

**LOCAL GOVERNMENT
INFRASTRUCTURE PROJECT
(492 - 0463)**

PROJECT PAPER

**USAID/Philippines
SEPTEMBER 1991**

**LOCAL GOVERNMENT
INFRASTRUCTURE FUND PROJECT
(492-0463)**

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**USAID/Philippines
September 1991**

2. COUNTRY/ENTITY PHILIPPINES

3. PROJECT NUMBER 492-0463

4. BUREAU/OFFICE Asia 04

5. PROJECT TITLE Local Government Infrastructure Fund

6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 09 30 96

7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY 91 B. Quarter 4 C. Final FY 94

Table with 7 columns: A. FUNDING SOURCE, B. FX, C. L/C, D. Total, E. FX, F. L/C, G. Total. Rows include AID Appropriated Total, (Grant), (Loan), Other U.S., Host Country, Other Donor(s), and TOTALS.

Table with 6 columns: A. APPROPRIATION, B. PRIMARY PURPOSE CODE, C. PRIMARY TECH. CODE, D. OBLIGATIONS TO DATE, E. AMOUNT APPROVED THIS ACTION, F. LIFE OF PROJECT. Includes rows for ESF 800 and TOTALS.

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 5 positions each)

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code B. Amount

13. PROJECT PURPOSE (maximum 480 characters) To construct critically needed small-scale infrastructure through local governments (meaning provincial or chartered city governments).

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 09 93 09 96

15. SOURCE/ORIGIN OF GOODS AND SERVICES 000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a page PP Amendment) NOTE: The provisions of the payment verification policy regarding method of implementation and financing, financial capability of recipients, and adequacy of audit coverage have been adequately addressed in this document.

J.C. Stafford, Controller

17. APPROVED BY Signature Malcolm Butler Title Director US AID/Philippines

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY 09 30 96

PROJECT AUTHORIZATION

Name of Country: PHILIPPINES
Name of Project: LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
Project Number: 492-0463

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, and in accordance with the *ad hoc* delegation contained in STATE 174064, dated May 28, 1991, I hereby authorize the Local Government Infrastructure Fund Project (the "Project") for the Republic of the Philippines (the "Cooperating Country") involving planned obligations of not to exceed \$100,000,000 in Grant funds over a five-year period from the date of authorization, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process. The planned life of the Project is approximately five years from the date of initial obligation.

2. The Project is directed at alleviating infrastructure constraints to private-sector led growth and diversification through support for the construction of small-scale infrastructure by provincial and chartered city governments. In accordance with procedures established for previous ESF projects in the Philippines, the AID grant will provide U.S. dollar support for foreign exchange costs, as well as dollar transfers in exchange for the support of the Cooperating Country for small-scale infrastructure by appropriating and using for agreed local currency costs an amount of pesos equivalent to the dollar transfers.

3. 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 be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate.

4. a. Source and Origin of Commodities and Nationality of Services

Commodities financed by A.I.D. under the Project shall have their source and origin in the United States, or the Cooperating Country, subject to the requirements of AID Handbook 1B, except as A.I.D. may otherwise agree in writing. Except for ocean shipping, the suppliers of commodities or services shall have the United States or the Cooperating Country, subject to the requirements of AID Handbook 1B, as their place of nationality, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Other

Prior to any disbursement, or the issuance of any commitment documents, the Cooperating Country shall furnish in form and substance satisfactory to A.I.D., (i) a statement designating the members of the IRC, with representatives from agencies such as the Office of the President, Department of Public Works and Highways, and the Department of the Interior and Local Government, and (ii) a staffing plan for the Project's IO, which identifies personnel who will occupy key positions, describes the structure of the IO, and establishes the IO's counterparts in the Cooperating Country's Department of Finance and the Office of the President.

By: Malcolm Butler
Malcolm Butler
Director
USAID/Philippines

Date: SEP 30 1991

Clearances:

	<u>Initial</u>	<u>Date</u>
OCP:DZvinakis	<u>draft</u>	<u>9/23</u>
ONRAD:KPrussner	<u>draft</u>	<u>9/24</u>
PESO:BCornelio	<u>draft</u>	<u>9/23</u>
OPE:PRDeuster	<u>draft</u>	<u>9/25</u>
OPHN:EVoulgaropoulos	<u>draft</u>	<u>9/23</u>
OFFPVC:BGeorge	<u>draft</u>	<u>9/23</u>
OFM:JCStanford	<u>draft</u>	<u>9/25</u>
CSO:SHeishman	<u>draft</u>	<u>9/25</u>
OLA:LChiles	<u>draft</u>	<u>9/23</u>
ODRM:RMcLaughlin	<u> </u>	<u> </u>
OD:RAJohnson	<u>RAJ</u>	<u>9/22/91</u>

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- I. Environmental Analysis
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ACRONYMS AND ABBREVIATIONS

AV	Administrative Vehicle
CBD	Commerce Business Daily
CMES	Construction Management Engineering Services
CP	Condition Precedent
DBM	Department of Budgeting and Management
DECS	Department of Education, Culture, and Sports
DED	Deputy Executive Director
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOTC	Department of Transportation and Communications
DPWH	Department of Public Works and Highways
DTI	Department of Trade and Industry
ESF	Economic Support Fund
ESFS	Economic Support Fund Secretariat
FIRR	Financial Rate of Return
FSN	Foreign Service National
GOP	Government of the Philippines
HC	Host Country
IFB	Invitation for Bid
IG	(A.I.D.) Inspector General
IO	Implementing Organization
IQC	Indefinite Quantity Contract
IRC	Implementation Review Committee
LDAP	Local Development Assistance Program
LGIF	Local Government Infrastructure Fund
LGU	Local Government Unit
MIS	Management Information System
NCR	National Capital Region
NEDA	National Economic and Development Authority
OPM	Office of the Presidential Management Staff
PACD	Project Assistance Completion Date
PbD	Performance-based Disbursement
PDAP	Provincial Development Assistance Program
PID	Project Identification Document
PREMIUMED	Program for Essential Municipal Infrastructure, Utilities, Maintenance, and Engineering Development

PROAG
PSA
RDC
RDF
SOW
TOR
USAID

Project Agreement
Procurement Services Agent
Regional Development Council
Regional Development Fund
Scope of Work
Terms of Reference
U.S. Agency for International
Development

I. SUMMARY AND RECOMMENDATIONS

- Grantee : The Republic of the Philippines
- Implementing Entities : Implementing organization assigned to the Office of the President
Implementation Review Committee
Various Local Government Units (LGUs)
- Grant Amount : \$100.0 million
- Funding Source : Economic Support Fund (ESF)
- Project Purpose : to construct critically needed small-scale infrastructure by local governments (meaning provincial or charter city governments).
- Description : The project will fund approximately 150 small infrastructure projects, such as schools, markets, and roads in selected LGUs throughout the country.
- Estimated Completion : September 30, 1996
- Statutory Requirements: Statutory Requirements have been met. Requirements of 611 will be met at subproject level prior to committing funds for design or construction.
- Recommendation : That a \$100 million grant to the Republic of the Philippines be authorized based on the terms and conditions listed in the Project Authorization.
- Design Team : Project Design Team members are:
- | | |
|----------------------------|---------------------|
| OCP:John C. Starnes | OCP:Dennis Zvinakis |
| OCP:Leroy Purifoy | OCP:Minerva Dacanay |
| OFM:Ricardo Tan | OFM:James H. Redder |
| OFM:James C. Stanford | OLA:Lisa Chiles |
| OPE:Malu Panlilio | DRM:Earl W. Gast |
| CSO:William Reynolds | OFM:Monica Stein |
| ONRAD:Harold L. Dickherber | ONRAD:Nards Dayao |

II. BACKGROUND AND RATIONALE

A. PROBLEM STATEMENT

For many years, government development policies have led to a severe concentration of economic activity in Metro-Manila and a few urban centers. This policy framework has brought about unbalanced development. While Metro-Manila grew rapidly, many regions remained predominantly rural and neglected. One major constraint to expanded and sustainable private sector growth in the rural areas is the lack of appropriate and adequate infrastructure. The Philippines has a demonstrated shortage of roads, schools, markets, bridges, and other infrastructure both on a local scale and at the national level.

The most recent publication of the Physical Infrastructure Plan published by the Department of Public Works and Highways illustrates this point. For the period 1990 to 2020, it is expected that nearly half of the existing national roads (approximately 17,800 kilometers) will need to be widened, strengthened, and repaved. Meanwhile, little or no observable progress is being made on improving the condition of the 83 percent of the road network that comprises provincial, municipal, city and barangay roads. Most of these roads are unpaved, and a sizable proportion (probably more than half, although statistics are not readily available) are in bad to very bad condition. This will necessarily overwhelm the Department of Public Works and Highways (DPWH) and require that local governments construct and maintain their own road systems using whatever resources available to them.

Local governments require other "community" or small-scale infrastructure as well. During the period 1986-1990 total school enrollment increased by 18.3 percent, placing increased pressure on an already overburdened educational system ill-equipped to handle the demands on infrastructure. By the year 2000, the GOP expects that thirty thousand new classrooms will be needed, an increase of almost fifteen percent above the current number. The burden for constructing these social services facilities will fall on both the national and local governments. This project will assist in building these badly needed social structures as well as revenue-generating subprojects (i.e., markets) to promote private sector growth and provide additional revenue sources for the LGUs themselves.

B. BACKGROUND

1. USAID Experience

The Mission has vast experience in implementing small-scale infrastructure subprojects and increasing knowledge in dealing with local government units (LGUs) through the new decentralization

programs. This project, though foremost an infrastructure project, will incorporate decentralization by having local governments bear responsibility for actual subproject implementation and financial disbursements to firms constructing the subprojects.

This project will follow six individual projects spanning the past eleven years. The present project, Regional Development Fund, will expire in August 1992. More than \$200 million has been expended for subprojects such as schools (more than 2,300 nationwide), roads (over 1,000 subprojects), markets, and other infrastructure of this type, such as slaughter houses and solid waste facilities.

2. Decentralization Efforts

Since the 1986 People Power Revolution there has been a shift of development thrust towards regional and rural-based development to correct urban/rural disparities. The Medium-Term Philippine Development Plan (1987-1992) identified decentralization as one of the key organizational principles that shall guide the government in its role of setting the environment for economic recovery and sustainable long-term growth.

To spread the benefits of development to the countryside, the national government pursued such policies/programs as follows:

- a. Prohibition of new heavy industries within the Metro-Manila area;
- b. Establishment of new industrial centers in many key regions;
- c. Allocating more investment to key infrastructure facilities in many provinces;
- d. Strengthening the institutional and organizational framework for planning at the regional/local levels through the establishment of new planning bodies;
- e. Transfer of more responsibilities and resources to regional and local units; from government line agencies (i.e. DPWH, DOTC, DTI), and;
- f. Pursuit of specific programs to deliver basic services through the local governments (ESF, MINUTE, PREMIUMED, etc.)

The policy of devolving more autonomy to local governments has long been espoused by the national government, starting with the passage of the Local Autonomy Act (R.A. 2260) in the 1950s, which was followed by the passage of the Decentralization Act in 1967. Later in 1968, the GOP implemented

the Provincial Development Assistance Program (PDAP) in an attempt to strengthen LGU capabilities. The advent of the Aquino administration has given renewed emphasis to the pursuit of decentralization. President Aquino has proclaimed her full commitment to decentralization and local autonomy. One of her initial major acts was to certify the urgency of the passage of the New Local Government Code that would grant more autonomy to local governments. Local autonomy implies that competence at the leadership, managerial and technical levels must be upgraded to allow officials to formulate objectives, make rational decisions and carry out their responsibilities optimally.

C. RATIONALE

The number one transportation problem in the Philippines today is the poor condition of a large proportion of the public road network. The road network inadequacy raises transport costs substantially, thereby effectively reducing the marketing opportunities for a large proportion of the farming population, and limiting the potential for agro-industrial development.

Economic growth in both the agricultural sector and the industrial sector have stagnated over the past years. While difficult to prove statistically, both sectors are suffering from the lack of adequacy of the highway subsector. A recent report by the International Food Policy Research Institute stated that the Philippines has the highest transportation costs in Southeast Asia. Agricultural productivity is particularly dependent on the existence of a reliable road network. The poorly maintained and inadequate road network in the Philippines serves as a major impediment to the flow of inputs to the production areas and the flow of outputs from the production areas to market centers and contributes to the losses incurred by the agricultural sector.

A shrinking national budget and high deficit, along with an immediate need to provide additional infrastructure for a growing population and to repair or replace old, dilapidated, and at times, shoddily built infrastructure, has pushed the GOP farther toward devolving increasing authority and financial resources to the local governments. The latest thoughts of this is manifested in the proposed Local Government Code, currently under review by the legislative branch of the Philippine government. Under the pending bill, LGUs' share of national internal revenue taxes would increase from its present level of 11 percent to 40 percent by 1994.

The LGIF project supports this and other GOP efforts to decentralize. In other developing nations' embarking on a policy

turn toward decentralization, studies¹ find a dramatic increase in spending for small-scale or community infrastructure. It is also widely held that LGUs are more efficient than any central authority in determining the types of projects for selection and implementation, while being more responsive to the needs and desires of its citizens.

Given the push for decentralization emanating from the top levels of government and the impending pass down of more revenues to the LGUs, one should question whether the administrative and technical capacities exist in local governments to undertake infrastructure projects. Through programs such as the Local Development Assistance Program (LDAP) and the new LGIF project, USAID will strengthen these abilities within the LGUs and closely monitor their progress.

1. Previous Small-Scale Infrastructure Projects

Since the early 1980s the Mission has designed and implemented six small-scale infrastructure projects, namely, Elementary School Construction, Project Design Project, Clark Access and Feeder Road, Municipal Development Fund, Markets Project, and the Regional Development Fund. Combined, these projects funded the construction of nearly 4,000 subprojects initially in the areas adjacent to the U.S. military bases; then later in the program, throughout the rest of the country. The program provided a selected mix of subprojects, mostly in the areas of schools, roads, and markets. Additionally constructed were "special-type" subprojects such as slaughter houses, health centers and hospitals, and an export processing center.

2. Impact Evaluation Results

Prior to the design of this project, an overall impact evaluation² of the ESF infrastructure program was carried out. The evaluation², in general, acknowledged that the infrastructure program - consisting of the six projects referred to in the paragraph above - has "been largely beneficial and ... produced important social and economic benefits for poorer segments of the population...The impact of major categories of subprojects is certainly sufficient to continue funding for such activities." It did go on to point out, however, that in recent years (primarily 1986 - 1989) the program has been plagued by slow implementation. To alleviate these problems in future activities, the evaluation

¹See USAID Working Paper titled, "Infrastructure Finance Volume I, Financing Urban Infrastructure in Less Developed Countries", March 1991.

²See "Impact Evaluation: Economic Support Fund Infrastructure Program, 1980-1991", prepared by Chris Hermann, May 1991.

recommended that any future follow-on activity "give particular attention to mechanisms that would transfer management responsibility and funds directly to ... LGUs." This project follows this recommendation explicitly, but will include intensive quality monitoring of the LGU performance.

This project will continue in the three areas (i.e, schools, roads, and public markets) having the greatest economic and social impact on the local governments and contribute to private sector led growth. In the area of education, for instance, where the connection to private sector led growth is seemingly tenuous the impact evaluation also concludes:

Continued development of the education sector is clearly necessary for the Philippines throughout the 1990s. An adequately educated labor force has been a key factor behind the development of the newly industrialized countries in the Pacific Rim. An educated labor force is fundamental to attracting foreign investment and shifting to more efficient and competitive modes of production based on more sophisticated technologies. A reasonably well educated labor force also seems necessary for the private sector to become more competitive in international markets.

D. RELATIONSHIP TO PHILIPPINE ASSISTANCE STRATEGY STATEMENT

The Philippine Assistance Strategy Statement (PASS), completed in March 1990, delineates five specific program objectives for the period 1991 through 1995, one of which is the development of infrastructure that expands private sector activity. LGIF aims to promote better communities through the provision of infrastructure for secondary schools, high school science laboratories, and trade schools in regions outside the National Capital Region (NCR). In addition other small-scale infrastructure, such as markets and roads, will provide Filipinos increased access to new economic activities. In particular, markets are expected to generate additional employment and business opportunities as well as have a significant multiplier effect on investment and overall economic activity.

The PASS identifies three cross-cutting themes in carrying out these objectives -- policy dialogue, private sector, and decentralization. Decentralization strives to place greater resources, responsibility, and authority at the local levels that are capable at carrying out good and responsive government. At the local level citizens will have greater say -- through local elections -- in decision making concerning resource allocation. LGIF supports this process entirely by transferring funds to selected LGUs with proven capability to manage financial resources and construction of small infrastructure subprojects. Each

participating LGU will decide on the contractor and the specific subproject to be undertaken.

The LGIF project supports the strategic cross-cutting theme of private sector participation. The private sector is and will continue to be the primary engine of Philippine Economic growth. Adequate infrastructure, even at the small-scale level, is crucial to expanded private sector initiative and activity. Linkages between production areas, market towns, and capital cities are essential to stimulate private sector growth and Philippine economic development.

E. GOP POLICY FRAMEWORK

Not until recent years have there been deliberate efforts on the part of the Philippine Government to implement with any amount of seriousness regional development policies and programs. Studies show that past development policies and programs have tended to favor the large urban areas in the country, creating a concentration of investments, development programs, and economic benefits there while neglecting their regional counterparts. The result is an imbalance in development characterized by lower gross domestic products, declining real incomes, high incidence of poverty, unemployment/ underemployment, low productivity and lack of access to basic services in the regions.

The GOP's current Medium-Term Philippine Development Plan (1987-1992) has adopted countryside development as the centerpiece of national development. It addresses itself to attaining the basic goals of poverty alleviation, generation of more productive employment, promotion of equity and social justice, and realization of sustainable economic growth. This will be put into operation through the pursuit of demand-led, employment-oriented, and rural-based development strategies.

One development strategy is to put greater emphasis on developing economic and social infrastructure and facilities/services in the rural areas which are geared towards increased agro-industrial production, improved rural incomes and enhancement of rural living conditions. Implied in these policies is, of course, the constitutional recognition of the indispensable role of the private sector as the main engine for national growth.

More recently, the Philippine Government has put in place another potent development strategy for countryside development--that is, greater people participation in the development process. Buoyed by the dismantling of the former, less democratic regime, the present Government has laid the groundwork for greater autonomy and self-reliance in national governance. We have seen the creation of regional autonomous governments in the country (e.g. Cordillera Administrative Region, Autonomous Region of Muslim

Mindanao). The nation eagerly awaits the finalization of another landmark legislation, the Local Government Code, which features the decentralization of power, policy and decision-making, and operationalization of program implementation in the regions.

F. DONOR COORDINATION

The World Bank assists the GOP in building small-scale, municipal markets through its "Program for Essential Municipal Infrastructure, Utilities, Maintenance, and Engineering Development" (PREMIUMED). It aims to assist self-reliant municipalities finance small-scale infrastructure projects (largely public markets) by providing access to long-term loans. The Philippine Department of Public Works and Highways implements the subprojects in coordination with a "steering committee" comprised of the Department of Budget and Management (DBM), Department of Finance (DOF), the National Economic and Development Authority, and the Department of Interior and Local Government (DILG).

The PREMIUMED program has been largely successful and the LGIF project will build on certain tenets of the program such as the need to get local governments involved in all aspects of the subprojects to engender a feeling of ownership. In previous ESF small-scale infrastructure projects, a strong central authority carried out all matters of design and many aspects of implementation. The LGUs were consulted, but had little say in what was to be constructed, the cost for which the subproject would be built, and in the selection of the construction contractor. This project puts the LGUs in charge of making these decisions.

G. CURRENT ROLE AND CAPACITY OF LGUs

1. Local Government System

This project strongly supports the objectives of the national government to decentralize down to the LGUs decision-making authority and management of its financial resources. There are, however, only a relatively small percentage of LGUs (approximately 30 percent) that presently have the capability to administer small-scale infrastructure projects effectively.

Local government units are organized into administrative units consisting of 73 provinces, two sub-provinces, sixty cities, 1,534 municipalities and 41,657 barangays. The new project will select LGUs from the combined total of 133 provinces and cities. Below this level, it is believed the municipalities, and especially the barangays, have essentially no capability to contract for and monitor small-scale infrastructure projects.

This project will focus its efforts and resources at the provincial and chartered city levels.

a. Cities

Cities, as do municipalities, consist of several barangays. They are likewise general purpose governments for the delivery of basic services within their respective jurisdictions. Cities are classified as either highly urbanized or component cities.

b. Provinces

Provinces are the biggest territorial units within the country and serve as the primary administrative vehicles for pursuing area-wide development concerns. Every province has primary responsibility for supervising municipalities and component cities within its jurisdiction. They ensure the supervised local government units act within the scope of their powers and functions.

2. Classification of Cities and Municipalities

LGUs are classified into income classes for three main reasons: to serve as a basis for fixing the maximum tax ceiling local governments may impose; for determining statutory aid, financial grants, and other forms of financial assistance; and for implementing salary and administrative issuances on allowances to which local government officials may be entitled. Provinces and cities are classified into six main classes (except Manila and Quezon City) as follows:

Category	Average Annual Income (in millions of Pesos)
First Class	> 30
Second Class	> 20; < 30
Third Class	> 15; < 20
Fourth Class	> 10; < 15
Fifth Class	> 5; < 10
Sixth Class	< 5

3. Income Sources and Expenditures Pattern of Local Governments

The income of local government is derived primarily from taxes, operating and service revenue, and government business operations. Revenue from taxation includes revenue from property taxes, taxes on goods and services, local governments' shares of internal revenue collections, and other taxes. Operating and services income include fees collected for such charges as

inspections, building permits, registrations and hospital/garbage services. LGUs also derive income from certain projects usually donor-financed, such as markets, slaughterhouses, parking, landing facilities, and bus terminals. They may also raise funds by borrowing or receiving grants.

The expenditure budgets of local governments usually contain allocations from the general fund for such items as public services, social services (e.g., education, health/ nutrition) other social and economic services, operating overhead, payment of contractual obligations and budgetary reserves. The infrastructure fund is utilized for personal services, maintenance, capital outlay, and other operating expenses.

H. LGU Needs and Capabilities

1. LGU Capabilities

Although many projects/programs from the donor community have been formulated to strengthen LGU capabilities, there has been no attempt to evaluate provinces or cities systematically on the basis of their respective capabilities/capacities. What has been done are pilot studies of selected LGUs³, i.e., cities and towns.

Studies undertaken for the development of this project do show a correlation between LGU capability and income. Provinces and cities in the high income category generally have better quality and greater number of personnel in their planning, finance, and engineering departments. It was also established that high income LGUs were better equipped in terms of office and planning facilities and engineering maintenance equipment. This indicates that local funds constitute the lifeblood of local governments and is a chief determinant of service delivery performance.

Table II-1 presents a breakdown of provinces and cities by income class. In general, fourth to sixth class provinces and cities have poor to inadequate planning, project management, and maintenance capabilities and on that basis will be disqualified from participation in the project until their capabilities have been demonstrably improved to an acceptable level. (In actuality these LGUs will be given priority during times of natural disasters. During calamities of a major magnitude, it is envisaged the technical assistance contractor will implement all reconstructive subprojects directly. See Section III.B of this paper.) In certain cases, even LGUs in the second and third class categories, may not possess the adequate skills and capabilities to undertake subprojects' meeting A.I.D. standards.

³Exploratory Study on Urban Facilities and Development Program for Local Cities/Towns in the Philippines (APIC-ALMEC for DILG)

**Table II-1
BREAKDOWN OF PROVINCES AND CITIES BY INCOME CLASS**

Income Category	Province		Cities	
	No.	%	No.	%
First Class	17	22.7	17	28.3
Second Class	13	17.3	8	13.3
Third Class	12	16.0	16	26.7
Fourth Class	17	22.7	10	16.7
Fifth Class	9	17.0	7	11.7
Sixth Class	7	9.3	2	3.3
TOTAL	75	100.0	60	100.0

Overall, in spite of the many efforts to strengthen the LGUs and get them meaningfully involved in the development process, local authorities still face a variety of problems. Many LGUs are still in low-income categories indicating a lack of fiscal capability. Though some LGUs may have the capability to translate policies into development programs, they have limited implementation capabilities because of financial and other resource limitations.

2. LGU Needs

The general development needs of provinces and cities in the Philippines can be broken down as follows:

- Transport facilities (roads, bridges, traffic management/control, ports and harbors, bus terminals, airports)
- Flood control/drainage
- Solid waste management (dump sites, dump trucks)
- Water resources (Irrigation, potable water systems Levels I, II & III)
- Energy resources and power (power generation, power distribution)
- Telecommunications (telephone systems)
- Social Infrastructure (schools, classrooms, health centers, housing/human settlements)
- Industrial/economic infrastructure (public markets, slaughterhouses, Commercial/Industrial estates, livelihood training centers, agriculture facilities, etc.)
- Development administration (government buildings)

The magnitude and extent of the needs of the provinces and cities will vary depending on factors such as their current state of development, population growth and distribution, extent of

rural-urban disparity, natural resource endowments, and topography. In many cases, though some provinces and cities boast of a sizeable share of these facilities, they must share the use of them with other nearby provinces and cities (e.g., in the case of schools and hospital facilities). Needs likewise vary depending on the income class of the city or province. The poorer areas are generally wanting in basic infrastructure and social facilities such as schools, health centers, potable water supply, whereas the more developed areas are ready to accommodate industrial/economic or income generating infrastructures.

III. PROJECT DESCRIPTION

A. GOAL AND PURPOSE

The goal of the Local Government Infrastructure Fund (LGIF) project is to promote private sector led growth and diversification by alleviating some of the infrastructure constraints in various provinces and chartered cities of the Philippines. The project purpose is to construct critically needed small-scale infrastructure through local governments (meaning provincial or chartered city governments).

By the end of the project, it is expected that at least fifty local governments will be fully competent to plan and design small scale infrastructure projects, and to control the processes and administer the funds necessary to implement them. At least 75 small-scale infrastructure projects will have been planned, designed, and constructed by those local governments.

B. PROJECT ELEMENTS

The LGIF Project will consist of subproject construction supported by feasibility studies and training. To determine eligibility, a particular LGU will need to pass through a two-step screening phase. The first level will screen an LGU to determine whether a need is unmet for a particular type of subproject. Also at this stage, the LGU must demonstrate success in general government performance in areas such as tax collection rates, etc. A second-level screen will determine whether the prospective LGU has the necessary contracting, engineering, and administrative capacity to complete infrastructure subprojects of a limited scale. Those LGUs deemed eligible will enter into agreements with a streamlined GOP Implementing Organization (IO). The agreements will specify infrastructure subprojects chosen from a list of selected and standard subprojects included in the respective LGU's development plans.

1. Infrastructure

This component will fund the construction of approximately 150 subprojects. Selected local governments will receive a mutually-agreed upon amount of pesos to fund specific projects selected from a library of standard subprojects maintained by the Implementing Organization. Anticipated standard subprojects eligible for funding would include school buildings, roads, and public markets.

LGUs will independently contract the services of an approved construction management and engineering services (CMES) contractor to site-adapt the standard design to a specified location. LGUs will also contract a construction firm to undertake

actual subproject construction. The technical consultant to the GOP implementing organization will verify the acceptability of CMES and construction contractors and will maintain a data base of prequalified firms. The amount of funding LGUs receive will be based on an established fixed amount determined by USAID and the GOP Implementing Organization (IO). This amount will be based on the estimated cost to construct a standard design, but may be adjusted throughout the life of the project to take into account the most current cost experience and regional differences in actual construction costs. The IO will then enter into a formal agreement with the LGU, which will include specific conditions of the agreement, such as repayment for nonperformance or substandard performance, and the amount of money the LGU will receive. LGUs will bear any cost overruns for subproject construction. In contrast, any left over balance, that is the difference between the mutually agreed-upon amount and the actual subproject cost, will remain with the LGU.

Natural disasters are an all too common occurrence in the Philippines. During the last 12 months, the July 1990 earthquake of central Luzon, Typhoon Ruping hitting Eastern Visayas, and the June 1991 Mount Pinatubo volcanic eruption, again in central Luzon, have all caused considerable damage to small-scale infrastructure.

Recent USAID actions in response to these natural disasters include the reprogramming of \$20 million of Regional Development Fund monies to repair and rebuild earthquake damage and a tentative plan to reprogram a total of \$42 million of Regional Development Fund, Project Design Project, and Rural Infrastructure Fund monies to repair and rebuild volcano related damage. However, thus far implementation of these recent USAID disaster related programs in the infrastructure sector have proceeded rather slowly.

Included in this component, as a consequence, will be funding for emergency reconstruction of infrastructure damaged as a result of impending natural disasters. Because of the need to reconstruct facilities as quickly as possible, and because some of the prospective sites may be in areas where LGUs do not have the capability to implement the subproject, contracting and implementation activities related to emergency reconstruction will be undertaken by the technical assistance contractor to the GOP implementing organization. These activities will follow accelerated procedures to insure that repair and reconstruction are accomplished as soon as possible. Design and construction disaster work will be accomplished through accelerated procedures, such as selecting construction and CMES firms by lottery from the list of pre-qualified firms and abbreviated bid preparations.

Starting with the second year's obligation of funds into the LGIF Project, the IO will set aside and commit up to \$10 million for emergency reconstruction if warranted. At the end of the year any left over or uncommitted funds will be carried over

into the following year. The following year's obligation will set aside funds so that the total remains at \$10 million. At no time will there be more than \$10 million in the disaster "pipeline" under this arrangement, but considerably more could be spent for disaster relief over the life of the project if necessary.

This component also includes a modest budget element for funding trainees to attend already established, in-country training sessions or work shops. LGUs and in particular specific persons occupying positions requiring specialized training will receive training tailored to their needs based on the second screening phase of LGU capability. The objective here is to upgrade the capabilities of LGUs just below the threshold level of acceptance. Arrangements for training will be made through the technical consultant to the GOP Implementing Organization. It is anticipated this training will put less than marginal LGUs over the hump and qualify them based on a second capability assessment.

2. Supporting Feasibility Studies

As a way to insure that the most viable subprojects are selected the project will make assistance and funding available for feasibility studies. Past feasibility studies produced for local governments have been inadequate and often written to justify a decision already made rather than the true feasibility of a subproject. The feasibility component will improve the integrity of studies and will be arranged jointly by the Technical Services contractor attached to the Implementing Organization and the participating LGUs themselves.

Each LGU participating in the project will select its infrastructure projects based on an amount of funds set aside by the IO for feasibility studies and actual subprojects. The feasibility studies component will assist LGUs to prioritize their projects. It is anticipated, therefore, that more feasibility studies will be done than actual follow on subprojects. Funds from the Feasibility Studies Component will also finance the overall environmental assessment for the LGIF Project and any mitigative actions required for individual subprojects based on the findings of the feasibility studies.

C. DESCRIPTION OF INPUTS

The LGIF Project will provide funding for the construction of small-scale subprojects such as schools, roads, and public markets. Also financed will be feasibility studies for possible subproject funding; technical assistance to the GOP Implementing Organization; commodities such as school books and science laboratory equipment for secondary schools; a purchasing services agent (PSA) to procure commodities; limited training to technical employees of LGUs; and evaluation, monitoring, and audit services.

D. PROJECT OUTPUTS

By the end of the project at least 150 small-scale infrastructure subprojects would have been constructed. Of these, at least 75 and perhaps as many as ninety would have been undertaken by LGUs directly; the remaining 60 - 75 would be emergency reconstruction subprojects accomplished by the technical consultant to the GOP Implementing Organization. Also, at least seventy different LGUs would have participated in some or all aspects of project management leading to an increase in their capabilities.

E. SUBPROJECT SELECTION

Since the goal of the project is private sector led growth, the IO will give preference to those LGUs that, in addition to meeting participation criteria listed in the section below, submit subproject proposals likely to result in increased private sector growth and participation. For example, schools or markets that are to be leased to the private sector for operation may be given preference over those to be operated by the local government. (In these instances, private sector groups may become party to subproject agreements between the GOP IO and LGUs.) All feasibility studies for roads as well as public markets must demonstrate not only technical feasibility but also substantial impact on potential private sector investment or business expansion. A real effort will be made to involve the private sector in the subprojects, perhaps in some cases by co-financing or similar means.

Of course the mix of subprojects constructed depends largely on the needs of the LGUs and whether these needs can be met from a standard menu of subprojects. The selection of subprojects chosen represents those most needed by LGUs and has been shown to have the biggest impact for each dollar invested. Also taken into consideration was the need to have standardized, easily replicated designs for which LGUs could manage the design, construction, and monitoring processes. For these reasons minor or provincial roads, schools, and public markets were chosen. These three categories of subprojects have had the greatest level of success under past projects.

Design Standardization and Estimated Unit Costs

The Technical Assistance contractor to the IO will initially review and revise standard designs for each category of subprojects. At the beginning of each year of implementation the technical consultant will update all designs to include cost differences by region and the established cost of each subproject, which will be the fixed amount transferred to the LGU in accordance with individual LGU-IO agreements.

An extensive data base of costs already exists for the hundreds of small-scale infrastructure subprojects constructed under the various projects of the ESF Secretariat. This data base covers construction in all regions of the country and the majority of the standard designs proposed for inclusion in the LGIF Project. In those few cases where standard designs have not yet been developed, there exist facilities substantially similar to those anticipated for inclusion in the LGIF Project. This data coupled with the unit prices available in recently executed contracts will be sufficient to ensure that accurate cost estimates are available for each construction activity proposed under the LGIF Project.

It is proposed that the engineering consultant will maintain a computer-based program of construction costs for each type of subproject approved for inclusion in the LGIF library of standard designs. This cost program will include not only the original contract cost, but also variation orders encountered. Cost data will be indexed geographically (by region) to the extent practicable. In addition, general price indices, tied to the calendar year quarter of contract execution, will be maintained for small-scale infrastructure as a whole and updated not less than semi-annually.

This data base will be used to establish the "mutually agreed upon subproject cost" for each subproject financed under the LGIF. This mutually agreed upon subproject cost will be sufficient to cover LGU funding of CMES contractors and variation orders typically encountered in a subproject of similar design, will be adjusted geographically, and will be indexed to the proposed date of contract execution.

F. LGU SELECTION PROCESS

A two-tier screen will be used to determine the eligibility of LGUs to participate in this project. At the first stage, LGUs will be evaluated to assess both their physical needs for small-scale infrastructure as well as their overall performance in government functions such as tax collection efficiency. Those LGUs that pass through this filter will later be assessed as to their general technical capabilities such as project management, accountability of funds, and contracting.

1. Stage One: Needs and Performance Criteria

At the first stage, an LGU selection process was adopted that emphasizes needs and performance factors. A selection methodology was designed to identify the LGUs exhibiting the most pressing needs for infrastructure as well as having the highest performance capability for handling their implementation.

a. Evaluation of LGU Needs

The socio-economic variables chosen to highlight LGU needs were those that show gaps in and inadequacies of services, as well as the presence of adverse socio-economic conditions. Another consideration for choosing these "needs" indicators - detailed in Annex E - was availability of such data at the provincial and city level. A two-step mathematical process was then applied to arrive at a numerical value for LGU needs. The individual and combined needs rankings as well as the methodology used in arriving at these rankings are included in Annex E.

b. Evaluation of LGU Performance

In determining LGU performance two variables were measured; tax efficiency and LGU income level. The tax efficiency variable compared LGU tax collection targets to actual tax collection. This serves as a proxy for evaluating the effectiveness of LGUs in performing one of their more basic governmental functions. Income levels of LGUs, though not a true indicator of government performance, provides an indicator of likely capability factors, such as project management staff, experience in implementing projects, potential for providing maintenance support costs, etc.

Again, each LGU was ranked sequentially based on the formula and data shown in Annex E.

c. Intersection of LGU Needs with Measured Performance

Ideally, the LGUs targeted for inclusion in the core program are those that have high needs along with high capability as demonstrated through LGU performance and subsequent capability assessments (See 2, below). Initial criteria have been developed to rank order the various LGUs based on both need and performance. In addition, initial thresholds have been established for need and performance -- those LGUs with an average annual family income of P48,000 (for the former) and those LGUs with a real property tax collection efficiency of less than fifty percent (for the latter) will be excluded from consideration during the first round of LGU reviews. It is anticipated that approximately 15 provinces and 27 cities will pass the first screen as applied to the first round of funding. Both the initial criteria and thresholds will be reviewed by the technical consultant of the IO to determine the appropriateness of each with regard to ensuring that the Project: 1) is implemented in an expeditious and satisfactory manner, 2) maintains a national focus, and 3) is not unduly restrictive.

2. Stage Two: LGU Capabilities

LGUs successfully passing to the second screen will undergo a capabilities assessment, through an AID-direct contract with a local CPA firm, that will examine such areas as:

- the ability to account properly for funds;
- past performance in carrying out subprojects either donor funded (e.g., PREMIUMED) or centrally funded;
- contracting;
- project management;
- and, technical depth of personnel.

It is anticipated that those LGUs that have successfully passed through the first evaluation tier, but not through the capabilities assessment will lack skills that can easily be upgraded through short-term, in-country training in specific areas. The technical consultant will arrange for such training. The LGU, however, will still require a follow-on assessment to verify that it has corrected the previously identified deficiencies. Those LGUs that are shown to have the necessary skills to implement subprojects effectively and have legitimate needs for them will be asked to submit and prioritize subproject proposals.

G. SUBPROJECT BUDGET TO LGUS

Once eligible LGUs have been determined using the evaluative process detailed above, the IO will negotiate and enter into an agreement or a series of agreements for subprojects. The maximum initial planning budget for civil works under this Project that will be offered in the first round of funding to each candidate LGU will be sufficient to construct the following:

<u>Activity</u>	<u>Preliminary Budget</u>
3 medium size public market modules	\$ 300,000
1 slaughterhouse	\$ 120,000
4 small size open markets	\$ 100,000
1 high school science building	\$ 220,000
3 elementary school buildings	\$ 100,000
2 kilometers of road	<u>\$ 410,000</u>
 TOTAL	 \$1,250,000

That portion of the planning budget in support of school buildings will not be offered to those LGUs with an average student-to-classroom ratio of less than 40:1 (about 90 LGUs would not be eligible). Likewise, that portion of the budget in support of roads will not be offered to those LGUs with more than 1 kilometer of road per square kilometer of land area (about 19 LGUs would not be eligible). However, each LGU would be afforded the opportunity to program the offered budget as it sees fit, e.g., an LGU could program its entire budget for roads even though the offered budget did not include an allowance for roads. The actual budget used will be based on the latest available data for each category of standard design subproject. The composition of the planning budget will be reviewed at least annually and will be adjusted to conform with project objectives.

LGUs that participated in the first round of funding and demonstrated successful performance may be eligible for participation in subsequent rounds. It is anticipated that these repeat participants will be offered a planning budget for subsequent rounds which will not exceed fifty percent of the first round budget.

H. END-OF-PROJECT STATUS

By the end of this five-year project, it is expected that:

- as many as 150 subprojects will have been constructed;
- those subprojects undertaken will demonstrate a genuine positive impact on the private sector as well as social development in provinces and chartered cities;
- participating LGUs will have greater capability to respond to national decentralization efforts and can take responsibility for their actions;
- participating LGUs will have the technical capabilities to implement and manage construction projects;

I. BENEFICIARIES

The immediate beneficiaries are the citizens involved with or affected by the infrastructure subprojects, including the local entrepreneurs and businessmen most concerned with business development and diversification. They will have direct access to and use of the roads, schools, and markets built under the project increasing their opportunities to engage in new enterprises or carry out business more efficiently.

Secondary beneficiaries are those local governments that strengthen their institutional capacities to manage funds and implement subprojects by undertaking subprojects on their own. They will be better able to stand on their own as the central government devolves more authority and responsibility to them.

IV. IMPLEMENTATION PLAN

A. IMPLEMENTATION SCHEDULE

The project will be implemented over a five-year period with the project authorization and agreement, along with the first scheduled obligation of funds, to take place in September 1991. The Project Assistance Completion Date (PACD) is September 30, 1996.

Major implementation milestones and their planned dates for completion are as follows:

<u>ACTION</u>	<u>DATE</u>	<u>AGENCY</u>
<u>1. Project Design</u>		
a. PP Authorized	September 91	USAID
b. PROAG Signed	September 91	USAID/NEDA DOF
<u>2. Environmental Assessment</u>		
a. TOR and SOW developed	October 91	USAID
b. AID/W Review and Approval	November 91	AID/W
c. Initiate Environmental Assessment	January 91	Contr
d. Environmental Assessment Completed	March 92	Contr
<u>3. Meeting Conditions Precedent</u>		
a. Implementation Letter 1	October 91	USAID
b. Standard CPs	November 91	NEDA/DOF
c. GOP Employees	January 92	OPM
d. Funds Attachment	January 92	DBM/IO
e. IRC Formation	January 92	OPM
f. Dollar Uses	January 92	DOF
g. Semi-Annual CP	Before each tranche	DOF
<u>4. Contracting</u>		
<u>General Contractor</u>		
a. IFB Issued	November 91	USAID
b. CBD Notice	November 91	USAID
c. Mobilization	May 92	USAID
<u>Purchasing Services Agent</u>		
a. Gray Amendment Firm Selected	December 91	USAID

<u>ACTION</u>	<u>DATE</u>	<u>AGENCY</u>
5. <u>Implementation - Year 1</u>		
a. LGU Assessments	June 91	Local Contr
b. Dollar Disbursement	January 92	AID/DOF
c. Review of Standard Designs	Jun/Jul 92	Gen Contr
d. Approved List of CMES Contractors	Jul 92	Gen Contr
e. Approved List of Construction Contr	Jul 92	Gen Contr
f. Selection of LGUs	Jul 92	Gen Contr
g. Feasibility Studies	Jul 92	LGUs
h. Agreements with LGUs Start	Jul 92	Gen Contr
i. Collection of Impact Data	Jul 92	Gen Contr
j. Initial Construction	Jul 92	LGUs
k. Dollar Disbursement	Jul 92	AID/DOF
6. <u>Implementation - Year 2</u>		
a. Assessments of Additional LGUs	Oct 92	Local Contr
b. Agreements with Additional LGUs	Nov 92 - Sep 93	Gen Contr
c. Construction Begins	Jan 93	LGUs
d. Dollar Disbursement	Jan 93	AID/DOF
e. Assessment of Initial LGU Performance	Feb 93	Gen Contr
f. Update of Standard Designs	Feb 93	Gen Contr
g. Dollar Disbursement	Jul 93	AID/DOF
h. Selection of Evaluation Team	Aug 93	AID
i. Process/Impact Eval	Sep/Oct 93	Contractor
7. <u>Implementation - Year 3</u>		
a. Assessments of Additional LGUs	Oct 93	Local Contr
b. Agreements with Additional LGUs	Nov 93 - Sep 94	Gen Contr
c. Construction Begins	Jan 94	LGUs
d. Dollar Disbursement	Jan 94	AID/DOF
e. Assessment of LGU Performance	Feb 94	Gen Contr
f. Update of Standard Designs	Feb 94	Gen Contr
i. Dollar Disbursements	Jul 94	AID/DOF

<u>ACTION</u>	<u>DATE</u>	<u>AGENCY</u>
8. <u>Implementation - Year 4</u>		
a. Assessments of Additional LGUs	Oct 94	Local Contr
b. Agreements with Additional LGUs	Nov 94 - Sep 95	Gen Contr
c. Construction Begins	Dec 94	LGUs
d. Dollar Disbursement	Jan 95	AID/DOF
e. Assessment of LGU Performance	Feb 95	Gen Contr
f. Update of Standard Designs	Feb 95	Gen Contr
i. Dollar Disbursements	Jul 95	AID/DOF
j. Last Agreements with LGUs	Aug 95	IO/LGUs
9. <u>Implementation - Year 5</u>		
a. Dollar Disbursement	Jan 96	AID/DOF
b. Assessment of LGU Performance	Feb 96	Gen Contr
c. Selection of Eval Team	Jul 96	USAID
d. Impact Evaluation	August 96	USAID
e. PACD	September 96	

B. IMPLEMENTATION AND PROJECT MANAGEMENT

Three implementing bodies and a GOP review committee established for the sole purpose of this project will manage this project. Close coordination among all four, that is, USAID, the GOP Implementing Organization, various LGUs, and an Implementation Review Committee, will take place to raise and resolve any hindrances to implementation. This could include a reexamination of processing procedures as well as LGU selection criteria.

1. USAID

AID project monitoring and management will lie with the Office of Capital Projects (OCP). A USAID Direct Hire employee will be appointed project officer and will be assisted by a Foreign Service National (FSN) project manager and engineering staff. The project officer will directly monitor the IO and its technical consultants and evaluate progress of the project.

The Mission's Contracting Services Office (CSO) and Office of Financial Management will shoulder the burden of AID-direct contracting actions. CSO will award all direct contracts, whereas OFM will review and process all payment vouchers for these contracts. Other offices expected to play a role in implementing this project include the offices of Development Resources Management; the Program Economist; Natural Resources, Agriculture, and Decentralization; and the Legal Advisor; which together with OCP, CSO, and OFM will constitute the Project Implementation Committee - chaired by the OCP project officer. The Committee will meet whenever necessary, but at least quarterly, to discuss and resolve implementation issues.

2. GOP Implementing Organization

A streamlined implementing organization (IO), reporting directly to the Office of the President, will implement the LGIF Project. With the shift to an emphasis of local government control and implementation, the role of the IO will be to coordinate, facilitate, and monitor project implementation.

With that orientation, the project will use a direct contract with an engineering consultant team to conduct day-to-day operations. As recommended in a management assessment conducted for this project, the IO will function as managers rather than implementors. Staffing should therefore be limited to the minimal number of government employees needed to monitor the project.

It is proposed that the IO be headed by an Executive Director, and organized into two divisions: Technical Services, which encompasses all operational functions, and Finance and Administration. Under this proposal, each of the two divisions

will be directed by a Deputy Executive Director, and will be further subdivided into sections, the specific duties and responsibilities of which are outlined below. (The proposed organizational chart detailed on the following page presents a possible organizational model.)

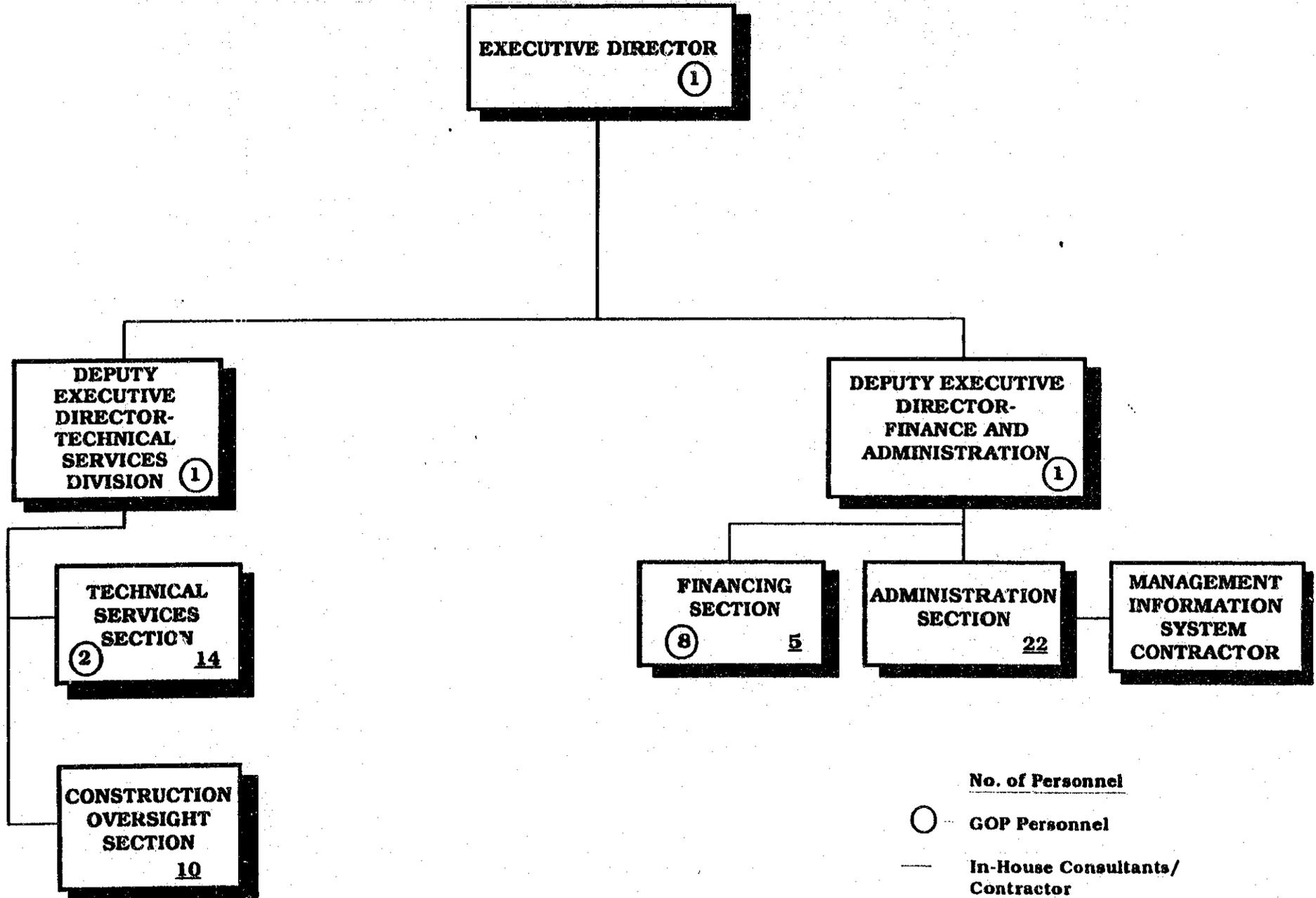
The Technical Services division will be composed of a technical services section and a construction oversight section. The technical services section will be responsible for:

- producing and revising standard designs;
- reviewing and approving detailed engineering of the proposed subprojects;
- collecting and analyzing subproject impact data;
- coordinating with LGUs and other GOP agencies;
- preparing IO plans;
- providing legal services to the IO and assistance to LGUs;
- preparing and updating lists of eligible CMES and construction contractors;
- reviewing LGU disbursement reports; and
- initial and annual verification of LGUs

A construction oversight office organized within this division will be responsible for:

- reviewing abstracts of bids prepared by LGUs;
- monitoring the performance of the CMES;
- quarterly spot checks of the performance of construction contractors; and
- final inspection of all subprojects.

**LGIF ADMINISTRATIVE VEHICLE
PROPOSED ORGANIZATION**



It is anticipated that the Technical Services Division will be staffed by approximately three GOP employees (including one of the two Deputy Directors) who will oversee an engineering consultant firm (of about 24 persons) actually carrying out the responsibilities listed above.

The Finance and Administration Division will also be divided into two sections. The finance section will be responsible for all financial, budgeting, and accounting functions. They will process and pay all vouchers for contractors and consultants, forward money to local governments to implement infrastructure agreements, and monitor through a contractor the use of these funds by the LGUs. It will make disbursements from a peso account and report drawdowns of that account to the Administration Section, which directs the management information system section, so that the quarterly reports to USAID will result in timely and appropriately sized semi-annual dollar disbursements.

The administration section will maintain the management information system, the technical library, and provide support staff. It will produce quarterly implementation reports and impact analysis for the Implementation Review Committee based on the data generated by the Technical Services Division. The administrative section will also be responsible for personnel actions concerning the IO staff, and any other administrative support required by the consultants. The Finance and Administration Division will be staffed eight GOP employees and a contractor providing accounting and administrative services (approximately 27 persons).

3. Implementation Review Committee

Since the speed of implementation has been a concern in other ESF funded projects, a senior-level Implementation Review Committee (IRC) will be established to monitor overall implementation and achievement of decentralization objectives. This committee will meet quarterly to assess implementation progress of the GOP Implementing Organization and LGUs and formulate corrective action where necessary. The IRC will be chaired by an Undersecretary from the Office of the President and include as members senior representatives from three or four departments such as the Department of Budget and Management (DBM), the GOP IO, DPWH, DILG, and USAID. The IRC will approve additions to the list of LGUs based on established criteria. As a guiding principle the IRC will ensure through its review process the equitable balance of subprojects among the eligible provinces and chartered cities to prevent any particular LGU from capturing a preponderant share of subproject funding. The IRC's approval of LGUs for participation is the only approval required by the IO to implement the project (i.e., decisions on types of subprojects and other implementation questions will be decided between the IO and USAID).

4. Local Government Organizations

The selection of capable LGUs is crucial to the success of this project. LGUs found acceptable will carry out feasibility studies in conjunction with the IO, and based on these studies propose subprojects to the GOP Implementing Organization. After the IO reviews feasibility studies, the LGUs will enter into an agreement with the IO for subproject construction at a mutually agreeable cost, which will be established by the technical consultant to the Implementing Organization. They will then prepare and justify a request for release of funds, hire CMES contractors to site-adapt standard designs and to act as consultants representing the LGUs during construction. LGUs will also conduct public biddings for construction of these civil works subprojects, evaluate all bids, and select the winning contractor. It will forward its recommendation along with bid abstracts to the IO for approval. A contract is then awarded.

During the actual construction phase, LGUs will monitor progress through their CMES consultants, and process and pay the contractors' progress billing statement. On a quarterly basis, LGUs will prepare and submit to the IO their projected expenditures for the next quarter, less any undisbursed funds from the previous quarter's release. Though under the mutually agreed upon cost arrangement LGUs receive a fixed amount regardless of actual subproject construction costs, the IO will release funds to LGUs initially for the first two quarters and subsequently thereafter only for each succeeding quarter. Any remaining funds from these releases will be subtracted from the amount released to LGUs based on the following quarter's requirements. Once the subproject has been completed, and dependent upon USAID's acceptance, LGUs will receive the final ten percent of the agreed-upon amount.

C. Assessment of GOP Implementing Organization

1. ESF Secretariat vs. Alternative Organization

USAID recently commissioned several studies, first, to determine the GOP management requirements for implementation of this project, and second, to assess the performance of the present implementor of USAID-funded small-scale infrastructure projects, the ESF Secretariat, and its ability to implement the LGIF Project. All three studies recommend that USAID thoroughly examine alternative implementation organizations to include the creation of a separate, small organization whose sole purpose is to implement the LGIF Project. The Mission weighed the advantages and

⁴See Hermann's ESF Impact Evaluation; LGIF Design Report, Louis Berger International, Inc.; and LGIF Administrative Assessment, Punongbayan & Araullo.

disadvantages of various implementing schemes, including transforming the present ESF Secretariat into a lean organization that would be able to carry out effectively the objectives of this project. After much thought, the Mission in consultation with the GOP decided to create a small implementing organization staffed with a minimal number of GOP employees, perhaps as few as thirteen, which would be attached to the Office of the President. (A chart comparing the present ESF Secretariat to the proposed implementing organization is shown on the following page.) USAID and the GOP based their finding on the following factors:

a. ESF Secretariat's performance - Since 1986, the performance of the ESF Secretariat has been disappointing. The recent impact evaluation of the ESF infrastructure program points out that 75 percent of all expenditures - in real terms - for infrastructure took place between 1982 - 1986, whereas the remaining 25 percent occurred from 1987 through the first half of 1991, though there has been a sudden surge in years 1990 and 1991. (See Table IV-1 below.)

Table IV-1: ESF Peso Disbursements for Sub-projects in Real Terms ('000 1990 Pesos)

<u>Year</u>	<u>Amount</u>	<u>Cumulative</u>	<u>Cumulative as Percent of Total</u>
1982	565,242	565,242	18.13
1983	0	565,242	18.13
1984	400,082	965,324	30.96
1985	830,426	1,795,750	57.59
1986	524,156	2,319,905	74.40
1987	115,176	2,435,081	78.10
1988	122,900	2,557,981	82.04
1989	11,755	2,569,736	82.42
1990	373,641	2,943,377	94.40
1991	174,620	3,117,998	100.00

In spite of this recent improvement (shown in years 1990 and 1991), the Secretariat has performed poorly in response to major national disasters. The RDF Project was amended to include emergency reconstruction after the July 1990 earthquake. "Fast-track" implementation mechanisms were employed to reduce the lag time between processing proposals and actual construction, yet the Secretariat has accomplished little to date. Recently, in the aftermath of the Mt. Pinatubo volcanic eruptions the Secretariat's performance in response to this emergency were again called into question. As a result, the Mission in agreement with the GOP reprogramed \$20 million of core program RDF monies into a special component, which will be implemented by the Office of the Mount Pinatubo Emergency under the Department of Public Works and Highways. It is this model that the LGIF project follows.

No. of Personnel

Present
Secretariat

New
Implementing
Organization

AV's Own Personnel

Executive Director		
Deputy Executive Directors (DEDs), one for Technical Services Division and the other for Finance and Administration (the ESF Secretariat has only one DED)		2
Technical Services Division		
Technical Services Section Head		-
Planning Unit		1
Legal Unit		1
Technical Services Division - Construction Oversight Section		
Finance and Administration Division Finance Section preparing reports to GOP agencies		
	—	—
	101	13
	—	—

Contractors

Technical Services Division - Technical Services Section In-house consultants (perform certain reviews and subproject monitoring)		14
Technical Services Division - Construction Oversight Section Construction Supervision Contractors		10
Finance and Administration Division Finance/Accounting functions		5
Administrative functions (including MIS contractor)		19
	97	51
Total - All Personnel	—	—
	198	64

b. experience factor of ESF Secretariat - If the project were to follow in the same mold as the previous small-scale infrastructure projects, that is a strong central implementation organization, the Secretariat would hold great advantages over any newly created organization lacking such experience. However, LGUs will be bearing the greater responsibility for implementation, and in those instances when an emergency reconstruction subproject is identified, the technical consultant to the IO will undertake actual implementation. Moreover, in keeping with the decentralization aims, the project introduces an entirely different funding mechanism. It is not certain whether the Secretariat could respond to these changes given its past history. Therefore, a new breed of GOP managers rather than the implementors of the ESF Secretariat is required.

c. overlap in implementation of RDF and LGIF - While the LGIF Project starts up operations, the ESFS will be closing down activities under RDF. LGIF differs greatly from RDF in objectives and consequently in the method of implementation. A separate office having responsibility for one project will eliminate any unnecessary confusion felt during the first year of implementation if the ESFS were the project implementor.

2. Implementing Organization

With the objectives of the project in mind and using the precepts of how the new organization should operate (see B.2, above), the Mission broached with the GOP this concept of a new implementing organization operating under the aegis of the Office of the President. It is believed the Office of the President, which will also chair the Implementation Review Committee, is in the best position to establish a new GOP office, given recent strides to reduce the GOP bureaucracy to include staff reductions, without causing significant start-up delays. It reduces the number of review steps or layers within the GOP and also promises to speed up the response time for implementation matters.

D. SUBPROJECT AGREEMENTS

Legal responsibilities for the GOP Implementing Organization will fall under the Technical Services Section, which will prepare a standard GOP IO - LGU agreement that will be modified somewhat to consider the type of subproject to be constructed and the LGU to undertake it. The agreement will at a minimum include provisions for:

- approving ESF funding for one or more infrastructure subprojects;
- accepting the analysis of the feasibility study;
- specifying the standards of design;
- identifying an approved CMES firm that will represent

- the LGU in technical matters and oversee subproject construction;
- specifying the contracting procedures and schedules (including the timing of planned disbursements by the IO) to be followed;
 - establishing specific progress and other reporting requirements; and
 - describing in detail any refund procedures in cases of poor or nonperformance, and any other conditions deemed necessary or appropriate.

E. CONTRACTING AND PROCUREMENT

1. Contracting Plan

The project will make extensive use of technical assistance consultants, which is justified by the high risk nature involved in decentralized construction of subprojects. The TA will perform monitoring and financial management previously provided by the former ESF Secretariat and USAID under previous ESF small-scale infrastructure projects. To the extent possible, however, the various functions may be combined so that only a few contracts are actually required. All contracting actions using A.I.D. grant funds will adhere to A.I.D. Handbook 1B.

The following functions and needs will be performed by consultants hired under direct AID contracts:

- administration/management information,
- engineering/construction oversight,
- finance/budgeting/accounting,
- monitoring/evaluation,
- training,
- construction management and engineering (CMES), and
- procurement (PSA).

In addition, outside consultants will be hired to undertake process and impact evaluations.

The majority of the procurements under this project will be for the services of local CMES and construction firms. These procurements, funded by GOP-owned pesos, will be contracted directly by either the LGUs or the IO and will be in general, but not strict, accordance with AID Handbook 11. USAID will review and approve standard contracting procedures, but not individual procurements.

2. Commodities Procurement

Procurement of technical and scientific equipment for schools has been a problem in previous school-building projects. For this project, a special procurement agent (if possible, a Gray Amendment firm) will be contracted to undertake commodity procure-

ment for the IO (this includes both shelf and off-shore procurement).

3. Gray Amendment Alert

Technical Assistance will be procured competitively with preference given to those firms that have in-depth technical experience in the fields of construction management and monitoring, and financial management and accounting. It is expected that Gray Amendment set-asides will be given to competent and experienced Gray Amendment firms for procurement of commodities and project evaluations.

V. MONITORING PLAN AND PROJECT EVALUATION

USAID will carry out monitoring of LGIF at four levels:

- 1) At the technical level of monitoring, the contractor attached to the GOP Implementing Organization will monitor CMES consultants hired by the LGUs and the subproject construction firm to ensure quality construction.
- 2) The same contractor will also monitor the progression of subproject implementation to identify administrative impediments at the levels of the LGU and the GOP IO to subcontract performance.
- 3) On a third level, a contracted accounting firm will undertake financial monitoring of disbursement documents that release funds from the IO to the LGUs. It will also compare LGU expenditure documents to verify liquidation of fund releases and whether, in fact, the participating LGU requires any additional fund releases.
- 4) The project will also from the very beginning start data collection that will be used to measure impact at the purpose level.

The IO will have primary responsibility for monitoring and reporting on the performance of the local governments, and the local governments will have primary responsibility for monitoring and reporting on construction progress. The GOP Implementing Organization will be supported in its monitoring role by the technical monitoring and evaluation consultant, and the local governments will be supported by the construction management and engineering services (CMES) contractor. In addition, the IO will spot-check performance of both construction and CMES contractors, and USAID will spot-check construction as well as the performance of the IO and local governments.

The local governments will prepare regular reports to the IO detailing progress during the reporting period (normally, monthly). The monitoring and evaluation contractor shall also prepare regular reports for submission to the IO, and these reports will describe local government performance, subproject impact measured against baseline data, and perhaps briefly describe the status of construction at each subproject site visited. These reports will all be available to USAID, but normally only a copy of the CMES report would be furnished to USAID unless the IO was specifically requested to furnish copies of the others.

The GOP Implementing Organization will submit to USAID quarterly progress reports detailing planned and actual performance. These reports will cover IO operations, program operations, local

government performance, and construction progress. These quarterly reports will form the primary basis for dollar disbursements by USAID. The validity of the reports will be confirmed by spot checking by USAID staff (including project officers, engineers, financial officers, local government assistance officers, and others as appropriate) and by project evaluations and audits.

A. PROGRAM IMPACT

Under the past ESF projects promoting small-scale infrastructure, no impact data collection system was put into place. Because of this, no reliable quantitative estimates or measures of impact on social and economic development could be made. This project will include from the outset a means by which baseline and impact data will be collected and analyzed.

With the completion of some 150 or more subprojects, impact measurement of each subproject on the local community would generate more data than could be analyzed and prove to be more costly in terms of the returns it could produce. Therefore, for each major category of subproject, a limited number of key performance indicators of economic and social impact will be identified. The data for these indicators will be collected annually on a sample number of subprojects and indicators will reflect anticipated results of these subprojects. For schools, performance indicators include:

- Total Enrollment by class/cohort grade
- Average number of students in class (class size)
- Ratio of students to teachers
- Average annual drop-out rate (percentage of students in a class cohort - e.g., the class of 1991 - who stopped attending class that year, averaged across the cohorts/grades of the school)
- Maintenance expenditures by classroom building or total maintenance expenditure if not disaggregated

For markets, performance indicators include:

- Total number and percentage of stalls currently occupied
- Total revenues to the LGU on a semi-annual basis
- Total expenditures
- Maintenance expenditures
- Number of stall operators' terminating business in the markets
- Number of new businesses starting business in the market or on its periphery

For roads, such key indicators are:

- Number of jeepneys and motorized tricycles providing transportation along the improved road section

- Average fare charged by jeepney and tricycle operators for travel from the beginning to the end of the improved road section
- Number of new businesses established along or near the road
- For larger roads, an annual traffic count

In keeping with the Project's decentralization objectives the Mission will also track increased performance and capabilities through these key performance indicators:

- Number of civil engineers hired by LGU
- Increased tax collection rates
- Increased maintenance budget

Provisions will be included in the overall monitoring contract to include collection and analysis of this information. Gender-specific data for these indicators will be collected prior to subproject construction and included in feasibility studies. The data required is not expected to create undue burden nor would the cost be significant. Analysis of initial data, tracking of data, and annual updates, however, would be. For this reason, the project proposes selecting a sample of ten to fifteen percent of annually approved subprojects. The number of subprojects may reach a point where data collection and continued monitoring of the identified sample projects becomes impractical or too costly. If this proves to be the case, data will be collected every other year on a rotating basis where one or two categories of subprojects are covered one year, and the remainder is covered in the following year.

B. EVALUATION PLAN

At the end of the second year of implementation, the project will fund a process and an initial impact evaluation based on the data collection mechanism described above. In terms of process, an outside contractor (perhaps a Gray Amendment firm) will review the processes established for: 1) preparing, clearing, submitting, and reviewing subproject proposals; 2) negotiating, signing, and implementing subproject agreements; and 3) monitoring and reporting implementation progress. The evaluation team will review the performance of USAID, the IO staff, local governments, and contractors involved in implementation.

To assess impact, the evaluation team will review the data generated on the key performance indicators (mentioned above, Section V.), and determine whether small-scale infrastructure has a multiplier effect in terms of economic development at both the local and national levels. Based on its findings, the team will make a recommendation justifying either continuance or discontinuance of the LGIF project. The Mission will review the evaluation report and consider its summary recommendation before deciding on whether to continue the project and if so, the

necessary mechanical changes of the process to improve implementation.

At the conclusion of the project in year five, an impact evaluation will again be carried out to measure the total impact of the project. More specifically data generated throughout the life of the project will be analyzed to measure the extent to which the project met its goal, that is, to promote private sector led growth through the construction of critically needed infrastructure.

C. AUDIT ARRANGEMENTS

The A.I.D. Inspector General for Audit maintains authority for audits of projects funded through A.I.D., however, it may procure external audit services through a contractor. Accordingly, \$50,000 has been set aside to meet IG audit requirements. It is expected the audit will track A.I.D. 's semi-annual disbursements of U.S. Dollars to the GOP based on projected peso expenditures and the use of these dollars for repayment of planned debt service of agreed-upon loans.

VI. COST ESTIMATES AND FINANCIAL PLAN

A. PROJECT COSTS

1. USAID Funding

USAID will provide approximately \$100 million in grant funds to the Government of the Philippines (GOP) over the five-year life of the Local Government Infrastructure Fund Project (LGIF) as detailed in Table VI-1.

With provision for contingencies and inflation, the distribution of USAID's project costs over the project life are: Subproject Construction - 86 percent; Feasibility Studies - 2 percent for a total of 88 percent for subprojects; Commodities and Equipment - 2 percent; Technical Assistance - 8.5 percent; Training - 1 percent and Monitoring, Evaluation and Audit - 0.5 percent.

Of the \$100 million grant funds, \$86 million will be allotted for subprojects to cover detailed engineering design, construction supervision, construction work of the subprojects (schools, public markets, and roads), and also funds to cover rehabilitation/ reconstruction of infrastructures in time of disasters or calamities; \$2 million for the conduct of feasibility studies; \$1.934 million for Commodities/Equipment (books, instructional materials, etc.) that will be provided to secondary schools; \$8.516 million for Technical Assistance to cover services rendered by contractors in carrying out the administrative functions of the implementing agency (in-house engineering consultancy, EDP consultancy, accounting/finance, administrative/financial assessments and reviews of LGUs); \$1 million for Training of engineers/project implementors from the LGUs to upgrade their capabilities for implementing subprojects; \$0.55 million for Monitoring, Evaluation and Audit to cover the costs of hiring contractors by USAID for the conduct of process and performance evaluation, impact evaluation (approximately \$0.5 million) and \$50,000 set aside for a non-federal audit of the LGIF project.

The costs of the project elements for the LGIF are predominantly in foreign currency. The foreign currency costs total \$95.649 million with \$88 million for subprojects⁵, \$1.359 million for commodities and equipment, \$5.790 million for Technical Assistance and \$500,000 for monitoring. Total costs for local currency are \$4.351 million which represents \$0.575 million for commodities/equipment; \$1 million for training, \$2.726 million for

⁵Although the LGUs themselves will pay CMES, construction, and feasibility costs in pesos, it is the actual dollar disbursements to the GOP for anticipated local costs that will trigger the release of GOP-owned pesos into a special account for this purpose.

technical assistance and \$50,000 for non federal audits.

A summary of cost estimates and financial plan, and the planned yearly obligations and expenditures are shown in Tables VI-2 and VI-3, respectively. Details of the projection of expenditures by fiscal year and project element are in Table VI-4.

TABLE 1
 LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
 Illustrative Financial Plan
 (US\$000)

PROJECT ELEMENTS	AID GRANT		
	FY 1991 CURRENT OBLIGATION	FUTURE YEARS ANTICIPATED	TOTAL COSTS
1. Subprojects	8,274	77,726	86,000
2. Feasibility Studies	1,001	999	2,000
3. Commodities/Equipment	437	1,497	1,934
4. Technical Assistance	1,854	6,662	8,516
5. Training	434	566	1,000
6. Monitoring, Evaluation and Audit	0	550	550
Total Planned Obligation	12,000	88,000	100,000

TABLE 2
 LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
 Planned Yearly Obligations & Expenditures
 (US\$000)

	FISCAL YEARS					GRAND TOTAL
	1	2	3	4	5	
LOP Funding						100,000
Planned Obligations	12,000	25,000	40,000	23,000	0	100,000
Planned Expenditures (from Table 4)	11,987	24,550	32,918	26,964	3,681	100,000
Projected Mortgage (LOP-Obligations)	88,000	63,000	23,000	0		
Mortgage/LOP	88%	63%	23%	0%		
Projected Pipeline (Cumulative Obligations- Cumulative Expenditures)	113	563	7,645	3,681		
Pipeline/Oblig.	1%	2%	10%	4%		

TABLE 3
LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
 Summary Cost Estimates & Financial Plan
 (US\$000)

PROJECT ELEMENTS	LC	FX	TOTAL USAID
1. Subprojects	0	86,000	86,000
2. Feasibility Studies	0	2,000	2,000
3. Commodities/Equipment	575	1,359	1,934
4. Technical Assistance	2,726	5,790	8,516
5. Training	1,000	0	1,000
6. Monitoring, Evaluation and Audit	50	500	550
TOTAL	4,351	95,649	100,000

TABLE 4
LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
Projection of Expenditures by Fiscal Year and by Project Element
(US\$000)

PROJECT ELEMENTS	FISCAL YEAR															GRAND TOTAL		
	1			2			3			4			5			LC	FX	USAID
	LC	FX	Subtotal	LC	FX	Subtotal	LC	FX	Subtotal	LC	FX	Subtotal	LC	FX	Subtotal			
1. Core Subprojects	0	8,274	8,274	0	21,626	21,626	0	29,474	29,474	0	24,668	24,668	0	1,958	1,958	0	86,000	86,000
2. Feasibility Studies	0	888	888	0	431	431	0	514	514	0	167	167	0	0	0	0	2,000	2,000
3. Commodities/Equipment	119	318	437	176	429	605	180	403	583	100	209	309	0	0	0	575	1,359	1,934
4. Technical Assistance	517	1,337	1,854	567	1,066	1,633	644	1,117	1,761	575	1,245	1,820	423	1,025	1,448	2,726	5,790	8,516
5. Training	434	0	434	255	0	255	311	0	311	0	0	0	0	0	0	1,000	0	1,000
6. Monitoring, Evaluation and Audit	0	0	0	0	0	0	25	250	275	0	0	0	25	250	275	50	500	550
TOTAL	1,070	10,817	11,887	998	23,552	24,550	1,160	31,758	32,918	675	26,209	26,964	448	3,233	3,681	4,351	95,649	100,000

2. GOP Counterpart Contribution

Since this project is funded under ESF, a twenty-five percent host country contribution is not required by Section 110 of the Foreign Assistance Act of 1961, as amended. Therefore, USAID will not require counterpart contribution reports nor track counterpart funding. USAID will, however, require that land for construction be provided by the GOP (or LGUs) prior to approval of each subproject, which is essential for the construction of the subproject.

3. Recurrent Costs

The construction of infrastructures by eligible LGUs will necessitate a recurrent cost obligation in the form of maintenance expenses to the participating LGUs. In order to ensure that these recurrent costs can be provided by the LGUs, an assessment of each LGU's capability to maintain the subprojects will be conducted by USAID as part of LGU eligibility verification. Exhibit 1 shows the total cost of constructing each type of subproject and the corresponding recurrent costs depending upon the year it was built. For example, an elementary school built in year 3 (FY 94) will cost the LGU approximately P1.424 million (\$52,724) and will have estimated recurrent costs of P17,082 \$633 a year.

4. Audit

Primary responsibility for audits of AID-financed projects lies with the Regional Inspector General for Audit (RIG/A). However, an external auditing firm may be contracted for this purpose. In the event external audit services are used, \$50,000 has been budgeted for non-federal audit services for the mid-point and final audit reviews. It is anticipated that these reviews will cover financial and compliance aspects of the project.

US AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)
LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
ESTIMATE OF RECURRENT COSTS (ANNUAL MAINTENANCE & REPAIR)
FOR THE FIVE-YEAR PROJECT TERM

Subproject	Year 1	Year 2	Year 3	Year 4	Year 5
A. CONSTRUCTION COSTS/PER UNIT (PESO)					
School Buildings					
Elementary Schools	1,076,400	1,237,860	1,423,539	1,637,070	1,882,630
High Schools	6,992,000	8,040,800	9,246,920	10,663,958	12,229,052
Public Markets					
Small	1,808,950	2,060,293	2,392,336	2,751,187	3,153,865
Medium	3,602,950	4,143,393	4,764,901	5,479,637	6,301,562
Large	28,793,700	33,112,755	38,079,668	43,791,618	50,360,361
Health Centers	4,038,250	4,701,488	5,406,711	6,217,717	7,150,375
Roads					
Barangay roads					
Gravel	7,659,000	8,807,850	10,129,028	11,648,382	13,395,639
Concrete	11,488,500	13,211,775	15,193,541	17,472,572	20,093,458
Provincial/municipal roads	15,318,000	17,615,700	20,258,055	23,296,763	26,791,273

B. RECURRENT COSTS (ANNUAL MAINTENANCE AND REPAIRS)

General Assumptions:

1. 60% of Construction Price is Materials component.
2. Useful/ depreciable life of infrastructure is 50 years.
3. Annual depreciation rate is 2%.
4. Annual Maintenance & Repairs is computed at 0.012 (60% material component * depreciation rate of 2%) of Construction Price

Maintenance rate (based on construction costs) 0.0130

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US AGENCY FOR INTERNATIONAL DEVELOPMENT (USAID)
LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT
ESTIMATE OF RECURRENT COSTS (ANNUAL MAINTENANCE & REPAIR)
FOR THE FIVE-YEAR PROJECT TERM

Subproject	Year 1	Year 2	Year 3	Year 4	Year 5
C. COMPUTATION OF ANNUAL RECURRENT COSTS (PESOS)					
School Buildings					
Elementary Schools	12,917	14,854	17,032	19,645	22,592
High Schools	83,904	95,490	110,953	127,957	146,749
Public Markets					
Small	21,707	24,964	28,708	33,014	37,966
Medium	43,235	49,721	57,179	65,756	75,619
Large	345,524	397,353	456,956	525,499	604,324
Health Centers	49,059	56,418	64,881	74,613	85,805
Roads					
Barangay roads					
Gravel	91,908	105,694	121,548	139,781	160,748
Concrete	137,862	158,541	182,322	209,671	241,121
Provincial/municipal roads	193,915	211,388	243,097	279,561	321,495

D. COMPUTATION OF ANNUAL RECURRENT COSTS (US\$)

School Buildings					
Elementary Schools	478	550	633	728	837
High Schools	3,108	3,574	4,110	4,740	5,435
Public Markets					
Small	804	925	1,063	1,223	1,406
Medium	1,601	1,842	2,118	2,435	2,801
Large	12,797	14,717	16,924	19,463	22,382
Health Centers	1,817	2,090	2,403	2,763	3,178
Roads					
Barangay roads					
Gravel	3,404	3,915	4,502	5,177	5,954
Concrete	5,106	5,872	6,753	7,766	8,930
Provincial/municipal roads	6,808	7,829	9,004	10,354	11,907

B. METHODS OF IMPLEMENTATION AND FINANCING

Project dollars will be disbursed semi-annually to the Government of the Philippines (GOP) based primarily on IO performance in implementing the project. During every quarter, the IO will forward a report to USAID detailing planned performance for the quarter and actual performance during the last quarter. The USAID disbursement will be based on two consecutive such reports, and the size of the disbursement will be determined by planned performance adjusted by actual performance. In this manner, USAID disbursements correspond to performance on the part of the GOP Implementing Organization.

The disbursed dollars will be deposited in an account in the Philippine National Bank, New York City, which will inform the Central Bank of the Philippines that the deposit has been received. The Central Bank will immediately make a corresponding deposit of pesos in a special account of the Philippine National Bank in Manila. Those pesos from the special account will then be released by the GOP Implementing Organization to the LGU for design and implementation of subprojects. The funds actually used to implement the project are therefore GOP pesos. Accordingly, various policies and procedures that normally apply to AID projects do not apply to this project. Instead, prudent management techniques have been developed that reflect both AID and GOP policies and procedures, but do not necessarily correspond to either.

The quarterly report from the IO referred to above details the actual performance of the IO in disbursing the pesos in payment for the subprojects. The report is used by USAID to verify that the project is being implemented in accordance with the policies and procedures adopted for that purpose.

1. LGIF Dollar Special Account

The separate dollar account mentioned above and maintained with Philippine National Bank in New York will constitute the LGIF Dollar Special Account (herein referred to as the Special Account). Funds deposited into this account will not be commingled with any other funds and operate solely as a stand-alone account. The account will include and will be credited for any interest earned from funds held in the account as well as any GOP refunds for unacceptable disbursements from the Special Account to include interest earned on GOP refunds. The funds held in the Special Account will be used for payment of prospective official U.S. non-military debt obligations in accordance with mutually agreed upon plans or for other purposes A.I.D. may agree to in writing. The GOP will disburse dollars from the Special account in accordance with the debt service obligation schedule identified in

these plans. All dollar disbursements will be drawn directly from the Special Account and paid directly to the payees listed in the implementation plan for the amounts specified on the given due dates.

2. LGIF Peso Special Account

Within two one business days of a dollar transfer, the GOP will deposit into a LGIF Peso Special Account an amount of local currency equivalent to the dollar transfer. In determining the total amount of pesos required to be deposited into the LGIF Peso Special Account in connection with each such dollar deposit, dollars shall be converted into Philippine pesos at the prevailing rate of exchange of the Central Bank of the Philippines for the purchase of U.S. dollars on the date of such conversion; provided that if at the time of such conversion there shall be more than one lawful rate of exchange in the Republic of the Philippines, the GOP shall make such arrangements as may be necessary so that funds provided under the Grant may be converted at the highest rate of exchange which is not unlawful in the Philippines on the date of each such conversion.

The peso proceeds will be used for mutually-agreed upon feasibility studies and construction of subprojects for LGUs. At least quarterly, the Implementing Organization will release funds to the LGUs based on their performance. USAID and the IO will monitor the LGUs' progress to ensure that the subprojects meet US and GOP standards. The IO will release up to 90% of the LGU's needs and will provide the balance to the LGU when USAID and the IO are satisfied that the subproject is completed to the agreed upon specifications. The implementation of all subprojects under this payment mechanism will be decentralized to the LGUs.

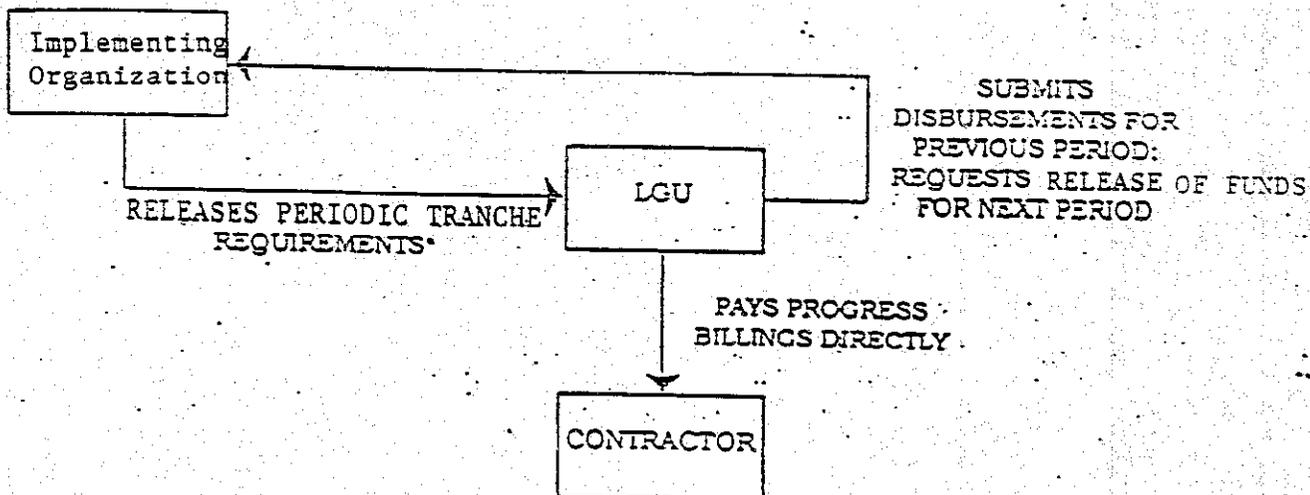
The GOP will return to the Peso Special Account funds that were not used in accordance to the agreement between USAID and the GOP. These funds will then be used for funding of other subprojects. Replenishment of the Peso Special Account will be sourced from the Internal Revenue Allotment of the LGUs and/or other sources of the GOP budget.

Funds deposited in the Peso Special Account shall not be commingled with funds from any other source. Any interest earned from both the Dollar and Peso Special Accounts will be programmed as though it were principal and for the same agreed-upon purposes. Other dollar and peso uses may also be agreed upon.

Exhibit 2 shows this system in flowchart form. Table VI-5 presents in summary the method of implementation and financing by project element that will be utilized under this project.

FUNDING MECHANISM

PERFORMANCE-BASED DISBURSING METHOD



(* Initial tranche release is for two periods to provide fund float during period when request for next release is being processed)

Table 5

Local Government Infrastructure Fund Project
Methods of Implementation and Financing

<u>Project Element</u>	<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Cost (\$000)</u>
1. Core Subprojects	Performance-based	Tranche Release/ Electronic Fund Transfer	86,000
2. Feasibility Studies	Performance-based	Tranche Release/ Electronic Fund Transfer	2,000
3. Commodities/ Equipment	AID Direct Cont./ HC Contract	Direct L/Com Direct Payment	1,934
4. Technical Assistance	AID Direct Cont./ HC Contract/IQC	Direct Payment/ Reimbursement	8,516
5. Training	AID Direct Cont.	Direct Payment	1,000
6. Monitoring, Evaluation & Audit	AID Direct Cont./ IQC OR 8(A) Cont.	Direct Payment	550
		TOTAL AID COST	100,000

C. FINANCIAL REPORTING

LGIF implementation will be monitored through the GOP quarterly financial reports duly certified by the implementing organization. In addition, reports, reviews, and assessments of a financial monitor may form part of the reporting requirements. These reports will contain at least the following information:

1. LGIF Dollar Special Account

Quarterly and annual reports for LGIF dollar special account will detail the disbursements from this account with specification for each disbursement of the payee, the amount disbursed and date of payment, together with a certification that the GOP has obtained and is maintaining documentation for each disbursement.

Prior to the disbursement of dollars for the LGIF, the GOP will provide to USAID the following:

a. An implementation plan showing how the dollars from the dollar special account will be disbursed.

b. A schedule of payment identifying payees, amount of payment to prospective non-military debt obligations in accordance with the mutually agreed upon plans or for other purposes AID may agree to in writing, and the date to be paid using the dollars (and interest earned) on funds held in the dollar special account.

c. The type of documentation to be obtained and maintained by or on behalf of the GOP evidencing the use of the dollar special account.

2. LGIF Peso Special Account

Quarterly financial reports for the specific project elements implemented by the GOP shall include financial data for each quarter as well as the cumulative data (from inception) showing the current status of each project element. The GOP will also furnish an accompanying certification for both reports that all funds disbursed from both special accounts were made in accordance with the project agreement.

Quarterly certified disbursement reports for both special accounts will be due USAID within forty-five (45) days following the end of each quarter.

VII. ANALYSES

A. FINANCIAL ANALYSIS

In connection with the LGIF project, two levels of analyses were performed. First, an evaluation of two different funding mechanisms was performed to determine which would be the most beneficial to the project and, secondly, financial analyses were performed for both revenue generating and non-revenue generating subprojects as related to the funding mechanism to evaluate the financial viability of the project. The revenue generating subprojects include the public markets, while the non-revenue generating subprojects include the building of roads, public schools, and other such facilities. Both types of analyses are further discussed in the following paragraphs.

During the design stage of the LGIF, two funding mechanism options were considered and evaluated. The first option was a combination of the funding method used in the previous ESF infrastructure projects, Modified Direct Payments, which required payments by the Implementing Organization (IO) in Manila be made directly to the subproject contractors. The second option was a Performance-based Disbursing (PbD) method in which LGUs, chosen based on performance, would receive releases to implement the subprojects. This option decentralizes the funding process to the level of the LGU by providing them with the necessary funds to implement the subprojects. This option was chosen by the Mission since it supports the GOP's policy of decentralization. Additionally, by using PbD, the disbursement process will be faster, decreasing implementation time and therefore, decreasing project costs.

Pertaining to the non-revenue generating subprojects, two types of analyses, cost effective and recurrent cost, were performed in order to evaluate the aforementioned options. The cost effective analysis showed that \$110 million would fund 211 subprojects using Option 2 (PbD) compared to 205 subprojects under Option 1. Additionally, the analysis showed that the implementation time under Option 1 compared to Option 2 could take up to 25% longer, driving up costs from 5% to 25% for one subproject under Option 1.

The recurrent cost analysis was prepared for each type of subproject and the details are in the Financial Plan. Historically, under Option 1, recurrent cost analyses were not performed since the subprojects were implemented by the IO and not the LGUs. Under Option 2, each LGU will be assessed to insure that they have the financial capacity to fund the recurrent costs for the subprojects. As a result of the cost effective and recurrent cost analysis, the performance based disbursement mechanism is most beneficial to the LGUS since their administrative and technical expertise will improve, there

will be better accountability, and as a result of faster implementation, costs will be reduced.

Of the core projects studied, only Public Markets are revenue generating. For each request to build a Public Market by the LGUs, an assessment will be made to ensure that the revenue generated will be sufficient not only to cover operating and maintenance costs, but provide a financial return on the public investment. Historically, occupancy rates, collection efficiency, and operating costs were major factors in determining financial viability of public markets. The assessment will ensure that these factors are adequately analyzed and will also include a projection of the operating margins, financial rates of return (FIRR) and a sensitivity analysis for each subproject.

B. ENVIRONMENTAL ANALYSIS

A positive determination has been found, which requires a Environmental Assessment (EA) for the LGIF Project. USAID will undertake the EA in accordance with the EA guidelines set forth in Annex I. Until such time that it is shown that an individual subproject meets the review criteria established by the EA, no funds for subproject construction will be committed .

Since the LGIF project deals with the construction of infrastructure, any single sub-project could have potentially significant environmental impacts. However, since most of the projects are relatively small and on existing sites and alignments, there is a high probability that careful design, management guidelines, and specific mitigation measures can be built into the project design process to address environmental concerns for most if not all sub-projects. Still, there are likely to be some significant environmental impacts for some sub-projects, which the overall EA for this project will examine closely.

C. ECONOMIC ANALYSIS

1. Economic Rationale

Underdevelopment is usually characterized, among other things, by a lack of infrastructure (such as roads, ports, power lines, telephones) and basic social services (e.g., health centers, schools, water supply, garbage collection). In the Philippines, the inadequacy of infrastructure, especially in areas outside Metro Manila, has been one of the major constraints to increased private sector investments in the countryside and has adversely affected the achievement of sustainable economic growth.

The provision of adequate infrastructure opens up access to markets, employment, and business opportunities, which, in turn, have multiplier effects on economic growth through their positive influence on investments and consumption. Empirical documentation has been growing on the developmental effects of rural infrastructure (like roads, ports, public markets, water supply systems, schools, communication networks, electrification) on agricultural production and productivity, non-farm employment and incomes, and rural welfare in general. Though the immediate measurable effect of transport infrastructure is the reduction in transport costs, the efficiency gains such developments afford have been observed to be highly associated with the faster diffusion of agricultural technology, the flourishing of more competitive markets, and increased mobility of rural labor all of which are supportive of higher local output.

The Philippine government, from the national level through local government units (LGUs), has been unable to provide adequate infrastructure because of the huge financial and human resources required in providing them. Compounding this problem is the centralized system of government which contributes to inefficiency in the delivery of basic infrastructure. Local governments have to play the key role, not a supporting one, in planning, designing, implementing, and maintaining infrastructure. It is essential that LGUs have authority, capacity and resources to provide local infrastructure.

The beneficial outcomes of increased local government involvement in the provision of and control over infrastructure will come about by way of increased efficiency in the use of resources and enhanced equity in the delivery of infrastructure. It is increasingly being recognized in development literature that local governments are in a better position than the national government to provide both the level and mix of infrastructure that most closely meet the preferences of residents in their jurisdiction. This brings decision making and implementation closer to the intended beneficiaries. At the same time, increased involvement of local governments in the provision of infrastructure promotes greater accountability and equity by linking the benefits of infrastructure delivery with their costs.

2. Economic Impact of Infrastructure and its Decentralized Provision

Various studies have provided empirical evidence on the economic importance of adequate infrastructure in stimulating private sector initiative and economic growth. A 1990 Center for Research and Communications (CRC) study on the impact of infrastructure showed that adequate farm to market roads will generate on the average about P740,000 in additional agricultural production for a region per annum. The 1990 USAID funded

Philippine Transport Sector Review estimated that a maintenance program for provincial, municipal and barangay roads which will bring average condition from poor to fair/good would save approximately P1.00 in economic cost per kilometer. Total savings will be around \$400 million a year for a maintenance program costing about \$200 million a year for a five-year period. Total savings could translate to additional infrastructure services, encouraging more business activities, and creating more job opportunities in the locality.

Evidence from previous USAID infrastructure projects shows that high priority, small-scale infrastructure does have significant impact on the productivity of an area and that effect is especially significant on small farmers, fishermen, and businessmen. Rural roads have improved agricultural production by reducing transport costs of farm inputs and produce to and from marketplace and have enhanced the access of rural households to health, education, and other basic social services. ESF roads are more effective in increasing current production levels under existing farming systems than in inducing major changes toward adoption of new farming systems (1990 ESF Evaluation).

The same evaluation noted the economic effects of public markets in encouraging new business formation and in generating employment. Presence of schoolbuildings in a local area has improved access of school age children to basic education, translating to increased potential economic opportunities and incomes for the individuals who receive training but more importantly, improved supply of skilled and literate labor force and a better informed citizenry in society. The following factors explain the high impact of schoolbuildings as found by the 1990 ESF Evaluation: growing size of school age population, significant shortages of school facilities, and development of a relatively simple design for a highly durable structure that can easily be adapted to site requirements and is delivered as a complete package, i.e. with furniture.

Efficiency gains emanating from a decentralized system of resource allocation and decision making by LGUs impact on the provision of infrastructure services. A 1990 study by Ruperto Alonzo on the economics of decentralization estimates the magnitude of efficiency gains that can be reaped from increased local government involvement in provision of infrastructure. Alonzo estimated that with increased internal revenue allotments (IRA) to LGUs, there would be incremental available local resources for the development and maintenance of infrastructure (about 35 percent of IRA increase would go to infrastructure services). Of this, the net present value of the amount going to new infrastructure projects would reach P235 million, quite significant to effect changes in a local economy's output. Efficiency gains from savings on construction cost and reduced implementation delays arising from regionalization of

infrastructure budget were estimated at P348 million.

3. Economic Feasibility Analysis

Considering the nature of LGIF, i.e., many discrete individual subprojects, economic feasibility analysis of the subprojects cannot be done at this stage. In the process of project implementation, each individual subproject will be subjected to confirmation of its economic viability through the conduct of appropriate feasibility studies or economic analysis. Only subprojects, which are economically feasible (at present, this means having an economic internal rate of return of least 15 percent or have positive net present values at the social discount rate of 15 percent), will be constructed. The benchmark of 15 percent is the current rate being used by USAID and the National Economic and Development Authority (NEDA) based on studies conducted in the past. This may change based on future updates. For those subprojects where benefits are not easily quantifiable, e.g., schoolbuildings, cost effectiveness analysis may be the appropriate way of determining economic desirability rather than cost benefit analysis.

The preparation of economic feasibility analysis or simplified economic analysis for small projects shall be in consonance with the guidelines set forth under Appendix 3 of Handbook 3.

The type of subprojects that LGIF plans to support, namely, roads, markets, and schoolbuildings, have shown indications of favorable economic desirability in the past. For instance, about eight⁶ selected road projects financed under the ESF program (based on available documents at the ESF Secretariat) have economic internal rates of return above the prescribed present benchmark of 15 percent (range is from 15.25 percent to 23.76 percent).

Although many public markets financed under the ESF program have had financial problems in meeting operating expenses and debt repayments, the limited surveys of ESF projects in Central Luzon showed that public markets are sound public investments. Except for the few over-designed markets, many of the newly constructed or renovated ones have achieved intended goals from an economic point of view, i.e., new businesses and increased employment. A May 1991 process evaluation of the ESF program recommends inclusion of markets in future ESF programming

⁶Selected subprojects include Poblacion-Dingin Road, Palo-Castilla Road, Cabarroguis Road, Diffun Road, San Miguel-Sta. Maria-San Ildefonso Road, Pinagkurusan-Dalipit Road, Kibudtungan-Misupa Salama Road (including bailey bridge), and Bancasi-Pinamanculan-Masao Road.

but following closely the lessons learned from the present program especially concerning design, management of the facility and financial arrangements, and performance.

D. SUMMARY OF SOCIAL SOUNDNESS ANALYSIS

The Local Government Infrastructure Fund project does not lend itself to a conventional social soundness analysis. Nevertheless, the project has its roots in a history of successfully implemented small scale infrastructure projects funded under the Economic Support Fund program. An impact evaluation of that program completed in May 1991 states that "the results of the program have been largely beneficial and have produced important social and economic benefits for poorer segments of the population." It is therefore reasonably safe to conclude that the additional small scale infrastructure funded under this project will also have a beneficial social impact. In addition, using that AID experience, it is possible to analyze the compatibility of the project with the socio-cultural environment, the likelihood of diffusion of project impact, and the distribution of project benefits.

1. Socio-Cultural Environment

One of the basic tenets of Corazon Aquino's bid for presidency and subsequent administration is her belief in the need to decentralize government operations and extend control and resources to the local level. To that end, a Local Government Code had been introduced and is currently being debated in the Philippine Congress. Although the success of the LGIF project does not depend on the enactment of the Local Government Code, this project is designed to demonstrate that the transfer of authority will work.

There is a condition that may exist which may have impact on the project, and that is the notion that corruption is rampant at the local level and that it is in fact the presence of the national authority that brings some honesty into the transaction. The existence of corruption at the local level would undoubtedly result in higher unit costs for this project (since someone must pay in the end), but the controls and inspections built into the project would ensure the quality of the construction and would undoubtedly minimize any untoward payments. Thus, even if corruption does exist at the local level, it is disturbing but poses no significant threat to the achievement of either project goal or purpose.

Accordingly, there is no known socio-cultural condition that will prevent the achievement of this project's goal and purpose.

2. Diffusion of Project Impact

Based on the history and the evaluation of the ESF infrastructure program, there is little doubt that this project will have a beneficial impact on the communities in which small scale infrastructure is constructed. What is less clear is whether the local governments will be able to continue to obtain the resources needed to sustain an effort of planning, designing, implementing, and maintaining small scale infrastructure. Nevertheless, several good reasons to undertake this project stand out.

The first is to demonstrate that local governments are competent and capable of undertaking infrastructure construction on their own. This project will demonstrate that local governments either are capable or can be made capable with a minimum of specifically focused training courses. A second reason is to counter the oft repeated charge that giving money to local governments would be the same as throwing it away because of local inefficiency and corruption. By making the transactions as transparent as possible, and making the local officials responsible for delivery of a completed, acceptable, usable product, this project will demonstrate that providing resources directly to local governments will reduce inefficiency and corruption.

A third reason, and perhaps the most compelling, is just to give decentralization a chance. Decentralization by its very nature is a high risk proposition, but lessons learned from a recent study indicate that effective decentralization is unlikely to be accomplished by massive retreat of central agencies from local involvement. Rather, an active partnership of both central and local institutions will be necessary if the strategy is to succeed. With an implementing agency located in a national office very concerned with and eager to implement decentralization, this project is in a unique position to balance national and local involvement in implementation. The lessons learned from this project should be very helpful in the eventual implementation of the Local Government Code.

3. Distribution of Benefits

The primary beneficiaries of this project are the citizens who will use the infrastructure provided under the project. An impact evaluation of the Economic Support Fund infrastructure program found that school construction "is clearly the most successful element of the program" and that "ESF schools are used primarily by children from poor to lower-middle income families in both rural and urban areas." Roads were found to be the second most important component of the ESF infrastructure program. A study completed by Louis Berger International, Inc., in joint venture with TCGI Engineers dated August 1991 points out

that women tend to receive significant benefit from roads, especially if they engage in marketing activities, are pregnant, or have children. Levels of business activity are closely associated with roads and the availability of transportation, as access to markets is crucial to an expanded economy. Similarly, the construction of public markets stimulates economic interaction and business growth.

The secondary beneficiaries of this project are the local government officials who participate in the project. Those determined to be already fully competent will get immediate hands on experience in planning, designing, and implementing small scale infrastructure construction projects. Those deemed not yet fully competent will receive training designed to enhance their skills so that they become fully competent.

Tertiary beneficiaries of this project will be the national government officials who will get experience in decentralization of decision making and reallocation of resources. The basic tenets of the Local Government Code will be tested and validated. Finally, but by no means least, citizens throughout the country will get experience in representative government, and local governments will feel the pressure of involvement in decision making and public performance.

Based on the previous history with small scale infrastructure and on the social soundness analysis (Annex G), it is concluded that this project is socially sound.

VIII. CONDITIONS AND COVENANTS

A. CONDITIONS PRECEDENT TO DISBURSEMENTS

1. Initial Disbursement

Except as A.I.D. may otherwise agree in writing, prior to any disbursement or the issuance of any documentation pursuant to which disbursement will be made, the Cooperating Country shall furnish, in form and substance satisfactory to A.I.D.:

a. receipt of counsel acceptable to A.I.D. that this Agreement has been duly authorized or ratified by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with its terms;

b. a statement describing the organizational structure of the IO and designating the individuals acceptable to USAID who will occupy key positions. The statement should also list the project's counterparts in DOF and the Office of the President;

c. a statement of the names of persons and their respective titles whom the GOP has designated as members of an Implementation Review Committee, with its representatives coming from agencies such as Office of the President, DPWH, and DILG, to monitor the performance of the IO.

2. Prior to disbursement of funding for other than technical assistance:

a standard IO/LGU subproject agreement approved by the government satisfactory in form and substance to USAID, which includes the authority of the IO to attach DBM funds designated for particular LGUs that have received funds under this project but have willingly or unwillingly not complied with the terms of the agreements signed between the IO and them.

B. COVENANT

Disbursement from the Special Account

Prior to each dollar disbursement from the Special Account, the GOP will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that:

1. a schedule of payments, identifying payees, amounts and due dates proposed to be made by the GOP using dollars and any interest earned on funds held in the Special Account;

2. a statement of the name, branch, and U.S. Federal Reserve Bank Branch number of each bank with which the dollars are to be disbursed; and

3. evidence that payments in connection with any prior disbursement for U.S. dollars have been made from the Special Account.

C. WAIVERS

At this time it is not expected that waiver(s) will be required under this project.

D. NEGOTIATING STATUS

The conditions precedent and covenants above have been broached with the Department of Finance, the Department of Public Works and Highways, and NEDA. During negotiation of the Project Agreement some modification may be required to these terms. USAID representatives will negotiate with DOF and NEDA and incorporate mutually agreeable modifications into the Project Agreement.

ANNEX A

GOP REQUEST FOR ASSISTANCE



REPUBLIC OF THE PHILIPPINES
NATIONAL ECONOMIC AND DEVELOPMENT AUTHORITY
NEDA sa Pasig, Amber Avenue Pasig, Metro Manila

Cable Address: NEDAPHIL
P.O. Box 419, Greenhills
Tels. 631-0945 to 64

SEP 18 1991

Mr. Malcolm Butler
Mission Director
U.S. Agency for International Development
Ramon Magsaysay Center
Roxas Blvd., Manila

Dear Director Butler:

We wish to convey the request of the Government of the Philippines (GOP) for \$100 million USAID grant assistance to finance the proposed Local Government Infrastructure Fund (LGIF) Project. To be implemented by the Department of Public Works and Highways (DPWH), the five-year project will support the construction of critically needed small-scale infrastructure projects by local government units (LGUs).

The Project Paper is presently being reviewed by GOP. Comments on the proposed project design will be discussed shortly with USAID. In an effort to meet the 30 September 1991 USAID deadline for the execution of the Project Grant Agreement, we are arranging for the presentation of the proposed project to the ICC-Technical Board and the ICC-Cabinet Committee on 19 September 1991 and 23 September 1991, respectively. We hope to proceed with the negotiations on the Project Agreement during said period with the understanding that execution of the Project Agreement will be contingent on the NEDA Board's approval of the project hopefully on 25 September 1991.

In view of the project's potential contribution to current GOP decentralization efforts, we shall highly appreciate USAID's favorable consideration of this request for grant assistance.

Thank you and best regards.

Very truly yours,

CAYETANO W. PADERANGA, JR.
Director General and
Secretary of Socio-Economic Planning

cc: Sec. Jose de Jesus, DPWH

ANNEX B
LOGICAL FRAMEWORK

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**PRELIMINARY PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

DATE OF PROJECT:
From FY 1991 to FY 1996
Total U.S. Funding \$ 100,000,000
Data Prepared: _____

Project Title and Number: Local Government Infrastructure Fund 492-0465

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS																																													
<p>(A-1) Program or Sector Goal: The broader objective to which this project contributes:</p> <p>TO PROMOTE PRIVATE SECTOR LED GROWTH AND DIVERSIFICATION BY ALLEVIATING SOME OF THE INFRASTRUCTURE CONSTRAINTS IN VARIOUS PROVINCES AND CHARTERED CITIES OF THE PHILIPPINES.</p>	<p>(A-2) Measures of Goal Achievement:</p> <p>NEW BUSINESS STARTS BUSINESS EXPANSIONS/EXTENSIONS NEW EMPLOYMENT OPPORTUNITIES</p>	<p>(A-3)</p> <p>BUSINESS STATISTICS GOP STATISTICS IMPACT EVALUATION ON-GOING IMPACT DATA COLLECTION & ANALYSIS</p>	<p>(A-4) Assumptions for achieving goal targets:</p> <p>PROVISION OF SMALL SCALE INFRASTRUCTURE STIMULATE PRODUCTIVITY AND ECONOMIC ACTIVITY IN ANY GIVEN COMMUNITY.</p> <p>BUSINESS WILL RESPOND TO INCREASED PRODUCTIVITY AND ECONOMIC ACTIVITY.</p> <p>INFRASTRUCTURE SELECTED BY LOCAL GOVERNMENT WILL MEET THE NEEDS OF THE PRIVATE SECTOR.</p>																																													
<p>(B-1) Project Purpose:</p> <p>TO CONSTRUCT CRITICALLY NEEDED SMALL-SCALE INFRASTRUCTURE BY LOCAL GOVERNMENTS.</p>	<p>(B-2) Conditions that will indicate purpose has been achieved: End-of-Project Status.</p> <p>AT LEAST 50 LOCAL GOVERNMENTS FULLY COMPETENT TO PLAN AND DESIGN PROJECTS, AND RECEIVE AND CONTROL FUNDS TO IMPLEMENT THEM.</p> <p>AT LEAST 75 SMALL SCALE INFRASTRUCTURE SUBPROJECTS PLANNED, DESIGNED AND CONSTRUCTED SOLELY BY THOSE LOCAL GOVERNMENTS.</p>	<p>(B-3)</p> <p>ASSESSMENTS OF LOCAL GOVERNMENTS IMPACT EVALUATION RECORDS OF GOP IO AID MONITORING</p>	<p>(B-4) Assumptions for achieving purpose:</p> <p>MOST LOCAL GOVERNMENTS ARE, OR CAN BE TRAINED TO BE, FULLY COMPETENT AND CAPABLE OF RECEIVING FUNDS AND BEING RESPONSIBLE AND ACCOUNTABLE FOR THEM.</p> <p>THOSE LOCAL GOVERNMENTS WILL BUILD THE INFRASTRUCTURE SUBPROJECTS AGREED ON AND WILL NOT DIVERT RESOURCES TO OTHER PROBLEMS OR PROJECTS.</p> <p>LOCAL GOVERNMENTS PRIORITIZE INFRASTRUCTURE NEEDS.</p>																																													
<p>(C-1) Project Outputs:</p> <p>LOCAL GOVERNMENTS HAVING SIGNED AGREEMENTS WITH THE GOP IO. SMALL SCALE INFRASTRUCTURE SUBPROJECTS CONSTRUCTED.</p>	<p>(C-2) Magnitude of outputs:</p> <p>AGREEMENTS SIGNED WITH LOCAL GOVERNMENTS FOR AT LEAST 75 CONSTRUCTION PROJECTS.</p> <p>AT LEAST 150 SUBPROJECTS CONSTRUCTED.</p>	<p>(C-3)</p> <p>QUARTERLY REPORTS FROM THE GOP IO IMPACT EVALUATIONS A.I.D. INSPECTION</p>	<p>(C-4) Assumptions for achieving outputs:</p> <p>ASSESSMENTS OF LGU'S VALIDATE THEY POSSESS ADEQUATE CAPABILITIES</p> <p>THE GOP IO AND LOCAL GOVERNMENTS CAN AGREE ON INDIVIDUAL SUBPROJECTS AND HOW TO IMPLEMENT THEM.</p> <p>LOCAL GOVERNMENTS WILL REMAIN INTERESTED IN CONSTRUCTION OF SMALL SCALE INFRASTRUCTURE.</p>																																													
<p>(D-1) AID Project Inputs:</p> <p>INFRASTRUCTURE SUBPROJECTS FEASIBILITY STUDIES COMMODITIES/EQUIPMENT TECHNICAL ASSISTANCE TRAINING MONITORING/EVALUATION/AUDIT TOTAL</p>	<p>(D-2) Implementation Target (Type and Quantity):</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th colspan="5">PROJECTED OBLIGATIONS</th> </tr> <tr> <th>FY91</th> <th>FY92</th> <th>FY93</th> <th>FY94</th> <th></th> </tr> </thead> <tbody> <tr> <td>8.272</td> <td>16.434</td> <td>30.294</td> <td>23</td> <td></td> </tr> <tr> <td>1.003</td> <td>.75</td> <td>.347</td> <td>0</td> <td></td> </tr> <tr> <td>.436</td> <td>1</td> <td>.490</td> <td>0</td> <td></td> </tr> <tr> <td>1.855</td> <td>6</td> <td>.661</td> <td>0</td> <td></td> </tr> <tr> <td>.434</td> <td>.506</td> <td>0</td> <td>0</td> <td></td> </tr> <tr> <td>0</td> <td>.25</td> <td>.3</td> <td>0</td> <td></td> </tr> <tr> <td>12</td> <td>25</td> <td>40</td> <td>23</td> <td></td> </tr> </tbody> </table>	PROJECTED OBLIGATIONS					FY91	FY92	FY93	FY94		8.272	16.434	30.294	23		1.003	.75	.347	0		.436	1	.490	0		1.855	6	.661	0		.434	.506	0	0		0	.25	.3	0		12	25	40	23		<p>(D-3)</p> <p>REPORTS FROM THE TECHNICAL CONSULTANT/GOP IO BANK REPORTS USAID FINANCIAL RECORDS</p>	<p>(D-4) Assumptions for providing inputs:</p> <p>CONTINUING ACCEPTABLE PERFORMANCE BY THE TECHNICAL CONSULTANT/GOP IO AND LOCAL GOVERNMENTS.</p> <p>INITIAL PROCESS/IMPACT EVALUATION, SCHEDULED FOR FY93, RECOMMENDS CONTINUATION OF THE PROJECT.</p> <p>U.S. BASES AGREEMENT RATIFIED BY PHILIPPINE SENATE.</p>
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ANNEX C
STATUTORY CHECKLIST

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE

Yes.

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

1. Host Country Development Efforts (FAA Sec. 601(a)): Information and conclusions on whether assistance 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, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

2. U.S. Private Trade and Investment (FAA Sec. 601(b)): Information and conclusions on how assistance 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).

A. N/A

B. Project goal is to promote private sector lead growth and diversification...

C. N/A

d. N/A

e. Subprojects will be targeted to areas of business promotion.

F. N/A

U.S. firms will be solicited to participate in providing monitoring, evaluation and commodity services.

3. Congressional Notification

a. General requirement (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Congress cleared notification on July 24, 1991.

b. Notice of new account obligation (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A

c. Cash transfers and nonproject sector assistance (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

N/A

4. Engineering and Financial Plans (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, 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?

A. Yes
B. Yes

5. Legislative Action (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance? N/A

6. Water Resources (FAA Sec. 611 (b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See A.I.D. Handbook 3 for guidelines.) N/A

7. Cash Transfer and Sector Assistance (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)? N/A

8. Capital Assistance (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, the Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively? Yes.

9. Multiple Country Objectives (FAA Sec. 601(a)): Information and conclusions on whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage See A.1.(a)-(f) above.

development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

10. U.S. Private Trade (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).

11. Local Currencies

a. R e c i p i e n t Contributions (FAA Secs. 612(b), 636(h)): 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.

b. U.S. -Owned Currency (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?

c. Separate Account (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the

U.S. firms will be solicited to participate in providing monitoring, evaluation and commodity services. See A.2. above.

The GOP will finance in kind project costs in the form of personnel, facilities, land and infrastructure subprojects.

N/A

Yes, it will.

terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

Yes, it will.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes, it will.

Yes

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes, it will.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

Yes

12. Trade Restrictions

a. Surplus Commodities (FY 1991 Appropriations Act Sec. 521(a)): 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?

N/A

b. Textiles (Lautenberg Amendment) (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries

N/A

under U.S. Tariff Schedule (Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

13. Tropical Forests (FY 1991 Appropriations Act Sec. 533(c) (3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

N/A

14. Sahel Accounting (FAA Sec. 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 (either dollars or local currency generated therefrom)?

N/A

15. PVO Assistance

a. Auditing and registration (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A

b. Funding sources (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO

N/A

cooperative development (other than a cooperative organization), does it obtain at least 20% of its total annual funding for international activities from sources other than the United States Government?

16. Project Agreement Documentation State Authorization Sec. 139 (as interpreted by conference report) Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

Yes, it will be.

17. Metric System (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

The GOP uses metric measurements for infrastructure development and its use causes no significant detriment to U.S. firms. However, due to the nature of small subproject construction, it is anticipated that few U.S. firms, if any, will submit construction bids.

18. Women in Development (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

Both genders are expected to benefit and to have equal access to the benefits of completed infrastructure subprojects.

19. Regional and Multilateral Assistance (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No.

20. Abortions (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

N/A

b. Will any funds be used to lobby for abortion?

N/A

21. Cooperatives (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No.

22. U.S.-Owned Foreign Currencies

a. Use of currencies (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

N/A

b. Release of currencies (FAA Sec. 612(d): 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

N/A

23. Procurement

a. Small business (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

Yes, it is expected that a Gray Amendment firm specializing as a Procurement Services Agent will be contracted.

b. U.S. procurement (FAA Sec. 604(a): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

Procurement of books and science equipment will be made from U.S. services. However, all materials necessary for small subproject construction will be supplied from local construction firms.

c. Marine insurance (FAA Sec. 604(d): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

N/A

d. Non-U.S. agricultural procurement (FAA Sec. 604(e): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

N/A

e. Construction of engineering services (FAA Sec. 604(g) : Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive

No

direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. Cargo preference shipping (FAA Sec. 03): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately from dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

No.

g. Technical assistance (FAA Sec. 621 (a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

Yes.

Yes.

h. U.S. air carriers (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

Yes.

i. Termination for convenience of U.S. Government (FY 1991 Appropriations Act Sec/ 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of

Yes, it will.

United States?

j. Consulting services (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive Order?)

Yes.

K. Metric conversion (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and in its procurements, grants and other business-related activities, except to the extent that such use is impractical or it likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measures from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

See Section A.17 above.

l. Competitive Selection Procedures (FAA Sec. 601(e): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of

Yes.

24. Construction

a. Capital project (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used? Yes.

b. Construction contract (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be lent on a competitive basis to maximum extent practicable? Yes.

c. Large projects, Congressional approval (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprise in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress? Yes.

25. U.S. Audit Rights (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? organization, does Comptroller General have audit rights? Yes.

26. Communist Assistance (FAA Sec. 620(h)): Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-block countries? Yes.

27. Narcotics

a. Cash reimbursements (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit Yes.

drug crops are eradicated?

b. Assistance to narcotics traffickers (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking, of any such controlled substance?

Yes.

28. Expropriation and Land Reform (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

Yes.

29. Police and Prisons (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs?

Yes.

30. CIA Activities (FAA Sec. 662): Will assistance preclude use of financing for CIA activities?

Yes.

31. Motor Vehicles (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicle manufactured outside U.S., unless a waiver is obtained?

Yes.

32. Military Personnel (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for

Yes.

prior or current military personnel?

33. Payment of U.N. Assessments (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? Yes.

34. Multilateral Organization Lending (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.

35. Export of Nuclear Resources (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? Yes.

36. Repression of Population (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

37. Publicity or Propaganda (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? No.

38. Marine Insurance (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine Yes.

fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

39. Exchange for Prohibited Act (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person on exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

No.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. Economic and Political Stability (FAA Sec. 531(a): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes.

2. Military Purposes (FAA Sec. 531(e): Will this assistance be used for military or paramilitary purposes? No.

3. Commodity Grants/Separate Accounts (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

4. Generation and Use of Local Currencies (FAA Sec. 531(d): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA Sections 103 through 106? N/A

5. Cash Transfer Requirements (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b). If assistance is in the form of a cash transfer: N/A

a. Separate account: Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? N/A

b. Local currencies: Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

N/A

c. U.S. Government use of local currencies: Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

N/A

d. Congressional notice: Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Congress cleared
Notification on July 24,
1991.

ANNEX D

PID APPROVAL CABLE AND USAID'S RESPONSE

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TAGS:

SUBJECT: LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT

(492-0463) - PID APPROVAL

1. SUMMARY:

A. AA/ENE APPROVES THE PROJECT IDENTIFICATION DOCUMENT (PID) FOR THE LOCAL GOVERNMENT INFRASTRUCTURE FUND (LGIF) PROJECT, AND THE MISSION SHOULD PROCEED WITH DESIGN OF THE PROJECT PAPER (PP).

B. AS THE PID AND EXCHANGES WITH THE MISSION HAVE NOTED, LGIF IS A SUCCESSOR PROJECT TO 250 MILLION DOLLARS OF ESF INFRASTRUCTURE PROJECTS SINCE 1980. IT IS TIME TO REVIEW THE BASIC ASSUMPTIONS BEHIND THOSE PROJECTS AGAINST OUR CURRENT OBJECTIVES. THE LGIF PP DESIGN SHOULD ADHERE TO CURRENT POLICIES IN SUCH AREAS AS CASH MANAGEMENT AND BUY AMERICA UNLESS IT DOCUMENTS THE RATIONALE FOR DEPARTURES. LGIF FUNDING UNDER SUCH SPECIAL PROCEDURES SHOULD BE THE MINIMUM NECESSARY TO ACHIEVE ITS PURPOSES. THE DESIGN SHOULD INCREASE LOCAL GOVERNMENT CONTROL OF SUBPROJECTS. IT SHOULD ALSO SEEK TO REDUCE THE MONITORING BURDEN ON THE MISSION.

C. THE RESULTS OF YOUR CURRENT IMPACT EVALUATION OF PAST ESF SMALL INFRASTRUCTURE PROJECTS ARE ESSENTIAL TO RESOLVING SOME LGIF DESIGN ISSUES. THE MISSION SHOULD INCORPORATE EVALUATION RESULTS INTO PROJECT DESIGN, AND CONSIDER AT THAT TIME WHETHER ANY DESIGN ISSUES ARE SUFFICIENTLY IMPORTANT TO BRING TO BUREAU'S ATTENTION. IN ANY EVENT, WE REQUEST AN UPDATE ON DESIGN, HOW EVALUATION RESULTS WERE CONSIDERED AND HOW CURRENT POLICIES WILL BE INCORPORATED, BEFORE PP IS AUTHORIZED. END SUMMARY.

2. ENE BUREAU REVIEW: THE PROJECT REVIEW COMMITTEE (PRC) REVIEW OF THE PID APRIL 2 FOCUSED ON: THE IMPACT EVALUATION OF PREVIOUS ESF PROJECTS; THEIR SPECIAL DESIGN CHARACTERISTICS IN RELATION TO CURRENT OBJECTIVES (CASH MANAGEMENT, BUY AMERICA); AND WAYS TO ACHIEVE GREATER LOCAL GOVERNMENT CONTROL OF SUBPROJECTS. OTHER CONCERNS WERE ENVIRONMENTAL PROCEDURES AND MINORITY CONTRACTING OPPORTUNITIES. DETAILS BELOW.

BY	DATE	INITIALS
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PIA		
DUE DATE		
5-31-91		

ACTION TAKEN	
WHY	Other
Type	No
Date	Initials

THAT THE IMPACT EVALUATION NOW IN PROGRESS SHOULD SHAPE DESIGN OF THIS FOLLOW-ON PROJECT. WE ALSO FELT THAT IT IS DIFFICULT TO JUDGE THE GENERAL MERITS OF THIS DEVELOPMENT APPROACH WITHOUT SOME IDEA OF THE FINDINGS OF THE EVALUATION.

WE WOULD HAVE PREFERRED TO HAVE THE BENEFIT OF EVALUATION FINDINGS ON A NUMBER OF POINTS -- WHAT IS THE COST-BENEFIT PICTURE, WHICH TYPE OF SUBPROJECTS (SCHOOLS, ROADS, MARKETS, ETC.) HAD MOST DEVELOPMENT EFFECT, AND WHO WERE THE BENEFICIARIES (LOCAL ELITES OR THE LITTLE GUY, PUBLIC SERVICES OR PRIVATE ENTERPRISES) -- BEFORE COMMENTING ON THE LGIF PID. ACCORDINGLY, WE ARE ASKING FOR AN OPPORTUNITY TO COMMENT FURTHER AFTER WE HAVE THE EVALUATION FINDINGS AND BEFORE PROJECT AUTHORIZATION.

4. SPECIAL DESIGN CHARACTERISTICS: WHEN WE STARTED ESF PROJECTS IN 1980, WE DESIGNED OUR PROJECTS WITH CERTAIN ASSUMPTIONS WHICH SHOULD NOW BE REEXAMINED IN THE LIGHT OF CURRENT POLICIES AND OBJECTIVES.

- A. SCATTERED SUBPROJECTS: WE HAVE WANTED SMALL ESF SUBPROJECTS TO PROVIDE TANGIBLE BENEFITS FROM BASES-RELATED ASSISTANCE TO AS MANY COMMUNITIES AS

POSSIBLE. WE DON'T YET KNOW -- PENDING EVALUATION RESULTS -- WHETHER THIS SCATTERING OF SUBPROJECTS INCREASED, DECREASED OR HAD NO DEVELOPMENT IMPACT. WE BELIEVE THERE WERE STAFFING AND MANAGEMENT BURDENS DUE TO THE DECISION THAT WE HAD TO MONITOR CLOSELY ALL PHASES OF SUBPROJECTS DURING THE MARCOS ADMINISTRATION.

IN THE PP DESIGN, THE DEVELOPMENT MERITS OF SMALL SUBPROJECTS ON A NATIONWIDE SCALE SHOULD BE REVISITED IN THE LIGHT OF EVALUATION FINDINGS. DEPENDING ON THE EVALUATION RESULTS, THE AMOUNT OF LGIF FUNDING FOR SCATTERED SMALL SUBPROJECTS MIGHT BE RETHOUGHT AND FUNDS USED FOR HIGHER PAY-OFF LARGER INFRASTRUCTURE OR OTHER PROJECTS. HOWEVER, IF WAYS ARE FOUND TO INCREASE THE LOCAL GOVERNMENTS' ROLE IN THE PROCESS (FURTHER DISCUSSED IN PARA 5 BELOW) THIS WOULD INCREASE THE DEVELOPMENT RATIONALE FOR LGIF.

SIMILARLY, ALTERNATE DESIGN APPROACHES SHOULD BE CONSIDERED TO REDUCE THE MISSION'S MONITORING BURDEN. THESE MIGHT INCLUDE NON-PROJECT ASSISTANCE MODES (I.E.,

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A FUND THESE PURPOSES IS TO AUGMENT GOP AND LOCAL GOVERNMENT INFRASTRUCTURE SPENDING RATHER THAN TO BUILD SPECIFIED SUBPROJECTS), ALTERNATE WAYS TO MONITOR LOCAL GOVERNMENTS' INFRASTRUCTURE ACTIVITIES ETC.

B. DISBURSING DOLLARS UP FRONT: THE FUNDING PROCEDURE OF THE REGIONAL DEVELOPMENT FUND (RDF) AND PREVIOUS ESF PROJECTS WAS BASED ON THE ASSUMPTION THAT WE WOULD EXPEDITE DOLLAR DISBURSEMENTS FOR BASES-RELATED ESF PROJECTS, BUT THIS IS NOT CONSISTENT WITH CURRENT CASE MANAGEMENT PRACTICES FOR PROJECTS.

THE PP DESIGN SHOULD CONSIDER WHETHER WE STILL HAVE TO DISBURSE DOLLARS UP FRONT AND DOCUMENT ANY REASONS FOR DOING SO. IF LGIF WILL DISBURSE DOLLARS UP FRONT, THE PP WILL HAVE TO SHOW COMPLIANCE WITH OR ESTABLISH THE INAPPLICABILITY OF SECTION 575 (B) OF THE 1991 APPROPRIATIONS ACT, WHICH REQUIRES SPECIAL ACCOUNTS FOR DOLLARS PROVIDED AS CASH TRANSFER OR NONPROJECT SECTOR ASSISTANCE. ALSO SEE PARA 3 D BELOW.

C. LOCAL PROCUREMENT: RDF AND PREDECESSOR PROJECTS ALSO PROVIDE FOR NEAR 100 PERCENT LOCAL PROCUREMENT. CURRENT GUIDANCE RECOGNIZES THAT SOME PURPOSES CAN ONLY BE MET BY LOCAL PROCUREMENT, BUT THESE

PURPOSES MUST BE CLEAR IN THE PP AND THE EXTENT OF THIS DEPARTURE FROM BUY AMERICA OBJECTIVES HELD TO THE MINIMUM NECESSARY FOR THOSE PURPOSES. CURRENT CONGRESSIONAL INTEREST IN THE PORTION OF A.I.D. EXPENDITURES RETURNING TO THE U.S. UNDERSCORES THIS POINT. THIS MAY BE ANOTHER REASON FOR CONSIDERING A POLICY-BASED NON-PROJECT ASSISTANCE MODE WHEREBY DOLLAR DISBURSEMENTS ARE USED FOR SERVICING U.S. OR INTERNATIONAL DEBT AND/OR PROCUREMENT OF U.S. GOODS AND SERVICES; EQUIVALENT LOCAL CURRENCY IS THEN ALLOCATED TO LGIF. (ANY NON-PROJECT ASSISTANCE SHOULD FOLLOW THE GUIDANCE IN STATE 325792 OF 20 OCT 87 AND STATE 208666 OF 27 JUN 90.)

5. ROLE OF LOCAL GOVERNMENTS: THE PRO AGREES EMPHATICALLY WITH THE PID OBJECTIVE OF REDUCING CENTRAL GOVERNMENT CONTROL (THE ESF SECRETARIAT - ESTS) AND INCREASING LOCAL GOVERNMENTS' CONTROL OF SUBPROJECTS. THE PID NOTES SOME PROGRESS IN THIS DIRECTION. WE SUGGEST THAT LGIF SET BENCHMARKS FOR INCREASING THE PORTION OF TOTAL LGIF FUNDING ADMINISTERED BY LOCAL GOVERNMENTS YEAR TO YEAR.

WE SUGGEST THAT PP DESIGN EXPLORE WHETHER ALL OR PART OF LGIF FUNDS CAN BE TRANSFERRED TO LOCAL GOVERNMENTS FOR THEIR MANAGEMENT OF THE SUBPROJECT PROCESS. THE PROVEN MECHANISMS OF DA PROJECTS SUCH AS LOCAL RESOURCES MANAGEMENT (LRM) COULD BE CONSIDERED. LOCAL GOVERNMENTS MIGHT GET MORE CONTROL IF THEY MAKE SIGNIFICANT CONTRIBUTIONS TO SUBPROJECT FUNDING.

WE ALSO SUGGEST EXPERIMENTATION WITH OTHER MODES OF

ENGINEERING CERTIFICATIONS OF PROGRESS/COMPLETION; REGIONAL DEVELOPMENT COUNCILS OR NON-GOVERNMENTAL ORGANIZATIONS (NGO'S) MIGHT TAKE OVER ESFS FUNCTIONS; ESFS SHOULD BE TRANSFORMED FROM MANAGER OF THE PROCESS TO FACILITATOR OF LOCAL GOVERNMENTS' MANAGEMENT OF THE PROCESS. LESS CAPABLE LOCAL GOVERNMENTS SHOULD BE ASSISTED TO BECOME COMPETENT; AND NON-PROJECT APPROACHES SHOULD ALSO BE CONSIDERED. SOME OF THESE MODALITIES COULD ALSO REDUCE THE MISSION MONITORING WORKLOAD, AT LEAST OVER TIME.

6. ENVIRONMENTAL PROCEDURES: A SEPARATE CABLE WILL

ADVISE OF ACTION ON THE INITIAL ENVIRONMENTAL EXAMINATION (IEE) AND PROCEDURES FOR SUBPROJECT EXAMINATIONS.

7. GRAY AMENDMENT: AS THE PID NOTES, EVALUATION AND TECHNICAL ASSISTANCE (TA) NEEDS UNDER LGIF MAY BE APPROPRIATE FOR MINORITY BUSINESS PROCUREMENT. TA NEEDED TO ENABLE LESS CAPABLE LOCAL GOVERNMENTS TO PARTICIPATE IN MANAGEMENT OF INFRASTRUCTURE SUBPROJECTS SHOULD BE PARTICULARLY APPROPRIATE FOR GRAY AMENDMENT FIRMS' PARTICIPATION. ADVISE IF WE CAN HELP IDENTIFY POTENTIAL SECTION 8 (A) CONTRACTORS.

8. THERE ARE FOUR MATTERS RELATED TO STATUTORY COMPLIANCE WHICH SHOULD BE WORKED OUT IN THE DESIGN AND P AND CONSIDERED BY THE MISSION DIRECTOR, IN CONSULTATION WITH HIS REGIONAL LEGAL ADVISOR, BEFORE HE SIGNS THE AUTHORIZATION. THEY ARE:

A. SECTION 511(A) (1) OF THE FOREIGN ASSISTANCE

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ACT, AS AMENDED, IS MENTIONED AT PAGE 15 OF THE PID. THE DISCUSSION THERE IMPLIES THIS REQUIREMENT IS LIMITED TO THE AVAILABILITY OF ADEQUATE COST ESTIMATES. IN ADDITION TO COST ESTIMATES, HOWEVER, THE SECTION ALSO REQUIRES THAT, BEFORE OBLIGATION, THERE BE ADEQUATE SUBSTANTIVE TECHNICAL AND FINANCIAL PLANS. THE PP SHOULD SHOW COMPLIANCE.

B. SECTION 611(A) (2) OF THE FOREIGN ASSISTANCE ACT, AS AMENDED, MANDATES A SHOWING THAT REQUIRED LEGISLATIVE ACTION IN THE RECIPIENT COUNTRY MAY REASONABLY BE ANTICIPATED TO BE COMPLETED IN TIME TO PERMIT THE ORDERLY ACCOMPLISHMENT OF THE PURPOSES OF THE AGREEMENT OR GRANT. THE SHOWING MUST BE MADE BEFORE FUNDS ARE OBLIGATED. THE PID SUGGESTS, AT PAGE 1, THAT ENACTMENT OF A NEW LOCAL GOVERNMENT CODE MAY BE NECESSARY IN ORDER TO ACCOMPLISH PROJECT PURPOSES. THE PP SHOULD CLARIFY THE RELATIONSHIPS OF THIS LEGISLATION, AND OTHER NEEDED ENACTMENTS, IF ANY, TO THE PROJECT AND, AS APPROPRIATE, SHOULD SHOW COMPLIANCE WITH SECTION 611(A) (2).

C. SECTION 575(A) OF THE FY 91 APPROPRIATION LAW REQUIRES SEPARATE ACCOUNTS FOR LOCAL CURRENCIES GENERATED AS A RESULT OF ASSISTANCE. IT ALSO IMPOSES CERTAIN RESPONSIBILITIES ON AID FOR MONITORING THEIR USES. THE PP SHOULD SHOW COMPLIANCE.

D. SECTION 575(B) OF THE FY 91 APPROPRIATION LAW REQUIRES SEPARATE ACCOUNTS FOR DOLLARS PROVIDED AS CASH TRANSFER OR NONPROJECT SECTOR ASSISTANCE. IN THE PAST, THE CATEGORIZATION OF SPECIFIC ASSISTANCE AS "PROJECT" OR "NONPROJECT" OR "PROJECT SECTORAL" OR "NONPROJECT (OR PROGRAM) SECTORAL" WAS SIGNIFICANT ONLY FROM THE STANDPOINT OF INTERNAL AID PROCEDURES. THE NEW REQUIREMENT CHANGES THE SITUATION. THUS, ALTHOUGH WE ARE FOLLOWING PROJECT PROCEDURES FOR THIS PLANNED ACTIVITY, OUR CHOICE FOR INTERNAL AGENCY PURPOSES MAY NOT BE DEFINITIVE. AN OUTSIDE OBSERVER MIGHT BE EXPECTED TO LOOK TO THE OFFICIAL AID DEFINITION, WHICH SAYS "PROJECT ASSISTANCE INVOLVES A DISCRETE ENDEAVOR TO ACHIEVE A FINITE RESULT DIRECTLY RELATED TO A DISCRETE DEVELOPMENT PROBLEM BY PROVIDING MONEY, PERSONNEL AND/OR EQUIPMENT FOR SPECIFIC PROJECTS OR ACTIVITIES IN THE COOPERATING COUNTRY." (SEE HANDBOOKS 3 AND 4.) ON THE OTHER HAND, THE OBSERVER WILL SEE THAT "PROGRAM SECTOR ASSISTANCE" AS DEFINED IN HANDBOOK 1 PART VII, IS A FORM OF AID WHICH "PROVIDES FOREIGN EXCHANGE (DOLLARS) WHICH MAY NOT BE DIRECTLY LINKED TO SPECIFIC DOLLAR EXPENDITURES", ALTHOUGH LOCAL CURRENCY USES MAY BE SPECIFIED. AS DESCRIBED IN THE PID, WHAT USAID HAS IN MIND IN THIS CASE MAY APPEAR MORE LIKE THE LATTER THAN THE FORMER. THE CONCEPTUAL DISTINCTIONS BREAK DOWN IN ACTUAL PRACTICE, BUT IF WE DO NOT INTEND TO DO WHAT SECTION 575(B) REQUIRES, IT IS IMPORTANT THAT THERE BE A CLEAR EXPLANATION IN THE PP WHICH PERSUASIVELY DEMONSTRATES WHY THE PROVISION DOES NOT APPLY.

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AND REGULATIONS FOR CONVENTIONALLY FUNDED PROJECTS TO
AVOID CONFUSION OR MISUNDERSTANDING, THE PP MIGHT SHOW
WHAT AID RULES, PROCEDURES, ETC., WILL BE WAIVED OR
OTHERWISE MADE INAPPLICABLE AND WHAT SUBSTITUTES WILL BE
PUT IN THEIR PLACE. THE RELATIONSHIP OF HANDBOOK 11 TO
THE PROJECT MIGHT BE INDICATED, FOR EXAMPLE, AS WELL AS
AID LOCAL CURRENCY GUIDANCE. IN VIEW OF THE OBVIOUS
VULNERABILITIES OF THE PROJECT, IT IS IMPORTANT THAT
THERE BE A CLEAR UNDERSTANDING OF HOW THEY ARE TO BE
DEALT WITH. BAKER

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PP RUEHC
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ZNR UUUUU ZZH
P 020023Z AUG 91
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UNCLAS SECTION 01 OF 02 MANILA 19617

CLASS: UNCLASSIFIED
CERGE: AID 08/22/91
APPRV: OD:MBUTLER
DRFTD: DRM:EGAST/LFD
CLEAR: 1.OD:LCHILES
2.DRM:JAPATTERS
3.OCP:DZVINARIS
RNES
DISTR: AID (OD DRM-4
OCP C&R)
ORGIN: OCR

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E.O. 12356: N/A
SUBJECT: LOCAL GOVERNMENT INFRASTRUCTURE PROJECT
- (492-2463) PID APPROVAL CABLE

REF: A) STATE 031703, B) STATE 174364

1. PER REF CABLE B, MISSION WAS GRANTED AUTHORITY TO AUTHORIZE SUBJECT PROJECT. IN KEEPING WITH BUREAU OBJECTIVES TO DECENTRALIZE DESIGN REVIEWS AS ENUNCIATED IN REFERENCE A AND REAFFIRMED DURING BUTLER-APRE DISCUSSIONS IN JULY, MISSION WILL ASSUME RESPONSIBILITY TO APPROVE PP IN THE FIELD. THE MISSION WISHES TO UPDATE BUREAU, HOWEVER, ON CERTAIN ISSUES IDENTIFIED DURING ENE PID REVIEW OF WHICH AID/W SHOULD BE AWARE. THEY ARE THE FUNDING MECHANISM, IMPACT ON BOY-AMERICA, AND DEPARTURE FROM HANDBOOK 11 CONTRACTING PROCEDURES.

2. DISBURSEMENT PROCEDURES: THE MISSION PLANS TO CONTINUE THE FINANCIAL DISBURSEMENT MECHANISM USED UNDER EXISTING ESF SECRETARIAT PROJECTS (EDF, PROJECT DESIGN), NAMELY UPFRONT DOLLAR DISBURSEMENTS. AS ENE SUGGESTED, THE MISSION CONSIDERED NON-PROJECT INFRASTRUCTURE ASSISTANCE, BUT AFTER WEIGHING PROS AND CONS WE BELIEVE A PROJECT TO BE THE BETTER CHOICE WHEN VIEWED FROM THE ACTUAL HIGH QUALITY PHYSICAL OUTPUTS CONTEMPLATED, THE ABSENCE OF TARGETED MACROECONOMIC OR SECTORAL POLICY REFORMS, AND THE NEED FOR CONTINUED MONITORING OF IMPLEMENTATION.

WHEN THE MISSION FIRST DEVELOPED ESF SUBPROJECTS IN THE EARLY 1980S, IT CONSIDERED VARIOUS METHODS OF FUNDS DISBURSEMENT. THE AID ADMINISTRATOR APPROVED UPFRONT DOLLAR DISBURSEMENTS RESULTING IN PESO GENERATIONS INTO UNCLASSIFIED

AN ACCOUNT, WITH THIS DISBURSEMENT TREATED AS A DISBURSEMENT AND NOT AN ADVANCE. UNDER THE LGIF PROJECT, THE MISSION PLANS TO CONTINUE THE USE OF THIS MECHANISM AND DISBURSE TO THE GCP ON A SEMI-ANNUAL BASIS AS IT REPRESENTS THE OPTIMAL WAY TO SATISFY DEVELOPMENTAL, CONGRESSIONAL, AND DIPLOMATIC OBJECTIVES OF ESF ASSISTANCE. THE MISSION WILL CONTINUE TO

DESCRIBED HAS PROVED ITSELF AS A TESTED MEANS TO SATISFY THE NEEDS AND INTERESTS OF AID, STATE, CONGRESS, AND THE GOP.

3. LOCAL CURRENCY IMPLICATIONS: IT IS ANTICIPATED THAT ALL SUBPROJECT CONSTRUCTION WILL BE FINANCED WITH GOP-OWNED LOCAL CURRENCY. THE MISSION WILL CONTINUE USING U.S. SERVICES AND GOODS TO THE MAXIMUM EXTENT PRACTICABLE. HOWEVER, DECENTRALIZED CONSTRUCTION OF RELATIVELY SMALL-SCALE SUBPROJECTS BY LGUS IS A MAJOR OBJECTIVE OF THIS PROJECT. AS SUCH, LOCAL FIRMS ARE THE LOGICAL CHOICE TO UNDERTAKE CONSTRUCTION. U.S. FIRMS MAY BE APPROPRIATE FOR PROVIDING THE LION'S SHARE OF TECHNICAL EXPERTISE FOR PROJECT IMPLEMENTATION, POSSIBLY AMOUNTING TO MORE THAN A \$10 MILLION CONTRACT. ALSO, THE MISSION WILL SOLICIT QUALIFIED GRAY AMENDMENT FIRMS FOR PROJECT EVALUATIONS AND COMMODITY PROCUREMENT. IN THIS CONNECTION, REQUEST AID/W FORWARD TO USAID A LIST OF QUALIFIED GRAY AMENDMENT PSA FIRMS.

4. HOST COUNTRY CONTRACTING: UNDER THE LGIF PROJECT, LOCAL GOVERNMENTS WILL USE EXISTING GOP PROCEDURES TO CONTRACT CONSTRUCTION MANAGEMENT ENGINEERING SERVICES (CMES) AND ACTUAL SUBPROJECT CONSTRUCTION. THE DECENTRALIZATION OBJECTIVE OF THE PROJECT AND THE NON-PROJECT DISEBURSING MECHANISM MAKE HANDBOOK 11 PROCEDURES INAPPLICABLE. THE PESOS WILL BE GOP OWNED. WE WILL, HOWEVER, ENSURE THROUGH USAID AND CONTRACTOR MONITORING THAT THE LGUS PROMOTE FAIR AND OPEN COMPETITION. ACCORDINGLY, THE MISSION, THROUGH THE GOP IMPLEMENTING AGENCY, AND THE PARTICIPATING LGUS WILL ESTABLISH MUTUALLY AGREEABLE SUBPROJECT COSTS PRIOR TO CONSTRUCTION. ANY ADDITIONAL COSTS ASSOCIATED WITH CONSTRUCTION WILL BE BORNE BY THE LGU. LIKEWISE, COST SAVINGS FOR SUBPROJECTS CONFORMING TO STANDARDS WILL GO TO THE LGU. MOREOVER, THE U.S. CONTRACTOR WILL OVERSEE THE BID PROCESS TO ENSURE BOTH QUALITY OF CONSTRUCTION AND OPEN COMPETITION IN CONTRACTING.

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5. WE ASSUME AID/W WILL INFORM US IF THE APPROACHES ABOVE PRESENT PROBLEMS. MISSION PLANS TO AUTHORIZE THE

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PROJECT AND OBLIGATE FUNDS IN EARLY SEPTEMBER. HUBBARD

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ANNEX E
LGU SELECTION METHODOLOGY

LGU SELECTION PROCESS

A. LGU Definition

For purposes of the project, LGUs are defined as chartered city and provincial governments. There are a number of reasons why the LGIF should be implemented at the level of provincial and city governments:

1. Provinces are the biggest territorial units designated to pursue area-wide concerns. With better staffing, they are in very good position to perform project selection, project planning and project management. This is likewise true for cities. They are usually the more developed and higher-income communities and therefore more capable.
2. There are already programs in place to address local needs at the level of the municipalities (e.g. PREMIUMED).
3. During the site visits, it was discovered that provinces and cities have relatively better maintenance capabilities than municipal governments. This includes staffing and equipment.

B. Rationale and Criteria for LGU Selection

To ensure that the LGIF conforms with project goals, an LGU selection process was adopted that emphasizes needs and performance factors. A selection methodology was designed to identify the LGUs exhibiting the most pressing need as well as the highest performance for handling selected sub-projects.

The socio-economic variables chosen to highlight LGU needs were selected to show gaps, inadequacies as well as the presence of adverse socio-economic conditions. The variables are listed in Table A.

Table A

SOCIO-ECONOMIC INDICATORS

<u>Socio Economic Data</u>	<u>Reason for Use of Data</u>
Population	Indicate project beneficiaries for assessing need for infrastructure facilities
Population Density ¹	
Unemployment Rate ²	To highlight need for employment generation activities
No. of Barangays	For measurement of project impact
Land Area	
No. of Registered; and Length of Paved and Unpaved Roads	For assessing need for facilities and to indicate area potential
Average Family Income	For assessing adequacy of vehicles transport facilities
Incidence of Water Borne Diseases ³	To measure incidence of poverty
Infant Mortality, ⁴ and Hospital Bed to Population Ratio ⁵	Measure of lack of access to potable water supply
Classroom to Pupil Ratio ⁶	Measure of need for health facilities
Water Supply Facilities ⁷	To measure adequacy of education facilities
	To indicate availability/adequacy of water supply

Aside from highlighting the needs of the provinces and cities for social services and basic infrastructure facilities, the other consideration for choosing the indicators shown above was availability of such data at the provincial and city level.

¹ Population per square kilometer

² Unemployed persons as % of labor force in the area

³ No. of cases per 100,000 population

⁴ Infant deaths per 1,000 population

⁵ Total number of hospital beds over total area population

⁶ Number of students per classroom available

⁷ This is expressed in terms of percentage of total households served.

To determine LGU performance, the criteria utilized were the following:

Reasons for Use Data

1. Tax efficiency Actual tax collections as a percentage of target collections. A surrogate for assessing LGU effectiveness in performing basic governmental functions.
2. LGU income level A measure of the financial resources, available to a particular LGU.

C. Methodology for Deriving LGU Needs/Performance Rankings

1. Needs Ranking

To better assess LGU infrastructure requirements, the team first identified five categories of needs, namely:

- Economic
- Transport
- Education
- Health
- Water Supply

The categories above roughly correspond to the types of projects that would be built in particular LGUs. For example, a province found to have a high educational need would be considered a priority location for building schools whereas those with a high transportation need would be considered a priority location for more roads. The team then developed formulae which ordinarily rank (from most needy to least needy) all LGUs where data were available. Four of the 60 chartered cities were excluded from this ranking because they comprise Metro Manila. The 56 remaining chartered cities were assigned a rank of 1 to 56 and the 75 provinces were assigned a rank of 1 to 75.

The primary aim of this approach was to determine where the LGUs rank relative to each other and second where they rank respect to a minimum standard. These minimum standards (as prescribed by DILG) are shown in Table B below:

Table B
MINIMUM STANDARDS FOR LGIF SELECTION

<u>Sector</u>	<u>Minimum Standard</u>
Economic	Poverty Line - P48,000/family/year
Transport	1 km. of road/1 sq. km. land
Education	40 students/classroom
Health	1000 persons/bed
Water	N/A

Considerable debate went into developing the formulae for determining the rankings for each category of need since any formula used is bound to employ certain simplifying assumptions. The formulae agreed to by the team are shown below. "Ascending" refers to ranking data from smallest to largest quality while "Descending" refers to ranking the data from largest to smallest:

- a) Economic Need Ranking = $\frac{\text{Rank of Unemployment}}{\text{(Descending)}} + \frac{\text{Rank of AVG Family Income}}{\text{(Ascending)}} \times 0.5$
- b) Transport Need Ranking = $\frac{\text{Rank of \#Vehicles}}{\text{Total Rd.}} + \frac{\text{Rank of Total Rd.}}{\text{Land Area}} + \frac{\text{Rank of Population}}{\text{Total Rd.}} + \frac{\text{Paved \#Roads}}{\text{Unpaved Roads}} \times 0.5$
(Descending) (Ascending) (Descending) (Ascending)
- c) Education Need Ranking = $\frac{\text{No. of Pupils per Classroom}}{\text{(Descending)}}$
(Ascending)
- d) Health Need Ranking = $\frac{\text{No. of Persons per Bed}}{\text{(Descending)}}$
(Ascending)
- e) Water Supply Need Ranking = $\frac{\text{Ranking of Population not Supplied by Level 3}}{\text{(Descending)}}$
(Ascending)

2. Combined Needs Ranking

To combine these various rankings into a meaningful consolidated ranking of LGUs a weighted formula was applied. Relative values (weights) were assigned to each of the five categories of needs corresponding to the types of projects that would be built in particular LGUs, as follows:

<u>Category</u>	<u>Weighting Factor</u>
Economic	0.4
Transport	0.2
Health	0.1
Education	0.2
Water	0.1

These values, which are subjectively derived, are an attempt to determine a meaningful combined overall ranking of the provinces and chartered cities. The LGU's with the highest ranking are the most underdeveloped, their needs (in physical development terms) are the greatest, and would benefit the most from the types of infrastructure projects proposed under the LGIF project. The following formula was used to determine the rankings.

$$\text{Combined Needs} = \{ (\text{Economic Rank } (0.4) + \text{Transport Rank } (0.2) + \text{Health Rank } (0.1) + \text{Education Rank } (0.2) + \text{Water Rank } (0.1)) \}$$

The combined needs ranking of provinces is presented in Table C and the combined needs ranking of the chartered cities is presented in Table D. (Data gathered and used to arrive at these rankings are included as Exhibit 1.)

3. Performance Ranking

The ability of an LGU to undertake and complete sub-projects effectively was measured by averaging two rankings as follows:

$$\begin{array}{l} \text{Performance Ranking} \\ \text{(Ascending)} \end{array} = \begin{array}{l} \text{Rank of} \\ \text{Tax Efficiency} \\ \text{FY 1989} \\ \text{(Descending)} \end{array} + \begin{array}{l} \text{Rank of} \\ \text{LGU Income} \\ \text{(Descending)} \end{array} \times 0.5$$

Using the data collected in Exhibit 2, a performance ranking of provinces (Table E) and cities (Table F) was compiled. However, since the database is incomplete for certain LGUs, one immediate recommendation emanating from the LGU selection exercise is that the technical consultant to the ESFS "fill in the holes" where data

are missing. These are clearly indicated by "C"s and "N"s in Tables E and F. Concurrently, ESFS needs to keep the database up to date so the rankings remain current. Even better, ESFS could fine tune the formulae which drive the rankings.

4. Project Screening Methodology

The LGU selection process described in the preceding sections should be considered only as a first screen in the identification of eligible LGUs.

As part of this study, some 24 LGUs were visited and first hand information on the LGU performance and needs was obtained. Based upon interviews, the performance of the LGUs was graded and compared with the ranking derived from tax efficiency and income level. The secondary data generally correlated well with the relative ranking of the LGUs. There were no extreme variations in the results between the two methods, but differences did occur.

It is recommended that the LGIF project should only use the secondary capability and needs data as the initial stage of a multi stage screening process. Second and further screens should rely on primary data, an on-site inspection of specific projects and with interviews of the project proponents who will be responsible for the execution and operation of the facilities.

**PROVINCES
COMBINED NEEDS RANKING TABLE**

CAPABILITY NOTES		PROVINCES	COMBINED NEEDS VALUE	COMBINED NEEDS RANKING
	P49	NEGROS OCC.	18.6	1
	P44	MINDORO OCC.	19.0	2
	P50	NEGROS ORIENTAL	21.7	3
	P75	ZAMBOANGA DEL SUR	22.4	4
	P61	ROMBLON	23.5	5
	P7	AURORA	24.4	6
	P60	RIZAL	24.5	7
	P72	WESTERN SAMAR	25.3	8
	P63	SORSOGON	26.0	9
	P4	AKLAN	26.7	10
	P42	MARINDUQUE	26.7	11
	P33	ILOILO	27.5	12
C	P55	PALAWAN	28.3	13
	P27	DAVAO ORIENTAL	29.0	14
	P6	ANTIQUE	29.4	15
	P70	TARLAC	30.0	16
	P45	MINDORO OR.	30.3	17
	P24	CEBU	30.6	18
C	P53	NUEVA ECIJA	31.1	19
	P28	EASTERN SAMAR	31.2	20
	P74	ZAMBOANGA DEL NORTE	31.9	21
	P58	QUEZON	32.0	22
	P26	DAVAO DEL SUR	32.1	23
C	P43	MASBATE	32.2	24
	P14	SOHOL	32.7	25
	P17	CAGAYAN	33.0	26
	P40	LEYTE	33.2	27
	P57	PANGASINAN	33.5	28
	P11	BATANGAS	34.0	29
C	P71	TAWI-WAWI	34.0	30
	P73	ZAMBALES	34.3	31
	P36	LA UNION	34.7	32
	P52	NORTHERN SAMAR	34.7	33
	P58	PAMPANGA	35.2	34
	P64	SOUTH COTABATO	35.2	35
	P62	SIGUIJOR	35.6	36
	P2	AGUSAN DEL NORTE	35.8	37
	P46	MISAMIS OCC.	36.3	38
	P15	BUKIDNON	37.2	39
	P9	BATAAN	37.4	40
C	P67	SULU	38.0	41
	P29	GUIMARAS	38.2	42
	P37	LAGUNA	38.2	43
	P25	DAVAO DEL NORTE	38.3	44
	P69	SURIGAO DEL SUR	38.6	45
	P30	IFUGAO	39.5	46
	P47	MISAMIS OR.	40.0	47
	P32	ILOCOS SUR	40.2	48
	P39	LANAO DEL SUR	40.3	49

**PROVINCES
COMBINED NEEDS RANKING TABLE**

CAPABILITY NOTES		PROVINCES	COMBINED NEEDS VALUE	COMBINED NEEDS RANKING
	P16	BULACAN	41.1	50
	P5	ALBAY	41.4	51
	P8	BASILAN	41.5	52
	P34	ISABELA	41.8	53
C	P35	K. APAYAO	42.2	54
	P63	SURIGAO DEL NORTE	43.0	55
	P21	CAPIZ	44.4	56
	P31	ILOCOS NORTE	44.4	57
	P33	LANAO DEL NORTE	44.5	58
	P59	QUIRINO	44.6	59
	P65	SOUTHERN LEYTE	44.6	60
	P3	AGUSAN DEL SUR	45.1	61
C	P22	CATANDUANES	45.7	62
	P19	CAMARINES SUR	46.8	62
	P41	MAGUINDANAO	48.1	64
	P54	NUEVA VIZCAYA	50.3	65
C	P51	NORTH COTABATO	51.3	66
C	P13	BILIRAN	51.8	67
	P12	BENGUET	52.4	68
	P23	CAVITE	52.4	69
	P18	CAMARINES NORTE	53.2	70
	P48	MT. PROVINCE	55.5	71
	P66	SULTAN KUDARAT	62.2	72
	P1	ABRA	63.6	73
	P20	CAMIGUIN	65.1	74
	P10	BATANES	70.5	75

LEGEND :

C - UNRELIABLE DATA POINT FOR CAPABILITY. DATA IS EITHER MISSING OR INCOMPLETE
 N - RANKING UNRELIABLE. DATA IS MISSING

COMBINED NEEDS

= ECON. * (40%) + EDUC. * (20%) + HEALTH * (10%) +
 TRANSPORT * (20%) + WATER * (10%)

CHARTERED CITIES
COMBINED NEEDS RANKING TABLE

Capability Notes		City	Combined Needs Value	Combined Needs Ranking
		C44 San Carlos City	9.1	1
		C21 Dumaguete City	13.4	2
		C54 Toledo City	13.7	3
		C33 Mandaue City	17.7	4
		C48 Silay City	17.7	5
		C7 Butuan City	19.1	6
		C5 Bais City	19.6	7
		C22 General Santos City	19.7	8
		C9 Cadiz City	19.8	9
		C42 Puerto Princesa City	19.8	10
		C29 Lapu-Lapu City	21.2	11
		C56 Zamboanga City	21.3	12
		C45 San Carlos City	21.4	13
	C	C11 Calbayog City	22.1	14
		C6 Batangas City	22.7	15
	C	C20 Dipolog City	22.8	16
		C17 Danao City	22.9	17
		C14 Cebu City	23.0	18
		C12 Canlaon City	23.1	19
		C3 Bago City	23.5	20
		C32 Lucena City	24.5	21
		C47 San Pablo City	24.6	22
		C31 Lipa City	25.1	23
		C16 Dagupan City	25.3	24
		C30 Legaspi City	25.0	25
	C	C10 Cagayan de Oro City	25.7	26
		C27 La Carlota City	26.9	27
	C	C34 Marawi City	27.3	28
		C24 Iligan City	27.5	29
		C23 Gingoog City	28.8	30
		C36 Olongapo City	29.3	31
		C18 Dapitan City	29.4	32
	C	C19 Davao City	30.0	33
	C	C37 Ormoc City	30.3	34
		C1 Angeles City	30.6	35
		C8 Cabanatuan City	31.4	36
	C	C40 Pagadian City	31.4	37
		C13 Cavite City	31.6	38
		C46 San Jose City	31.9	39
	C	C41 Palayan City	32.5	40
		C50 Tacloban City	33.6	41
		C39 Ozamis City	34.2	42
	C	C49 Surigao City	35.1	43
		C15 Cotabato City	35.5	44

**CHARTERED CITIES
COMBINED NEEDS RANKING TABLE**

Capability Notes	City	Combined Needs Value	Combined Needs Ranking
C53	Tangub City	35.7	45
C28	Laoag City	36.1	46
C35	Naga City	37.2	47
C25	Iloilo City	36.7	48
C55	Trece Martires City	40.0	49
C51	Tagaytay City	40.0	50
C52	Tagbilaran City	40.2	51
C38	Oroquieta City	41.1	52
C43	Roxas City	42.7	53
C2	Bacolod City	43.4	54
C26	Iriga City	44.4	55
C4	Baguio City	53.4	55

LEGEND :

C - UNRELIABLE DATA POINT FOR CAPABILITY. DATA IS EITHER MISSING OR INCOMPLETE

N - RANKING UNRELIABLE. DATA IS MISSING

**COMBINED
NEEDS**

= ECON. * (40%) + EDUC. * (20%) + HEALTH * (10%) +
TRANSPORT * (20%) + WATER * (10%)

PROVINCIAL PERFORMANCE RANKING
(From Most to Least Capable)

Province	Performance Ranking	Note
P37	Laguna	6.5
P49	Negros Occidental	6.5
P14	Bohol	10
P16	Bulacan	10.5
P11	Batangas	11
P56	Pampanga	12
P60	Rizal	12
P15	Bukidnon	13.5
P47	Misamis Oriental	14.5
P70	Tarlac	14.5
P40	Leyte	16.5
P57	Pangasinan	17
P33	Iloilo	19
P69	Surigao del Sur	19
P34	Isabela	19.5
P36	La Union	19.5
P24	Cebu	20.5
P25	Davao del Norte	21
P45	Mindoro Oriental	22
P6	Antique	23
P23	Cavite	23.5
P12	Benguet	24
P31	Ilocos Norte	25
P64	South Cotabato	25.5
P26	Davao del Sur	26
P58	Quezon	26.5
P73	Zambales	28
P75	Zamboanga del Sur	30
P17	Cagayan	31.5
P53	Nueva Ecija	34
P4	Aklan	35
P63	Sorsogon	35.5
P2	Agusan del Norte	36
P32	Ilocos Sur	36
P54	Nueva Vizcaya	36
P19	Camarines Sur	36.5
P5	Albay	38
P50	Negros Oriental	39
P68	Surigao del Norte	39
P10	Batanes	39.5
P18	Camarines Norte	40.5
P38	Lanao del Norte	41
P29	Guimaras	43
P46	Misamis Occidental	43.5
P27	Davao Oriental	43.5
P7	Aurora	44
P51	North Cotabato	44.5

C

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P8	Basilan	45.5	
P66	Sultan Kudarat	45.5	
P9	Bataan	46	
P44	Mindoro Occidental	46.5	
P74	Zamboanga del Norte	48	
P61	Romblon	48.5	
P21	Capiz	49	
P42	Marinduque	50	
P72	Western Samar	52.5	
P62	Siquijor	53	
P43	Masbate	54	C
P65	Southern Leyte	54	
P28	Eastern Samar	55	C
P3	Agusan del Sur	56.5	
P41	Maguindanao	57	
P52	Northern Samar	58	
P20	Camiguin	58.5	
P59	Quirino	58.5	
P55	Palawan	59.5	C
P30	Ifugao	63	
P39	Lanao del Sur	64	
P67	Sulu	64	C
P1	Abra	66	
P22	Catanduanes	66	C
P48	Mountain Province	66.5	
P35	Kalinga Apayao	68.5	C
P71	Tawi-Tawi	70.5	C
P13	Biliran	73.5	C

CHARTERED CITY PERFORMANCE RANKING
(From Most to Least Capable)

<u>City</u>	<u>Performance Ranking</u>
C42 Puerto Princesa City	7.5
C1 Angeles City	8.5
C2 Bacolod City	8.5
C4 Baguio City	8.5
C36 Olongapo City	10.5
C24 Iligan City	11.5
C6 Batangas City	14.
C7 Butuan City	14.
C22 General Santos City	16.5
C16 Dagupan City	17.5
C48 Silay City	17.5
C39 Ozamis City	18.
C56 Zamboanga City	18.5
C32 Lucena City	20.
C21 Dumaguete City	20.5
C29 Lapu-Lapu City	20.5
C45 San Carlos City	20.5
C25 Iloilo City	21.
C27 La Carlota City	21.5
C14 Cebu City	23.
C9 Cadiz City	24.
C50 Tacloban City	24.
C47 San Pablo City	25.
C8 Cabanatuan City	25.5
C31 Lipa City	25.5
C43 Roxas City	25.5
C19 Davao City	26.5
C15 Cotabato City	27.
C10 Cagayan de Oro City	27.5
C40 Pagadian City	27.5
C28 Laoag City	30.
C3 Bago City	30.5
C23 Gingoog City	30.5
C44 San Carlos City	31.
C52 Tagbilaran City	31.5
C55 Trece Martires City	31.5
C35 Naga City	32.
C11 Calbayog City	34
C5 Bais City	35.5
C30 Legaspi City	36
C33 Mandaue City	36
C37 Ormoc City	36.5
C20 Dipolog City	37
C38 Oroquieta City	38.5
C49 Surigao City	39
C13 Cavite City	41
C46 San Jose City	42

C54	Toledo City	42.5
C51	Tagaytay City	43
C18	Dapitan City	44
C53	Tangub City	44
C26	Iriga City	46.5
C12	Canlaon City	47
C17	Danao City	50
C34	Marawi City	55
C41	Palayan City	55.5

Province	REGION	NEEDS PHYSICAL				ECONOMIC	
		Population Number	Population Density	Number of Barangay	Land Area	Unemployment Rate	Family Income
		(No.) 1990	(Person/Km ²)	(No.) 1987	(Km. ²) 1987	(%) 1990	(=P=/Family) 1988
P1 Abra	CAR	184743	47	302	3976	2.20	23899.00
P2 Agusan del Norte	X	465458	226	154	2064	15.50	32624.00
P3 Agusan del Sur	X	420763	47	299	8966	3.90	31631.00
P4 Aklan	VI	380497	209	327	1818	8.80	30768.00
P5 Albay	V	903023	378	719	2399	8.10	26590.00
P6 Antique	VI	406361	161	590	2522	5.60	27275.00
P7 Aurora	IV	139586	43	151	2340	19.00	34141.00
P8 Basilan	IX	243091	183	261	1327	4.30	22789.00
P9 Bataan	III	425803	310	227	1373	21.70	39808.00
P10 Batanes	II	15026	72	29	209	0.00	31701.00
P11 Batangas	IV	1476783	553	898	2673	10.70	43240.00
P12 Benguet	CAR	485546	186	138	2606	4.40	44828.00
P13 Biliran	VIII	118012	212	121	556	0.00	0.00
P14 Bohol	VII	948315	232	1088	4087	3.50	18881.00
P15 Bukidnon	X	843959	102	337	8294	6.50	47467.00
P16 Bulacan	III	1505219	573	518	2625	9.00	57409.00
P17 Cagayan	II	829974	92	816	9003	5.30	26559.00
P18 Camarines Norte	V	390982	180	272	2112	4.30	29792.00
P19 Camarines Sur	V	1305919	255	1063	5070	3.80	30725.00
P20 Camiguin	X	64247	279	58	230	4.52	28792.00
P21 Capiz	VI	584091	231	426	2531	2.30	29112.00
P22 Calanduanes	V	187000	135	314	1512	7.20	25566.00
P23 Cavite	IV	1152534	991	422	1163	5.80	45506.00
P24 Cebu	VII	2645735	594	978	4456	7.00	25476.00
P25 Davao del Norte	XI	1055016	130	412	8130	5.40	35828.00
P26 Davao del Sur	XI	1482648	356	318	4166	8.30	25916.00
P27 Davao Oriental	XI	394697	76	180	5164	5.10	25197.00
P28 Eastern Samar	VIII	329335	76	597	4340	14.90	33555.00
P29 Guimaras	VI	117990	195	96	604	0.00	0.00
P30 Ifugao	CAR	147281	59	155	2518	6.30	22558.00
P31 Ilocos Norte	I	461661	112	477	3292	4.30	31497.00
P32 Ilocos Sur	I	519930	201	764	2580	8.00	28186.00
P33 Iloilo	VI	1647486	313	1822	5268	8.70	28323.00

Province	REGION	NEEDS PHYSICAL				ECONOMIC	
		Population Number	Population Density	Number of Barangay	Land Area	Unemployment Rate	Family Income
		(No.) 1990	(Person/Km ²)	(No.) 1987	(Km. ²) 1987	(%) 1990	(=P=/Family) 1988
P34 Isabela	II	1080341	101	1053	10665	4.00	36145.00
P35 Kalinga-Apayao	CAR	211775	30	258	7048	4.50	34041.00
P36 La Union	I	548742	364	575	1493	12.90	42273.00
P37 Laguna	IV	1370232	886	591	1546	12.90	52660.00
P38 Lanao del Norte	XII	614092	260	462	2362	4.60	28910.00
P39 Lanao del Sur	XII	599637	156	932	3850	8.30	37431.00
P40 Leyte	VIII	1368510	240	1403	5703	4.50	25255.00
P41 Maguindanao	XII	757739	157	443	4839	2.90	32037.00
P42 Marinduque	IV	185524	193	218	959	9.40	25123.00
P43 Masbate	V	599915	173	546	4048	6.50	20226.00
P44 Metro Manila	NCR	0	0	0	0	0.00	0.00
P45 Mindoro Occidental	IV	282593	48	158	5880	4.60	46701.00
P46 Mindoro Oriental	IV	550049	126	419	4365	7.00	21846.00
P47 Misamis Occidental	X	424365	286	339	1481	5.60	26813.00
P48 Misamis Oriental	X	865051	314	454	2753	8.00	27083.00
P49 Mountain Province	CAR	116535	56	143	2097	4.40	21534.00
P50 Negros Occidental	VI	2256908	373	496	6048	8.70	26389.00
P51 Negros Oriental	VII	925311	212	479	4369	6.10	22637.00
P52 North Cotabato	XII	763995	114	505	6704	3.10	30474.00
P53 Northern Samar	VIII	383654	110	570	3498	3.00	20642.00
P54 Nueva Ecija	III	1312610	269	673	4876	5.50	30795.00
P55 Nueva Vizcaya	II	301179	77	269	3904	4.90	42477.00
P56 Palawan	IV	528287	41	353	12790	6.10	27722.00
P57 Pampanga	III	1532682	723	503	2120	9.30	55384.00
P58 Pangasinan	I	2020273	320	1231	5165	6.30	34026.00
P59 Quezon	IV	1372391	159	1206	8638	5.50	27991.00
P60 Quirino	II	114132	37	118	3057	4.40	24771.00
P61 Rizal	IV	980194	604	172	1624	9.00	0.00
P62 Romblon	IV	227621	168	212	1355	9.90	16002.00
P63 Siquijor	VII	73790	22	134	3435	8.30	12490.00
P64 Sorsogon	V	522960	284	541	2141	5.80	23357.00
P65 South Cotabato	XI	1072617	161	290	6673	8.90	39954.00
P66 Southern Leyte	VIII	321940	186	503	1734	6.80	28310.00

Province	REGION	NEEDS				ECONOMIC	
		PHYSICAL		Number of Barangay	Land Area	Unemployment Rate	Family Income
		Population Number	Population Density				
		(No.) 1990	(Person/Km ²)	(No.) 1987	(Km. ²) 1987	(%) 1990	(=P=/Family) 1988
P67 Sultan Kudarat	XII	435905	101	213	4321	3.10	37262.00
P68 Sulu	IX	469971	228	401	1630	4.50	31097.00
P69 Surigao del Norte	X	425978	171	361	2494	4.40	27661.00
P70 Surigao del Sur	XI	452098	99	302	4552	7.20	33995.00
P71 Tarlac	III	859651	282	509	3053	9.80	34566.00
P72 Tawi-Tawi	IX	228204	216	203	1058	4.80	33443.00
P73 Western Samar	VIII	533733	114	788	4688	5.40	21961.00
P74 Zambales	III	562992	156	230	3611	12.90	49884.00
P75 Zamboanga del Norte	IX	673774	119	576	5640	4.90	22173.00
P76 Zamboanga del Sur	IX	1544157	227	974	6801	5.40	26429.00

Province	TRANSPORT			EDUCATION	NEEDS HEALTH			WATER SUPPLY		
	Registered Vehicles	Paved Roads	Unpaved Roads	Number of Pupils/Room	No. of Beds	No. of H. C.	Water Borne Diseases	I	II	III
	(No.)	(Km.)	(Km.)	(Pupils/Room)	(P/B)	(No.)	(No./100,000)	(%)	(%)	(%)
				1988-1989		1989		Houses	Houses	Houses
P1 Abra	2068	133.195	2205.115	23	412	27	1886.10	52.90	16.80	29.20
P2 Agusan del Norte	0	134.126	705.649	30	585	11	2092.90	69.00	18.00	3.20
P3 Agusan del Sur	1775	186.445	1309.135	33	1176	15	468.50	35.00	12.00	0.60
P4 Aklan	5164	107.945	1014.107	37	1145	19	1025.00	36.20	4.90	25.10
P5 Albay	1799	400.912	1066.379	23	782	18	1586.60	61.80	15.40	22.80
P6 Antique	3577	140.049	1168.219	27	1631	18	1138.80	52.10	12.40	10.90
P7 Aurora	0	32.285	601.594	30	2100	8	493.70	33.50	3.10	0.00
P8 Basilan	2251	50.467	640.755	37	1487	11	1384.90	29.90	19.70	18.90
P9 Bataan	9935	380.773	643.616	38	460	18	2263.10	41.90	13.50	35.90
P10 Batanes	204	31.924	245.218	10	142	6	6005.60	11.50	0.00	88.50
P11 Batangas	9568	783.525	2454.206	34	883	43	1181.20	27.20	0.28	0.41
P12 Benguet	3172	205.456	1215.302	26	727	12	1533.60	44.60	30.30	10.30
P13 Biliran	601	36.389	412.679	26	0	8	0.00	12.80	51.50	7.80
P14 Bohol	0	290.414	3987.349	30	792	47	1054.20	28.20	22.70	7.20
P15 Bukidnon	6474	179.913	4578.094	45	936	22	791.70	64.00	9.60	13.10
P16 Bulacan	50338	703.815	1938.206	37	1055	48	1954.50	66.50	1.50	25.70
P17 Cagayan	14060	382.965	3123.279	31	951	31	1067.00	0.00	2.50	3.10
P18 Camarines Norte	4756	280.708	433.940	37	975	15	1163.00	66.00	14.80	19.20
P19 Camarines Sur	3854	485.830	2632.315	40	1070	44	1924.90	76.50	7.90	15.60
P20 Camiguin	763	75.439	265.082	19	449	5	1195.90	15.70	4.30	73.00
P21 Capiz	0	121.781	1430.855	31	2498	18	952.70	32.80	3.90	8.90
P22 Catanduanes	1902	67.889	711.312	20	513	11	1498.90	30.80	49.60	19.60
P23 Cavite	23355	386.827	901.064	37	1266	24	1127.00	34.10	17.70	31.60
P24 Cebu	4341	456.444	2639.943	35	670	61	824.90	40.40	13.70	23.10
P25 Davao del Norte	13330	193.646	2950.314	69	610	21	776.60	51.70	11.10	21.20
P26 Davao del Sur	4443	112.334	2561.617	28	476	15	2904.80	47.60	11.40	7.30
P27 Davao Oriental	2245	40.639	1340.643	43	1140	11	1370.20	64.20	5.10	4.70
P28 Eastern Samar	1506	280.292	1506.825	28	993	26	1316.30	39.40	6.40	2.40
P29 Guimaras	0	20.308	401.567	24	2810	3	0.00	31.90	15.40	4.70
P30 Ifugao	826	46.143	936.289	19	592	10	845.40	7.60	13.50	9.10
P31 Ilocos Norte	4441	342.676	2585.678	36	834	25	1807.10	65.80	6.00	14.10
P32 Ilocos Sur	8212	301.616	2554.987	32	790	34	626.80	20.80	29.70	44.80
P33 Iloilo	2205	452.735	3237.455	34	656	44	453.50	71.60	6.20	5.60

Province	TRANSPORT			EDUCATION	NEEDS HEALTH			WATER SUPPLY		
	Registered Vehicles	Paved Roads	Unpaved Roads	Number of Pupils/Room	No. of Beds	No. of H. C.	Water Borne Diseases	I	II	III
	(No.)	(Km.)	(Km.)	(Pupils/Room)	(P/B)	(No.)	(No./100,000)	(%)	(%)	(%)
				1988-1989		1989		Houses	Houses	Houses
P34 Isabela	12568	295.246	3685.323	37	1357	40	1331.40	63.90	0.58	11.30
P35 Kalinga-Apayao	1152	24.167	674.816	45	518	17	1178.00	6.50	13.90	0.00
P36 La Union	12238	310.254	860.271	39	652	20	904.30	58.80	15.50	21.00
P37 Laguna	33736	557.583	722.521	44	935	37	384.00	38.50	4.80	49.50
P38 Lanao del Norte	0	98.433	1540.354	29	993	22	1879.70	54.00	14.20	8.00
P39 Lanao del Sur	1992	43.477	3808.850	48	4971	37	2286.10	29.20	17.80	11.70
P40 Leyte	1779	422.044	2372.563	31	2093	47	1145.20	40.50	19.40	19.40
P41 Maguindanao	2871	109.141	1626.684	58	1158	17	2564.40	44.00	0.55	7.00
P42 Marinduque	1450	101.797	563.344	23	1380	8	985.20	47.20	18.60	12.30
P43 Masbate	1762	111.343	902.353	26	1465	21	1293.70	70.40	23.60	6.00
P44 Metro Manila	0	2182.471	453.887	0	0	0	0.00	0.00	0.00	0.00
P45 Mindoro Occidental	0	29.244	1573.301	38	1179	12	1922.60	88.20	3.30	3.60
P46 Mindoro Oriental	4380	152.092	1281.303	47	1853	18	1655.30	75.70	4.80	13.10
P47 Misamis Occidental	0	114.651	1744.147	24	416	14	1681.60	44.80	15.30	8.20
P48 Misamis Oriental	0	298.976	2131.671	32	902	24	1575.70	43.20	22.20	29.40
P49 Mountain Province	342	58.454	721.298	19	399	10	2959.10	32.40	37.30	8.60
P50 Negros Occidental	3232	423.191	4053.236	32	2802	28	1091.20	57.40	2.20	23.00
P51 Negros Oriental	0	278.416	1460.942	40	1703	25	829.60	43.80	12.20	6.70
P52 North Cotabato	9871	169.318	1652.965	62	584	14	2042.10	26.00	11.80	17.00
P53 Northern Samar	1329	175.795	549.248	45	1265	24	1394.90	76.90	1.00	0.50
P54 Nueva Ecija	20023	271.737	2518.519	38	2821	38	541.60	74.90	1.70	2.60
P55 Nueva Vizcaya	7751	139.725	2354.617	33	968	92	1309.60	7.50	7.40	4.20
P56 Palawan	18741	102.836	2214.315	40	517	20	1428.30	0.72	0.10	0.50
P57 Pampanga	24050	372.101	1878.637	37	1111	38	1808.40	52.00	19.60	16.40
P58 Pangasinan	20358	801.363	3959.855	42	1176	65	598.00	62.10	20.30	12.00
P59 Quezon	2690	372.258	1656.725	51	860	40	370.90	31.00	11.71	18.40
P60 Quirino	1123	14.721	708.021	30	699	6	1290.50	52.80	2.00	0.45
P61 Rizal	0	382.731	836.036	52	288	29	1071.00	50.60	9.80	34.10
P62 Romblon	1136	95.179	1338.291	40	818	17	856.00	53.80	13.10	28.50
P63 Siquijor	1273	44.953	316.452	15	716	6	1059.70	42.70	33.10	16.00
P64 Sorsogon	3353	337.875	711.796	40	1537	16	1672.20	36.40	27.60	36.00
P65 South Cotabato	9957	129.775	5060.699	44	1331	18	1226.70	56.50	5.00	4.70
P66 Southern Leyte	3660	441.304	843.764	23	886	21	1365.80	31.80	25.10	34.20

Province	TRANSPORT			EDUCATION	NEEDS HEALTH			WATER SUPPLY		
	Registered Vehicles	Paved Roads	Unpaved Roads	Number of Pupils/Room	No. of Beds	No. of H. C.	Water Borne Diseases	I	II	III
	(No.)	(Km.)	(Km.)	(Pupils/Room)	(P/B)	(No.)	(No./100,000)	(%)	(%)	(%)
				1988-1989		1989		Houses	Houses	Houses
P67 Sultan Kudarat	1840	48.774	1859.399	30	671	11	1768.20	47.00	6.10	7.10
P68 Sulu	923	106.388	920.687	50	1367	20	939.40	10.30	7.90	3.90
P69 Surigao del Norte	0	79.544	1337.544	30	792	26	978.30	43.00	31.00	13.00
P70 Surigao del Sur	2605	51.519	1602.373	33	732	19	1673.30	33.40	8.60	21.70
P71 Tarlac	2517	369.483	2079.617	32	1123	27	1216.50	74.00	1.00	8.40
P72 Tawi-Tawi	128	15.356	317.010	106	1954	11	327.10	71.70	9.80	0.00
P73 Western Samar	1117	244.253	504.929	22	2168	25	1553.70	49.60	4.40	0.90
P74 Zambales	2967	275.341	879.719	35	1103	16	1538.20	67.00	13.10	6.10
P75 Zamboanga del Norte	196	67.272	2792.856	38	1133	27	1840.10	26.80	8.20	2.70
P76 Zamboanga del Sur	2154	190.296	3948.324	48	1489	41	2344.20	37.00	12.50	8.80

City	REGION	NEEDS				ECONOMIC		
		PHYSICAL		Number of Barangay	Land Area	Unemployment Rate	Family Income	
		Population Number	Population Density					
		(No.)	(Person/Km ²)	(No.)	(Km. ²)	(%)	(=P _a /Family)	
		1990		1987	1987	1990	1988	
C1	Angeles City	III	236685	3945	32	60	10.30	54175.00
C2	Bacolod City	VI	364180	2678	60	136	4.70	37147.00
C3	Bago City	VI	122863	306	24	402	8.70	28323.00
C4	Baguio City	CAR	183102	3737	129	49	4.40	44828.00
C5	Bais City	VII	59591	188	35	317	6.10	22637.00
C6	Batangas City	IV	184970	654	105	283	10.70	43240.00
C7	Butuan City	X	227829	433	79	526	17.20	36995.00
C8	Cabanatuan City	III	173065	874	82	198	5.50	30795.00
C9	Cadiz City	VI	119772	232	22	516	8.70	28323.00
C10	Cagayan de Oro City	X	339598	822	80	413	7.60	54022.00
C11	Calbayog City	VIII	115390	128	163	903	5.40	21961.00
C12	Carlaon City	VII	37295	232	11	161	6.10	22637.00
C13	Cavite City	IV	91641	7637	62	12	5.80	45506.00
C14	Cebu City	VII	610417	2172	79	281	16.50	60622.00
C15	Colabato City	XII	127065	722	5	176	2.90	32037.00
C16	Dagupan City	I	112520	3025	31	4364	6.30	34026.00
C17	Danao City	VII	73358	686	42	107	7.00	25476.00
C18	Dapitan City	IX	59046	275	50	215	4.90	22173.00
C19	Davao City	XI	849947	384	164	2211	10.10	51823.00
C20	Dipolog City	IX	79887	363	20	220	4.90	22173.00
C21	Dumaguete City	VII	80262	514	30	156	6.10	22637.00
C22	General Santos City	XI	250389	314	18	796	8.90	39954.00
C23	Gingoog City	X	82582	204	79	405	8.00	27083.00
C24	Iligan City	XII	226568	310	26	731	11.80	60567.00
C25	Iloilo City	VI	309505	5527	186	56	12.00	83914.00
C26	Iriga City	V	74269	482	36	154	3.80	30725.00
C27	La Carlota City	VI	56443	412	14	137	8.70	28323.00
C28	Laoag City	I	79895	743	80	12702	4.30	31497.00
C29	Lapu-Lapu City	VII	146194	2521	29	58	7.00	25476.00
C30	Legaspi City	V	121116	101	70	120	8.10	26590.00
C31	Lipa City	IV	160117	766	73	209	10.70	43240.00

City	REGION	NEEDS				ECONOMIC		
		PHYSICAL		Number of Barangay	Land Area	Unemployment Rate	Family Income	
		Population Number	Population Density					
		(No.) 1990	(Person/Km ²)	(No.) 1987	(Km. ²) 1987	(%) 1990	(=P=Family) 1988	
C32	Lucena City	IV	150624	2215	6	68	5.50	27991.00
C33	Mandaue City	VII	180285	15024	27	12	7.00	25476.00
C34	Marawi City	XII	91901	1259	82	73	8.30	28910.00
C35	Naga City	V	115329	1478	27	78	3.80	30725.00
C36	Olongapo City	III	193327	1877	16	103	17.90	72973.00
C37	Ormoc City	VIII	129456	279	110	464	4.50	25255.00
C38	Oroquieta City	X	52500	269	47	195	5.60	26813.00
C39	Ozamis City	X	91503	635	50	144	5.60	26813.00
C40	Pagadian City	IX	106307	1969	53	54	5.40	26429.00
C41	Palayan City	III	20393	566	14	36	5.50	30795.00
C42	Puerto Princesa City	IV	92147	44	11	2107	6.10	27722.00
C43	Roxas City	VI	103171	1011	47	102	2.30	29112.00
C44	San Carlos City	I	115836	696	86	17087	6.30	34026.00
C45	San Carlos City	VI	105713	637	18	166	8.70	26389.00
C46	San Jose City	III	82836	458	38	181	5.50	30795.00
C47	San Pablo City	IV	161630	755	80	214	12.90	52660.00
C48	Silay City	VI	101031	470	14	215	8.70	26389.00
C49	Surigao City	X	100379	410	53	245	4.40	27661.00
C50	Tacloban City	VIII	137190	1358	142	101	4.50	25255.00
C51	Tagaytay City	IV	23739	321	20	74	5.80	45506.00
C52	Tagbilaran City	VII	56363	1879	15	30	3.50	18881.00
C53	Tangub City	X	42926	361	55	119	5.60	26813.00
C54	Toledo City	VII	119970	102	39	1174	7.00	25476.00
C55	Trece Martires City	IV	15686	402	13	39	5.80	45506.00
C56	Zamboanga City	IX	442345	313	92	1415	12.00	67310.00
C57	Caloocan City	NCR	761011	13590	188	56	15.20	59074.00
C58	City of Manila	NCR	1598918	42077	902	38	14.90	60394.00
C59	Pasay City	NCR	366623	26187	200	14	22.40	63816.00
C60	Quezon City	NCR	1666766	10041	138	166	13.70	97759.00

City	NEEDS									
	TRANSPORT			EDUCATION		HEALTH		WATER SUPPLY		
	Registered Vehicles	Paved Roads	Unpaved Roads	Number of Pupils/Room	No. of Beds	No. of H. C.	Water Borne Diseases	I	II	III
	(No.)	(Km.)	(Km.)	(Pupils/Room)	(P/B)	(Ho.)	(No./100,000)	(%)	(%)	(%)
			1988-1989		1989		Houses	Houses	Houses	
C1 Angeles City	18665	92.047	80.296	42	686	5	1872.20	17.60	25.50	38.30
C2 Bacolod City	26580	307.388	225.813	45	330	1	195.90	12.70	0.00	86.20
C3 Bago City	0	51.962	253.551	31	2802	2	51.00	53.90	4.30	17.90
C4 Baguio City	11099	239.240	67.910	29	203	8	1477.60	8.90	2.90	88.20
C5 Bais City	2333	23.707	118.067	0	1703	1	229.00	67.20	2.90	10.60
C6 Batangas City	12132	107.412	126.641	34	883	43	243.80	27.20	0.28	0.41
C7 Butuan City	7912	59.959	298.098	43	585	1	1339.60	51.00	6.00	33.20
C8 Cabanatuan City	14990	63.452	161.774	102	307	1	543.20	33.70	22.30	30.40
C9 Cadiz City	3918	26.401	104.920	30	14512	1	48.20	30.10	2.20	53.50
C10 Cagayan de Oro City	19817	107.902	174.551	50	902	1	946.20	7.00	4.00	84.00
C11 Calbayog City	918	72.255	72.539	34	1255	3	419.80	26.90	34.60	1.20
C12 Canlaon City	0	10.826	66.245	0	1703	1	300.70	49.00	13.60	32.30
C13 Cavite City	19453	50.303	24.844	49	1266	5	798.10	34.10	17.70	31.60
C14 Cebu City	42484	173.405	127.636	73	670	5	121.40	30.80	7.00	58.30
C15 Cotabato City	2587	23.615	25.710	40	268	0	1870.00	4.00	5.20	52.80
C16 Dagupan City	17244	54.501	35.576	41	1176	65	1138.50	21.60	24.20	52.50
C17 Danao City	6787	22.587	92.044	0	670	0	567.10	75.10	2.30	17.50
C18 Dapitan City	0	26.920	234.936	24	1133	0	1749.70	47.50	10.90	5.30
C19 Davao City	37318	221.618	1081.901	37	457	14	578.70	23.80	10.80	69.80
C20 Dipolog City	6380	35.672	187.557	35	1133	0	16494.00	63.00	0.00	8.50
C21 Dumaguete City	12107	45.769	34.403	28	1703	8	170.90	45.00	3.00	5.00
C22 General Santos City	11349	56.305	378.087	43	671	1	749.50	72.90	4.80	20.00
C23 Gingoog City	1618	40.895	407.851	30	902	1	1040.50	26.00	30.00	32.00
C24 Iligan City	6298	61.750	186.026	43	457	0	1012.40	31.70	1.50	55.10
C25 Iloilo City	23870	122.900	17.685	34	267	6	523.50	17.90	0.00	58.90
C26 Iriga City	3320	75.356	182.339	26	1070	0	745.70	76.50	7.90	15.60
C27 La Carlota City	0	22.115	47.237	33	1220	1	1880.50	17.50	7.00	55.20
C28 Laoag City	11582	62.970	290.075	37	834	25	333.70	59.20	17.30	18.50
C29 Lapu-Lapu City	589	47.983	50.218	37	670	1	181.30	40.00	21.80	31.30
C30 Legaspi City	5366	90.638	74.030	31	782	0	524.70	61.80	15.40	22.80
C31 Lipa City	13420	81.793	129.545	29	883	1	176.20	27.20	0.28	0.41

City	NEEDS									
	TRANSPORT			EDUCATION		HEALTH		WATER SUPPLY		
	Registered Vehicles	Paved Roads	Unpaved Roads	Number of Pupils/Room	No. of Beds	No. of H. C.	Water Borne Diseases	I	II	III
	(No.)	(Km.)	(Km.)	(Pupils/Room)	(P/B)	(No.)	(No./100,000)	(%)	(%)	(%)
			1988-1989		1989		Houses	Houses	Houses	
C32 Lucena City	10690	41.651	42.818	45	860	1	77.40	31.00	11.70	18.40
C33 Mandaue City	24451	81.880	16.005	43	670	1	40.30	87.20	1.60	11.30
C34 Marawi City	802	31.533	86.731	44	313	0	1318.60	48.90	0.39	38.60
C35 Naga City	8789	75.616	52.385	37	1070	0	205.00	76.50	7.90	15.60
C36 Olongapo City	20227	87.192	50.333	38	703	1	938.60	0.00	12.30	87.70
C37 Ormoc City	4911	50.303	298.052	34	771	1	282.80	71.50	0.00	14.40
C38 Oroquieta City	2524	32.530	150.988	0	416	2	356.10	9.40	43.70	43.00
C39 Ozamis City	3462	35.780	107.868	30	416	1	2565.70	31.50	7.40	37.10
C40 Pagadian City	5465	38.639	100.043	34	1489	0	843.30	35.20	30.40	22.50
C41 Palayan City	1070	8.440	68.950	38	2821	0	2483.70	74.90	1.70	2.60
C42 Puerto Princesa City	5792	14.600	263.197	40	517	1	532.70	0.72	0.10	0.50
C43 Roxas City	6287	40.296	65.821	23	369	2	221.50	23.40	0.00	38.30
C44 San Carlos City	2127	22.388	194.095	50	1176	65	424.30	75.60	0.16	9.30
C45 San Carlos City	2591	20.459	79.760	50	1124	1	1723.90	48.90	3.10	21.20
C46 San Jose City	3483	29.176	138.596	38	1490	1	1781.10	72.20	3.50	15.50
C47 San Pablo City	18808	94.185	106.332	35	935	4	674.20	38.50	4.80	49.50
C48 Silay City	0	20.915	63.662	27	1812	1	287.80	56.90	0.30	27.90
C49 Surigao City	3708	39.737	166.930	38	792	1	60.70	47.80	4.70	35.60
C50 Tacloban City	8829	60.102	62.062	33	235	5	260.20	11.90	0.00	73.40
C51 Tagaytay City	0	50.640	61.909	37	1266	1	570.80	34.10	17.70	31.60
C52 Tagbilaran City	10222	93.117	44.388	0	792	1	244.50	13.90	0.97	83.70
C53 Tangub City	1179	10.982	149.850	0	416	2	49.10	62.30	21.20	14.00
C54 Toledo City	2605	18.597	84.909	38	670	1	544.70	42.90	37.40	9.80
C55 Trece Martires City	0	63.348	73.077	37	1266	1	1622.80	34.10	17.70	31.60
C56 Zamboanga City	16895	87.800	393.378	49	932	14	507.00	4.20	1.77	15.60
C57 Caloocan City	36195	0.000	0.000	94	222	17	397.80	0.87	7.00	91.40
C58 City of Manila	138158	0.000	0.000	82	235	44	249.10	0.00	10.90	89.10
C59 Pasay City	29448	0.000	0.000	66	557	10	946.20	2.90	13.80	82.20
C60 Quezon City	106948	0.000	0.000	61	182	46	380.10	6.60	14.00	77.50

LGU	COLLECTION EFFICIENCY	RANKING 89	Income	Income Rank	89/Income Average	Income Class
ABRA	19.97%	59	0.00	73	66	4th P1
AGUSAN DEL NORT	54.83%	16	16,758,400.00	56	38	5th P2
AGUSAN DEL SUR	23.74%	56	16,758,400.00	57	56.5	3rd P3
AKLAN	59.27%	12	16,114,679.00	58	35	4th P4
ALBAY	29.71%	48	35,755,327.00	28	38	2nd P5
ANTIQUE	93.13%	2	22,429,148.00	44	23	4th P6
AURORA	45.88%	26	12,238,935.00	62	44	5th P7
BASILAN	32.99%	39	18,860,826.00	52	45.5	5th P8
BATAAN	10.73%	66	39,784,998.00	26	46	2nd P9
BATANES	61.67%	9	6,804,926.00	70	39.5	6th P10
BATANGAS	59.90%	11	63,084,852.00	11	11	1st P11
BENGUET	61.55%	10	26,826,356.00	38	24	3rd P12
BILIRAN	0.00%	75	4,691,620.00	72	73.5	6th P13
BOHOL	78.22%	3	58,574,683.00	17	10	1st P14
BUKIDNON	69.54%	5	45,930,815.00	22	13.5	2nd P15
BULACAN	52.36%	18	117,153,104.00	3	10.5	1st P16
CAGAYAN	31.23%	43	47,892,219.00	26	31.5	1st P17
CAMARINES NORTE	28.66%	49	30,690,576.00	32	40.5	4th P18
CAMARINES SUR	12.63%	64	66,809,690.00	9	36.5	1st P19
CAMIGUIN	30.11%	46	6,632,724.00	71	58.5	6th P20
CAPIZ	27.87%	50	21,974,304.00	48	49	3rd P21
CATANDUANES	7.05%	71	12,763,663.00	61	66	5th P22
CAVITE	37.69%	35	62,923,543.00	12	23.5	2nd P23
CEBU	32.32%	40	1,116,403,712.00	1	20.5	1st P24
DAVAO DEL NORTE	47.64%	23	51,578,275.00	19	21	1st P25
DAVAO DEL SUR	42.21%	31	46,638,258.00	21	26	2nd P26
DAVAO ORIENTAL	29.78%	47	26,177,914.00	40	43.5	3rd P27
EASTERN SAMAR	10.71%	67	23,481,791.00	43	55	4th P28
GUIMARAS	52.03%	19	8,159,565.00	67	43	6th P29
IFUGAO	17.60%	61	9,567,342.00	65	63	5th P30
ILOCOS NORTE	76.66%	4	22,183,353.00	46	25	2nd P31
ILOCOS SUR	42.30%	30	24,011,680.00	42	36	3rd P32
ILOILO	43.63%	28	65,435,370.00	10	19	1st P33
ISABELA	46.97%	24	59,979,631.00	15	19.5	1st P34
K. APAYAO	14.16%	63	0.00	74	68.5	4th P35
LA UNION	65.92%	8	30,090,017.00	33	19.5	3rd P36
LAGUNA	62.41%	8	87,304,138.00	5	6.5	1st P37
LANAO DEL NORTE	41.78%	32	21,166,851.00	50	41	4th P38
LANAO DEL SUR	0.18%	73	17,922,815.00	55	64	4th P39
LEYTE	56.87%	15	56,701,633.00	18	16.5	1st P40
MAGUINDANAO	8.31%	69	22,187,111.00	45	57	4th P41
MARINDUQUE	31.80%	41	15,502,588.00	59	50	4th P42
MASBATE	0.00%	74	29,988,075.00	34	54	3rd P43
MINDORO OCC.	27.49%	52	26,168,012.00	41	46.5	4th P44
MINDORO OR.	57.22%	14	31,765,243.00	30	22	2nd P45
MISAMIS OCC.	38.01%	34	18,712,401.00	53	43.5	5th P46
MISAMIS OR.	57.22%	13	59,682,472.00	16	14.5	2nd P47
MT. PROVINCE	8.17%	70	10,330,890.00	63	68.5	5th P48
NEGROS OCC.	63.02%	7	79,784,238.00	8	6.5	1st P49
NEGROS ORIENTAL	27.01%	53	40,792,231.00	25	39	2nd P50
NORTH COTABATO	16.06%	62	39,673,330.00	27	44.5	2nd P51
NORTHERN SAMAR	10.99%	65	20,777,000.00	51	58	4th P52
NUEVA ECIJA	24.61%	55	62,549,103.00	13	34	1st P53
NUEVA VIZCAYA	35.52%	36	27,377,636.00	36	36	4th P54
PALAWAN	30.94%	44	0.00	75	59.5	2nd P55
PAMPANGA	54.22%	17	70,671,657.00	7	12	1st P56
PANGASINAN	48.99%	20	60,268,896.00	14	17	1st P57
QUEZON	30.48%	45	69,208,664.00	8	26.5	1st P58
QUIRINO	27.80%	51	9,225,440.00	66	58.5	5th P59
RIZAL	48.38%	22	306,789,199.00	2	12	2nd P60

REAL PROPERTY TAX COLLECTION EFFICIENCY 1987/1989

LGU	COLLECTION EFFICIENCY	RANKING 89	Income	Income Rank	89/Income Average	Income Class
ROMBLON	40.51%	33	9,970,309.00	64	48.5	5th P61
SIQUIJOR	34.60%	38	7,941,693.00	68	53	6th P62
SORSOGON	31.66%	42	33,491,800.00	29	35.5	3rd P63
SOUTH COTABATO	44.07%	27	41,288,378.00	24	25.5	1st P64
SOUTHERN LEYTE	25.65%	54	18,130,000.00	54	54	4th P65
SULTAN KUDARAT	19.81%	60	31,021,729.00	31	45.5	4th P66
SULU	9.62%	68	15,209,598.00	60	64	4th P67
SURIGAO DEL NORT	42.68%	29	21,878,773.00	49	39	4th P68
SURIGAO DEL SUR	104.60%	1	27,041,988.00	37	19	3rd P69
TARLAC	46.34%	25	111,314,156.00	4	14.5	1st P70
TAWI-TAWI	5.91%	72	7,898,404.00	69	70.5	6th P71
WESTERN SAMAR	20.44%	58	22,006,320.00	47	52.5	3rd P72
ZAMBALES	48.77%	21	29,863,944.00	35	28	3rd P73
ZAMBOANGA DEL N	21.06%	57	26,542,219.00	39	48	3rd P74
ZAMBOANGA DEL S	35.10%	37	44,322,471.00	23	30	2nd P75

LGU	Income Class	TAX	TAX	Page 1 of 2
		COLLECTION EFFICIENCY	RANKING H-L 1-56	Income
C1 ANGELES	1st	70.97%	7	81,360,125.00
C2 BACOLOD	1st	61.10%	11	103,923,800.00
C3 BAGO	4th	56.75%	24	27,629,436.00
C4 BAGUIO CITY	1st	60.16%	12	107,057,365.00
C5 BAIS	3rd	57.10%	23	18,014,364.00
C6 BATANGAS	1st	59.90%	15	63,084,852.00
C7 BUTUAN	1st	58.92%	16	68,146,884.00
C8 CABANATUAN	2nd	42.51%	36	49,891,768.00
C9 CADIZ	3rd	58.37%	20	32,817,347.00
C10 CAGAYAN DE ORO	1st	31.23%	47	98,384,971.00
C11 CALBAYOG	3rd	12.38%	52	44,259,508.00
C12 CANLAON	5th	38.60%	41	10,681,834.00
C13 CAVITE	4th	37.69%	42	25,917,732.00
C14 CEBU	1st	32.32%	45	250,021,424.00
C15 COTABATO	3rd	55.32%	25	32,228,312.00
C16 DAGUPAN	2nd	60.02%	13	36,731,522.00
C17 DANAOG	5th	25.23%	50	15,869,840.00
C18 DAPITAN	5th	39.24%	39	15,939,882.00
C19 DAVAO	1st	23.46%	51	203,043,002.00
C20 DIPOLOG	5th	48.21%	32	24,188,889.00
C21 DUMAGUETE	3rd	72.82%	6	29,633,358.00
C22 GEN. SANTOS	1st	57.82%	22	72,751,026.00
C23 GINGOOG	3rd	49.25%	31	31,579,409.00
C24 ILIGAN	1st	59.99%	14	90,623,869.00
C25 ILOILO CITY	1st	43.63%	35	102,665,214.00
C26 IRIGA	4th	30.95%	48	21,394,484.00
C27 LA CARLOTA	4th	81.66%	4	26,442,802.00
C28 LAOAG	3rd	50.35%	29	31,383,710.00
C29 LAPULAPU	3rd	80.02%	5	29,196,839.00
C30 LEGAZPI	3rd	31.55%	46	34,062,262.00
C31 LIPA	3rd	52.41%	26	35,076,351.00
C32 LUCENA	3rd	57.97%	21	40,412,915.00
C33 MANDAUE	2nd	7.69%	54	43,046,092.00
C34 MARAWI	5th	0.00%	56	10,552,352.00
C35 NAGA	3rd	37.67%	43	37,058,220.00
C36 OLONGAPO	1st	58.57%	18	200,026,640.00
C37 ORMOC	2nd	26.27%	49	36,440,402.00
C38 OROQUIETA	5th	49.85%	30	19,556,954.00
C39 OZAMIS	4th	68.00%	9	33,503,846.00
C40 PAGADIAN	4th	41.65%	38	44,048,027.00
C41 PALAYAN	6th	0.00%	55	6,081,124.00
C42 P. PRINCESA	2nd	109.21%	1	62,345,141.00
C43 ROXAS	3rd	66.79%	10	24,808,237.00
C44 SAN CARLOS I	3rd	58.44%	19	23,009,416.00
C45 SAN CARLOS VI	4th	82.36%	3	27,592,719.00
C46 SAN JOSE	4th	38.76%	40	21,986,417.00
C47 SAN PABLO	2nd	51.35%	27	36,537,933.00
C48 SILAY	3rd	66.00%	2	30,841,984.00
C49 SURIGAO	3rd	33.03%	44	30,360,572.00
C50 TACLOBAN	2nd	50.73%	28	37,483,157.00
C51 TAGAYTAY	5th	47.66%	34	11,946,272.00

LGU	Income Class	TAX COLLECTION EFFICIENCY	TAX RANKING H-L 1-56	Income
C52 TAGBILARAN	4th	58.62%	17	21,295,475.00
C53 TANGUB	4th	42.44%	37	12,885,056.00
C54 TOLEDO	2nd	12.05%	53	31,002,384.00
C55 T. MARTIREZ	6th	70.60%	8	6,309,865.00
C56 ZAMBOANGA	1st	47.78%	33	124,009,853.00

NOTES ON SPECIFIC LGUs FOR 1989 TAX COLLECTION FIGURES:

PROVINCES

1. Catanduanes' total collection does not include collections from April to June.
2. Eastern Samar's actual collection figures is only as of July.
3. Both Sulu and Tawi-tawi's total collections do not include collections from April to September.
4. North Cotabato's total collection does not include figures from March to June and September.

CITIES

1. Cagayan de Oro's total collection does not include figures for August.
2. Calbayog's total collection does not include figures for March.
3. Davao City's collections for February and March are not included.
4. Dipolog City's collections for April and September are not included.
5. Ormoc city's collections for March and September are not included.
6. Pagadian's total collection does not include figures for September.
7. Surigao's total collection does not include figures for April.

NOTES ON DERIVING TAX COLLECTION FIGURES:

1. The Real Property Tax collected by LGUs (7) is composed of the Basic (5) and Special Educational Fund (6). The amount of tax collected as shown in the table only represents the collections for the current year and does not include the delinquent taxes from previous years.
2. For each current year, the estimated Real Property Tax collection (4) is based on the assessed value of all taxable lands (2) multiplied by the tax rate (3).

Prior to 1989, the annual target is simply estimated collection for the current year. From 1989 onward, the annual target is placed at 75% of the delinquent taxes plus 80% of the estimate collection for the current year.

For purposes of uniformity, the annual target for 1987-89 used in the table is based on the old formula.

3. The formula for tax collection efficiency is as follows:

$$\frac{\text{Actual Collection for the Current Year}}{\text{Target Collection for the Current Year}} = \text{Collection Efficiency}$$

Target Collection for the Current Year

ANNEX F

**CERTIFICATION PURSUANT TO SECTION 611(e)
OF THE FOREIGN ASSISTANCE ACT
OF 1961, AS AMENDED**

CERTIFICATION PURSUANT TO SECTION 611(e)

OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, MALCOLM BUTLER, 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, and the technical assistance to be provided under the Project to further the country's capacity to maintain equipment and support economic growth, do hereby certify that in my judgment, the Philippines has both the financial capability and the human resources to maintain and utilize effectively the capital improvements and facilities effected under this proposed Local Government Infrastructure Fund Project.

This judgment is based upon the project description and analyses as detailed in the Local Government Infrastructure Fund Project Paper and is subject to the conditions imposed therein.

Malcolm Butler

MALCOLM BUTLER
Director, USAID/Philippines

SEP 30 1991

Date

ANNEX G

SOCIAL SOUNDNESS ANALYSIS

SOCIAL SOUNDNESS ANALYSIS

The Local Government Infrastructure Fund project has its roots in a history of successfully implemented small scale infrastructure projects funded under the Economic Support Fund program. An impact evaluation of that program completed in May 1991 states that "the results of the program have been largely beneficial and have produced important social and economic benefits for poorer segments of the population." It is therefore reasonably safe to conclude that the additional small scale infrastructure funded under this project will also have a beneficial social impact. Nevertheless, this analysis will examine six aspects of social acceptability, namely the socio-cultural context, identification of beneficiaries, a determination of participation, socio-cultural feasibility, a measurement of impact, and an identification of potential issues.

A. Socio-Cultural Context

In a study prepared in 1989 by Sylvia Guerrero and Alex Brillantes, the authors state that Filipinos have

a bureaucratic culture dominated by a pervasive ethic of centralism. The political system was and continues to be characterized by a web of constituency patronage, kinship relationships, and family dynasties considered by many to be paternalistic and authoritarian. Such bureaucratic culture has been reinforced by concentration of politico-administrative decision-making authority in Manila.

One of the basic tenets of Corazon Aquino's bid for presidency and subsequent administration is her belief in the need to decentralize government operations and extend control and resources to the local level. To that end, a Local Government Code had been introduced and is currently being debated in the Philippine Congress. Progress is slow, however, and in fact little real decentralization is actually practiced.

Decentralization can take place through several mechanisms, the most familiar of which are (i) delegation of authority or (ii) transfer of authority. Some delegation of authority from central offices to regional and/or provincial offices has taken place, but these delegations still result in significant control by the center over the periphery. The aim of the Local Government Code is to transfer authority, but resistance to that transfer has bogged the legislation down in struggles between contending interests and committees.

Although the success of the LGIF project does not depend on the enactment of the Local Government Code, this project is designed to demonstrate that the transfer of authority will work.

The project has in place several screening mechanisms to ensure compliance and accountability, but once a subproject is decided on with a local government that government will have complete authority to undertake the subproject and responsibility to complete it. The project is designed to improve the efficiency of decision making by putting control into the hands of local authorities and removing the control and interference of central authorities.

There is a condition that may exist which may have impact on the project, and that is the allegation that corruption is rampant at the local level and that it is in fact the presence of the national authority that brings some honesty into the transaction. There is no known hard evidence that this is true, and in fact there is evidence that national level bureaucrats are often quite corrupt. The existence of corruption at the local level would undoubtedly result in higher unit costs for this project (since someone must pay in the end), but the controls and inspections built into the project would ensure the quality of the construction and would undoubtedly minimize any untoward payments. Thus, even if corruption does exist at the local level, it is disturbing but not a significant threat to the achievement of either project goal or purpose.

Accordingly, there is no known socio-cultural condition that will prevent the achievement of this project's goal and purpose.

B. Beneficiaries

The primary beneficiaries of this project are the citizens who will use the infrastructure provided under the project. The impact evaluation of the Economic Support Fund infrastructure program found that school construction "is clearly the most successful element of the program" and that "ESF schools are used primarily by children from poor to lower-middle income families in both rural and urban areas." That evaluation goes on to state that "when asked about the effects [sic] of the ESF school buildings on student performance and the quality of education, principals and other local officials consistently reported improvements in these areas." The evaluation concludes that "schools have an immediate and direct beneficial impact on the local community. The presence of an adequate school building constitutes an important contribution to the standard of living in these communities, as reflected in the high value attributed to the schools by public officials and the local population."

Roads were the second most important component of the ESF infrastructure program, and the evaluation found "the types of positive effects [sic] normally associated with road improvements, i.e., ...increased agricultural production, commercial sales and local business activity; ...reduce[d] travel time and

transportation costs; and...improve[d] social conditions of the community." A study completed by Louis Berger International, Inc., in joint venture with TCGI Engineers dated August 1991 indicates that roads will have a positive benefit on area incomes, accessibility to social or extension services, and education and health. The study points out that women tend to benefit from roads, especially if they engage in marketing activities, are pregnant, or have children (they note, however, that roads increase mobility and sometimes result in men leaving home in search of better opportunity, a distinct disadvantage to most women). Levels of business activity are closely associated with roads and the availability of transportation, as access to markets is crucial to an expanded economy.

Similarly, the construction of public markets stimulates economic interaction and business growth. The evaluation of the ESF infrastructure program found that

ESF-funded markets substantially increased the number of stalls available to vendors.... It was also apparent that the new municipal market constituted an important center, if not the core, of local commercial activity for consumer goods and services. The markets were typically ringed by other business establishments on the same or neighboring streets.

Unfortunately, the evaluation also found that public markets were often over designed, subject to significant cost overruns, mismanaged, and (as a consequence) usually financially inviable. By adopting standard designs and careful evaluation of market needs, this project will avoid this problem.

The secondary beneficiaries of this project are the local government officials who participate in the project. Those determined to be already fully competent will get immediate hands on experience in planning, designing, and implementing small scale infrastructure construction projects. Those deemed not yet fully competent will receive training designed to enhance their skills so that they become fully competent.

Tertiary beneficiaries of this project will be national government officials who will get experience in decentralization of decision making and reallocation of resources. The basic tenets of the Local Government Code will be tested and validated. Finally, but by no means least, citizens throughout the country will get experience in representative government, and local governments will feel the pressure of involvement in decision making and public performance.

C. Participation

Citizen participation is a key concept in this project and in

the entire philosophy of decentralization. With wealth and political power highly concentrated at the center or in elite families or interest groups, it is not surprising that a culture of dependency characterizes Filipino citizenry. Guerrero and Brillantes state that

In such a setting, one expects an ambivalence expressed through reluctance or indifference.... This duality stems from a conflict between concretizing [sic] the political will to pursue local autonomy on one hand and, on the other, the tight network of interwoven interests and alliances designed to maintain power and control over one's perceived territorial and jurisdictional turfs.

Recent events, however, have demonstrated that local citizens often are more willing and able to take a hand in events than they are normally given credit for. One such event, of course, was the People Power Revolution which swept the Aquino government into power in 1986. Average citizens took to the streets and shook the existing bureaucracy and power elite until it collapsed. The fact that the vacuum that then existed was filled by a former elite until then disenfranchised has not detracted from the act itself. It is not unusual to hear Filipinos express discouragement with the current government, and to hear them fervently state that they brought the previous government down and they can do it again if necessary. Current events in the Soviet Union reinforce beliefs that the people should, indeed must, be in control of their governments.

As education levels increase throughout the Philippines, and as modern communication systems flood the countryside with news of events throughout the nation and the world, the nature of Filipino participation in events will probably change and increase. Citizens more and more expect honest government that represent their wishes, and they show every indication of exercising their powers of citizenship to ensure that they receives it. Citizens already organize to monitor the honesty of elections, believing that honest elections will increase the power of the ballot. As citizens perceive their power increasing, they will expect more responsiveness from elected officials. No where will this be more evident than at the local level, where the old way of doing things just won't be acceptable any longer. The average citizen wants roads, schools, a better way of life. If local government is not providing those amenities, that government will soon feel pressure to produce them or vacate office.

D. Socio-Cultural Feasibility

There are indications that decentralization may not be readily achieved in the Philippines. The proposed Local Government Code, in spite of its being a major plank of President Aquino's platform,

has been reviewed, revised, and revisited in Congress, but has not been passed. To some extent, this may be a conflict between delegating (sharing) power as opposed to transferring (relinquishing) it. Indeed, Guerrero and Brillantes state

There is the bottom line observation that a local government code containing meaningful decentralization measures will never be passed by the members of the House because that will mean a diminution of their powers and authority (and stature) at the district level, in favor of the local chief executives (governors and mayors), who in many cases are their political rivals in the province.

In order to enhance (and perhaps publicize) their power, local government executives have begun to organize themselves to advocate meaningful decentralization. Among the organizations that have been formed are the League of Provincial Governors, the Municipal Mayors League, the League of Cities, the League of Vice Governors and Vice Mayors, the Provincial Board Members Association, and the League of Barangay Councilmen. According to Guerrero and Brillantes, these leagues held a national convention attended by more than 2,000 members during which a set of resolutions were adopted.

Additionally, the leagues declared that if the legislature fails to enact a meaningful local government code..., they will take their case to the people...and enact their own version of a local government code. Such a proposed code, which was hammered out during the national congress, essentially addresses the basic concerns of administrative, financial, and planning authority.

Although to date there has been no such national plebiscite, the very fact that local government executives contemplated it indicates the beginning of a shift in the power base from the center to the local entities. Thus, while true decentralization remains a future goal for the Philippines, it is quite clear that decentralization is not infeasible as a proposition.

E. Impact

Based on the history and the evaluation of the ESF infrastructure program, there is little doubt that this project will have a beneficial impact on the communities in which small scale infrastructure is constructed. What is less clear is whether the local governments will be able to continue to obtain the resources needed to sustain an effort of planning, designing, implementing, and maintaining small scale infrastructure.

It is the expressed desire of the President of the Philippines that a mechanism be established and institutionalized that provides

a means whereby the national government can transfer authority and resources to local governments. This project supports that desire. However, the mechanism hereby established is an interim measure, designed to facilitate implementation of this project. Other mechanisms would undoubtedly be put in place to implement the Local Government Code. What then is the value of establishing this interim mechanism?

Several reasons stand out. The first is to demonstrate that local governments are competent and capable of undertaking infrastructure construction on their own. One of the recurring concerns raised by national officials is that, after a history of central decision making and implementation, local governments are not capable of undertaking the tasks required. This project would demonstrate that local governments either are capable or can be made capable with a minimum of specifically focused training courses.

A second reason is to counter the oft repeated charge that giving money to local governments would be the same as throwing it away because of local inefficiency and corruption. By making the transactions as transparent as possible, and making the local officials responsible for delivery of a completed, acceptable, usable product, this project will demonstrate that providing resources directly to local governments will reduce inefficiency and corruption. Evaluations of this project should be able to measure an increase in efficiency of implementation and a reduction of cost in building appropriate local infrastructure.

A third reason, and perhaps the most compelling, is just to give decentralization a chance. Decentralization by its very nature is a high risk proposition. A recent study sponsored by the World Bank (titled Decentralization in Developing Countries: A Review of Recent Experience) concludes "Despite its vast scope, decentralization has seldom, if ever, lived up to expectations."

The lessons learned from the World Bank study indicate that effective decentralization is unlikely to be accomplished by massive retreat of central agencies from local involvement. Rather, an active partnership of both central and local institutions will be necessary if the strategy is to succeed. Over time, and with experience, the mix of local and central responsibilities will change, but the changes will be of an evolutionary rather than a revolutionary nature. (Research Triangle Institute, 1991)

With an implementing agency located in a national office very concerned with and eager to implement decentralization, this project is in an unique position to balance national and local involvement in implementation. The lessons learned from this project should be very helpful in the eventual implementation of the Local Government Code.

F. Issues

Obviously, from the discussion above, there are any number of issues that bear on the success of the project. Among the more prominent are the following:

- will the national government, political leaders, and local governments agree on decentralization and actually do it?
- are the local governments capable and responsible enough to implement this project, or will its development impact be diffused by pork barrel interests?
- will the local citizenry become involved in this project and participate in an exercise of responsible and responsive government?

The answers to those questions will reveal themselves in the future, but unfortunately they are not evident right now. There is a great deal of evidence (and optimism) that leans toward positive answers, and based on that evidence this project seems a risk worth taking.

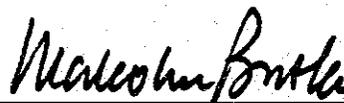
One thing is evident at this time -- a history of beneficial impact from the construction of small scale infrastructure. Thus, even if the decentralization effort fails, the infrastructure will still be in place and will be used and enjoyed by the project beneficiaries.

ANNEX H

GRAY AMENDMENT CERTIFICATION

CERTIFICATION PURSUANT TO UTILIZATION
OF GRAY AMENDMENT ORGANIZATION

I, MALCOLM H. BUTLER, principal officer of the Agency for International Development in the Philippines, have fully considered the potential involvement of small and/or economically and socially disadvantaged enterprises, and do hereby certify the U.S. technical assistance required under the program will be provided through open competition, with special consideration given to firms submitting proposals which utilize the resources of small and disadvantaged firms. In addition, for program evaluation, efforts will be made to award contracts to small and/or disadvantaged firms. My judgment is based on the recommendations of the Program and Mission Review Committees.



MALCOLM H. BUTLER
Director, USAID/Philippines

ANNEX I
ENVIRONMENTAL ANALYSIS

INITIAL ENVIRONMENTAL EXAMINATION

- (A) PROJECT COUNTRY: Philippines
- (B) ACTIVITY: Local Government Infrastructure Fund Project
(492-0453)
- (C) A.I.D. FUNDING: \$100 million
- (D) PERIOD OF FUNDING: FY 1991 - FY 1994
- (E) STATEMENT PREPARED BY: Earl W. Goss, DRM
USAID/Philippines
- (F) ENVIRONMENTAL ACTION RECOMMENDED: Positive determination pursuant to Section 216.3 (a) (2) (iii), for a project-scale Environmental Assessment (EA) that will develop screening criteria for the review of potential subprojects; no monies for subproject construction contract should be committed until such time as the project office has verified that the subproject is fully in compliance with the review procedures established by the EA.
- (G) ENVIRONMENTAL OFFICER CLEARANCE: John C. Starnes
John C. Starnes, OCP
USAID/Philippines
- (H) DECISION OF USAID/PHILIPPINES DIRECTOR:
APPROVED: Heather Smith
DISAPPROVED: _____
DATE: AUG 27 1991
- (I) DECISION OF ASIA BUREAU ENVIRONMENTAL OFFICER:
APPROVED: M. B. APPRO/DK
DISAPPROVED: _____
DATE: 8-29-91

PROPOSED PLAN FOR FULFILLING AGENCY ENVIRONMENTAL PROCEDURES IN THE LOCAL GOVERNMENT INFRASTRUCTURE FUND PROJECT (492-0463)

Summary of the Project:

The Local Government Infrastructure Fund (LGIF) project is intended to provide small scale infrastructure, outside of the national capital region, to increase economic productivity, especially in the private sector and to promote participation and decentralization of the development process. Sub-projects will be chosen in the jurisdictions of these local governments which have demonstrated a capacity for responsible financial and administrative management and infrastructural maintenance capabilities. Decision-making and financial control of the sub-projects will be transferred to such governments. This strategy ideally is aimed at rewarding sound, responsible local government.

Approximately 250 small-scale infrastructure sub-projects will be carried out in about 70 provinces and chartered cities. Sub-projects include secondary schools, barangay roads, simple markets, and small health clinics. Some basic environmental infrastructure is also anticipated. The project is for five years and budgeted at \$100 million. Structural designs will be standardized with site adaptation, where necessary, in order to control costs and efficiency.

Since the proposed project deals with the construction of infrastructure, any individual sub-project could have potentially significant environmental impacts. However, since most of the projects are relatively small and on existing sites and alignments, there is a high probability that careful design, management guidelines and specific mitigation measures can be built into the project design process to address environmental concerns for most if not all sub-projects.

This environmental analysis describes how the project will fulfill the agency statutory requirements for assessment and review of potential environmental impacts in this project. It is not the environment assessment for the LGIF Project.

Proposed Environmental Procedures for the Project

1. Summary of A.I.D. Environmental Procedures

A.I.D.'s environmental procedures are described in 22 OFE 216. The principal steps in the assessment process are summarized in Table 1. The purpose of these procedures is to identify as early in the project's planning and design as possible potential significant impacts on natural resources, environmental systems and important socio-economic groups and cultural resources. The Bureau Environmental Coordinator (BEC) must approve all major

environmental documents, prior to authorization of funds. It is the responsibility of the Mission project officer to forward such documentation to the BEC expeditiously leaving enough time before construction contracting to allow for adequate review and EA revision, if necessary. Each environmental document is an integral part of the project design process:

TABLE 1: Summary of Major Steps in AID's Environmental Procedures

A.I.D. Environmental Procedure	DESCRIPTION OF ENVIRONMENTAL PROCEDURE	BUREAU ENVT'L COORD. APPROV'L
(1) Initial Env'l. Examination (IEE)	screening of projects to describe the possibility of significant environmental impacts; if possible, then (2);	Yes
(2) Scoping Process	determination of major and minor issues through expert consultations and public hearings; scoping report should include (3)	Yes
(3) EA TOR and Scope of Work	Specifies format and scope of EA; types of analyses and disciplines required for EA	in scoping report
(4) Preparation of EA or EIS	Description of project alternatives and setting; analysis of impacts; recommended alternative; mitigation and monitoring plan (Environmental Plan Action)	Yes
(5) Preparation of Sub-Project EA/EIS	Same as above where sub-project site, construction information not available at start of project; EA must be approved before sub-project funds authorization.	Normally Yes
(6) Monitoring	Environmental monitoring is an integral part of project implementation to at least the same extent as other aspects of the project	Part of the EA
(7) Revisions	In the event of major changes in scope or nature of project, during its implementation, a threshold determination shall be made again and, if positive, above procedures carried out again	Yes

a) Environmental Impact Statements are required if a proposed activity will have significant impact(s) on: a) the United States;

b) the global summons; c) more than one country. The EIS procedures are similar to those in domestic U.S. law.

IEE (PID/PAIP), Scoping Process, EA and Environmental Plan of Action (PP/PAAD) The calculation of the project budget should allow for any monitoring and mitigation measures, identified in the "Environmental Plan of Action".

As Table 1 indicates, all sub-projects with potential significant environmental impacts would need to go through the EA process. However, the environmental review process is intended to improve project design and implementation, not to delay unnecessarily projects from being implemented. Hence, this environmental analysis of the LGIF Project is aimed at devising a set of procedures which reduce the level of environmental risk and uncertainty of a sub-project to acceptable levels.

2. Proposed LGIF Project Environmental Procedures

As the project description indicates, the LGIF project contains a wide variation in the relative environmental risk of any given sub-project. Hence, a replacement or new schoolbuilding on an existing campus designed with the appropriate utilities, may pose considerably fewer environmental risks than a large urban market located on a new and busy site, for example. However, there are several characteristics to the LGIF project design which reduce its overall relative environmental risk. Proposed sub-project types usually are:

- a) additions to existing structures or upgrades of existing alignments;
- b) small-scale, on sites specifically designed for such facilities;
- c) designed on the basis of standardized, easy to maintain/repair models which are site-adapted and built to good construction standards.

Still, there are likely to be some significant environmental impacts for some sub-projects. In order to focus on those sub-projects which pose greater risks than others, the environmental assessment required for this project will first screen and categorize projects by type, scale and ability to build mitigation in sub-project design (as opposed to site identification or operational concerns). A second screening and category stage will classify sites and operation/maintenance needs by the likelihood of significant environmental impact potential. Design, construction, and administrative mitigation measures will be proposed for those projects which might have environmental problems that can be addressed without a full EA, followed by monitoring and inspection. This will reduce the number and types of sub-projects requiring EAs to a more manageable number, in so doing, improving the likelihood that those assessments will be completed well and in a timely

fashion. In sum, the proposed environmental assessment process for the LGIF would follow the sequence described in Table 2, below.

As this table indicates only the subset of relatively high risk sub-project types will require EAs while a likely larger subset would be addressed in the design stage, as intended in the agency's environmental review process. This will require the project design committee to work closely with the MEO-OCP in the formulation of sub-project technologies and proposed screening, mitigation and monitoring measures. This appears to be feasible for this mission.

In the following section, this analysis presents a sample screening and management/mitigation plan for a particular sub-project type. The sample is simply illustrative of the approach proposed for the EA of this project. Project Officers, MEOs and their counterparts should avoid the temptation to resort to "template" or "cookbook" approaches to screening, scoping and assessment. Scale, duration, intensity, site and secondary impacts, amongst others are likely to vary significantly by site.

Barangay Road Sub-Projects: Environmental Risk Classification and Mitigation Plan

The construction of such roads, in this and its predecessor (ESF) project, normally on existing alignments, may be a common type of small-scale infrastructure project for the LGIF.

These roads are built to a standard design in terms of dimensions, and standard engineering guidelines are used for bed and surface materials, grades, drainage and so forth. The actual alignment and design is site adapted by a local engineering firm, where necessary (terrain, necessity for drainage and re-grading, etc.) Other important elements, such as the source of quarry materials and secondary impacts, however, may not be considered in the design process but will, nevertheless, affect the sub-project environment. Hence, the procedure outlined below will identify, using barangay roads as an example:

- a) types of projects to be excluded/included for EA;
- b) site conditions likely to be vulnerable and for which further investigation is warranted, either in a partial EA or monitoring plan;
- c) activities or components of sub-projects by type which have to be included in environmental assessments and monitoring.

TABLE 2: Summary of Major Steps in the Environmental Review Process of the LGIF Project

Environmental Analysis, Description of the Project. Inclusion for EA and Methodology of the Study and Screening, Implementation Process Section and Annex of Project Paper.	MEO and BEC
Environmental Assessment of Project. Purpose is to assess 150 infrastructure projects to describe relative environmental measures for mitigation, design modification, management and supervision measures for low risk sub-projects, identify high risk sub-projects, formulate monitoring plan and project environmental guidelines to local government contractors where necessary.	MEO and BEC

Sub-Project Requiring EA	Review and Approval	Sub-Projects Directly to Construction	Review and Approval
<p>1. <u>Scoping Process</u> Hearings, consultations EA scope of work Workplan schedule</p>	<p>MEC and BEC</p>	<p>1. <u>Design and Site Adaptation</u> site inspection/ consultation with local gov't. prep. of site adaptation plan</p>	<p>Project Officer/ MEO</p>
<p>2. Field work and Draft EA with alternatives, mitigation and monitoring plan</p>	<p>MEO and Project Officer</p>	<p>2. Construct- ion super- vision, specifically including environmental parameters</p>	<p>local engineering firm, Project Officer</p>
<p>3. Review and Revisions (if necessary)</p>	<p>BEC and MEO</p>	<p>3. Post-construct- ion, Monitoring/ maintenance</p>	<p>local gov't.</p>
<p>4. Proceed to construction with Mitigation (if necessary)</p>	<p>local eng. firm/ gov't./ Proj. Off.</p>	<p>4. Impact evaluation of overall project with an environmental component</p>	<p>Project Officer/ MEO</p>
<p>5. Project monitoring and impact evaluation</p>	<p>local gov't., Proj. Off./MEO</p>		

ANNEX J
PROJECT IMPLEMENTATION GANTT CHART

LOCAL GOVERNMENT INFRA. FUND
 IMPLEMENTATION SCHEDULE
 AS OF SEPTEMBER 1, 1991

	1993												
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
1 Project Authorization													
2 PROGS Signed													
3													
4 Environmental Assessment													
5 TOR & SOW Developed	+	+	+	+	+	+	+	+	+	+	+	+	+
6 AID/W Review and Approval													
7 Environmental Assess													
8													
9 Conditions Precedent													
10 Standard CPs	+	+	+	+	+	+	+	+	+	+	+	+	+
11 New IO Created													
12 Sample IO/LGU Agree													
13 IRC Formation													
14 Dollar Uses													
15													
16 Contracting													
17 IFB for Gen Contr													
18 CBO Notice													
19 Mobilization													
20 PSA Firm Selected													
21													
22 Implementation - Year 1													
23 LGU Assessments													
24 Dollar Disbursement													
25 Review of Stnd Designs	+	+	+	+	+	+	+	+	+	+	+	+	+
26 CMES List													
27 List of Constr Contr													
28 LGU Selection													
29 LGU/IO Agreements - 5-10	+												
30 Dollar Disbursement #2	+	+	+	+	+	+	+	+	+	+	+	+	+
31													
32 Implementation - Year 2	*												
33 LGU Assessments Year2													
34 IO/LGU Agreements - 10-15													
35 Dollar Disbursement #3		+											
36 Update Stnd Designs				*									
37 Dollar Disbursement #4													
38 Process/Impact Evaluation										*			
39													
40 Implementation - Year 3													
41 LGU Assessments Year3	+	+	+	+	+	+	+	+	+	+	+	+	*
42 IO/LGU Agreements 20-30													
43 Dollar Disbursement #5													
44 Stnd Design Update													
45 Dollar Disbursement #6	+	+	+	+	+	+	+	+	+	+	+	+	+
46													
47 Implementation - Year 4													
48 LGU Assessments Year 4													
49 LGU/IO Agreements 20-30													
50 Dollar Disbursement #7	+	+	+	+	+	+	+	+	+	+	+	+	+
51 Design Update													
52 Dollar Disbursement 8													
53													
54 Implementation - Year 5													
55 Last IO/LGU Agreements 10-15	+	+	+	+	+	+	+	+	+	+	+	+	+
56 Last Dollar Disbursement													
57 Impact Evaluation													
58 PACD													

LOCAL GOVERNMENT INFRA. FUND
IMPLEMENTATION SCHEDULE
AS OF SEPTEMBER 1, 1991

	1995					1995					Nov	Dec	
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep			Oct
1 Project Authorization													
2 PRDAG Signed													
3													
4 Environmental Assessment													
5 TOR & SOW Developed	+	+	+	+	+	+	+	+	+	+	+	+	+
6 AID/W Review and Approval													
7 Environmental Assess													
8													
9 Conditions Precedent													
10 Standard CPs	+	+	+	+	+	+	+	+	+	+	+	+	+
11 New IO Created													
12 Sample IO/LGU Agree													
13 IRC Formation													
14 Dollar Uses													
15													
16 Contracting	+	+	+	+	+	+	+	+	+	+	+	+	+
17 IFB for Gen Contr													
18 CBO Notice													
19 Mobilization													
20 PSA Firm Selected	+	+	+	+	+	+	+	+	+	+	+	+	+
21													
22 Implementation - Year 1													
23 LGU Assessments													
24 Dollar Disbursement													
25 Review of Std Designs	+	+	+	+	+	+	+	+	+	+	+	+	+
26 CMES List													
27 List of Constr Contr													
28 LGU Selection													
29 LGU/IO Agreements - 5-13													
30 Dollar Disbursement #2	+	+	+	+	+	+	+	+	+	+	+	+	+
31													
32 Implementation - Year 2													
33 LGU Assessments Year2													
34 IO/LGU Agreements - 13-15													
35 Dollar Disbursement #3	+	+	+	+	+	+	+	+	+	+	+	+	+
36 Update Std Designs													
37 Dollar Disbursement #4													
38 Process/Impact Evaluation													
39													
40 Implementation - Year 3													
41 LGU Assessments Year3													
42 IO/LGU Agreements 23-30													
43 Dollar Disbursement #5													
44 Std Design Update													
45 Dollar Disbursement #6	+	+	+	+	+	+	+	+	+	+	+	+	+
46													
47 Implementation - Year 4													
48 LGU Assessments Year 4													
49 LGU/IO Agreements 23-30	-----												
50 Dollar Disbursement #7													
51 Design Update													
52 Dollar Disbursement 8													
53													
54 Implementation - Year 5													
55 Last IO/LGU Agreements 13-15	+	+	+	+	+	+	+	+	+				
56 Last Dollar Disbursement													
57 Impact Evaluation													
58 PACD													

LOCAL GOVERNMENT INFRA. FUND
IMPLEMENTATION SCHEDULE
AS OF SEPTEMBER 1, 1991

	1995					1996						
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1 Project Authorization												
2 PROAG Signed												
3												
4 Environmental Assessment												
5 TOR & SOW Developed	+	+	+	+	+	+	+	+	+	+	+	+
6 AID/W Review and Approval												
7 Environmental Assess												
8												
9 Conditions Precedent												
10 Standard CPs	+	+	+	+	+	+	+	+	+	+	+	+
11 New IO Created												
12 Sample IO/LGU Agree												
13 IRC Formation												
14 Dollar Uses												
15	+	+	+	+	+	+	+	+	+	+	+	+
16 Contracting												
17 IFS for Gen Contr												
18 CSO Notice												
19 Mobilization												
20 PSA Firm Selected	+	+	+	+	+	+	+	+	+	+	+	+
21												
22 Implementation - Year 1												
23 LGU Assessments												
24 Dollar Disbursement												
25 Review of Stnd Designs	+	+	+	+	+	+	+	+	+	+	+	+
26 CM&S List												
27 List of Constr Contr												
28 LGU Selection												
29 LGU/IO Agreements - 5-13												
30 Dollar Disbursement #2	+	+	+	+	+	+	+	+	+	+	+	+
31												
32 Implementation - Year 2												
33 LGU Assessments Year2												
34 IO/LGU Agreements - 13-15												
35 Dollar Disbursement #3	+	+	+	+	+	+	+	+	+	+	+	+
36 Update Stnd Designs												
37 Dollar Disbursement #4												
38 Process/Impact Evaluation												
39												
40 Implementation - Year 3												
41 LGU Assessments Year3	+	+	+	+	+	+	+	+	+	+	+	+
42 IO/LGU Agreements 23-30												
43 Dollar Disbursement #5												
44 Stnd Design Update												
45 Dollar Disbursement #6	+	+	+	+	+	+	+	+	+	+	+	+
46												
47 Implementation - Year 4												
48 LGU Assessments Year 4												
49 LGU/IO Agreements 23-30												
50 Dollar Disbursement #7	+	+	+	+	+	+	+	+	+	+	+	+
51 Design Update												
52 Dollar Disbursement 8												
53												
54 Implementation - Year 5												
55 Last IO/LGU Agreements 13-15	+	+	+	+	+	+	+	+	+	+	+	+
56 Last Dollar Disbursement	*											
57 Impact Evaluation												
58 PACD								*				