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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

It is recommended that: (1) the Regional Development Fund Project (RDF) No. 492-0374 be amended to add \$40 million to the previously authorized level of \$45 million; (2) the \$50 million ESF scheduled for obligation in FY 84 be totally allotted to the RDF project; (3) the project activities carried out under this amendment be for schools and local roads; and (4) construction of these schools and roads be located throughout the Philippines, rather than only in Region III.

B. Summary Description

Under this project, peso funds will be made available to:

1. Support GOP efforts to construct approximately 3,200 kilometers of local roads nationwide; and
2. Support GOP efforts to provide an additional 4,200 school classrooms through the construction of approximately 1,300 one level three-room schools and two storey six-to-thirty-room schools.

C. Findings

Previous analyses under the Regional Development Fund (RDF), the Elementary Schools Construction Project and the Rural Roads Programs have concluded that the proposed projects are technically, financially and socially sound and that the planning is sufficiently developed for implementation to begin. Specific findings are:

1. A major shortage of all weather local roads and adequate classrooms, particularly at the elementary and secondary level, continues to exist throughout the Philippines;
2. GOP designs of planned new facilities have been reviewed and endorsed by USAID;
3. The planned new facilities which will cover nearly all provinces in the Philippines will have a broad impact and assist in improving the socio-economic conditions within their area of coverage. Leadership at all levels has strongly supported earlier programs to build typhoon-resistant schools and local roads;
4. The proposed engineering designs and technical standards are reasonable and the implementation of the project is fully within the capability of the GOP.

II. JUSTIFICATION FOR AMENDMENT

The Philippines has been severely affected in recent years by a series of adverse economic developments. These have been both internal and external in nature. To cope with these developments, the Government of the Philippines reduced budgeted capital expenditures across the board in 1983 and again in 1984. This has obviously slowed the rate of implementation of the country's development program and thus jeopardized the attainment of the 1983-87 Plan's Five Year targets.

Internal economic development problems are as much or more of a concern than the external ones. However, they are interrelated and should be discussed in conjunction with one another. The current difficulties can be traced to the 1979/80 oil price increases and an associated sharp deterioration in the terms of trade as the international recession depressed the Philippines' export markets. A domestic financial crisis in early 1981 led the Government to undertake expansionary fiscal measures to stimulate the economy. This policy was continued in 1982 even with a further weakening of budgetary revenue collections and high inflation.^{1/}

The Government agreed with the IMF on a comprehensive program in 1983 to improve the budget and balance of payments situation. The Government instituted stringent cutbacks of 15 and 25 percent respectively in current and capital outlays to reduce deficit spending. The deficit had reached at least P14 billion or 4 percent of GDP in 1982 and by agreement with the IMF was to be cut to P9.4 billion in 1983. This left many priority programs underfunded and seriously undermined the GOP's development strategy. We have strongly supported the austerity measures of the Government as necessary to reestablish discipline and confidence in the financial structure of the country, even at the expense of a somewhat slower implementation of our own assisted projects. However, we have made it clear to the Government that we would like to assist it in any practical way in achieving its original goals as laid out in the 1983-1987 Five Year Development Plan.

The Government has recognized the adverse impact on some of its priority programs from this budget austerity after nine months experience. It has recently proposed that the last \$50 million tranche of the ESF program be used to fund the construction of roads and schools for which there was an insufficient allocation of budget funds in 1983. This includes both those roads and schools that were originally budgeted for, but later unfunded, as well as some of those roads and schools that were requested by the provincial and city governments but not included in the original approved list (note that there is a "chronic and substantial excess demand for funds"^{2/}). The roads and schools proposed would be constructed through out the regions of the country in an equitable manner. The request is consistent with a major objective of the Five Year Plan to improve the distribution of public

^{1/} For a fuller discussion, see the IMF January 31, 1983 document on the Philippines Stand-by Request.

^{2/} Selected Issues in the 1983-87 Plan: IBRD, p. 41.

investment among the regions so that the poorer regions grow more rapidly, lessening regional disparities and alleviating poverty^{3/}. The request also further assists in decentralizing the planning and programming function in government since the demand for these roads and schools is derived directly from the province and city governments^{4/}.

Both roads and elementary schools have high priority in the Five Year 1983-1987 Plan of the government. For example, the Plan originally had 33,000 km of secondary and local roads to expand the country's infrastructure and support exploitation of the country's agriculture potential which is part of the strategy for sustained economic growth and equitable distribution of the benefits of development.. Further, the Plan discusses in some detail the School Building Program as part of the strategy for total human resource development. The Program would construct 65,900 classrooms, replace 40,000, and repair 55,000 for a total estimated expenditure of P3.5 billion.

However, in the case of elementary schools, the 1983 budget originally allocated P600 million for schools and this was reduced to about P450 million with the 1983 budget cutback. This latter figure is P250 million less than the appropriate amount needed annually to achieve the Plan's targeted funding level. This is approximately the amount of the governments proposed schools project. The funding shortfall for roads is more difficult to determine, however, it is large. More detailed analyses of local roads and schools are available from previous project documents^{5/}.

The government's proposals are for roads and schools that can be built quickly since they reflect mostly planned but unfunded provincial priorities. The requests are consistent with our own stated position of wanting to find ways to help the government through this difficult period of budget austerity. The proposals should receive our strong support. The most logical method to handle these proposals is to blend them into our current project portfolio so that they can be implemented immediately. The Regional Development Fund (RDF) Project (No. 492-0374) is the most appropriate instrument for this. Although initially focused on Region III, the project is capable of supporting activities throughout the country without major modifications to the structure of the project. This is essential since the absorptive capacity of Region III is rapidly being reached with already planned RDF projects and those under the Municipal Development Fund (MDF). Moreover, this approach is preferable to developing a new project in view of the existing management framework already in place for RDF which will facilitate early implementation of the roads and schools subprojects proposed in this amendment.

^{3/} IBID p. 42.

^{4/} IBID p. 45

^{5/} See USAID/Philippines Project Papers: Rural Roads II, (492-0297), March 1978, DLC/P-2282 and Elementary Schools Construction, (492-0342), February 1980.

As a result of the amendment, the RDF project will be able to accelerate the construction of schools and local roads throughout the country, thus more closely conforming to the top GOP development priority of expanding infrastructure particularly to assist in the exploitation of agricultural potentials (in the case of farm to market local roads) and to provide a more equitable distribution of schools and local roads outside of Region 3.

III. DETAILED DESCRIPTION OF PROJECT

A. Background

1. Local Roads - The National Economic and Development Authority (NEDA) through the national development plan stresses the importance of roads linking rural production areas with rural services centers including markets, storage, processing centers and main roads. As of December 21, 1982, the Philippines had a road network of 154,418 kilometers classified as follows:

National Roads	23,729 KM
Provincial Roads	29,544 KM
Military Roads	12,142 KM
City Roads	3,740 KM
Local Roads	85,263 KM
Total	154,418 KM

Local roads consist mainly of roads linking barangays to town centers and to the primary or secondary network and of farm-to-market roads connecting farm areas to their respective barangay centers and the higher-level road networks. Of the 85,263 kilometers of local roads, about 49 percent are gravel and another 49 percent dirt. Another two percent are paved. Road conditions vary from fair to impassable. In the total roads network local roads are most in demand and most in need of additional resources.

2. Schools - The current GOP constitution provides that a free elementary education is the right of every Filipino between the ages of 7 and 12. Consequently school attendance is high with 98 percent of the children in that age group expected to be enrolled at the elementary level in school years 1978-87.

While enrollment is high the quality of education suffers from lack of adequate facilities to provide a suitable learning environment. To address this problem RDF proposes to finance the construction of approximately 4200 classrooms to improve access to basic elementary education.

B. Detailed Description

The project amendment conforms to the purpose of the original RDF project: to assist the GOP in improving the socio-economic conditions in the Philippines. While the original RDF project focused on areas around the bases, the amendment broadens the impact to areas throughout the Philippines and focuses on the provision of schools and local roads. This will result in stimulating socio-economic development at the local level through improved access to basic services, job opportunities and basic education.

Outputs will include approximately 3,200 kilometers of all-weather local roads (more than 1,000 road segments) and approximately 1,300 three-room schools and two storey six to thirty room schools for a total of approximately 4,200 classrooms with furnishings and sanitary facilities.

AID will provide \$50 million in ESF funds (approximately \$30 million for schools and \$20 million for roads) by reprogramming \$30 million of already authorized ESF resources from the Markets project (\$10 million), the MDF project (\$13 million) and the Energy project (\$7 million) to the RDF project and by reprogramming \$20 million which was planned for RDF in 84 from region III infrastructure projects to the nationwide schools and roads program. It is anticipated that the reductions in the above projects will be temporary and that they will be fully restored under the next ESF package in 1985. However, at that time the need for additional resources will be reexamined to determine the most appropriate use of the funds to meet joint GOP/USG priorities.

The delayed obligation of funds for the Markets, MDF and Energy projects is not expected to have a major impact on these projects. Design of infrastructure components will proceed in any case so that shelf components will be ready for funds when they are available. There is currently enough funding in the pipeline for the MDF project so that most projects already under design may be fully funded, although funding for any new projects may be delayed. For the Markets project we expect to disburse all available dollar funds by the end of CY 1983 so there will be a hiatus of at least a year for funding new projects. The delay in obligating the last \$7 million of the energy project is not expected to slow down implementation of the project since budget cutbacks have significantly delayed the project, and the existing \$18 million should be adequate for activities through CY 1984.

C. Summary of Implementation Arrangements

1. Local Roads - The project is expected to be implemented by the Ministry of Public Works and Highways (MPWH) under a memorandum of agreement signed between the Secretariat and MPWH with the Secretariat being the executing agency and MPWH the implementing agency. However, if other implementing agencies are considered to be more effective in certain locations, they may be selected instead of MPWH as mutually agreed to by AID and the GOP.

2. Schools - As above, this project is expected to be implemented by MPWH who will be the principal implementing agency, for the buildings and the associated water supply systems, toilet facilities and lighting. MPWH will designate the Manager of the MPWH Project Management Office for Special Buildings (PMO-SB) as Project Director for the Schools Project. The MECS will designate a project director for the furniture component. The Technical Analyses (Part IV) provides details on these arrangements. In addition to the above arrangements it is expected that provincial governments will assist the project in planning and monitoring implementation and the school boards will assist in validating project sites.

D. Rationale and Process for Selection of Sites

1. Local Roads - The individual road projects were selected on the basis of the needs and priorities expressed by the concerned Barangay Councils

as screened by the Municipal and Provincial Selection Committees for Local Roads, pursuant to LOI 756, and as reviewed by MPWH, based on the criteria cited below. The Municipal Selection Committee is composed of the Municipal Mayor as Chairman, and the President of the Municipal Association of Barangay Captains (ABC) and the Municipal Development Officer as Members. The Provincial Selection Committee is composed of the Governor as Chairman, and the President of the Provincial ABC, the Provincial Development Officer, and MPWH District Engineer as Members.

The following criteria were applied to the selection of individual subprojects:

a. Existing road conditions: Road conditions reflect the level of access constraint and, thus, of potential development benefits and vehicle operating cost savings if the road is improved. At the same time, road conditions also indicate the cost of the required improvement. In general, roads that are in poor or impassable condition are given a higher priority.

b. Population served: The larger the number of people served or to be served per kilometer of road, the higher is the priority given to that road. Special emphasis is given to population centers without road access or with roads in very poor condition.

c. Arable area served: Also priority is given to areas with large arable land with good agricultural potential, served or to be served per kilometer of road.

The regional distribution of the local roads under the Project was determined using standard MPWH formula for this purpose.

2. Schools - The school buildings to be provided under the Project will be distributed to the different regions in proportion to (i) the reported regional deficiencies in educational performance, with a view to reducing regional disparities in educational opportunities, and (ii) the population of school age children. The calculated regional shares are adjusted to reconcile with the latest inventory of schoolbuilding needs conducted jointly by the MECS and the MPWH.

Consequently, the following regional distribution of the proposed school buildings under the Project, together with their costs, has been estimated.

Table 1. Regional Distribution of Schoolbuildings

<u>Region</u>	<u>%</u>	<u>Bldgs.</u>	<u>Rooms</u>	<u>Total Cost (P)</u>
NCR	8.48	(17*	320)	54,294,000
		(14	34)	
I	7.36	103	309	13,493,000
II	5.27	74	222	9,990,000
III	9.22	136	408	17,000,000
IV-A	8.89	125	375	15,625,000
IV-B	2.35	33	99	4,488,000
V	7.17	100	300	13,400,000
VI	9.31	130	390	15,625,000
VII	7.57	106	313	14,416,000
VIII	6.90	97	291	12,804,000
IX	6.60	93	279	12,648,000
X	6.52	91	273	12,194,000
XI	7.52	105	315	14,070,000
XII	<u>6.34</u>	<u>89</u>	<u>267</u>	<u>11,926,000</u>
Total	100.00	1,313	4,200	221,973,000

NOTE: All schools are standard three-room Bagong-Lipunan type except for two-storey buildings in the national capital region.

Priority in project selection will be given to the reconstruction or replacement of school buildings/classrooms that are completely destroyed or dilapidated beyond economic repair and those that are condemned by the MPWH District and City Engineers as being unsafe for occupancy based on the National Building Code.

Additional rooms (other than for replacement) will be considered only to: accommodate the portion of the projected increment in enrollment that cannot be absorbed by the existing classrooms at the above mentioned designed capacity or decongest existing over crowded classes and achieve the desired pupil/room ratio of 40:1. New schools will be established only:

- in communities with a threshold population of ideally 240 children aged 7-12 (i.e., to fill up six classes with 40 pupils each) or a total population of about 1,600; or where existing schools are housed in rented facilities and there are available government sites; or on a case-by-case basis, in small communities which are isolated or distant (about 6 kilometers or more) from existing schools;
- where there are available government-owned sites within 3 kilometers (walking distance) from the community to be served; and
- where the MECS can provide the required additional teachers and operating budget for the new schools.

In case the foregoing cannot be fully met, multigrade teaching (e.g., three classes for Grades 1-6) may be adopted in areas with low population densities, and multiple shifts may be introduced in areas served by electricity.

The recommended project sites, based on the criteria and priority mentioned above, have been extracted from a longer listing prepared by the Provincial and City Schoolbuilding Committees in accordance with existing rules and procedures. Each Committee is composed of the Provincial Governor/City Mayor as Chairman, and the MECS Superintendent of Schools, the MPWH District/City Engineer, and the Ministry of Local Government Provincial/City Development Officer as Members.

E. AID Monitoring Arrangements

AID will continue to monitor the RDF Project in conjunction with the MHS Secretariat as described in the RDF Project Paper. USAID/Manila's Office of Capital Development will devote one full time USDH Capital Development Officer and one-half of a new FSN professional's time to monitoring the amended project plus the equivalent of at least one or more full-time staff engineers, as required. These direct hire staff will be supplemented with several staff from the Secretariat and the A&E firm described in Section VII of this PP amendment.

F. Relation to Other GOP Road/Schools Programs and Other Donor Programs

1. Relation to Other GOP Road/Schools Programs

Recognizing the need to enhance the living conditions in the countryside, the Government has been implementing a massive nationwide program for the construction and improvement of local roads in order to improve the access of rural communities and to provide more economical means of transporting farm products to markets, thereby stimulating production and helping raise incomes in the rural areas.

As most segments of the primary road network have been improved or are programmed for improvements in the next few years, the emphasis of the Government has increasingly shifted in favor of the secondary and tertiary roads.

Based on a standard of one kilometer of road per square kilometer, the country, which has 300,000 square kilometers of land area, would still need around 147,000 kilometers consisting mainly of tertiary (or local) roads.

In addition, considerable portions of the existing tertiary local roads need rehabilitation, reconstruction and improvement.

Under the five-year development program for 1983-1987, the Government has targeted the construction and improvement of 33,000 kilometers of local roads. In 1984 alone, the MPWH has programmed 5,500 kilometers costing P690.0 million under its regular budget. This Project will provide an additional 3,200 kilometers of local roads which could meet the overall program targets for 1984.

With regard to schools construction, the provision of adequate buildings and related physical facilities for schools ranks high in the development priorities of the Government. This is pursuant to the Constitutional mandate for the Government to provide free primary instruction to all Filipino children of school age. It is in line with the objective of the Government to develop basic skills in order to increase productivity and income and attain a better quality of life.

As of 1982, there were 216,050 classrooms in public elementary schools throughout the country housing 8,248,000 pupils. This gives an average occupancy rate of 38.2 pupils per room. Because of the uneven geographical distribution of school buildings vis-a-vis population, some classrooms house more pupils than the designed capacity of 40 pupils. Partly because of the inadequacy of school buildings, the enrollment rate in public elementary schools is only 84 percent.

The enrollment in public elementary schools is estimated to increase by about 2.2 percent per year or 190,000 pupils a year, which necessitates around 5,000 additional rooms a year.

In addition, there is a need to replace dilapidated rooms at about 3 percent of the stock per year, and to rehabilitate partly damaged rooms at about 4 percent of the stock per year.

The five-year schoolbuilding program of the Government for 1983-1987, therefore, seeks to attain the following objectives:

a. To build an average of 5,000 new classrooms a year in order to accommodate the annual natural increment in enrollment;

b. To replace aged or severely dilapidated classrooms at the rate of about 3 percent or 7,000 rooms a year;

c. To reduce the average room occupancy ratio from the present 38.2:1 to about 35.5:1 by 1988;

d. To rehabilitate partly damaged rooms at a rate of about 9,000 per year.

The above objectives translate into annual physical targets as follows:

Summary of Physical Targets, 1983-1988
Schoolbuilding Program

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
-Additional regular class-rooms for increase in enrollment	4800	4900	5100	5300	5500	5700
-Additional regular class-rooms to reduce pupils/room ratio	1000	2900	3200	3300	3400	3600
-Replacement of aged/dilapidated rooms	7200	7000	7000	7100	7400	7300
-Rehabilitation of partly damaged rooms	7500	5200	9500	9900	10200	10600
-Construction of multi-purpose rooms	750	550	1000	1200	1300	1400

In view of the tight fiscal situation brought about by the difficult economic environment, it has become necessary to explore external sources of financing to supplement domestic revenues and enable the Government to fully meet its program targets for school buildings particularly with respect to 1984, as indicated in the following table:

1984 Schoolbuilding Program in Relation to the Project

	Total	<u>Regular Program</u>		<u>Project</u>	
	<u>Target</u>	<u>Target</u>	<u>Cost (PM)</u>	<u>Target</u>	<u>Cost</u>
Additional rooms for increase in enrollment	4900	2700	78.8	2200	116.3
Additional rooms to decrease pupils/rooms	2900	2900	84.1	-	-
Replacement of dilapidated rooms	<u>7000</u>	<u>5000</u>	<u>145.0</u>	<u>2000</u>	105.7
Sub-total	14800	10600	307.8	4200	222.0
Rehabilitation of partly damaged rooms	5200	5200	52.7	-	-
Construction of multi-purpose shops	<u>560</u>	<u>560</u>	<u>39.5</u>	<u>-</u>	<u>-</u>
	TOTAL		<u>400.0</u>		<u>222.0</u>

As shown above, out of a total target of 14,800 classrooms in 1984, the regular budget of the MPWH can support the construction of only 10,600 classrooms, aside from the provision of 560 multipurpose workshops and the rehabilitation of 5,200 classrooms. The remainder of 4,200 classrooms will be built under the Project.

2. Other Donor Programs

For roads the Philippines has a history of participation with other foreign donors in the area of road and bridge construction including participation by USAID under the Rural Roads Program Phases I and II.

Other donors to road and bridge infrastructure projects include Asian Development Bank-assisted Highway Projects, \$121.5 M; IBRD-Assisted Highways Loan Projects; Philippine-Japan Highway Loan Projects and the Philippine-Australian Development Assistance Program which includes gravel roads, asphalt roads, bridges and box culverts.

USAID has been the principal foreign supporter of classroom construction.

IV. TECHNICAL ANALYSES

A. General

The proposed project amendment is supported by detailed proposals submitted to the USAID last week entitled Barangay Roads, and School Buildings and Related Facilities. The two proposals are available in AID/W and should be considered to be an integral part of the project paper. Under the project, approximately 3,200 kilometers of rural roads will be constructed/improved and about 1,300 school buildings will be provided nationwide. The individual road projects are selected on the basis of the needs and priorities by the municipal and provincial selection committees for barangay roads based on established criteria. Special emphasis is given to population centers without road access or with roads in very poor condition.

With the exception of the larger schools in the heavily built up areas of the National Capital Regions, the type and size of school buildings to be constructed under the project will be identical throughout the Philippines. The package of essential school physical facilities consists of 4,200 classrooms with furniture for pupils and teachers, and potable water, sanitary facilities and lighting whenever possible. Priority in project selection will be given to the reconstruction or replacement of school buildings/classrooms that are completely destroyed or dilapidated beyond economic repair and those that are condemned by the Ministry of Public Works and Highways (MPWH) and City Engineers as being unsafe for occupancy based on the National Building Code.

As noted above, the basic package will include an appropriate number of student desk/chair combinations, as well as teachers' desks and chairs, blackboards and bookcases. These will be built to the Ministry of Education and Culture (MEC) standards under the administration of the MEC.

B. Design Considerations

The design of the roads is based on the following MPWH planning standards which match road geometric and surface characteristics with traffic thresholds, based on economic cost-benefit analyses:

AADT	50	51-150	150-200
Carriageway width	4.5 m.	5.0 m.	5.0 m.
Shoulder width	-	-	0.5 m.
Surfacing	Gravel	Gravel	Gravel

All roads will be constructed in accordance with the MPWH standard specifications for Highways and Bridges, Revised 1972. The typical road will consist of a total surfaced width of 4.50-5.00 meters with 0.50 meter graded shoulders. The surface will be selected borrow or gravel base course or equivalent in accordance with the specifications. Drainage will be provided by means of side ditches together with cross drainage and timber bridges. Typical road section and a typical timber bridge design is shown in the annexes.

The MPWH has been utilizing standard designs for its own on-going school construction program. The three-classroom Bagong Lipunan School building, also known as the Modified Type I design, is identical to the elementary schools constructed under the ESF-assisted school building project in 1980-1981. The designs and specifications were previously reviewed and approved by USAID's engineers.

The Modified Type I School buildings are designed to be typhoon resistant structures capable of withstanding winds up to 200 kilometers per hour. A building normally consists of three classrooms, although modules of two, four, and five classrooms may also be adopted as needed. Each classroom measures 6 meters by 8 meters, for an area of 48 square meters, which is designed to accommodate 40 pupils, giving a ratio of 1.2 square meters per pupil. The building is made up of concrete floor slabs, footings, columns, roof beams, and hollow block walls; wooden roof trusses, doors, windows, partitions, and ceilings; and galvanized iron roofing sheets. The structure is designed to last for 25 years and to require minimum maintenance.

The larger two-storey buildings are also designed to resist 200 kilometers per hour winds. Each building usually consists of 18 classrooms, although designs for 6, 8, 10, 12, 24, and 30 classrooms may also be adopted to suit the actual requirements. The building has built-in toilets, library, and corridors. Each classroom measures 6 meters by 8 meters and has a designed capacity of 40 pupils. The building is constructed of concrete floor slabs, footings, columns, beams, stairs, and hollow block walls and partitions; wooden roof trusses, doors, windows, and ceilings; and clay roof tiles. The water supply, sanitary facilities and lighting will all follow standard MPWH plans.

C. Contractor Availability/Performance

The MPWH maintains a list of prequalified contractors for infrastructure works, by region and province. The list is reviewed and updated regularly.

There is no shortage of contractors in the Philippines. Construction work is currently at a premium due to economic conditions and is likely to remain so over the life of the project. The type and scale of works planned under this project are especially suitable to labor-intensive operations. Small, local contractors will be the successful bidders in most cases and their mode of operation is labor based. Unemployment, underemployment in the Philippines is such that labor will be readily available. Virtually all the construction materials to be utilized in the schools and roads are produced locally and there are ample stocks of construction materials in the market place.

USAID has had ample opportunity to monitor the performance of Filipino contractors on recently completed school building and rural road projects. The level of work, on a nationwide basis, was similar and, in the

case of the schools, identical to the infrastructure works planned under this project. With few exceptions, contractors have completed their contracts in a timely and satisfactory manner. Close monitoring by the implementing agencies and USAID have contributed substantially to this performance and the same level of monitoring is being planned for this project. If necessary, MPWH is capable of completing any unfinished works by direct administration.

D. MPWH Implementation Capability

MPWH is one of the oldest established and the most experienced agency in the government. The MPWH, thru the District Engineer's Offices, has long been undertaking the construction and improvement of roads in addition to major (national) roads and other public works projects including elementary and high schools.

Overall technical supervision of the roads construction will be exercised by the Project Management Office (PMO) for Special Rural Roads Project. The PMO is headed by a Project Manager reporting directly to the Minister, thru the Deputy Minister for Construction and Quality Control. It has 82 engineers and other technical personnel, and 234 administrative personnel. The PMO has been supervising the implementation by the District Engineer's Offices of the World Bank-assisted Philippine Rural Infrastructure Project which involves the construction of 2,282 kilometers of barangay roads; and is also partly financed by the World Bank. Actual management of implementation of the specific road works under the project will be exercised by the MPWH District Engineer's Offices under the operational control of the Regional Directors and the overall supervision of the PMO.

The MPWH will also be the principal implementing agency for the Schools component, particularly for the infrastructure facilities consisting of the school buildings and associated water supply systems, toilet facilities, and lighting. It shall designate a Project Director for this purpose. The Manager of the MPWH Project Management Office for Special Buildings (PMO-SB) will concurrently be the Project Director for the project. The PMO-SB is composed of 33 technical personnel (engineers, architects, etc.) and 32 administrative staff. The MPWH Project Director will be responsible for the overall supervision and management of the infrastructure components of the project. He will report directly to the Minister, thru the Deputy Minister for Construction and Quality Control.

The MPWH District and City Engineer's Offices will undertake the actual construction management of specific schools under the operational control of the Regional Directors and the technical supervision of the Project Director. The MPWH, thru the District/City Engineer's Offices, has long been implementing a large school building program and for the last three years has constructed an average of about 12,000 classrooms a year. In 1980-1981, the MPWH undertook the construction of almost 900 Modified Type I school buildings funded out of the \$18 million Economic Support Fund for schools. The project will involve 90 out of the 94 District Engineer's Offices in 75 provinces and 13 out of 14 Regional Directors. Each District

Engineer's Office has 58 to 86 personnel, 10 percent of whom are in the Planning and Design Section, and 15 percent in the Construction Section.

E. Contracting Procedures/Controls

The programs of works for the specific road projects will be submitted by the District Engineer, thru the MPWH Regional Director for review, to the PMO Manager who will further review and prepare the schedule of construction work and program of cash flow requirements to be approved by the MPWH Minister. In the case of schools, the programs of works for the specific projects shall be submitted by the District/City Engineer, thru the MPWH Regional Director for review, to the MPWH Project Director for further review and scheduling of construction work and programming of cash flow requirements to be approved by the MPWH Minister.

The District Engineer, with the assistance of the City Engineer where schools are concerned, will implement the construction works thru contract after competitive public bidding in accordance with the provision of Presidential Decree No. 1594 and its implementing rules and regulations. Full-time inspectors will be assigned by the District Engineer on the project to ensure compliance with plans and specifications, check quantities, institute quality control, and certify as to work accomplished.

The above contracting procedures and quality control provisions were applied to the recently completed Bicol Secondary and Feeder Roads Project (432 RIM) and the ESF-Elementary School Construction Project (895 schools). Both projects have been noted for very high quality of construction.

F. Maintenance Arrangements

Following existing procedures, the Barangay Council, through the Barangay Road Maintenance Teams (BRMTS), will be responsible for the routine maintenance of the barangay roads in its area.

Periodic maintenance will be performed by the Provincial Engineer's Offices under the technical supervision of the MPWH District Engineer and the administrative supervision of the Ministry of Local Government (MLG).

Planning of road maintenance will start at the barangay level, particularly with the Barangay Roads and Bridges Committees (BRBCs), which submits their proposals to the City or Municipal BRBCs, which then review and transmit them to the Provincial BRBC, chaired by the Provincial Governor or his designated representative. From these, the proposals are channeled to the MLG and the MPWH, thru the District Engineer, for approval and funding.

Actual execution of the maintenance operations by the Barangay Road Maintenance Teams (BRMT) will be administratively supervised by the Provincial Offices of the MLG and technically supervised by the MPWH District Engineer's Offices in coordination with the Provincial Engineers Offices concerned. Technical supervision by the District Engineer includes, among other things, review and approval of the programs of work, periodic inspection and quality control, certification as to satisfactory completion of the maintenance works, and financial audit.

Funds for the maintenance of local roads will be sub-alloted by the MPWH to the MLG, which will release them to the different MLG Provincial Offices for transfer to the City/Municipal Mayors who will then allocate them to the BRBCs. Any disbursements of funds will be made only after the joint authorization of the Barangay Captain and the City/Municipal Mayor. This procedure insures that the funds are used for the purpose for which they were allocated.

The amount of national government aid for local roads maintenance corresponds, at present, to 40% of the basic allocation per Equivalent Maintenance Kilometer (EMK) of national roads for each kilometer of rural roads approved by the MPWH, or P4,536.80 per kilometer of rural roads per year, including both routine and periodic maintenance operations. No counterpart funds are required from the local governments.

Local road maintenance equipment, needed for mechanized routine and periodic maintenance work, which was purchased and furnished by the MPWH and managed by the MPWH District Engineer's Offices, is being turned over to the equipment pools of the Provincial Engineer's Offices.

The maintenance requirements for school buildings are relatively limited compared to roads and bridges. PTA groups and students enthusiastically cooperate in community projects to improve and decorate the classrooms and landscape and beautify the areas surrounding these schools. Any major maintenance involving the buildings or utilities will be arranged by the local officials with the assistance of the Ministry of Education and Culture.

G. Environmental Considerations

Road construction in the context of this project means short sections of road improvements at hundreds of locations. Most of the roads will involve the improvement of existing tracks or badly eroded roads. Certainly some environmental impact occurs during construction of this nature but it is minimal being confined to relatively small existing road locations. The nature of the works is such that labor will be heavily employed rather than equipment which further lessens the potential damage to the existing surroundings. Improvement in travel conditions in the drainage features affecting the adjacent lands will have a positive effect over the long term. It is not anticipated that the construction of school buildings will have more than a marginal impact on the environment. The construction of many of the new schools will take place in existing school compounds. The improvement in sanitary facilities and drainage definitely benefits the environment as well as the beautification of the area that invariably follows the improvement or construction of a school facility.

V. SOCIO-ECONOMIC ANALYSIS

The economic impact of local roads is related to its ability to stimulate agricultural production in more remote rural areas by reducing the costs of transporting farm inputs and produce to the market places; and to improve the access of rural households to health, educational, and other social service facilities. A 1981 impact evaluation of the AID Rural Roads Project (RRP) confirmed that the effort promoted agricultural growth benefitting small farmers, fishermen and small entrepreneurs, emphasizing that the greatest impact and the highest rate of return on the Project resulted from the construction of penetration roads and bridges which provide access to previously isolated areas. In terms of enhancing access to social services, particularly health facilities, the road projects had a significant impact in many communities on the frequency of visits by doctors and nurses; but even more important to rural residents was the quicker and better access they had to doctors, clinics, and hospitals in neighboring towns, and beyond.

The school building construction project will enhance the access to public elementary/secondary education and reduce the regional disparities in education facilities, leading to an improved quality of the local education system. The need for the project is supported by the fact that the country's schoolaged population is growing quite rapidly. For instance, the enrollment in public elementary schools is increasing by 2.2% per year, or some 190,000 pupils annually, requiring around 5,000 additional rooms a year. Thus, partly due to the inadequacy of school building facilities the enrollment rate in public elementary schools is only 84%. Further, the geographical distribution of schools in the country is uneven, with the less developed regions having a lower classroom population ratio.

At the macro level, since the projects are expected to be completed within a one-year period, AID will make the dollar disbursements equivalent to the peso cash requirements for the sub-projects, as soon as the conditions under the RDF and this amendment are met. This will assist the GOP in achieving its objective of maintaining the GOP target deficit to \$600 million in 1983.

Premised on good implementation procedures, construction of local roads and of schools in rural areas requires little social soundness justification. The obvious need for both services and the known contribution, in addition to the potential impact, of similar subprojects are in themselves sufficient reason for implementation.

The 1981 RRP impact evaluation showed that the affected rural residents for the most part claim benefits from the construction, "if only because it provided easier, less time consuming access to places visited for business or leisure purposes." The same report stated that, "the road projects almost always stimulated increased competition among vehicle drivers and brought more marketing intermediaries - offering

higher prices - into the communities served". Another study reports that road construction associated with an irrigation project increased availability of higher education facilities for children of rural residents. It has been further observed that the facility of travel in part afforded by better local roads contributes to Filipino's concept of the good life. In terms of the more immediate but short-term benefits, temporary employment during project implementation will be provided to a sizeable portion of the labor force, especially if more labor-intensive approaches are used.

VI. FINANCIAL ANALYSIS AND PLAN

A. General

Total capital project costs are estimated at P604.5 Million. ESF will finance 91% of these costs or P550.3 Million (\$50 Million Equivalent). Of this P550.3 Million, P330.2 Million (\$30 Million Equivalent) will be utilized for the construction of elementary and secondary schools. P220.1 Million (\$20 Million Equivalent) will be utilized for the construction of local roads. No foreign exchange costs will be incurred. All construction, equipment and A&E services (for project monitoring) procurement will be from local sources and involve local currency financing. The GOP contribution to the project will primarily be in-kind. However, these in-kind services/goods have been costed out to reflect the true capital costs of this project modification (Table VI-1). The GOP will provide standard designs and detailed engineering through its Ministry of Public Works and Highways (MPWH). Land is either contributed by the GOP or the local community. Site preparation will be the responsibility of the GOP or local community involved.

B. Schools

1. Capital Costs - Capital/Operating and Maintenance Costs

The cost of the schools component of this Project Amendment is estimated at P364.9 Million of which ESF will fund approximately 90 percent or P330.2 million. The major cost elements, which will be financed by ESF include the actual costs of: (1) construction, including materials, labor and contractor profit; (2) equipment and fixtures for water supply and sanitation and lighting; (3) school furnishings; (4) contingencies; (5) inflation or cost escalations; and (6) A&E services for project monitoring and technical assistance (Table VI-2). The GOP will contribute, in-kind: (1) the schools standard design; (2) detailed design and engineering services; (3) construction management and supervision services and land/sites for the schools (Table VI-1). Site preparation (landscaping/fencing) will be borne by either the MPWH or the local community organizations, as the situation dictates.

2. Major Capital Cost Assumptions

a. The average unit cost to construct the Bagong Lipunan (3 classroom) school-building is P131,000. Approximately 1,300 Bagong Lipunan school buildings will be constructed.

b. The average unit cost to construct the two storey school building is approximately P3,106,000. Approximately 20 two storey type schools will be constructed.

c. The average unit cost to provide water supply is P20,000 and water will be supplied to approximately 1,120 school buildings under this program.

d. The average unit cost to provide sanitary facilities is P16,000 and these facilities will be supplied to all of the three room schools.

e. The average unit cost to provide lighting is P2,000 for approximately 970 schools.

f. The average unit cost to furnish each of the approximately 4,200 classrooms is P6,700.

g. MPWH design, engineering, construction management/supervision costs are estimated at 10 percent of total construction costs..

h. The project assumes a peso to U.S. dollar conversion rate of P11.005 to \$1. If any devaluation of the peso occurs, more pesos will become available for the project and additional school rooms may be built.

3. Operating and Maintenance Costs

MECS will be responsible for the routine operating costs of the schools as well as the incremental cost associated with additional teachers and instructional materials required to properly staff and equip the schools. Given that approximately 50 percent of the classrooms to be provided under this project will be for the replacement of existing dilapidated rooms. There will not be a need for a corresponding increase in teachers or instructional materials. The school design provides for minimal maintenance. AID's experience with the recently completed Elementary Schools Project and other previous school building efforts is that the GOP through the MECS has always budgeted sufficient funds for school operating and maintenance expenses.

C. Roads

1. Estimated Capital Costs

The cost of the Roads component of the Project Amendment is estimated at P239.6 Million. ESF will fund approximately 92 percent of these costs or P220.1 Million (Table VI-2). The major cost element to be financed by ESF is the construction of local roads, including materials, labor, contractor profit, contingencies and inflation. ESF will also finance the services of a local A&E firm to monitor implementation. The GOP will provide, in-kind: (1) standard road designs; (2) detailed design and engineering services; and (3) construction management and supervision services. The GOP will also secure right-of-way for all new local roads (Table VI-1).

2. Major Capital Cost Assumptions

a. The average unit construction/improvement cost of a local road is P60,000 per kilometer. The actual cost by region will vary.

b. Approximately 3,200 kilometers of local roads will be constructed/improved.

c. MPWH design, engineering, construction management/supervision costs are estimated 10 percent of total construction cost.

d. A P11.005 to US\$1 is used to determine Peso Costs. A devaluation of the peso may result in a greater number of roads being built.

For the type of road proposed for this project the cost assumptions are consistent with previous AID costing experience and are reasonable reflecting current economic conditions in the Philippines.

3. Operating and Maintenance Costs

There will be no direct operating (administrative) cost associated with the type of local roads envisioned for this project as they are not expected to generate revenue (tolls) for the GOP. However, there will be maintenance costs. Highway/road maintenance costs are funded from revenue accruing to different levels of government road systems. This revenue is derived from user fees, motor vehicles taxes on fuel and oils; vehicle registration and driver's licenses; and property, estate, inheritance, gift and agricultural products taxes. Typically, aggregate municipal/city/provincial road expenditures (construction, maintenance and administration) exceed road revenues due to their maintenance costs being higher than the national highway system because of the higher proportion of improved roads. As a result, historically, the national government, through MPWH, has provided about 25 percent of the financing needs of provincial roads systems. For local roads MPWH will fund from its budget both the routine and periodic maintenance operations at 40 percent of what it allocates to maintain a kilometer of national roads. No counterpart funds will be necessary from the local governments. National government revenues accruing to the highway/roads system have been forecast by MPWH through the year 2000. It is evident from this forecast that total highway/road revenues are expected to expand rapidly from road user taxes. Considering this factor in our opinion, sufficient funds are available for the incremental funding of maintenance for the proposed local roads.

TABLE VI-1
Total Project Financing

<u>Project Component</u>	<u>AID</u> <u>(000 Pesos)</u>	<u>GOP</u> <u>(000 Pesos)</u>	<u>TOTAL</u> <u>(000 Pesos)</u>	<u>U.S.\$ Equivalent</u> <u>(000)</u>
A. <u>Roads</u>				
Land		97	97	8
Engineering		19,398	19,398	1,763
Construction	193,980	-	193,980	17,627
A&E	2,000	-	2,000	182
Contingency at 12%	<u>24,112</u>	<u>-</u>	<u>24,112</u>	<u>2,191</u>
Subtotal	220,092	19,495	239,587	21,771
B. <u>Schools</u>				
Land	-	111	111	10
Engineering	-	29,519	29,519	2,682
Site Preparation	-	111	111	10
Construction	295,189	-	295,189	26,823
A&E	2,000	-	2,000	182
Contingency at 12 percent	33,015	-	33,015	3,000
Overprogramming (F-1)	<u>-</u>	<u>5,000</u>	<u>5,000</u>	<u>454</u>
Subtotal	<u>330,204</u>	<u>34,741</u>	<u>364,945</u>	<u>33,161</u>
Grand Total	<u>550,296</u>	<u>54,236</u>	<u>604,532</u>	<u>54,932</u>
	Say 550,300			

(F-1): Footnote 1 - Pesos 5.0 million is a conservative estimate of GOP counterpart (See Section VII for discussion)

TABLE VI-2
Summary of ESF Financing

<u>Project Component</u>	<u>Number</u>	<u>Average Unit Cost (000 Pesos)</u>	<u>Total Cost (000 Pesos)</u>	<u>U.S. \$ Equivalent (\$000)</u>
A. Roads				
Construction	3,233	60	193,980	17,627
A&E Services			<u>2,000</u>	<u>182</u>
			195,980	17,809
Contingency at 12%			<u>24,112</u>	<u>2,191</u>
Subtotal			<u>220,092</u>	<u>20,000</u>
B. Schools				
School Building				
3 Room	1,296 Bldgs.	131.0		
17 Room	17 Bldgs.	3,106.0	221,973	20,170
Water Supply	1,120 Bldgs.	20.0	22,400	2,035
Wastewater Disposal	1,296 Bldgs.	16.0	20,736	1,880
Lighting	970 Bldgs.	2.0	1,940	176
Furnishings	4,200 Rooms	6.7	28,140	2,557
A&E Services			<u>2,000</u>	<u>182</u>
			297,189	27,000
Contingencies at 12%			<u>33,015</u>	<u>3,000</u>
Subtotal			<u>330,204</u>	<u>30,000</u>
Grand Total			550,296	50,000

VII. FINANCIAL IMPLEMENTATION PROCEDURES

A. Implementation Schedule

USAID is in active dialogue with the MHS-Secretariat regarding steps to accelerate the completion of initial implementation actions. The net result of these actions will be to permit the earliest possible transfer of dollars consistent with responsible management procedures. Since many subsequent implementation steps flow from these early actions, it is not appropriate to prepare a detailed implementation plan now. This will be the subject of a PIL prepared in the near future.

B. Government Implementation Arrangements

Within the MHS Development Projects Fund Secretariat (DPFS) the RDF Program Division will be responsible for the overall planning, coordination, implementation, and monitoring of the project. The Secretariat will have overall monitoring supervision and approvals over project cash flows and will be the executing agency. Implementing agencies can be national line agencies - MPWH, MLG, MECS, MHS - and local government units. The Secretariat's coordinating role will include coordinating the activities of MPWH, MECS, MLG and Provincial and City Governments (for both Schools and Roads). MPWH will directly assist the DPFS in the standardization of designs, planning, contracting, and construction supervision/monitoring of individual subprojects. The MECS will assist/advise on the planning and programming of proposed school projects while the MLG will assist the DPFS in the planning and programming of proposed school and roads projects and provide advisory services for the implementation and monitoring of projects.

The Secretariat will be responsible for procuring the services of A&E firms to monitor project implementation and certify completion. The A&E groups shall be accountable to the Secretariat.

C. Financial Implementation Procedures

1. Financing System

Subprojects covered by this amendment, being non-revenue generating, will be funded on a straight peso grant basis. The flow of funds for the construction of the schools and roads will basically follow the process already established under the RDF project. Dollars equivalent to twelve months estimated peso cash requirements will be disbursed by AID to the GOP Treasury. The GOP will establish a special account within the Treasury's general fund, with pesos equivalent to the disbursed dollars. The project will be implemented with GOP-owned and appropriated pesos from a general fund account such as the Treasury Checking Account for Agencies (TCAA) or the Regular Demand Deposit Account (RDDA). As subprojects are completed and paid out of GOP appropriated pesos, funds will be transferred from the special account to reimburse the TCAA and/or

the RDDA accounts. The USAID is currently discussing with the MHS Secretariat procedures for joint review and control of these transfers.

The flow of dollars and pesos for the construction of schools and roads will be as follows:

- a) The GOP will appropriate sufficient pesos to implement the project.
- b) After the amendment to the RDF Project is signed and the CP's met, the GOP Office of Budget and Management (OBM) will release an Advice of Allotment (A/A), (obligational authority) to MHS - Secretariat covering life of project costs for the schools and roads.
- c) Once the above three steps are fully complied with, MHS-Secretariat will request AID to disburse dollars to the GOP Treasury equivalent to the estimated peso cash requirements of the schools and roads for the ensuing twelve months. AID will require acceptable documentation to support the estimated cash needs prior to making US dollar transfers. Subsequent to the dollar transfer, the GOP will release a cash disbursement ceiling (CDC) (cash disbursement authority) to MHS-Secretariat in pesos equivalent to the dollar disbursement.
- d) Subsequent to the disbursement of the ESF dollars, the GOP will transfer an equivalent amount of pesos into the RDF Special Account.
- e) Project implementation will be funded by the GOP using pesos from the TCAA/RDDA checking account within the Treasury's general fund. Certification by the AID approved A&E firm of subproject completion, in accordance with specifications/standard designs, will be the basis for AID approving peso releases from the special account to reimburse the TCAA/RDDA accounts. AID will maintain a joint control with the MHS Secretariat for all releases from the Special Account.

Because AID funded the entire amount of the Elementary School Construction Project (492-0342), it has been very difficult to close the project. We plan to change the procedure by having the GOP put up counterpart totalling approximately five to ten million pesos. These pesos could be used to fund selected portions of the project such as the costs of furnishings for certain regions, selected roads or schools. The portions of the project selected for funding by GOP pesos will then be available for attribution if necessary to facilitate closing the project. An alternative would be to overprogram the project to the extent of GOP counterpart pesos. AID could then select those completed activities totalling the peso equivalent of fifty million dollars as the basis of closing the project.

We are not able to decide upon a specific procedure to resolve this potential problem as this paper is being prepared. Therefore, we will approve the procedure as part of the revised financial procedures included as a condition precedent to the amendment.

2. Monitoring Procedures

The MPWH will develop standard designs and costs for the schools and roads. These designs and costs will be subject to approval by the MHS-Secretariat and AID. MPWH will then contract with construction companies for the building of the schools and roads. All schools and roads will be built in accordance with the standard designs. Upon completion and acceptance by MHS-Secretariat and AID, peso funds will be disbursed from the Special Account set up under RDF. We are examining the possibilities of utilizing a Fixed Amount Reimbursement Agreement procedure as described below.

The construction of the schools and roads will be monitored by an A & E firms that will be contracted by MHS - Secretariat under a host country contract. The contract and the A & E firm selected will be subject to AID approval. The A & E firm will establish and maintain a listing of all subproject activities for oversight by MHS. We envision the A & E firm having a minimum of two qualified engineers in each region, possibly a third in regions where (1) accessibility to subprojects is particularly difficult, or (2) there is a heavier than average concentration of subprojects. In addition to the A & E firm, MHS Secretariat staff and USAID staff will make periodic site visits and oversee the work of the A & E firm on a percentage basis. Schools and roads will be considered complete by AID when a certification from the A & E firm, approved by the local government officials, is received and accepted by MHS Secretariat and AID.

In addition to financing the costs of school and road construction, it is anticipated that the project will finance the costs of furnishing the schools. This will be handled in one of two ways. First, we could follow the procedures used in the elementary school construction project whereby the MECS contracted with local trade schools to make the furnishings. Although the furnishings were generally provided slower than was hoped for, it did have the advantage of paying funds to local trade schools for the work. The second option would be to contract the work with several local private sector companies located throughout the Philippines.

In either case, the designs would be standard, the number of pieces per school would be standard, and the costs would be standard. The A & E firm(s) contracted to monitor school and road construction will also monitor the building of school furnishings. Acceptance will be considered complete when the A & E firm(s) have certified acceptance and the certifications have been accepted by MHS-Secretariat and AID. As subprojects are completed and paid for with GOP appropriated pesos it is proposed that funds be transferred to the special account on a FAR basis to the TCAA/RDDA account.

This procedure, as described above, links peso transfers from the special account to subproject outputs (FAR). We are proposing to the MHS

the application of this procedure for the schools and roads because they lend themselves so well to a FAR approach, namely, approximately 1,300 schools built according to one design for three room schools and approved designs for the larger schools and 3,200 kilometers of roads. The roads will also follow one basic design standard. Thus AID's project monitoring can most easily be centered on developing the standard designs, calculating standard costs, and ensuring that construction adheres to the designs.

The above procedure describes MPWH as the lead implementing agency. However, if a local government unit (LGU) is considered to have comparable or better capability, AID and the MHS Secretariat may agree to alternative implementing arrangements.

D. Evaluation

The current evaluation program set out in the RDF Project Agreement will apply. The program will include the following:

1. Evaluation of progress toward attainment of project objectives.
2. Identification and evaluation of problem areas or constraints which may prevent or have prevented such attainment.
3. Assessment of how such information may be used to help overcome such problems.
4. Evaluation, to the degree possible, of the overall development impact of the project.

VIII. CONDITIONS PRECEDENT, COVENANTS AND NEGOTIATING STATUS

The following Conditions Precedent and Covenants are anticipated for the Project Agreement Amendment. These have been discussed with the GOP and no obstacles are foreseen in negotiating them in the Amendment. However, the final language will be subject to revision during the negotiations.

A. Conditions Precedent to First Disbursement under the Amendment

1. Prior to any disbursements under the amendment, the GOP shall furnish to AID in form and substance satisfactory to AID executed agreements between the Ministry of Human Settlements and the implementing agencies specifying the working relationship and financing mechanism that will be used to carry out the amendment to the RDF Project.

2. Prior to any disbursements under the amendment, or to the issuance by AID of documentation pursuant to which disbursement will be made, in support of local currency activities, the government will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID evidence that the peso equivalent, at the date of transfer, to the dollar amount of the disbursement has been appropriated and allotted to the Ministry of Human Settlements account from which peso disbursements for local cost implementation of this amendment will be made.

B. Covenant

Prior to beginning construction activities under the amended RDF, the GOP covenants that it will provide, in form and substance satisfactory to AID: (1) a contract with an architect engineering firm to assist in monitoring the project activities; and (2) amendments to the MHS handbooks to specify the revised operational and financial arrangements applicable to the activities to be carried out under the amendment.

PROJECT AUTHORIZATION
AMENDMENT

PHILIPPINES

Regional Development Fund
Project No. 492-0374

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

A. The level of planned obligations is increased by Forty Million United States Dollars (\$40,000,000) to a total of Eighty Five Million United States Dollars (\$85,000,000) in grant funds. The amount of such increase shall be available for obligation over a one year period from the date of this Amendment, subject to the availability of funds in accordance with the A.I.D. OYB allotment process. In addition to the uses previously authorized, funds authorized for this project, as amended hereby, shall be used for annual dollar transfer(s) in exchange for the Cooperating Country appropriating and using an equivalent amount of pesos to finance the local currency costs of roads, schools and related facilities constructed under this project.

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

a. Conditions Precedent to Disbursement

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

(i) Implementation arrangements entered into by the Ministry of Human Settlements (MHS) with the agencies that will carry out the activities supported under the Amendment;

(ii) standard designs and firm cost estimates for the construction activities supported under the Amendment;

(iii) Appropriation and allotment to MHS of an amount of pesos, equivalent to the amount of the proposed dollar disbursement, to finance the local currency costs of construction activities supported under this Amendment.

b. Covenants

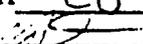
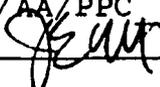
The Cooperating country shall agree that prior to commencing construction activities supported under this Amendment it shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., executed contracts between MHS and architect/engineering firms acceptable to A.I.D. which will monitor, and certify completion of, construction activities supported under this Amendment.

2. The authorization cited above remains in force except as amended herein.

Signature 
M. Peter McPherson

OCT 29 1983

Date

Clearances:	Date	Initial
Charles W. Greenleaf, AA/ASIA	<u>CG</u>	<u>10/29</u>
Richard A. Derham, A/AA/PPC	<u></u>	<u>10/29</u>
John E. Mullen, A/GC	<u></u>	<u>10/28/83</u>

PHILIPPINES

Regional Development Fund Amendment

Project No. 492-0374

Statutory Checklist

A. General Criteria for Project

- | | |
|---------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1. FY 1982 Appropri. Act
SEC. 523; FAA SEC. 634 A;

SEC. 653 (B) | 1. (A) Congress will be notified
in accordance with Congressional
notification procedures.

(B) Yes. |
| 2. FAA SEC. 611 (A) (1) | 2. Yes. |
| 3. FAA SEC. 611 (A) (2) | 3. Not required. |
| 4. FAA SEC 611 (B); FY 82
Approp. Act SEC. 501 | 4. To the extent applicable, yes. |
| 5. FAA SEC. 611 (E) | 5. Yes. |
| 6. FAA SEC. 209 | 6. No. |
| 7. FAA SEC. 601 (A) | 7. (A) No; (B) Yes. Construction
and improvement of roads
will increase access to population
centers from rural areas, thereby
increasing competition for agri-
cultural and other rural commodities;
(C) N/A; (D) N/A;
(E) Yes, Construction and
improvement of roads should provide
some improvement in technical
efficiency. |
| 8. FAA SEC. 601 (B) | 8. Any off-shore goods or
services will be of
U.S. Source and Origin. |
| 9. FAA/SEC. 612 (B) 636 (H):
FY 1981 Appropri. Act
SEC 507. | 9. All of the local costs
of services are being
funded by the GOP from
its own funds. |
| 10. FAA SEC. 612 (D) | 10. No. |
| 11. FAA SEC 601 (E). | 11. Yes |

- | | |
|-------------------------------------|---------|
| 12. FY 1982 Approp. Act
SEC. 521 | 12. No. |
| 13. FAA 118 (C) and (D) | 13. Yes |
| 14. FAA 121 (D) | 14. N/A |

B. Funding Criteria for Project

1. Development Assistance Project Criteria
2. Development Assistance Project Criteria (Loans Only)
3. Economic Support Fund Project Criteria

- | | |
|---------------------|------------|
| A. FAA SEC 531 (A) | 3. (A) Yes |
| B. FAA SEC. 531 (C) | (B) No |
| C. FAA SEC. 534 | (C) No |
| D. FAA SEC 609 | (D) N/A |

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

REGIONAL DEVELOPMENT FUND AMENDMENT

PROJECT NO. 492-0374

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

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

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

/S/ Anthony M. Schwarzwald
Director, USAID/Philippines

October 4, 1983