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CHILE

SECOND STAGE OF A RURAL WATER SUPPLY PROGRAM

**CH0052
(499/SF-CH)**

LOAN PROPOSAL

1976

C H I L E

RURAL WATER SUPPLY PROGRAM - STAGE II

LOAN SUMMARY

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CHILE

RURAL WATER SUPPLY PROGRAM - STAGE II

SUMMARY OF THE LOAN PROPOSAL

A. Frame of Reference of the Program

1. State of the sanitation sector

Although it is true that Chile's general health status is within the average for Latin America, some individual indicators of environmental sanitation, such as rural water supply, place Chile among the most deficient countries in Latin America. 1/ The general infant mortality rate is significant, being 63 deaths per 1,000 live births. In the rural areas it is worse, mainly because of the incidence of communicable diseases which are directly associated, among other things, with the lack of water supply services, contamination of water supplies, and inadequate sewage disposal.

2. Rural sector

In 1975 there were 161,000 persons in the rural population who were being supplied by drinking supply systems through residential service connections. This was only 8% of all of Chile's population, which is estimated at two million persons, and only 31% of the concentrated rural population in towns having between 200 and 2,000 inhabitants. The concentrated rural population in 1975 was estimated at 520,000 persons. 2/ Only one major program has been carried to supply drinking water and this was through partial financing under IDB loan 74/TF-CH 3/ which comprised the construction of 199 systems that provided coverage for more than 108,000 out of the 161,000 persons that now have service throughout Chile.

3. National Planning and Development of the Sector

The development program formulated by the Office of National Planning (ODEPLAN) for the period 1975-1980 accords the highest priority to programs aimed at solving permanent problems in the social structure, noteworthy among them being the problem of environmental sanitation and setting as a target to supply drinking water to 50% of the rural population and sewage-disposal services to the same percentage. The Bureau of Sanitary Works (DOS) considers

1/ The 1975 Annual Report of the PAHO/WHO shows that Chile, as regards water supply coverage in the rural areas, surpasses only Paraguay, Haiti, Bolivia, Ecuador, Peru, Guatemala and Honduras.

2/ The Bureau of Sanitary Works (DOS), on technical and economic grounds, considers that drinking water supply systems with residential connections can be built only in rural communities of 200 to 2,000 population, which are given the name of the "concentrated rural population".

3/ A detailed evaluation is given in Chapter III of the Project Report.

that as of 1980, at which time the proposed program will have been entirely set in operation, successive work programs will be carried out for the benefit of about 80,000 persons every 5 years (16,000 per annum). This will make it possible to consecutively achieve the following percentages of coverage of the concentrated rural population: (base year 1975/76, 31%), in 1980, 43%; in 1985, 52%; in 1990, 58% and in 1995/96, 63%.

B. The Program

1. Objectives and description of the program

The purpose of the program is to extend residential water supply systems to about 87,000 persons, in approximately 150 towns of 200 to 2,000 inhabitants each, located in 7 of the 12 regions into which the country is divided. The program area contains about 90% of Chile's rural population. The system will supply, at the end of the design period, that is, in 1996, all of the population in these towns, which is estimated would be about 131,000 persons. The work to be done would consist of constructing integrated systems for impounding, conveying, storing, purifying and distributing water through residential service connections. Most of the systems would be pump-operated and the water sources would be groundwater that must meet suitable requirements as to potability and head. The average supply of water is 120 liters per person per day for residential service connections.

Since the success of the program depends on the acceptance and cooperation of the prospective beneficiaries of the program, plans call for motivating these people by means of an adequate community-wide promotion plan.

2. Cost and Financing of the Program

The total cost of the program is estimated at US\$12,500,000 equivalent, and the financing plan by investment category is as follows:

(Equivalent in thousands of US\$)

	F I N A N C I N G				Local Contribution		Total Investment Budget	%	
	IDB Loan		Subtotal	Direct Foreign Exchange	Local Currency	Subtotal			
	Direct Foreign Exchange	Indirect Foreign Exchange					Local Currency		
ING AND ADMINISTRATION	-	-	-	-	-	1,220	1,220	1,220	9.8
udies and Designs	-	-	-	-	-	431	431	431	3.4
ervision	-	-	-	-	-	171	171	171	1.4
inistration	-	-	-	-	-	618	618	618	5.0
COSTS	1,332	1,200	4,658	7,190	-	3,410	3,410	10,600	84.8
quipment and materials	1,084	960	2,155	4,199	-	810	810	5,009	40.1
struction Work	-	-	2,503	2,503	-	2,600	2,600	5,103	40.8
ehicles and Transport	248	240	-	488	-	-	-	488	3.9
NG COSTS	268	-	42	310	40	114	154	464	3.7
erest	235	-	-	235	-	114	114	349	2.8
edit Commission	-	-	-	-	40	-	40	40	0.3
pection and Supervision	33	-	42	75	-	-	-	75	0.6
ED COSTS	-	-	-	-	-	216	216	216	1.7
community-wide promotion	-	-	-	-	-	216	216	216	1.7
TOTAL	1,600	1,200	4,700	7,500	40	4,960	5,000	12,500	100.0
Percentages	(12.8)	(9.6)	(37.6)	(60.0)	(0.3)	(39.7)	(40.0)	(100.0)	

The sources and use of currencies for financing the program would be as follows:

(In thousands of US\$ or equivalent)

	<u>Source of Funds</u>		<u>Use of Funds</u>		<u>Total</u>	<u>%</u>
	<u>Foreign</u> <u>exchange</u>	<u>Local</u> <u>currency</u>	<u>Foreign</u> <u>exchange</u>	<u>Local</u> <u>currency</u>		
IDB-FSO <u>1/</u>	3,300 <u>2/</u>	4,200	2,800 <u>3/</u>	4,700	7,500	60.0
Local contribution	-	5,000	40 <u>4/</u>	4,960 <u>5/</u>	5,000	40.0
Total	3,300 =====	9,200 =====	2,840 =====	9,660 =====	12,500 =====	100.0 =====
Percentages	(26.4)	(73.6)	(22.7)	(77.3)	(100.0)	

C. Principal Aspects of the Operation

- a. The Government of Chile would be the borrower and would itself undertake payment of the debt service. The executing agency would be Bureau of Sanitary Works (DOS) of the Ministry of Public Works, through the medium of the Office of Special Programs of the Rural Water Supply Department of the Ministry. The function of this department is to supervise as well as to advise the water supply services now in operation, and to plan and execute new programs for extending water service into the rural areas.

The DOS is considered to be a technically sound organization having wide experience in the construction of complex water supply systems for urban

1/ Terms and conditions of the loan from the Bank: interest at 2% per annum; credit commission at 0.50% per annum; grace period of 7 years; amortization period of 30 years, including the grace period.

2/ Includes US\$500,000 to finance local expenses (15.1% of the foreign exchange proceeds of the loan)

3/ Includes US\$1,202,000 in indirect costs in foreign exchange.

4/ Credit commission.

5/ Up to US\$1,050,000 may be derived from beneficiary contribution in goods and labor provided the borrower can show its contribution made has been included in the investment.

areas and, in this respect, it has been in charge of executing two projects partly financed through a loan 31/OC-CH and 12/TF-CH. Works of the first one 1/ and 72/SF-CH, the second one, 2/ were completed and are now in operation, performance having been satisfactory to the Bank in both cases.

- b. In making a preliminary selection of the localities to benefit, a methodology would be used such as will call for application of technical and socio-economic evaluation criteria. Once communities have been selected on a preliminary basis, the planning projects will be prepared so as to achieve a reasonable estimate of costs and then proceed to the final selection of projects, applying cost-efficiency ratios. Only such project as have a cost-efficiency factor in the design year (1996) of as much as US\$12.50 equivalent may be included in the program, unless the borrower presents projects that exceed this factor together with appropriate justification and the Bank approves them. (See proposed Annex B to the Loan Contract).
- c. The applicant submitted a representative sample of 50 projects which were reviewed by the Bank through cost-efficiency ratio applications. In the end, 44 projects were found acceptable. Studies and designs have been completed for these projects and these would be the first ones to be built out of the group of 50 projects scheduled for execution during the first year of the program. Rules and specifications now in effect in Chile will be used and these are consistent with generally accepted sanitary engineering practices and are satisfactory to the Bank. The 44 projects were sufficient in number to provide for determining with reasonable certainty the total cost of the program, since the sample constitutes 32% of the total estimated cost and a 35% coverage of the total number of beneficiaries anticipated.
- d. (i) The hydrologic studies for verifying sources and the drafting of designs for the 106 projects remaining to complete the 150 projects under the program will be carried out under contract, after inviting bids, by engineers and/or local engineering firms. 3/ This procedure was also used by the DOS in preparing the 44 projects making up the representative sample presented to the Bank; (ii) any work which, owing to its technical character, requires special skills will be carried out under contract. This applies to such work as well drilling, impoundment work, construction of reservoirs, pump housing and equipment installation,

1/ Project for expansion of the potable water systems of the cities of Concepcion and Talcahuano. See Chapter III of the Project Report.

2/ Project for extension and installation of the potable water system in 39 cities. See Chapter III of the project report.

3/ This item would be financed exclusively out of the local contribution.

electrical connections and fencing. Contracts for this type of work, to be financed in local currency with the loan proceeds and with the local contribution, would be awarded by inviting bids only from domestic bidders; (iii) the work of installing line pipe, feeder pipe and distribution pipe will be done by force account in the amount of about US\$2,500,000. Community participation is called for in this type of work, since it is expected that the development of a suitable promotion plan will move the people to cooperate in doing this work; (iv) procurement of pumping equipment, materials, pipe and other goods will be done by the DOS by means of international invitation for bids; (v) the Special Programs Sub-Department, through its central office in Santiago and offices in the regions where the projects will be located, will perform the tasks of programming, coordination and supervision of work and other activities. Where appropriate, it shall direct the work done by force account.

- e. Community management boards - In order to provide for the management, operation and maintenance of the system to be constructed, local management boards would be organized before the start of work on each project. These local organizations would be created under the legal scheme established by Law 16880, which provided for the creation of the local management boards. Operation of these boards will be governed by a set of regulations that will cover all administrative and operational aspects and one that is being determined in preliminary fashion together with the authorities and is to be submitted to the Bank for approval before the first disbursement. Before bids are invited for construction of each system, the DOS shall forward to IDB copy of system execution and management agreement entered into between the DOS and the individual Community Management Board (see recommendation).
- f. Rates - Evaluation of loan 74/TF-CH has shown that the rates charged by the organizations managing the systems built under the program (cooperatives, commissions, etc.) have managed to earn only enough income to meet administration and operation expenses. But it has not been possible to create a fund such as will provide for maintenance and minor repairs.

This experience has led to the making of a recommendation: that in the loan contract to be entered into, the borrower shall be required to bring up to date the rates charged on the system constructed under that program, within 30 months of the signing of the contract (see item D Loan Summary). The rate set in this case, as well as for the loan project under consideration, shall produce sufficient revenue to meet all system operating expenses, including expenses associated with the management, operation and maintenance and, as far as possible, depreciation. (See Proposed Resolution.)

The Management Boards will be responsible for collecting the water rate-schedule charges, but the actual rates will be set by the DOS. An analysis

of the cost of services in terms of the beneficiaries' ability to pay has led to the recommendation that a reasonable, affordable rate be put into effect. It has been estimated that this rate could be set at US\$1.00 equivalent monthly per family, that is, about 3% of monthly family income. Furthermore, this rate is consistent with the very same parameters recommended by the Panamerican Health Organization of the WHO.

- g. It was found that the program is warranted from the technical, administrative and financial point of view. ^{1/} In this last-named respect, the financial projections show that the Program would generate sufficient revenues to keep the systems operational and at the end of 10 years accrue a surplus of US\$90,000 equivalent.

h. Justification of the use of Fund for Special Operations

The use of Fund for Special Operations is recommended because of the character of the beneficiaries of the drinking water supply systems to be built. The program constitutes an effort to improve the health status of the lowest income population of Chile, such as the wage earners who live in rural towns of 200 to 2000 population.

The towns to be served are lacking entirely in residential drinking water supplies and the living conditions of the people are precarious. Their meager earnings come for the most part from temporary jobs in unskilled tasks, associated with agriculture, stockraising, fishing and mining. This is made worst by the lack of social aid services to trust the settlers who suffer from disease, specially communicable disease, brought about by deficiencies in environmental sanitation.

D. Special Aspects

As was previously set forth, this loan would constitute the second stage of the national program for expansion of the rural drinking-water supply services, the first stage having been partly financed through loan 74/TF-CH. The self-financing goals could not be achieved in the first stage in respect of the expenses of administration, operation and maintenance of the facilities constructed. In fact, the revenue was sufficient only to cover the expenses of administration and operation but not defray the maintenance expenses. Therefore, and because adequate technical assistance services were unavailable - the situation was resolved only in 1975 when the responsibility for the systems was transferred to the DOS - services have failed because of breakdowns and damage. Therefore, the fact that in the first stage of this program the rate goals were not achieved has become a cause for concern. In view of this, the Management of the Bank would find it difficult to put forward a favorable recommendation to the Board of Executive Directors to finance a second stage were it not for the fact that, as it is expected in this case, the Government of

^{1/} Justification in Chapter VII of the Project Report.

case, the Government of Chile has taken the firm decision of gradually raising rates and providing the mechanisms necessary to achieve it: the Regulations on Management, Operation and Maintenance of the Systems; agreements between the DOS and the Management Boards, etc., which aspects would be set forth in the loan contract. 1/ The rate increases would be tied to the systems financed partly through loan 74/TF-CH and to the advance in the utilization of the proceeds of the proposed loan. Furthermore, it is felt that because of the responsibility undertaken by the DOS in respect of the general management of the Chilean rural water supply system and its organization structure - a rural drinking water department and regional offices - it is foreseeable that the established goals will be achieved within the period agreed upon with the Bank.

1/ See proposed resolution: item 8(c)(ii), (iii), (iv), and (v), 8(d) and 8(f) and Recommendations: numbers 2, 4, 5 and 6.

PROPOSED RESOLUTION

CHILE. LOAN /SF-CH TO THE REPUBLIC OF CHILE
(Rural Water Supply)

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank to enter into such contract or contracts as may be necessary with the Republic of Chile, for the purpose of granting it financing to cooperate in the execution of the Second Stage of the National Rural Water Supply Program. This financing shall be subject substantially to the following conditions:

1. Amount and Currencies: Up to US\$7,500,000 or the equivalent in other currencies which are part of the Fund for Special Operations, of which amount (a) up to US\$3,300,000 or the equivalent in other currencies (except that of Chile), to pay for goods and services acquired through international competition and for such other purposes as may be specified in the loan contract; and (b) up to the equivalent of US\$4,200,000 in Chilean pesos to cover local expenses. Payments of amortization and interest shall be effected in the respective currencies disbursed, in accordance with provisions included in the loan contract.
2. Source of Funds: The Fund for Special Operations.
3. Guarantee: The general responsibility of the borrower.
4. Credit Fee: 1/2% of 1% per annum, payable semiannually on the undisbursed portion of the sum indicated in subparagraph 1 (a) of this resolution, commencing to accrue 12 months after the date of this resolution. The fee shall be paid in dollars of the United States of America on the same dates as the interest.
5. Amortization: The borrower shall amortize the loan in a period of 30 years from the date of the contract by means of 46 consecutive semiannual and, so far as possible, equal

installments. The first installment shall be paid 7-1/2 years after the date of the contract.

6. Interest: 2% per annum, payable semiannually on principal amounts outstanding. The first payment shall be made 6 months after the date of the contract. At the request of the borrower, the resources of the financing may be used to pay the interest on the loan accruing during the period of disbursement of the financing.
7. Physical Initiation and Disbursement: Physical initiation of all the projects shall have commenced within a period of 2 years after the effective date of the contract, and total disbursement of the financing shall be made within a period of four years from the same date.
8. Special Conditions:
 - (a) The resources of the loan shall be utilized in their entirety by the Dirección de Obras Sanitarias (DOS) of the Ministerio de Obras Públicas through the Departamento de Agua Potable Rural. If modifications in the legal provisions or the basic regulations concerning the DOS and/or the Departamento de Agua Potable Rural are approved which in the opinion of the Bank, may substantially affect the program, the Bank may take such measures as it deems appropriate in accordance with the provisions to be set forth in the loan contract.
 - (b) The resources of the loan shall be used to participate in the execution of a program of not less than the equivalent of US\$12,500,000, and in no case shall the participation of the resources of the loan exceed 60% of the amount of such program. Consequently, the loan and guarantee contracts shall contain such provisions as the Bank deems appropriate to ensure that such national resources as may be necessary, in addition to the loan, for the complete execution of the program, shall be duly provided, in an amount of not less than the equivalent of US\$5,000,000.
 - (c) Prior to the first disbursement of the financing, the borrower shall present through the DOS:
 - (i) evidence that it has assigned to the Subdepartamento de Agua Potable Rural, the equipment and full time personnel for the Central Office and the Regional Offices, as necessary for the appropriate execution and control of the program;
 - (ii) the detailed plan for the activities of community promotion in the localities to be benefited by the program;

- (iii) a plan, with its respective schedule of implementation, which shall be carried out by DOS in order that within a period of 30 months from the date of the loan contract the income from the rates of the systems financed with Loan 74/TF-CH reach the levels indicated in subparagraph 8(d)(i);
 - (iv) the form of by-laws for the Juntas Administradoras; and
 - (v) evidence that the Regulations for the Administration, Operation and Maintenance of the Rural Water Supply Services have been put into effect.
- (d) The borrower shall commit itself to (i) take appropriate measures in order that the rates of each one of the water supply systems financed with this loan, produce revenues at least sufficient to cover all the operating expenses of the system, including those related to administration, operation, maintenance and, so far as possible, depreciation; and (ii) provide sufficient additional resources to assure the normal operation of the systems financed with Loan 74/TF-CH until their respective rates produce the level of revenue indicated in subparagraph (i) above.
- (e) The borrower shall obligate that the Executing Agency not commit resources of the loan in an amount in excess of that required to assist in the execution of 50 projects and, in no case, more than the equivalent of US\$2,300,000, unless it shall have previously demonstrated to the Bank that the revenues of the rates of 50% of the systems financed with Loan 74/TF-CH cover at least the operating expenses of the respective systems, including those related to administration, operation and maintenance.
- (f) In the acquisition of machinery, equipment and other materials for the program and in the awarding of construction contracts, the system of public bids shall be followed in each case in which the value of such acquisition or contract exceeds the equivalent of US\$50,000. The bidding shall be subject to procedures to be included as an annex of the loan contract.
- (g) Notwithstanding the provision of subparagraph (f) preceding, the Bank may authorized the execution of works through force account up to the equivalent of US\$2,500,000 provided that the borrower, through DOS, so requests and shows to the satisfaction of the Bank that such procedure is more appropriate for the achievement of the objectives of the program, taking into consideration their location and other characteristics of the works.

- (h) The Bank shall establish such inspection procedures as it deems necessary to assure the satisfactory execution of the program, and the borrower shall extend all cooperation which is required for the most effective accomplishment of this purpose. From the amount of the financing the sum of US\$33,000 and the equivalent of US\$42,000 in Chilean pesos shall be allocated for credits in the general income accounts of the Bank to meet expenses of general inspection and supervision.

RECOMMENDATIONS

It is recommended that in the loan contract there be included, in addition to the conditions established in the proposed Resolution, the following provisions which shall be fulfilled to the satisfaction of the Bank:

1. Prior to the calling for bids or the beginning of construction of each system, the borrower through the DOS, shall present: (i) evidence that the respective community has been chosen in accordance with the methodology referred to in Section VI of Appendix C of the summary of the loan (Description of the Program); (ii) the studies showing the flow and potability of the water available are acceptable; and (iii) a copy of the agreement signed between DOS and the respective Junta Administradora for the operation and administration of the system.
2. The Bank will only consider requests for the extension of the period for the physical initiation of the works referred to in paragraph 7 of the resolution, if the borrower demonstrates that the revenues from the rates of 75% of the systems financed with Loan 74/TF-CH cover at least the operating expenses of the respective systems, including those related to administration, operation and maintenance.
3. The Bank may recognize as part of the local contribution to the financing of the program, expenditures for studies and preparation of designs up to an amount equivalent to US\$380,000, made prior to the date of the loan contract but subsequent to July 8, 1976, provided that requirements which are substantially similar to those to be set forth in the loan contract have been fulfilled and that the request for this recognition is presented within a year from the effective date of the contract.
4. The borrower shall commit itself to provide the Bank, through DOS, each year, beginning December 31, 1977, the following information relating to the systems financed with Loan 74/TF-CH and the present loan:
 - (i) an income statement indicating, at least, the revenues derived from the rates and the operating, maintenance and administration expenses;
 - (ii) total annual billing amounts; and
 - (iii) accounts payable at the end of the corresponding year, indicating those overdue for up to 60 days, those from 60 to 90 days and those older than 90 days.
5. The borrower shall assure that within 30 months from the date of the loan contract, the executing agency shall have applied to the systems

financed with Loan 74/TF-CH, the Regulations for the Administration, Operation and Maintenance of the Rural Water Supply Systems referred to in Section 8(c)(v) of the resolution.

6. The financial statements of the program and the financial information indicated in number 4 above shall be audited by the Contraloría General de la Nación, in accordance with requirements satisfactory to the Bank.
7. The borrower shall present to the Bank, through DOS, two socio-economic reports evaluating the results of the first 50 systems of the program, in the second and fifth year from the date of the loan contract, including the information specified under paragraph VII of Appendix C of this document (Description of the Program).
8. There shall be included in the loan contract an annex substantially similar to Appendix C of this document (Description of the Program)

DESCRIPTION OF THE PROGRAM

(Annex B to Loan Contract)

I. Purpose

The Program has as its principal purpose extending domestic water supply in Chile to benefit an existing rural population of 87,000 inhabitants in 150 localities in the regions IV to X of the country.

II. Description

The Program consists of the execution of the Second Stage of the National Rural Water Supply Program and calls for the termination of the studies and designs as well as the construction of some 150 water supply systems with domiciliary connections to meet the demand of approximately an equal number of communities with populations ranging from 200 to 2,000 persons. At the end of the period of construction, some 80% of the houses situated in front of the water lines shall be connected. In order to motivate the beneficiaries and secure their effective participation, a program of community promotion will be carried out.

The works to be performed consist of the construction of the intake, transmission, storage tanks, disinfection and distribution of integrated systems.

III. Total Cost of the Program

The total cost of the Program is estimated at the equivalent of US\$12,500,000 in accordance with the following chart:

FINANCING

(In US\$ thousands or equivalent)

ESTIMAT CATEGORIES	BANK				LOCAL CONTRIBUTION			Total Investme Budget
	Direct Foreign Exchange	Indirect Foreign Exchange	Local Currency	Sub- total	Direct Foreign Exchange	Local Costs	Sub- total	
ENGINEERING & ADMINISTRATION	-	-	-	-	-	1,220	1,220	1,220
1 Studies and designs	-	-	-	-	-	431	431	431
2 Supervision	-	-	-	-	-	171	171	171
3 Administration	-	-	-	-	-	618	618	618
DIRECT COSTS	1,332	1,200	4,658	7,190	-	3,410	3,410	10,600
1 Materials and equipment	1,084	960	2,155	4,199	-	810	810	5,009
2 Execution of works	-	-	2,503	2,503	-	2,600	2,600	5,103
3 Vehicles and transporta- tion	248	240	-	488	-	-	-	488
FINANCIAL COSTS	268	-	42	310	40	114	154	464
1 Interest	235	-	-	235	-	114	114	349
2 Credit Fee	-	-	-	-	40	-	40	40
3 Inspection and supervision	33	-	42	75	-	-	-	75
CONCURRENT COSTS	-	-	-	-	-	216	216	216
1 Community Promotion	-	-	-	-	-	216	216	216
TOTALS	1,600	1,200	4,700	7,500	40	4,960	5,000	12,500
Percentages	(12.8)	(9.6)	(37.6)	(60.6)	(0.3)	(39.7)	(40.0)	(100.0)

IV. Source and Use of Funds

The origin and use of the currencies for the financing of the Program shall be the following:

(In US\$ thousands or equivalent)

	<u>Currency of Origin</u>		<u>Expenditures</u>		<u>Total</u>	<u>%</u>
	<u>Foreign Exchange</u>	<u>Local Currency</u>	<u>Foreign Exchange</u>	<u>Local Currency</u>		
Bank	3,300	4,200	2,800 ^{1/}	4,700	7,500	60.0
Local Contribution	-	5,000	40	4,960 ^{2/}	5,000	40.0
Total	<u>3,300</u>	<u>9,200</u>	<u>2,840</u>	<u>9,660</u>	<u>12,500</u>	<u>100.0</u>
Percentages	(26.4)	(73.6)	(22.7)	(77.3)	(100.0)	

^{1/} Includes US\$1,200,000 in indirect foreign exchange costs.

^{2/} Up to a maximum equivalent to US\$1,000,000 may derive from contributions in goods and labor of the beneficiaries, provided that the borrower demonstrates to the Bank that such contribution has been in fact made and incorporated into the systems.

V. Bidding and Procurement

When goods or services to be acquired through public bidding are to be financed in whole or in part with foreign exchange from the Loan, the bidding procedures and specific bidding requirements pertaining thereto shall permit unrestricted participation of bidders of or from countries which are eligible under the eligibility rules governing the use of resources from the Bank's Fund for Special Operations. Consequently, no conditions precluding or restricting the participation of such bidders shall be laid down in such procedures and/or specific requirements.

VI. Methodology for the Selection of the Beneficiary Communities of the Program

(a) The criteria for the selection of the communities of the Program shall be the following:

- (i) Population ranging from 200 to 2,000 inhabitants.
- (ii) A minimum average of concentration of at least 30 homes per kilometer.
- (iii) A wholly rural community (e.g. no tourism and not part of a larger urban area).
- (iv) Localities having a favorable report from the regional delegates.
- (v) Easy access to the location.

- (vi) Electric service.
 - (vii) Amount and quality of the source of water supply, priority being given to those which permit the supply of water through gravity.
 - (viii) Degree of interest shown by the community in making its prospective contribution.
 - (ix) Other aspects: schools, mail service, availability of materials, etc.
- (b) Once the communities have been selected provisionally in accordance with the criteria indicated above, the proposed projects will be prepared in sufficient detail to permit a reasonable estimation of the costs, which shall serve as the basis for the definitive selection of the projects through the application of a cost-efficiency ratio, based upon the total cost of the project, the contribution of the community and the operating and maintenance costs of the system. The amount of annual investment shall be determined using a capital recovery factor of 12% and a useful life of 20 years. Only those systems that show a cost-efficiency factor for the year of their design not exceeding the equivalent of US\$12.50, in 1976 prices, may be included in the Program, unless the Borrower, through the DOS, presents to the Bank the studies, reports and other documentation justifying the proposed system and the Bank gives its approval in each case.

VII. Data to be Included in the Socioeconomic Evaluation Reports

DOS shall send to the Bank the following information for each one of the first 50 projects finished:

- (a) Description of the method of water supply, its quality and the rates being applied.
- (b) Cost incurred per year in the construction of the system, showing separately the cost of: (i) the intake works; (ii) the transmission and treatment installations, and (iii) installation of the connections. The cost of the imported goods and of the specialized labor shall be shown separately.
- (c) Amount of water consumed annually from 1976 to the date of the report.
- (d) Rates charged during the years included in the report.
- (e) Incidence of diseases in the locality originating from water supply, per year, from 1976 to the time of the report.
- (f) Population of the community at the date of the report.