



Safe Drinking Water and Sanitation for the Rural Poor Final Report

Executive Summary

A. Background and Objectives of this ADTA Strategic Study

1. The People's Republic of China (the PRC) is a large developing agricultural country. By the end of 2003, the total population living in rural areas is about 943 million people (including the population in rural townships), accounting for 72.5 % of the overall population of about 1.3 billion people. Access to safe drinking water supply and sanitation facilities in the rural poor regions has been a serious issue in the social and economic development of these areas. The rural residents are used to obtaining their drinking water supply directly from surface water sources, open wells, or distant sources due to the shortage of local water sources. Their latrines are primitive. These poor conditions of drinking water and sanitation have resulted in the high incidence rates of various water-related diseases and epidemic diseases, severely threatening the physical well-being of the rural population. It is a cause-and-effect phenomenon that unsafe drinking water and poor sanitation lead to diseases, diseases lead to poverty and poverty tolerates unsafe drinking water and poor sanitation. This is a vicious cycle which severely hampers the social and economic development of the rural poor regions in the PRC.

2. In the past 20 years, the PRC has achieved significant results in the Rural Water Supply and Sanitary (RWSS) Sector. However in the rural areas in the vast Western Region, there are still much-needed improvement works in the RWSS Sector. The Asian Development Bank (ADB) in its medium-term planning directions for the future next 5 years will promote the RWSS Sector as part of the pro-poor economic growth in the PRC. In these aspects, ADB in particular recognizes the importance in the participation of community-based organizations (CBOs) in contributing towards sustainable development in the RWSS Sector.

3. Past efforts to develop the RWSS Sector focused mainly on the construction of physical facilities. The Government is now giving more attention to strengthening sector policy, strategy and operational frameworks, institutional capability building, as well as integrated efforts in health education. Towards this initiative, the PRC Government and ADB agreed to conduct the Advisory Technical Assistance (TA), "Safe Drinking Water and Sanitation for the Rural Poor".

4. Being a key component of the ADTA, the objectives of this Final Report are to (1) review current status of RWSS, (2) assess the sector policies, regulations, institutions, organization and capacity building, identify constraints, analyze relevant government ministries' strategies and development programs in the RWSS Sector and (3) formulate policies and strategies for the RWSS Sector development including recommendations for possible investment framework and (4) suggest potential investment projects to ADB.

B. Current Profile, Issues and Constraints of RWSS Sector

5. The current status and profile of the RWSS Sector have been presented. Some major findings are summarized as follows:

- (i) The PRC is a developing country with the largest population in the world. Large population and relatively insufficient resources per capita are key constraints hampering economic and social development. In 2003, the average national annual





- disposal personal income for each urban inhabitant was RMB 8,472 (\$1,025.67) and the net income per rural inhabitants was RMB 2,622 (\$317.43).
- (ii) With a board territory crossing over both the temperate and tropical climatic regions, the climate of the PRC is extremely varied. The PRC has a wealth of river. The topography and climate, the distribution of rivers in the PRC is extremely uneven. Most rivers are found in the eastern regions with significant precipitation whereas the northwestern regions are inland arid areas with little rainfall. In the Northwest, rivers are scarce and there are vast areas without surface water bodies.
 - (iii) The average annual comprehensive consumption per capita is 428 m³. The peoples' average per capita daily consumption in urban areas is 219 lcd. The peoples' average per capita daily consumption in rural areas is 94 lcd.
 - (iv) By the end of 2003, the access to drinking water for 874 million people were improved to different extents, accounting for 92.7% of the total rural population (943 million people). Among them, the population with drinking water by piped water supply services was 58.18%. There is 37.9% of the rural population serviced with unsafe drinking water. The reasons are due to the exceedance of the following parameters: total E.Coli, total bacteria, fluoride, chromaticity, organic contaminants, nitrate nitrogen, iron, manganese, fluorine, and arsenic.
 - (v) There were 630,900 water treatment plants (stations) in the PRC. Amongst which, 10,000 are large plants with treatment capacity greater than 1,000 m³/day, accounting for less than 2% of the total. Large treatment plants are planned, designed and constructed by organized project office with better design and construction quality. Operation and maintenance, plant management and water tariff collection works are also better organized.
 - (vi) By the end of 2003, the prevalence rate of rural sanitary latrine has already reached 50.90%, representing a comparatively lower level in the world. Major sanitation latrine type are: (i) Triple Compartment Septic Tank; (ii) Double Barrel Urn Type; (iii) Methane Generation Digester Type; (iv) Separate Faeces and Urine Collector; and (v) Sewer Systems.
 - (vii) The issues in the RWSS Sector are: (i) Inadequate skilled personnel, with skill sets being too narrow; (ii) Late availability of financial resources; (iii) Failure of the water tariff policy to manage the demand of water supply thus affecting financial sustainability; and (iv) The reliability of continuous water supply and ability to meet water quality criteria are still not satisfactory for some RWSS systems.
 - (viii) The development of health promotion and health education is imbalanced amongst Western, Central and Eastern Regions and also varies from urban area to rural area. The rate of "Knowledge of Core Sanitary and Health Information" and the rate of "Formation of Hygiene Behavior" are low, especially in poverty and remote rural areas. In 2001, the national rural health education survey in 6 provinces showed that, for people with age over 15, the Knowledge of Core Sanitary and Health Information rate, is only 36%.
 - (ix) Professional health education organizations and networks in township and villages are not sufficient. Limited financial resources, inadequate quantity and quality of professional personnel are the constraints to the development of health promotion and education, and cause difficulties in integration of RWSS and health education. Following the recent economic and social development, people have more concerns on physical and mental health, social acceptance, safe drinking water and quality of living environment.
 - (x) Funding in RWSS Sector — according to statistics of NPHCC, the cumulated total





investment of the PRC from 1981 to 2002 in rural water supply reached RMB 70.57 billion (\$8.54 billion), and that in rural sanitation and latrine improvement from 1996 to 2002 reached RMB 20.21 billion (\$2.45 billion). For the period of 1996 to 2002, the total investment in RWSS Sector is RMB 62.17 billion (\$7.53 billion).

- (xi) There is a strong demand in the RWSS Sector. The rates of water tariff has not been properly set up, water plants can hardly recover the costs from water tariffs, resulting in low rates of return and even losses. The effectiveness and development of water supply are thus adversely impacted.
- (xii) The rural poor villages are located mostly in the Central and Western regions of the PRC. The economic development of these communities is lagging behind the national average. The level of individual income is low. It is difficult to raise funds. As such, majority of the funds are coming from Central government finances and from beneficiaries' contribution. Some counties sought loan assistance from the World Bank's RWSS projects and other International Donor Agencies' loans and grants.

C. Case Studies

6. The Case Studies constitute essential elements in the entire ADTA. Given the vastness and great disparities of the PRC, a generalized perspective for the RWSS Sector as discussed in Section IV will need to be supplemented by specific perspective for critical sectoral issues arising from local-specific conditions. Specific locations with their own characteristics in social, economical, demographic & ethnical, geographical, hydro-geological, technological, institutional, management aspects would be best analyzed by a Case Study approach. The Consultants' Team has conducted a total of six Case Studies:

- (i) Chuxiong City in Yunnan Province;
- (ii) Fenghuang Prefecture in Xiangxi Area in Hunan Province;
- (iii) Tianshui City in Gansu Province;
- (iv) Tumotezuqi in Inner Mongolia Autonomous Region;
- (v) Gaocheng City in Hebei Province; and
- (vi) Yuyao City in Zhejiang Province.

7. The Consultants' Team has identified of the following key issues and observations, which are evidenced after discrete analyses of the Case Studies, to be further assessed in the formulation of the RWSS sector strategy. These are:

- (i) There is an intrinsic difficulty in implementing a RWSS project in the poor rural area in Western China. The objectives of poverty alleviation and the affordability to repay loan are at loggerheads;
- (ii) The financing mix for international loan should contain the grant, low interest loans etc. to "soften" the loan;
- (iii) The concept of "property ownership" for RWSS facilities is non-existent or very slight;
- (iv) There is room for improvement in capability building for personnel and organization in RWSS projects;
- (v) The management of implementation of the RWSS projects could model the successful experience of World Bank's previous RWSS projects;
- (vi) The management of O&M of rural water supply facilities should be further strengthened.

D. Analysis of RWSS Sector Status and Constraints

8. On the basis of the review and analysis discussed in the current profile, issues and constraints as well as in the six Case Studies, the key difficulties and the constraints faced in





the RWSS Sector are summarized in the following:

- (i) There are great difficulties in the rural water supply development in the rural poor areas of the PRC. Key issues include low beneficiaries coverage rate for piped water supply, contamination of water resources, fluoride and arsenic issues, and inadequate water supply facilities. The task is arduous by measure of the volume of work i.e. over 300 million rural people remain deprived of access to safe drinking water.
- (ii) For small-scale rural water supply systems organized by local communities, the planning, design, operation & maintenance and management aspects are not satisfactory. The reliability of supply and compliance with water quality standards need improvement.
- (iii) The low prevalence rate of rural sanitary latrines is still a cause for epidemic disease and environmental contamination. About 122 million rural households remain in need of sanitary latrines.
- (iv) The development of health promotion and health education is imbalanced amongst Western, Central and Eastern Regions. The rate of “Knowledge of Core Sanitary and Health Information” and the rate of “Formation of Hygiene Behavior” are low. Professional health education organizations and networks in township and villages are not sufficient. Financial resources are limited.
- (v) The financial resources in the rural communities are inadequate, funding for RWSS projects is still a major constraint.
- (vi) Capacity building and management capability still need further improvement.
- (vii) Some RWS systems are suffering financial losses because of problems in the water tariff policy, water tariff collection, and operation efficiency.
- (viii) RWS projects cover a vast area with unbalanced development. Issues of inadequate emphasis on management, weak institutions, lack of operation and maintenance, and competence of management personnel affect the overall effectiveness of RWS projects.
- (ix) The rural poor population still represents a significant proportion, especially in the Western and Central Regions. Poverty reduction works are still arduous.
- (x) The recognition and implementation of community-based participation still need improvement. Women’s participation in management and decision-making in RWSS projects is still weak.

9. From the founding of the PRC to the end of 1980’s, the rural water supply facilities were co-ordinated through the National Patriotic Health Campaign Committee. Works mainly involved “Separation of drinking water for human and animals consumption”. From 1980’s to early 2000’s, with the participation of “Ten-Year International Drinking Water and Sanitation” campaign, the PRC Government promoted the development of centralized water supply systems comprehensively in the rural regions. Since 2000’s, the RWSS Sector in the PRC has reached a new era of safe drinking water and sustainable development.

10. The PRC is a vast country with great variability in the natural conditions as well as economic conditions with broad classification into the Western, Central and Eastern Regions. Even within a single region, there are also differences in the state of economic development. Most of the better developed economies are located in the coastal area enjoying geographical advantages, well developed transportation networks, good communication systems, highly educated societies, advance technologies, densely populated centers and high average personal income. On the contrary in the poverty areas, average personal income is low, economic production factors are poor, and the level of education is low.





11. Attributing to the disparity of regions, there is an inherent difficulty in formulating viable financing models for RWSS sector primarily due to the following factors:

- (i) relatively huge investments required in providing drinkable water to the rural poor as well as sanitation and hygiene education;
- (ii) requirement for government subsidies (both the Central and Provincial/Local levels) and reducing the burden on rural poor;
- (iii) problems of cost recovery and financial sustainability of RWSS systems in the poorer areas and
- (iv) low borrowing capacity of rural areas to finance RWSS .

12. The RWS in the past was implemented by (1) relevant Central and Provincial Government to organize the domestic and international projects and (2) Local Government and community organization. Since 1980's, the Central Government has been organizing and conducting large scale RWS projects, including NPHCCO co-ordinating RWSS projects; MoH acting as the Executing Agency for World Bank's RWSS projects; MWR for projects "Separation of Drinking Water for Human and Animals"; and MWR/MoH for "Rural Safe Drinking Water Supply 2005-2006 Implementation Plan" and MRW for projects in respective FYs.

13. Currently, majority of the RWS systems, which are constructed under projects funded by domestic and international assistance agencies, are managed by township governments or village committees. Some of them are operated by RWS project office or Water Usage Committees. The formats of management include direct responsibility of water resources department/bureau, direct appointment of individual personnel, by management set-up via shareholding, competitive management contract (out-sourcing), etc. In general, except for some large scale systems, the management and operation of most RWS systems are described as "crude". It is evident from some project experience of International Donor Agency funded projects that the enhancement on rural people's recognition and awareness of sanitation, hygienic habits and health education could be accomplished via project implementation and community based participation.

14. RWSS projects help the rural population in improving their living standards and also alleviate poverty in rural areas. The implementation of "3-in-1" concept in integrated RWSS projects bears great significance in producing tremendous social, economical and health benefits and continuous unfaltering efforts should be devoted in the further development of the RWSS Sector.

E. RWSS Sector Development Policies and Strategies in next Five Years (2006-2010)

15. The PRC Government has established very clear objectives in the development of RWSS Sector (ES Table 1):





ES Table 1 Targets and Accomplishment of Various Planning Periods in RWSS Sector

Indicators	9 th FY Plan	1996-2000	10 th FY Plan	2001-2005	11 th FY Plan	Long Term Plan	2020
	2000 Target	Completion	2005 Target	End of 2003	2006-2010	2011-2015	2020 Target
Beneficiaries of RWS	90%	92.38%	95%	92.7%	N.A.	N.A.	N.A.
Beneficiaries coverage rate of piped RWS	50%	55.22%	60%	58.18%	70%	Achieving 75%	About 80%
Prevalence of sanitary latrines	40%	44.84%	55%	50.9%	65%	Achieving 70%	Exceeding 70%
Knowledge of Core Sanitary and Health Information					Eastern 80% Central 70% Western 60%		
Formation of Hygiene Behaviour					Eastern 70% Central 60% Western 50%		

Note: The 2015 target is computed by reducing the non-beneficiaries portions in 2000 targets by half.
N.A. means not applicable.

16. RWSS Sector Development Policies and Strategies in next Five Years (2006-2010) are summarized in the following:

- (i) The PRC Government has established very clear objectives in the development of the rural water supply, sanitation, hygiene promotion and health education sector (RWSS) to ensure the quantity, quality, high reliability and convenience of access to safe drinking water.
- (ii) It is recommended that new emphasis on the issue of water supply-water conservation-wastewater collection/disposal, “3-Component” concept should be put on RWSS projects in addition to the well understood “3-in-1” concept. The successful implementation of the “3-Component” would help alleviate the stressed water resources and reduce the widespread contamination.
- (iii) Strengthen the construction of demonstration “harmless” sanitary latrines for village households, public toilets and schools.
- (iv) In the implementation of integrated RWSS projects, strengthen the hygiene promotion and health education components.
- (v) This strengthened “3-in-1” concept with components of rural water supply, rural sanitation and hygiene promotion/health education emphasizes the integrated approach for the comprehensive developments.
- (vi) For poverty alleviation programs and projects with “Public Goods” nature, the Central Government should play a leadership role and provide main source of funding.
- (vii) It is important that the model of financial mixes to fund RWSS projects should be compatible with the specific economic status of the location in question.
 - Western Poor Areas – represented by the vast Western Region yet includes rural poor areas in the Central and Eastern Regions. Central Government finances and Provincial Government finances should be the mainstay, supplemented by loans from domestic development banks, commercial sources,





- collective community contribution and beneficiaries' contribution.
 - Rural Areas in Central Region – represented by Central Region where the Central Government put forth a strategy for accelerated economic development. With better economic strength in affording loan conditions than the Western Region, Central Region has pressing needs for infrastructure development especially for those rural locations at the outer fringe of towns and cities. One form of RWS systems is to merge existing neighbouring and scattered small scale RWS systems into a larger RWS network system.
 - Rural Areas in Eastern Region – the Eastern Region has sustained major economic growth and has accumulated significant social assets. Agriculture developments, industrial developments as well as town enterprises are fairly well established. For larger scaled RWS systems, there are feasible channels to deploy private sector capital or loan from International Donor Agencies.
- (viii) The principle of full cost recovery for the loan assistance is not consistent with the poverty alleviation nature of the RWSS projects.
- (ix) The financial assistance from International Donor Agencies should be directed towards RWSS projects of a reasonable scale. It is suggested that differential loan interest rates treatment, differential counterpart funding requirements as well as differential securing and distribution of grants should be adopted in financing RWSS projects with due respect for the disparity of the Western, Central and Eastern Regions of the PRC. As ADB would not provide grants or different lending terms and conditions for the different Regions, (ADB has only OCR (LIBOR) 25 years including 5 years grace period.), the proposed terms and conditions of loans could be considered to be implemented through the PRC Government channels.

ES Table 2 Suggested Differential Interest Rate Treatment in Financing RWSS Projects Respective Regional Disparity of PRC

Region	Loan Interest Rate	Repayment Period (year)	Distribution of Grant to respective Regions
Western	At least 2% below LIBOR	30	60%
Central	At least 1% below LIBOR	25	30%
Eastern	At least 0.5% below LIBOR	15	10%

Note: Loan Interest Rate is set for respective repayment period based on London Inter-Bank Offer Rate (LIBOR).

ES Table 3 Suggested Differential Counterpart Funding Requirements in Financing RWSS Projects Respective Regional Disparity of PRC

Region	Grant & Loan Ratio (%)		Counterpart Central Government	Funding Provincial / Local Government	Ratio (%) Fund Raised by Beneficiaries
	International Donor Agency Grant	International Donor Agency Loan			
Western	10	45	28	14	3
Central	10	45	20	20	5
Eastern	10	45	13	23	9

Note: Total Counterpart Funding is 45%, the split follows the ratio adopted in “Rural Safe Drinking Water Supply 2005-2006 Implementation Plan”.





- (x) It is recommended that potential areas (one Eastern Region (e.g. Zhejiang) and a few Western Regions (e.g. Yunnan, Hunan, Gansu, Inner Mongolia and/or the Western Regions) could be further investigated and identified in order to bundle them together with single lending term for a PPTA. In the Final Report Workshop in December 2005, representatives of six provinces, namely, Guizhou, Inner Mongolia, Gansu, Hainan, Hebei and Zhejiang expressed interests in applying for ADB loans for their RWSS projects.
- (xi) It is recommended to continue with the strategies in program organization, planning, implementation, operation and management strategies:

Program Organization Strategies include:

For RWSS projects funded by the Central Government finances as well as those funded by International Donor Agencies, the fundamental principles of project management are: under the leadership of various levels of governments, strengthen co-operation among ministries and department and implement management practices at national, provincial and county levels. With due respect of the scope and magnitude of the RWSS projects, develop comprehensive management policies, regulations, methods and manuals. The roles and responsibilities of Government Agencies participating in the RWSS projects have been clearly defined. For example, the National Development and Reform Commission is responsible for the examination and approval of development plans for incorporation into the social and economic development framework. The Ministry of Finance is responsible for the management and administration of national finances and the external liaison work with international funding agencies and the National Patriotic Health Campaign Committee (NPHCC) is officially responsible for coordination of government departments in the integrated management of the RWSS sector. Project implementation management as well as post-project operation management are equally essential. Sound scientific management practices and regulations shall be followed. Initiatives should be explored in introducing market elements, encouraging private sector involvement in finances, planning, construction, and operation & maintenance of RWSS projects.

Program Planning and Preparatory Phase Strategies include:

- RWS projects should be scientific in exploitation and protection of water resources, and feasible, operable and sustainable with full regards of the local conditions.
- Resolve the rural water supply problems attaching priority to high fluoride, high arsenic, high saline, leech and contaminated problems.
- Clearly define the ownership of RWS systems from the very beginning and when deciding on the post-project management model.
- Formulate policies to attract capital from rural community collective organization and from rural inhabitants, manual services in kind, shareholding formats etc.
- Reasonable scale of RWS facilities.

Program Implementation - Project Design, Procurement and Construction Management Strategies include:

- Ensure full compliance with relevant laws, regulations, standards and codes of practice.
- Select appropriate design for water conveying systems as well as water





- treatment technologies with full recognition of the local geographical, hydrological and engineering conditions.
- Procurement of equipment and materials should follow International Competitive Bidding (ICB), National Competitive Bidding (NCB) and by Quotations (Shopping). There are difficulties in implementing ICB due to long procurement cycles, exchange rate risks, change procedures etc. Considering that (1) the PRC has acceded to the World Trade Organization, (2) numerous countries are sourcing material from the PRC and (3) the equipment and material used in RWSS projects are not rare uncommon material, it is recommended that more NCB procurement should be adopted.
 - The vetting and approval of RWSS projects should be vetted and approval by national, provincial and county government authorities in according with the estimate project estimates.
 - Construction management will be mandatory for all civil engineering construction works.
 - Test and Acceptance upon completion and commissioning should be jointly undertaken by relevant bureaux and departments.
 - The accounting, reporting and audit systems shall be established and observed strictly. Special designated funds shall be handled by special designated accounts.

Program Operation – Project Facilities Operation Management Strategies include:

- Clearly define the ownership of RWS systems: large scale RWS projects: Water Resources department to organize, own and manage; or set up legal entity to own and manage; Distributed and small scale RWS projects: Village Collective organizations to organize, own and manage; Tiny scale RWS facilities such as cellar, hand pumps: household villager own and operate. Introduce market mechanisms in operation management, ensure compliance with MWR's "Village Water Supply Station Staff Organization Standards", "Qualifications Requirements for Village Water Supply Stations".
- Develop comprehensive management policies, regulations, methods and manuals, ensure scientific and regulated management practices.
- Introduce market elements, encouraging private sector involvement in finances, planning, construction, and operation of RWSS projects. Explore new operating management models such as service contract, leasing, management contract, build-operate-transfer, build-own-operate-transfer etc.
- Strengthen the qualification and training of RWS operational and management personnel.
- Set up accounting, reporting and audit systems, determine water tariff rates reasonably with due consideration of the economic factors, affordability and willingness to pay, tie tariff to consumption and separate rate structures for different uses.
- Rectify problems of unaccounted for water, reduce leakage and ensure water tariff collection.
- Protect source of water supply.
- Strengthen the monitoring of water quality of raw water at water sources and of treated water at water treatment plants and at consumption points.

(xii) Strategies for poverty, social and gender aspects include: The "3-in-1" concept in





integrated RWSS development brings great social, economic and health benefits to the poverty stricken areas. With particular emphases on alleviating the poor's burden, improving the position of the female gender and taking care of the exceptionally under-privileged people, the undertaking of RWSS projects will help to construct a harmonious society.

- (xiii) Strengthen the capacity building of the RWSS Sector, including institutional set up, roles and responsibilities definitions, organization staffing, and human resources development.
- (xiv) Clear procedures and measures should be put in place to encourage the participation of villagers and village communities in the implementation of the RWSS projects. Matters such as project planning, project design, project finances, project construction and the post project operation management.

F. RWSS Medium-Term (2006-2010) Sector Development Plan

17. The Medium-Term (2006-2010) Sector Development Plan for the ADTA consists of:

- (i) Project Preparation Technical Assistance projects to investigate the feasibility of the loan assistance project for the PRC's RWSS Sector, including R&D Subprograms.
- (ii) ADB's Sector Investment Projects for the PRC's RWSS Sector - there are substantial needs and desires in the RWSS Sector in the Western Region. For rural water supply, based on the returned information, the needs for RWS facilities are mainly centralized water supply systems targeting a beneficiary population of 32.5 million and a budgeted capital investment of \$1.1 billion (RMB 9.15 billion).
- (iii) Technical Assistance in Capacity Building for the PRC's RWSS Sector - in order to ensure sustainable development of the RWSS sector and favorable condition for execution of ADB's investment projects, there is a genuine need for good capacity building both in terms of institutions as well as human resources capital.

It is recommended that the Medium Term (2006-2010) Sector Development Plan is to be presented to National Development and Reform Commission (NDRC) for its consideration for incorporation in the 11th Five-Year Plan (11th FYP).

G. RWSS Sector Development Policies and Strategies in next Ten Years (2006-2015)

18. The central theme of the strategy in the RWSS Sector from now to 2010 is to continue with the current strategy and further enhance the "3-in-1" concept in the integrated development in RWSS. The further development in the RWSS Sector should also recognize and work in co-ordination with the social, economic, cultural and other facets of development of the rural communities and in the context of the whole country.

H. Roles of Asian Development Bank in The RWSS Sector in the PRC

19. ADB's poverty reduction strategy describes poverty as a deprivation of essential assets and opportunities. These include basic needs such as shelter, education, water and sanitation, and health care. Water scarcity impacts on health, availability of food, and the conditions in which people live. The poor are particularly vulnerable when water is either unclean or in short supply. The lack of water accentuates the hardships of the poor. ADB, being an International Development Bank, shares a lot of common interests in co-operating with the PRC. In the RWSS Sector in the PRC, ADB could play an important role in promoting further development of the sector.

20. The compatibility of the financial assistance of ADB with the status of economic development of the regions is essential. The financial assistance from ADB should be





directed towards RWSS projects of a reasonable scale. It is suggested that differential loan interest rates treatment, differential counterpart funding requirements as well as differential securing and distribution of grants could be considered to be implemented through the PRC Government channels in financing RWSS projects with due respect for the disparity of the Western, Central and Eastern Regions of the PRC. For the developed regions, the interest rate could be slightly higher, subject to the ceiling of domestic commercial rates, with a shorter repayment period. For Central Region and Western Region, lower interest rates with longer repayment periods should be considered.

21. There are significant needs in the development of the RWSS Sector in the PRC. ADB is keen to devote financial assistance to the PRC in the development of RWSS as it conforms with ADB's "Poverty Reduction Policy" and "Water for People Policy". There are mutual benefits for both the PRC and ADB.

22. As an overall conclusion, there are great, practical and feasible opportunities for the PRC Government and the ADB to cooperate and contribute to a steady, healthy and promising development in this RWSS Sector.

