beneficiaries in the local communities aware of the health benefits of safe water supplies for drinking and household use and of the hygienic use and disposal of water in the home and surrounding area.

2. Design and Construction of Water Supply and Sanitation System

a. Source Selection and Investigation:

This activity will provide source selection, investigations and test wells for water supply systems.

b. Design:

This activity will provide for the design of the water supply systems and sanitation facilities.

c. Construction of Water Supply Systems:

This activity will provide for the construction of water supply systems with three levels of service to approximately 370,000 people in 168 rural communities. Communities that are unable financially to support the operation and maintenance costs of a piped water system will obtain wells and handpumps. This level of service will be available to approximately ten percent (37,000 people) of the population in project rural communities. Communities that are able to support the full costs of system operation and maintenance for higher levels of service will obtain piped water supply systems with standpost faucets or individual house connections. It is estimated that piped water supply systems with standpost faucets will be available to approximately 50 percent (185,000 people) of the population in project rural communities. Individual house connections will be available to the remaining 40% (148,000 people) of the population in project rural communities. The project design will determine the theoretical financial breakpoint which will be used in determining levels of service. The final determination of level of service will be determined by the individual project feasibility study and ability of the community to pay the required water charges.

d. Installation of Latrines:

This activity will provide assistance to home owners in the installation of latrines in each home that is provided water services which does not have a toilet. The project will assist the home owners by providing some materials and technical guidance in building the latrines. It is anticipated that approximately 50 percent of households will require this service.

D. IMPLEMENTATION STRATEGY:

The proposed implementation strategy is to engage the services of a consultant to provide all technical and training assistance, offshore commodity procurement and overall project monitoring. It is anticipated that engineering and design services will be provided by provincial or city engineer offices and by private consultants. It is anticipated that construction services will be provided by private contractors. All local commodity procurement, personnel and operating cost is anticipated to be provided by the implementing agencies or local communities. A new financing mechanism will be developed for the project that will ensure budgets are available as needed for contract award and payments to contractors. This may include direct reimbursement to consultant and contractors of a modified FAR arrangement. The financing mechanism has been one of the major constraints on the on-going Barangay Water Program.

E. PROJECT INPUTS:

The project is expected to include technical assistance, training, commodities, personnel services, engineering services, construction services, operations, and monitoring and evaluation costs.

1. Technical Assistance and Training:

Technical assistance and training is planned in the areas of organization, planning and financial management, system operation and maintenance, water quality testing and monitoring, community participation, health and hygienic education, design, source selection and hydrological investigations, construction, trainers, environmental sanitation, and system operations and maintenance.

2. Commodities:

Commodities is planned to support the technical assistance and training consultants, hydrological investigations, local government units transportation equipment, toilet seats and materials, and maintenance supplies and equipment.

3. Personnel:

The GOP will provide the additional personnel required at the regional and local government units to perform the engineering, training, water quality monitoring and testing, community participation, operations and maintenance, and evaluation and monitoring functions.

4. Engineering Services:

The project plans to provide the engineering services that are required to design and construct the water supply systems and sanitation facilities.

5. Construction Services:

The project plans to provide construction services for 168 water supply systems and associated water seal toilets in the local communities.

6. Operations:

The GOP will provide the operations costs for the additional staff, facilities and equipment at the regional and local government unit levels during the life of the project including one year of maintenance support to RWSAs.

7. Monitoring and Evaluation Services:

The project plans to provide the cost of personnel and equipment required for the monitoring and evaluation of the project on an annual basis and at other times when it is felt a need exists to assess implementation progress and problems.

PART III - FACTORS AFFECTING PROJECT SELECTION

AND FURTHER DEVELOPMENT

A. SOCIAL CONSIDERATION:

The people who will be the beneficiaries of proposed project are concentrated in small rural communities that consist of farmers, laborers, fishermen and vendors and their families who rely on unprotected dug wells or polluted local streams and have poor environmental sanitation. The beneficiaries will include families living at near subsistence level without steady income where men, women and children try to contribute to household budgets. Many of these rural families are victims of diseases in which water and sanitation are implicated. Infant mortality is higher in the rural communities. Malaria, which is water and drainage related, is a relatively serious problem in many of the rural communities. The unsanitary conditions in most of these rural communities promote water pollution, contamination of food, insect infestation and diseases.

The proposed Phase I project has several groups of beneficiaries including the staffs of local government units, the staffs of the rural water and sanitation associations, and the ultimate users of improved water supplies and sanitation facilities. The beneficiaries will be located in three selected regions, eight provinces in each region (total of 24 provinces or cities), and seven barangays in each province or city (total of 168 barangays). It is estimated that 370,000 persons in 66,000 households will receive handpumps or piped water systems and 185,000 persons in 33,000 households will receive water seal toilets. The persons who will benefit the most will be the women who are the primary users and managers of domestic water supplies. Their domestic tasks of cooking, cleaning and washing dishes, babies and laundry will be made easier and the time and energy spent in procuring water--often polluted--will be less. Nearly everyone in these rural communities will benefit from the increased accessibility of safe water and improved sanitation.

It is expected that the rural water and sanitation associations will participate in all major decisions affecting the development of the water systems and certainly the water seal toilets. They will participate in selecting the water source, type of water system to be built and type of toilets; in establishing, collecting, budgeting and spending water fees or taxes for operation, maintenance and management of the water systems; in the selection and award of the construction contracts; collection of design data; and the location of water distribution points in the systems. The proposed project will contain provisions for providing community organization experts as consultants and trainers for local government units and adequate resources (including transportation and expenses) to permit continued involvement with communities and to follow-up, support and provide reinforcement as needed to develop viable rural water and sanitation associations in each rural community served by the project.

The social risks that must be acknowledged are closely related to the economic ones. Ability to pay and willingness to pay will depend on priority of piped water within constricted household budgets where food, fuel, etc., may come first if alternative water sources are available. The chance of the sanitation component not being acceptable in communities with standpost type water systems is very low if adequate training is provided at the household level in construction, operation and maintenance of the toilets. The water seal toilet has achieved widespread popularity. The risk of surface water pollution caused by improper installation must be faced and will require close monitoring. The viability of the proposed role for rural water and sanitation associations in selling toilet bowls needs to be checked. There are security and political risks which vary by region. These can be minimized by avoidance of high risks areas. The feasibility assessment for a new project recommended that relatively quick, but intensive studies be made of possible target area communities using the Simpson-Herbert guidelines for gathering socio-cultural data for water supply and sanitation projects. They recommended using selected Philippine academic or quasi-academic agencies to develop community profiles. The project will conduct these socio-economic studies as pre-project activities to develop profiles of socio-cultural and local leadership conditions in sample barangays in provinces likely to become enrolled in the project and with different language, culture and other conditions.

Water is a basic need required to sustain life. The quality of water is critical in determining the health and well being of the people. This project will provide water which will improve sanitary conditions, resulting in improved health for the rural poor. It will provide water seal toilets which are essential to gain the full benefits of a safe water supply. The institutional development aspect of this project is directed at building the capability of the local government units to sustain and to replicate the water supply and sanitation program in other regions of the country.

#### b. ECONOMIC CONSIDERATIONS:

Improved water and sanitation services offer benefits across all sectors of the rural economy. Water supply and sanitation services are essential elements of disease prevention and primary health care. Diseases associated with improper hygiene and a dirty environment, such as respiratory diseases (pneumonia, bronchitis and tuberculosis) and enteric diseases (diarrhea, dysentery and infectious hepatitis) are among the major causes of illness and death in the Philippines. In addition, intestinal parasites are common. The project would enable the population to benefit from fewer work days lost to illness, lower medical and other related expenses, and a reduction in caloric loss due to parasites and in unabsorbed nutrients. Healthier workers would be more productive. Improved water services would reduce the household's time and resources allocated to obtaining water for daily needs. Better services would improve the efficiency of existing industrial and commercial operations and possibly, open up new entrepreneurial opportunities. The project would complement food assistance efforts and the GOP's renewed initiatives for agri-based and employment-oriented rural development.

The country's economic situation and its low repayment capacity argue for grant financing of the project. The country is in the midst of a severe recession with 70 percent of the population living in poverty. The GOP is increasingly constrained in providing basic services. Even with measures to reduce expenditures and increase revenues, the government is facing a \$1.2 billion budget deficit for 1986 alone. Foreign debt exceeds \$25 billion with debt servicing exceeding 37 percent of export earnings. Enormous debt servicing and budget deficit problems are likely to continue to beset the government over the next few years.

The project's innovative approach to institutional development and its diffuse social benefits constitute additional reasons for grant financing. Project goal realization will require highly innovative approaches to institutional development for the provision of sustainable water and sanitation services with limited dependence on continuing national government financial support and within the limited resources of the rural poor. While direct benefits may be quantified, the institutional development focus of the project would result in more substantial diffused social benefits for which full cost recovery is not practical. In addition to the direct benefits identified above, indirect benefits to the health and education sectors may be expected. The incidence of contagious diseases in non-beneficiary communities would be reduced. The knowledge obtained by the community associations and implementing organizations could be transmitted informally to nonparticipating communities and entities and would reinforce formal efforts in community hygiene and sanitation education. Reduced illness among the school age population would reduce the losses to investment in education.

The selection of project sites, the types of facilities and financing modes will be based primarily on the ability of the beneficiary population and the local government units to finance, maintain and operate the facilities. The existing literature include methodologies and standards which will allow matching of service sustainability with systems design. If required, site-specific data will be collected to determine the willingness and ability of the beneficiaries and absorptive capacity of the implementing organizations to operate and maintain the facilities.

#### C. PROPOSED GOP GRANTEE AND IMPLEMENTING AGENCY:

The proposed GOP Grantee is the National Economic and Development Authority. The implementing agency will be the Ministry of Local Government through its Regional Offices. The physical implementation of the subprojects will be by the individual provinces and city governments, and possibly Private Volunteer Organizations.

#### D. AID SUPPORT REQUIREMENTS AND CAPABILITY:

The USAID Mission has the capability to monitor the project through its Office of Capital Development, Engineering Division with the help of the Office of Population, Health and Nutrition and to provide the necessary backstopping requirements for contracting and commodity procurement through its Contract

Services and Logistics Division. A U.S. consulting firm will be engaged by the Ministry of Local Government or USAID to monitor the project and to provide the required technical assistance, training of personnel, offshore commodity procurement, and participant training.

E. ESTIMATED COSTS AND METHODS OF FINANCING:

The estimated total cost of the Phase I project is dollars 25 million. The estimated AID cost of the project is dollars 18.75 million grant, whereas GOP's counterpart share is dollars 6.25 million. The major financial requirements are for technical assistance, training, commodities, personnel, engineering design, construction, operations, monitoring and evaluation costs.

The present economic condition in the country is such that the GOP does not have sufficient financial resources to finance on-going programs, projects or activities. USAID perceives this condition will be experienced by the GOP in this coming year and will likely be critical in the first three to five years of the new government. Therefore, it is recommended the AID component be Grant funded. Since the FAR method of financing construction costs has been determined to be unsatisfactory, the project design team will consider all available alternatives for developing a workable financing method for the project including a modified FAR method.

ESTIMATED COSTS (\$000)

USAID

<u>Item</u>	<u>Grant</u>	<u>GOP</u>	<u>TOTAL</u>
Technical Assistance	3,500	0	3,500
Training	500	0	500
Commodities	800	200	1,000
Personnel*	0	800	800
Engineering Services	1,350	350	1,700
Construction Services	12,500	3,400	15,900
Operations & Maintenance*	0	1,500	1,500
Evaluation	100	0	100
<b>TOTAL PROJECT COSTS</b>	<b>18,750</b>	<b>6,250</b>	<b>25,000</b>

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Notes: \*1. Items fully funded by GOP and communities.  
2. Inflation computed at 5 percent annually.  
3. Contingency factor of 10 percent is included.

F. DESIGN STRATEGY:

It is anticipated that a multidisciplinary design team will be required to develop and detail the project elements as outlined in the feasibility assessment and preliminary project design completed in August 1985 by the WASH Team. This will require the services of: (1) a water supply and sanitation engineer with experience in systems design, construction, operation and maintenance including water quality testing and monitoring; (2) an institutional development and training specialist; (3) a financial specialist qualified as an economist; (4) a community development and health education specialist; and (5) a person qualified to write a project paper in accordance with USAID rules and regulations.

While the Mission is responsible for the final Project Paper, it is expected that the design team will work closely with the USAID in: (1) developing the detailed rationale, objectives and outputs, clearly outlining the relationship between outputs, purpose and goal; (2) developing and detailing each project element and required inputs; (3) preparing the technical, social economic, financial and administrative feasibility and soundness analysis; (4) preparing a detailed scope of work for the project management consultant; (5) preparing a detailed scope of work for the pre-project sociological survey; (6) developing and detailing project funds mechanism and criteria for the project management information systems; (7) preparing a detailed commodity list; (8) preparing a detailed cost estimate for project; and (9) identifying the necessary project prerequisite conditions and covenants.

A U.S. design consultant team with the following skills is required to assist the USAID in designing the project:

(a) Project Design Officer	- 6 wks X \$4,370 = \$ 26,220
(b) Water Supply & Sanitation Engineer	- 6 wks X \$4,370 = \$ 27,000
(c) Inst.Dev. & Training Specialist	- 5 wks X \$4,370 = \$ 21,850
(d) Economist/Financial Specialist	- 4 wks X \$4,370 = \$ 18,000
(e) Community Development & Health Specialist	- 5 wks X \$4,370 = \$ 21,850
(f) Hydrogeologist	- 3 wks X \$3,913 = \$ 11,740
<b>Total</b>	<b>29 wks</b> <span style="float:right"><b>\$126,660</b></span>

The USAID Project Design Committee is composed of the following personnel:

1. Leroy Purifoy, OCD, Project Officer
2. Howard G. Miner, OPHN
3. Jane Nandy, ORAD
4. Rosendo R. Capul, OPHN
5. Eddie N. Plata, CO
6. Cho Roco, PRO

#### G. RECOMMENDED ENVIRONMENTAL THRESHHOLD DECISION:

A conclusive finding up front will not be possible given that the identification of site specific construction projects will be on going throughout the life of the project. All capital improvements can be expected to have some environmental impact during construction. However, the benefits are expected to greatly exceed any negative impact as a result of the construction. Since specific projects will not be identified at the time of authorization, the environmental effects will be considered on a case by case basis before implementation of each individual project. When planning is far enough along, each project will be analyzed from an environmental point of view by the implementing agency according to USG and GOP environmental regulations. An environmental analysis will be included in each project feasibility study. Appropriate procedures are now in place at the Ministry of Local Government to assure that USG standards are met in the conduct of environmental analyses by the implementing agencies. In addition, one of the responsibilities of the general consultant will be to develop an environmental protocol for the project that will establish procedures governing environmental assessments and reviews for each site specific construction activity.

#### H. AID POLICY ISSUES:

The policy issues that have been identified during the Feasibility Assessment and Preliminary Design of the Project are listed and discussed below.

1. The major issue is the FAR method of financing the project. The evaluation team found it to be completely inadequate under the present economic conditions. The WASH team agreed with this assessment.
2. Whether or not the project should provide assistance to those local government units outside of the proposed project that have capabilities developed under BWP I and II that correspond to a graduated local government unit as defined by the proposed project. It is recommended that this project should provide assistance to all provinces which have demonstrated adequate capability.
2. There is an issue concerning the recurrent costs of operating and maintaining water systems after the life of the project. Too often, recurrent costs are overlooked in design; this may result in systems going down during or shortly after the PACD. Recurrent costs are an important factor which must be included in the project economic and financial analyses.

#### I. GRAY AMENDMENT ALERT:

The USAID Project Committee has given full consideration to the potential involvement of small and/or economically and socially disadvantaged enterprises and has determined that any U.S. technical assistance required under the Project be provided through open competition with special consideration given to firms submitting proposals which utilize the resources

of small and/or disadvantaged firms. In addition, for project related commodities procurement, best efforts will be made to award contracts to small and/or disadvantaged firms.