

# The Philippine Water Revolving Fund Support Program

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## ANNUAL REPORT

October 1, 2007 - September 30, 2008



This project is implemented by Development Alternatives, Inc. in association with:  
The Community Group International LLC  
Resource Mobilization Advisors  
CEST, Inc.



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## **Chapter I: Overview of Project and Highlights of Year 2 Accomplishments**

The Clean Water for People Initiative (CWPI), a partnership of the Governments of the United States of America (USG) and Japan (GOJ) to help selected countries achieve their targets for water supply and sanitation under the Millennium Development Goals (MDG) spurred the development of the Philippine Water Revolving Fund. The Philippines is one of the pilot countries of CWPI.

The initiative to establish a water revolving fund started with the feasibility assessment and the design and implementation framework done under an earlier technical assistance program of USAID. The PWRF Support Program is a follow-through effort to establish and operationalize the water revolving fund. The Program is linked with another USAID assistance, a co-guarantee agreement of the Development Credit Authority with the LGU Guarantee Corporation, a private third party guarantor, which provides credit enhancements to private financing institutions for, among others, water sector lending.

The PWRF was developed under a multi-stakeholder collaboration of the Philippine Government, USAID and the Japan Bank for International Cooperation (now Japan International Cooperation Agency or JICA)<sup>1</sup>, and private financing sector representatives. A Steering Committee has been providing policy guidance to the design team. The members of the Committee are the Department of Finance (Chair), National Economic and Development Authority, Development Bank of the Philippines, Municipal Development Fund Office, LGU Guarantee Corporation, Bankers Association of the Philippines, USAID and JICA. The Committee is supported by a Technical Working Group (TWG) that does the preliminary analysis. All agencies represented in the Steering

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<sup>1</sup> JBIC and JICA merged on October 1, 2008, and JICA was maintained as the agency name.

Committee are also in the TWG plus the Local Water Utilities Administration and the Department of Interior and Local Government.

#### A. Project Objectives and Scope

The Philippine Water Revolving Fund is envisioned to help achieve the following goals:

- Improve access to safe drinking water and sanitation through the establishment of a successful PWRF;
- Through the successful utilization of PWRF and subsequent investment in water and sanitation infrastructure, help reduce morbidity and mortality from waterborne diseases and, specifically in the case of sanitation and wastewater treatment, contribute to biodiversity conservation, particularly in coastal areas;
- Attract private sector investment in water and sanitation infrastructure projects thereby enabling the Philippines to meet its MDG commitments; and
- Strengthen the capacity of key institutions in the water and finance sectors – chiefly water utilities – to effectively obtain and utilize funds for infrastructure investments.

#### A. 1 Objectives

The PWRF Program is divided into five components listed below and will be implemented in two phases over five years. Phase I “PWRF Establishment” has three objectives:

- Set up the appropriate institutional arrangements for the PWRF including help secure the JICA loan and the USAID DCA guarantee agreement with LGUGC;
- Strengthen selected water and finance sector institutions vital to PWRF Program's success; and

- Assist LGUs and WDs to develop a pipeline of viable projects in anticipation of an operational PWRF by June 2007

Phase II support to “PWRF Operation” objectives were broadly defined as continuing institutional support at the implementation stage and structuring the long term financing strategy to meet investment needs and mobilize private capital.

Phase 1 was originally scheduled to be completed in the base year. However, the JICA loan approval was delayed, which necessitated the team to hold in abeyance the activities dependent on the loan being in place, e.g., preparing the marketing plan. Hence, the Year 2 work plan carried over the same objectives of Phase 1.

## A.2 Project Scope

*Component 1: PWRF Institutional Development* - involves developing and piloting capital market-based financing mechanism for water supply and sanitation projects; and subject to commitment of JICA loan to DBP, provide institutional support to establish and operationalize the PWRF lending window in DBP.

*Component 2: Water and Sanitation Project Preparation* - involves assisting water districts and LGUs in improving capacity to prepare water supply and sanitation projects and institutionalizing a project development facility. Also, on demand basis, assist with the update or improvement of pre-investment studies to get them acceptable to lenders

*Component 3: Water and Finance Sector Strengthening* - involves helping implement strategic policy and institutional reforms in the water and finance sectors that facilitate achieving the targets under Components 1 and 2. A major task is the preparation of a policy paper on how to rationalize government subsidies to achieve the development objectives of the sector

*Component 4: General PWRF Program Support*- involves providing technical secretariat support to the PWRF Steering Committee and Technical Working Group; and supporting USAID in reporting, advocacy, and collaboration with JICA on the PWRF.

The expected outputs for each of the components for the Year 2/Option Year 1 work plan are shown in Table 1.

#### B. Highlights of Year 2/Option Year 1 Accomplishments

The Year 2 work plan was revised mid stream to reflect adjustments due to the continuing delay of the JICA loan and new developments in the project's operating environment. The major revisions as agreed with USAID were:

- Re-focus Component 1 on the development and piloting of capital market-based financing schemes, such as the securitization of LWUA receivables; nonetheless keep a place holder for the institutional support to DBP for the co-financing arrangement once the JICA loan is committed;
- Re-orient the approach of Component 2 on project development; instead of actively identifying projects and offering technical assistance for improving pre-investment studies, provide the technical assistance on demand basis; assistance could be provided to projects in the pipeline of DBP or LGUGC; invest greater effort in long-term enablers for project development, specifically capacity building of LGUs on project development and institutionalizing a project development facility;
- Under Component 3, add a policy analysis on the rationalization approach for resource allocation; in EO 279, the government subsidy will be allocated on the basis of creditworthiness; the policy analysis will review if this premise responds to the long-term goal for the sector. In particular, allocation of government subsidy, as in



the case of US Revolving Funds, may be on the basis of development objectives, such as compliance with standards of the Clean Water Act.

Key accomplishments are summarized below:

*Establish and operationalize PWRF-* With the JICA loan still uncertain, we down shifted with the technical assistance to DBP to establish the PWRF special lending window. Much of the effort on Component 1 concentrated on the technical assistance to LWUA for the proposed asset-backed securitization of its receivables as a pilot case of capital market-based financing scheme.

Also in Year 2, the PWRF operating policy guidelines were integrated into that of the Environmental Development Project. We finalized the standard loan agreements after getting comments from DBP and PFIs. We also conducted water sector familiarization and project appraisal workshops for both DBP and private financing institutions management and business development officers were rolled out in the Visayas, Mindanao, and Luzon regions. An offshoot of these workshops was the preparation of a Water Project Appraisal Guidebook for Lenders, a compilation of, among others, information and insights on critical components of water project evaluation. The work plan also saw the completion of the model on guarantee fee pricing, and the signing of the guarantee agreement between LGUGC and USAID DCA.

*Project Development* – The project development component (Component 2) focused on providing technical assistance on demand basis, instead of actively identifying projects and offering technical assistance for improving pre-investment studies. One of the major activities under this component was the preparation of a feasibility study and a business model on septage management for Metro Cebu and Cabanatuan City water districts. We also prepared the detailed the implementation and operating guidelines of the LWUA-administered Project Development and Efficiency Improvement Fund – a PhP 250 million

government subsidy to LWUA made possible by the commitment of DOF's Undersecretary Paul to support the priority needs of the water sector. The Fund was operationalized in September 2008.

*Policy and Institutional Reform-* In this component, we focused on strengthening the enabling environment. We completed the TA for LGUGC on the Water District Credit Rating Manual, along with pilot credit ratings of two WDs—Silang and Laguna. We also developed and submitted the business plan framework and draft toolkit for water districts to LWUA. We also held the first organizational meeting of the Philippine Development Forum (PDF) Sub Working Group on Water Supply and Sanitation. Lastly, we led organization of the conference on the Water Sector Regulatory Reform in coordination with other donor agencies.

*Overall Program Support for PWRF-* During the year our team organized two Steering Committee meetings to discuss and resolve various policy issues. We also sponsored participation of GOP representatives to the training on water utility reform in Jordan, as well as in the World Water Week Conference in Stockholm Sweden.

*Cooperation with other USAID projects-* We worked with the Philippine Sanitation Alliance, another USAID-assisted program (PSA), on the social marketing and policy support of the concerned LGUs for the Septage Management Project in Cebu City to enhance the viability of the project.

*Leveraging resources -* We worked with a number of donor agencies for certain activities and were able to leverage resources (see table below). This collaboration with donor agencies and project partners allowed us to save Php1,398,079 or US\$30,398.00, part of which was used to fund the participation of NWRB Executive Director Ramon Alikpala and MDFO Executive Director Helena Habulan in the World Water Week conference in

Stockholm, Sweden in August 2008. Other activities that are lined up to be financed from the savings include the TA to NWRB and more pilot LGUs for ring-fencing exercise.

<b>Donors/Partners</b>	<b>Activity</b>	<b>Cost (Php)</b>
ADB	Regulatory Conference	288,000.00
ADB/GTZ/WSP	Pre-conference consultations with LGUs, WDs, and private small scale water providers (3 days)	243,000.00
JICA	PWRF Launch	98,400.00
WSP	Ring-fencing toolkit	568,678.95
MCWD and CCWD	Counterpart cost of MCWD/CCWD for Septage Management Project	200,000.00
<b>TOTAL</b>		<b>PHP 1,398,078.95</b>

### C. Sustaining PFI Interest to Finance WSPs

One of the externalities of the PWRF development exercise is the awareness fostered among private financing institutions of the opportunities in lending to the water sector. This awareness together with LGUGC's aggressive marketing; the continuing liquidity of banks and the prevailing low interest rate regime have all contributed to banks' growing appetite to lend to water projects. In Year 1, the three loan transactions originated by PFIs and financed entirely by them or co-financed with LWUA<sup>2</sup>, but still with PFIs taking on the lion's share.

In Year 2, three more projects (Laguna, Indang, and Cabanatuan) have accessed PFI financing bringing the total worth of loan applications to Php820 million. However, only Laguna and Indang have been enrolled with DCA for re-guarantee cover. Three (Mabalacat, Dagupan, and Sta. Maria) projects have been processed and loan

<sup>2</sup> LGUGC and LWUA signed an MOU on July 31, 2007 for a co-financing arrangement with PFIs. The structure is similar to the PWRF.

agreements ready for signing. As of September, only 1 (Zamboanga City) project is still being processed.

#### D. Challenges and Opportunities

##### *Challenges*

*Looming Reversal of EO 279 Policies-* The injunction of EO 279 is still unresolved hence the impasse on the full implementation of EO 279. Furthermore, in September 2008, the newly appointed Chair of the LWUA Board of Trustees made pronouncements in LWUA and PAWD Annual Forum that reverses the policy guidelines of EO 279. In particular, the Chair announced interest rate cuts by as much as .5% lower than GFI rates and reconsolidation of LWUA's role as the prime lender for all water districts. The pronouncements sent wrong signals to the market. The WDs considering borrowing from the PWRF or PFIs are now in a wait and see mode. Moreover, the policy shift may also affect the objectives of the securitization exercise with LWUA.

*Uncertainty of LGUGC Ownership-* DBP sent offers to PFI equity holders of LGUGC to buy out their share. In a meeting with the COO, he said that alternatively DBP can divest its share, alluding to solving its double exposure via the PWRF loan and its contingent liability on the PFI guarantees in view of its ownership in LGUGC. If the buyout results to nationalization, LGUGC will then be ineligible for the co-guarantee support of USAID DCA.

*PWRF Capitalization* – The capitalization of the DBP component depended on the JICA loan execution. The loan was not approved until September 30, 2008.

*Financial Market Debacle-* With the financial market debacle, the securitization of LWUA loan receivables will not be timely. Although the team is continuing to assist LWUA with

the groundwork, the timing of the issue will depend on the improvement of the market conditions.

### *Opportunities*

*DOF Leadership* – DOF has continued to champion the financing reform agenda. It is currently chairing both the PWRF Steering Committee and the Philippine Development Forum Sub-working group for water supply and sanitation. The Sub-working group is a venue for the government, donors, private sector and civil society key stakeholders to coordinate reform initiatives and development programs.

*GOP Parallel Reform Initiative*- The water sector roadmap efforts to address the other issues in the sector, especially the regulatory reforms will complement the financing reform focus of PWRF-SP.

### E. *Next Steps*

We will maintain the four main scopes of work: PWRF operationalization; project development; policy and institutional reform and overall program support. Barring any major policy shift that reverses the framework of PWRF, Year 3 (Option Year 2) expected outputs are:

#### Component 1: PWRF Set-up and Institutional Development

- Assistance to DBP on the establishment of the PWRF lending window
- Assistance to DBP on the preparation of the business and marketing plan for PWRF
- Water Project Appraisal Guidebook for Lenders
- Assistance to LWUA on the securitization of loan receivables

- Roadmap for the long-term financing structure of PWRF

#### Component 2: Project Development

- On demand basis, provide technical assistance to water service providers to update or improve pre-investment studies
- Establish Help Desk for septage management planning and implementation
- Support to LWUA's Project Development and Efficiency Improvement Fund

#### Component 3: Water and Finance Sector Strengthening

- Policy paper on rationalization of public resource allocation to WSS projects
- Support to DOF to put in place financial incentives for water sector lending
- Technical secretariat support to the PDF's sub-working group on water supply and sanitation
- Support to NWRB for the implementation of the regulatory reform action plan
- Training of LGUs on ring-fencing of water service operations and pilot implementation in five (5) LGUs
- Development of implementation strategies for reaching poor communities
- Training of LWUA trainers and ten (10) WDs on strategic business planning

#### Component 4: Overall Program Support

- At least one meeting per quarter for the Steering Committee and the Technical Working Group
- Technical papers, presentations, inputs to USAID reports and communication materials on the PWRF, as may be required by USAID
- Set up and maintain PWRF Support Program Website



**Table 1: Summary of Year 2 (Option Year 1) Expected Outputs and Accomplishments**

<b>Expected Outputs</b>	<b>Accomplishments for the Year</b>
<i>Component 1: PWRF Institutional Development</i>	
<ul style="list-style-type: none"> <li>▪ PWRF Operating Policy Guidelines (OPG)</li> </ul>	Submitted final draft of OPG to DBP; upon the request of JICA, the OPG integrated the Environment Development Program Loan and the PWRF lending and operating guidelines
<ul style="list-style-type: none"> <li>▪ MDFO Implementation Guidelines for the Stand-by Credit Line</li> </ul>	Approved by the MDFO Policy Governing Board.
<ul style="list-style-type: none"> <li>▪ Draft credit framework arrangement between DBP and PFIs</li> </ul>	Submitted the final PWRF Standard Loan Agreement including the inter-creditor agreement to DBP after incorporating the PFIs' minor comments.
<ul style="list-style-type: none"> <li>▪ MOA between DBP and PFIs and inter-creditor agreement</li> </ul>	Deleted. DBP and PFIs said the MOA is not necessary, particularly since their comments and inputs were integrated in the standard loan agreement.
<ul style="list-style-type: none"> <li>▪ Training Workshops for PFIs and PWRF Partners on Water Project Appraisal</li> </ul>	Conducted one regional workshop each in Luzon, Visayas, and Mindanao for DBP Regional Marketing Centers and PFI officers and staff. About 200 executives from banks, investment houses, and government institutions from Luzon, Visayas, and Mindanao participated in these training workshops.
<ul style="list-style-type: none"> <li>▪ Action Memo to DCA requesting approval of its Credit Review Board on the new guarantee agreement with LGUGC</li> </ul>	The Credit Review Board approved the guarantee agreement on April 9, 2008. USAID Mission and LGUGC signed the new agreement in September 2008.
<ul style="list-style-type: none"> <li>▪ TA to LWUA for the securitization of its receivables</li> </ul>	The MOU for the TA to LWUA was signed on May 27, 2008 and LWUA's Board of Trustees approved the securitization plan on July 15, 2008. The Terms of Reference for the



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|  | Financial Adviser and Underwriter have been drafted and submitted to LWUA for approval.   |
| <ul style="list-style-type: none"> <li>▪ On demand basis, TA to a water district for a bond issuance</li> </ul>  | Postponed.  |
| <ul style="list-style-type: none"> <li>▪ Concept and Design of a long-term financing mechanism (informed by the result of the policy analysis on resource allocation)</li> </ul> | Awaiting results of the policy analysis on resource allocation.   |
| <ul style="list-style-type: none"> <li>▪ Water Project Appraisal Guidebook for Lenders</li> </ul>  | The Guidebook is being edited and will be launched before the end of 2008.  |
| <ul style="list-style-type: none"> <li>▪ Subject to JICA loan commitment, institutional support to DBP to establish PWRF lending window</li> </ul>                               | The team prepared the TOR of the TA to DBP after the JICA loan pledging in July 2008. DBP approved the scope of work of the TA on the PWRF Business Development and Marketing Plan in September 2008. The TA is scheduled to commence in November 2008. |

***Component 2: Project Development and Capacity Building of Utilities***

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| <ul style="list-style-type: none"> <li>▪ On demand basis, TA to water utilities to update or upgrade pre-investment studies</li> </ul> | <p>To date, four (4) projects (Silang, Laguna, Indang, and San Fernando) have accessed PFI financing and have been enrolled with DCA for re-guarantee cover. Calamba and Cabanatuan WDs have also accessed PFI financing but are not enrolled in DCA yet.</p> <p>An MOU detailing technical assistance on capacity building was signed with Jolo Mainland WD on April 21, 2008 and the first (on efficiency improvement planning) of three training workshops was held on July 2008.</p> |
| <ul style="list-style-type: none"> <li>▪ Feasibility Assessment and Design of a Project Development Facility</li> </ul>                | The concept paper has been finalized. The feasibility assessment and design were deferred in view of the establishment of the Project Development and Efficiency Fund in LWUA and Project Technical Assistance and Contingency – Fund (PTAC- Fund) in MDFO.  |
| <ul style="list-style-type: none"> <li>▪ Implementation guidelines for the LWUA-</li> </ul>  | LWUA conducted an orientation/workshop on the  |

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| <p>administered Project Development and Efficiency Improvement Fund</p> <ul style="list-style-type: none"> <li>▪ Feasibility analysis of septage management and preparation of a business model for water districts</li> <li>▪ LGU training program on WSS project development</li> </ul> | <p>implementation guidelines for its Area Managers in September 2008. The Program was launched in the same month.</p> <p>The final report on the feasibility analysis and the business model study has been submitted by the team of consultants and is under review by Metro Cebu Water District and Cabanatuan Water District.</p> <p>Deferred. Shifted plan to focus on capacity building for ring-fencing and performance contracting.</p> |
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***Component 3: Water and Finance Sector Strengthening***

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| <ul style="list-style-type: none"> <li>▪ Water District Credit Rating Manual</li> </ul>  | <p>The Water District Credit Rating Manual and the final report on the pilot credit ratings of two WDS were submitted to LGUGC in May 2008</p>   |
| <ul style="list-style-type: none"> <li>▪ Policy analysis on the rationalization of public resources for water supply and sanitation investments</li> </ul>           | <p>Ongoing</p>   |
| <ul style="list-style-type: none"> <li>▪ Draft EO 279 implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines</li> </ul> | <p>In a Steering Committee Meeting held in March 2008, Usec Paul clarified that the instrument for the issuance of the policy need not be through a NEDA-ICC resolution. Part of the review of the guidelines will be to determine the appropriate executing instrument. For example he said it could be through an issuance from DOF-CAG, whose review is pre-requisite to ICC evaluation anyway.</p> |
| <ul style="list-style-type: none"> <li>▪ Financial incentives for WSS lending</li> </ul>   | <p>Bangko Sentral disapproved the previous request of DOF in view of a misunderstanding in one of the recommendations of the position paper submitted by DOF. We prepared a revised position paper to clarify the matter. The paper was submitted to DOF for review and transmittal to Bangko Sentral.</p>   |

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| <ul style="list-style-type: none"> <li>▪ Technical support to DOF for its leadership in the sub-Working Group for water under the Philippine Development Forum</li> </ul> | <p>The first organizational meeting was held on September 4, 2008. The team prepared the Sub Working Group's Terms of Reference and Action Plan.</p>  |
| <ul style="list-style-type: none"> <li>▪ Training and institutionalization of business planning among water utilities</li> </ul>  | <p>LWUA management approved the collaboration with PWRFSP on the preparation of the model, training and eventual institutionalization of business planning.</p> <p>The group of consultants who will prepare the business planning manual, and develop and conduct the training program will be mobilized in October 2008. The training of trainers' is scheduled in November 2008.</p> |
| <ul style="list-style-type: none"> <li>▪ Conference on regulatory reform for water supply and sanitation</li> </ul>   | <p>Held the conference on August 5-6, 2008 at the ADB Headquarters in Manila. The consensus in the conference on regulatory reform measures informed the Year 3 work plan of PWRFSP.</p>  |
| <ul style="list-style-type: none"> <li>▪ Pricing policy for LGUGC</li> </ul>  | <p>The final report on the guarantee fee pricing framework and formula was submitted in January 2008.</p>   |

***Component 4: Provide overall program support to USAID and JICA***

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| <ul style="list-style-type: none"> <li>▪ Overall program support to USAID and its collaboration with JICA</li> </ul> | <p>We continued to provide overall program support to USAID and to its collaboration with JICA</p>   |
| <ul style="list-style-type: none"> <li>▪ Technical secretariat support to the PWRF Steering Committee</li> </ul>     | <p>Organized two meetings of the Steering Committee</p>  |
| <ul style="list-style-type: none"> <li>▪ Knowledge management tool: PWRF website</li> </ul>                          | <p>Website launched and operational at <a href="http://www.pwrf.info">www.pwrf.info</a>. We continue to refine the presentation and add materials.</p> |

## **Chapter II: Accomplishments for Year 2 (Option Year 1)**

### ***1. Component 1: PWRF Institutional Development***

Under the Year 2 work plan, Component 1 of the technical assistance covers two areas: 1) piloting of a capital market-based financing mechanism for water supply and sanitation projects and, subject to JICA loan commitment, 2) the institutional support for the establishment of the PWRF Lending Facility within DBP.

#### *DCA-LGUGC Guarantee Agreement*

The new guarantee agreement will focus on water supply and sanitation projects. We helped draft the Action Memo, a pre-requisite for the DCA Credit Review Board approval of the new agreement. The action memo outlined the socio-economic rationale of the DCA assistance, the financial analysis of the facility supported, and the risk analysis. Our team provided the background analysis for the risk assessment, e.g., review of LGUGC performance, economic analysis of water sector investments, and review of water districts. We also helped with the sensitivity analysis used in the negotiation with LGUGC.

#### *Technical Assistance on Securitization of LWUA Receivables*

The MOU detailing the Technical Assistance to LWUA on the securitization of its receivables was signed on May 27, 2008. The Board of Trustees approved the securitization plan on July 15, 2008.

We reviewed similar local deals and consulted with an investment house to get an initial impression of market's appetite for such an instrument for water projects. We also met with possible participants and concerned agencies in the securitization process to discuss

the framework of the undertaking, e.g., DBP and SEC for the set up of the special purpose trust and PhilRatings for the process of securing the credit rating. We also helped LWUA prepare an application with PPIAF for technical assistance for financial and legal advisory (application still in process). For its part, USAID Development Credit Authority sent one of its officers to do an initial scoping of the risk they will take on as a potential guarantor. We have drafted the Request for Proposal for financial advisory and underwriting of the asset-backed securities. We are also currently drafting the bid evaluation criteria.

*Continuing Training to PFIs and other PWRF stakeholders on Water Project Appraisal and Water Project Appraisal Guidebook for Lenders*

As part of the capacity building program for lenders, we conducted training workshops in Luzon, Visayas and Mindanao for PFIs and DBP account officers on WSS project appraisal and familiarization with the water sector policy, institutional and regulatory framework. We invited experts, specialists, and practitioners in the water sector industry to discuss issues and share knowledge and insights on water project financing (the list of topics is shown below). About 200 executives from banks, investment houses, and government institutions from Luzon, Visayas, and Mindanao participated in these trainings.



PWRF Support Program Chief of Party Alma Porciuncula gives an introduction of the PWRF to the members of the private financing institutions during the Water Project Appraisal Training held in Davao City earlier this year.

The training will be complemented with the publication of an appraisal guidebook, *Water Project Appraisal Guide Book for Creditors and Lenders*, which aims to provide creditors an easy guide on how to evaluate the technical and financial aspects of water project proposals. The Guidebook will be launched before the end of the year.

<b>Training Modules on Water Project Evaluation for PFIs</b>	
Module 1	Water Institutions and Regulations in the Philippines
Module 2	Investment Opportunities in the Water Sector
Module 3	Water Tariff Setting in the Philippines :Overview of the Process and Issues
Module 4	Demand and Revenue Projections in the Water Sector
Module 5	Experiences and Issues in Bulk Water Supply Contracts
Module 6	Experiences of LGU-run Water Service Utilities
Module 7	How to Construct a Financial Model of a Water Service Utility
Module 8	Hydrology Risk Assessment
Module 9	System Planning and Cost Estimation of Water Projects
Module 10	Risk Identification and Mitigation in Water Project Financing
Module 11	Operational Efficiency in Water Service Operations

*Institutional support to DBP for the PWRf Lending Window*

With the JICA loan finally pushing through, we prepared the terms of reference of the technical assistance (TA) to DBP on the PWRf business development and marketing plan. DBP approved the TOR in September 2008. The TA will assist DBP in three ways: a) facilitate the initial PWRf transactions that will lead to a loan agreement, b) formulate a strategic marketing strategy and implement a marketing plan, and c) it will continue to assist DBP in conducting follow-through water project appraisal workshops to enhance the capacity of its officers to evaluate water supply projects.

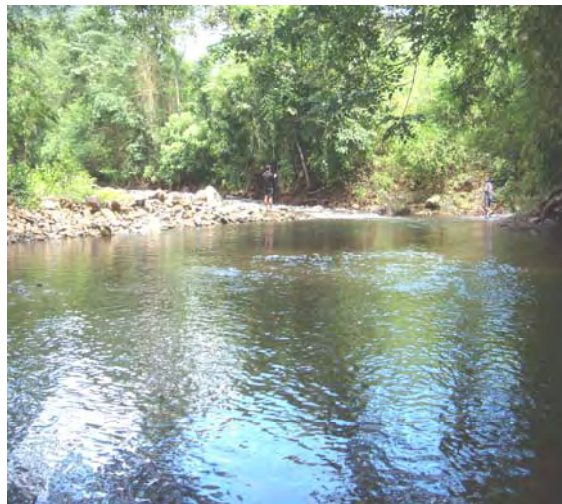
The TA has four components:

1. Project Identification and Preliminary Deal Making Activities for PWRF Pilot Transactions
2. Preparation of Marketing Materials and Actual Marketing of PWRF
3. Continuing Workshop/Seminar on Water Project Appraisal
4. Review and Assessment of PWRF Marketing/Business Plan

## **2. *Water and Sanitation Project Preparation***

*Assist utilities to update feasibility studies and prepare projects for PWRF funding*

We prepared and submitted to the Cabanatuan Water District a technical study on the comparative analysis of alternative treatment systems, including capital and operating cost estimates. This study was the basis for the decision of the water district to implement a new bulk water supply project Cabanatuan Water District, and accessed PFI financing for this project. We also prepared a financial model and analysis of



Proposed new water source for Puerto Princesa

the Puerto Princesa Water District (PPWD) Water Supply Expansion Project. We advised the WD to phase their investment program to match the revenue build-up thereby ensuring financial viability. The WD management accepted our recommendations and obtained financing from DBP for the project's Phase 1, costing about PhP400 million.

Our assistance to Jolo Mainland Water District (JMWD) came in the form of capacity building to complement the capital grant assistance by Growth with Equity in Mindanao (another USAID project). The technical assistance aims to improve and rehabilitate the WD's water supply service. After signing the MOU with JMWD on April 21, the efficiency improvement planning workshop was programmed ahead of the other trainings for JMWD. It took place in Zamboanga City on July 16-18, 2008. Fifteen (15) technical staff of



Engr Romulo Diaz (man in pink shirt, back to camera) of LWUA shows the JMWD trainees how to calibrate water meters.

JMWD actively participated in the workshop which was led by NRW resource persons from the Local Water Utilities Administration (LWUA). As a result of the workshop, JMWD has decided to implement its EIP within the year; a decision that would surely have a positive impact on the water utility's over 5,000 service connections.



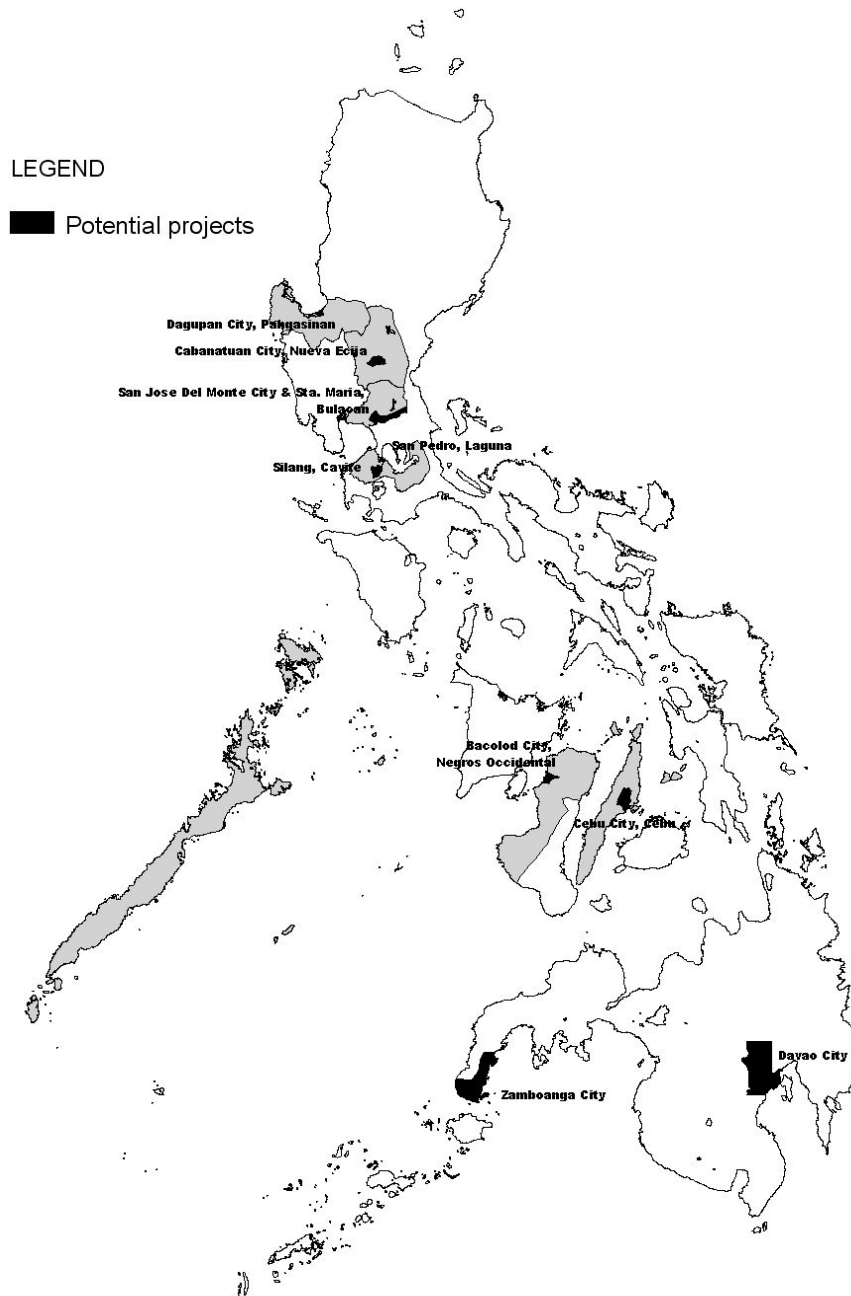
**Table 2: Project Pipeline as of September 30, 2008**

WSP	Project Description	Issues/Status
1 Davao WD  Classification: CW	<p>The WD has the following proposed projects:</p> <p>For 2008:</p> <ol style="list-style-type: none"> <li>1. Riverside (with technical evaluation) Project Cost: P19M</li> <li>2. Toril (with technical evaluation) Project Cost: P20M</li> <li>3. Lubogan (with technical evaluation) Project Cost: P27M</li> <li>4. Cabantian (with feasibility study) Project Cost: P30M</li> <li>5. Indangan (with feasibility study) Project Cost: P55M</li> <li>6. Dumoy (with feasibility study) Project Cost: P231M</li> <li>7. Panacan/Bunawan-Lasang (with feasibility study) Project Cost: P284M</li> </ol> <p>Other Projects in the Medium-Term:</p> <ol style="list-style-type: none"> <li>1. Tugbok Project Cost: P211M</li> <li>2. Tamugan Surface Water Development Project Cost: P3 billion</li> </ol>	<p>After discussions with LGUGC, WD still has not followed up with the processing of documents to start the project evaluation. However, the LGUGC partner bank regularly calls on the WD in the hope of fast-tracking the discussions.</p> <p>The detailed FS of the Tamugan Project is presently being updated.</p>
2 Sta. Maria WD  Classification: SCW	<p>Sta. Maria will implement vital rehabilitation and systems improvement programs to fully cover the 8 barangays currently being served and further expand water service coverage to 6 new barangays.</p>	<p>To date, Sta. Maria is re-evaluating its financing options.</p>

WSP	Project Description	Issues/Status
	Estimated project cost is P163M	
3 Cabanatuan City WD	The project is a septage management program involving the development of a 50 m <sup>3</sup> /day septage treatment plant and procurement of two septage collection trucks.	Estimated project cost is PhP 75 million.  The feasibility study being prepared by PWRF will be finalized in November 2008.
4 San Pedro WD: Classification: CW	Project feasibility study completed.  Estimated project cost: P462 M.	Project is being evaluated by LGUGC
5 San Jose Del Monte WD  Classification: SCW	Based on an FS by a local consulting firm, the project will involve utilization of an additional 30,000 m <sup>3</sup> /day of water supply from MWSS.  Estimated project cost: P700 M.	LGUGC awaiting submittals of project documents
6 Metro Cebu WD  Classification: SCW	MCWD Water Supply Project Pipeline: P1,515 B (2008-2012)  Septage Management Project development of a 50 m <sup>3</sup> /day septage treatment plant and procurement of two septage collection trucks.  Estimated project cost: P100 M.	These exclude major alternative water source development projects.  The FS for the septage management program for MCWD will be finalized in November 2008.
7 Bacolod WD:  Classification: SCW	Based on accomplished survey questionnaire (May 2007), the WD is proposing three (3) new projects, with a combined cost of around P490 million.	

WSP	Project Description	Issues/Status
	<p>The projects involve new source development (45,000 m<sup>3</sup>/day) and expansion of the distribution system (10% additional coverage).</p>	
<p>8 Zamboanga WD</p> <p>Classification: SCW</p>	<p>Pipeline Replacement/ Upgrading and Water Development/ Secondary Line Project.</p> <p>Estimated project cost: P195 M</p>	<p>Project financing has been approved by LGUGC Board. Documents are presently being evaluated by LWUA and LGUGC partner bank.</p>
<p>9 Dagupan City WD</p>	<p>The WD project will primarily address water supply shortage in three (3) urban barangays of Dagupan City.</p>	<p>WD is re-evaluating its financing options.</p>

**Figure 1. POTENTIAL PROJECTS**  
**Philippine Water Revolving Fund (PWRF)**



*Feasibility Assessment and Design of the Project Development Facility*

We prepared a concept paper for a Project Development Facility (PDF), as a credit facility, possibly multi-donor funded but not tied to any capital loan source. The paper discussed the Philippine and international experiences in operating project development facilities and took note of lessons learned in the preparation of the conceptual framework. The report was submitted to the PWRf Steering Committee.

We held off with the feasibility assessment and design in view of the two pilot funds set up in LWUA and MDFO. Monitoring the performance of the Funds (LWUA's PDEIF and MDFO's PTAC) will be a better way of gauging demand and value proposition that borrowers look for.

*Implementation Guidelines of the LWUA-administered Project Development and efficiency Improvement Program*

DOF was able to get subsidy for LWUA to capitalize a project development and efficiency improvement fund. The Fund has a PHP 125 million allocation each for project preparation, and quick gestating capital projects for efficiency improvement, such as reduction of non-revenue water. We helped LWUA prepare the policy and implementation framework, which was approved by its Board of Directors in March 2008. We also assisted with the crafting of the operating guidelines. In September 2008, LWUA oriented its Area Managers on the Fund, and a few days after announced in the website that the facility is open for business.

The PDEIF was factored in the PDF concept paper, but is accessible by water districts only. Fortunately, MDFO established a similar program for LGUs. Although managed by two different agencies, both programs share the same objectives and offered at concessional terms to encourage utilization.

### *Feasibility Study and Business Model for Water Districts on Septage Management*

We agreed with Metro-Cebu Water District and Cabanatuan City Water District to work together to prepare a feasibility study for septage management, and, in the process, prepare a business model for water districts. The feasibility studies will be used as the platform to also prepare business models for water districts on septage management. In late August, we presented to the MCWD Board the MCWD septage study preliminary findings and recommendations. The Board agreed in principle with the proposed septage management service, i.e., approach, treatment option and phasing of the facilities—particularly focusing on Cebu City for Phase 1. However, the Mayor of Cebu City, advised MCWD not to immediately implement septage management service for the entire city, and instead start with a pilot program first for a few barangays. In view of this political dimension, we will assist MCWD reconfigure the phasing of the project, in particular to start with a small facility in a nearby municipality, Cordoba, which is close enough to serve the pilot barangays of Cebu City.

The draft reports have been submitted to the MCWD and CCWD for their consideration.

Our team collaborated with another USAID project, the Philippine Sanitation Alliance in this undertaking. PSA has been assisting MCWD in social preparation; advocacy and promoting buy in among affected LGUs, specifically in getting an ordinance that will support the septage management service.

### *3. Water and Finance Sector Strengthening*

#### *Policy analysis on the rationalization of public resources for water supply and sanitation investments*

One of the key lessons learned from the US Study Tour of State Revolving Funds is the realization that using creditworthiness to segment the market for market-based and concessional lending discourages investments in poor communities; especially in the case of the Philippines where enforcement of regulations is weak. The SRFs allocated public resources based on intended use plans, which states the socio-economic objectives and environmental standard compliance.

We recommend the adoption of the same policy in the Philippines. We did an initial take of the concept paper outlining the operating principles of this policy. We will vet the ideas therein in the roundtable discussion on financing issues among concerned GOP and donor agencies in October 2008.

#### *Financial Incentives for WSS lending*

We submitted to DOF/Usec Paul the final draft of the background and position paper addressed to Central Bank to consider water supply and sanitation loans as alternative compliance to the mandatory credit of the Agri-agra Law. DOF reviewed and submitted the position paper to Central Bank (CB); however in view of a misunderstanding the request was not approved<sup>3</sup>. We then revised the position paper to clarify the matter; the revised position paper has been submitted to DOF for review and transmittal to BSP.

#### *Technical support to DOF for its leadership of the sub-working group for water under the Philippine Development Forum*

In an executive meeting among DOF (represented by Usec Paul and Dir. Helen Habulan from MDFO), NEDA (DDG Tungpalan and technical staff of the Public Investment and

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<sup>3</sup> BSP had the impression that the request was for ODA re-lending, which already enjoyed incentives. The paper was revised to clarify that the eligibility was for privately sourced funds offered as loans or used to purchase bonds for water supply and sanitation projects.

Infrastructure Staffs), and NWRB (ED Ramon Alikpala) in December 2007, it was agreed to constitute a sub-working group for water under the Philippine Development Forum (a group consisting of GOP agencies, donors, private sector, and civil society groups).

Subsequently, the group endorsed the proposal to spin



The PDF Sub-Working Group on Water Supply and Sanitation officially convened on September 4, 2008

off an Infrastructure Working Group (IWG) from the Growth and Investment Working Group and to establish under the working group a sub-working group on water. It was also suggested to have DOF and NEDA co-chair the sub-working group. The PWRF Steering Committee in its March 13 meeting also endorsed the idea. Towards this end, we drafted and submitted to Usec Paul the Terms of Reference of the sub-working group. We also fielded a technical associate in April to backstop Undersecretary Paul in the facilitation of WSS financing and other related policy reforms advocated by the PWRF initiative, and coordination of related activities thereon. The technical associate specifically supported Undersecretary Paul's leadership of the sub-working group on water under the PDF.

The PDF Sub-Working Group on Water Supply and Sanitation officially convened on September 4, 2008 and was attended by about 50 decision-makers from key stakeholders. The group is chaired by the Department of Finance (DOF) and co-chaired by USAID and JICA (NEDA chairs the Infrastructure Working Group with World Bank). We provide assistance to the technical secretariat.



The WSS sub-working group will serve as the venue for government and development partners to discuss issues, agree on a common strategic direction, coordinate programs and collaborate on related initiatives. The Group is expected to recommend an action plan in a month's time on the sector's reform agenda that covers institutional, regulatory, financing and capacity building issues.

*Conference on regulatory reform for water supply and sanitation*

The strengthening of regulations is one of the most critical pieces of the reform agenda. It is for this reason that we coordinated the convening of a Working Group (WG) representing NWRB, NEDA, DILG, DOF, LWUA, and the major donor agencies that organized the pre-conference consultations and the Water Sector Regulatory



The four panelists (L-R): Usec. Jeremias Paul, Jr., ED Ramon Alikapl, Dir. Paisal Abutazil, and Atty. Ruben Fondevilla with resource persons, Mr. John Sittton and Mr. Antonio de Vera, gave their reactions on the measures being proposed to improve regulation in the water sector.

Reform Conference, on August 5 and 6, 2008 at the ADB Headquarters. We provided technical secretariat support to the consultations and conference. Relatedly, we led the preparation of the highlights of the workshops and the conference and coordinated all meetings of the WG and the sub-groups. We helped prepare the design of the main conference and the pre-conference activities and engaged international experts/resource persons on regulatory reform, facilitators, and documenters for the conference.

The two-day conference gathered about 80 major players in the water sector to raise awareness about the role of regulation in improving water service performance and discuss approaches for effective economic regulation. Some of the main

recommendations that came out of the conference included institutionalization of benchmarking, performance contracting, ring-fencing of LGU accounts and provincial master planning.

#### *Assist Water Utilities in Preparing Business Plans*

In line with our plan to improve the capacity of water districts to prepare business plans as well as to institutionalize the exercise as a good governance practice, we engaged a consultant to prepare a business planning framework. The framework described the purpose, scope, data requirements and financial model for the business plan. The framework and draft toolkit were submitted to LWUA for comments.

In September, we engaged an international team to prepare a business planning manual, conduct a training of trainers and coach trainers in the pilot training of five water districts. The international team will be mobilized in October 2008.

#### *Water District Credit Rating Manual*

We provided LGUGC with technical assistance to prepare a credit rating manual for water districts. Through TCGI, one of our sub-contractors, we hired CRISIL, an Indian-based rating agency and a wholly-owned subsidiary of Standard and Poors to prepare the manual.

The credit rating model was presented to LGUGC and key stakeholders last March 7, 2008 and in May 15, 2008 to the PWRF Steering Committee. In addition to the presentation of the credit rating framework, Mr. David Painter of TCGI also presented international best practices on credit rating and strategies for institutionalizing credit rating. The Manual was used in the pilot credit rating of Silang and Laguna Water Districts. The Manual and the model are already being used by LGUGC.

#### 4. *General PWRf Support Program*

Our team serves as the technical secretariat to the PWRf Steering Committee. We organize the meetings, prepare the agenda and the analysis papers, facilitate the discussions and draft the minutes of the meetings. This year two meetings were held and were used to discuss and resolve issues.

We also provided overall support to the USAID – JICA collaboration, such as organize monitoring meetings and provide inputs to internal reports or papers.

The PWRf website is operational (see [www.pwrf.info](http://www.pwrf.info)). We continue to refine the presentation and add materials.

## Annex 1. List of Reports, Workshops and Steering Committee Meetings

**Table 1: PWRP Reports in Year 2 (Option Year 1)**

<b>Title of Report</b>	<b>Status</b>	<b>Lead</b>
Paper on the Proposed Inclusion of PWRP Lending as a Mode of Alternative Compliance to the Agri-Agra Law (PD 717)	Revised final report submitted to DOF for transmittal to BSP	Adora Navarro
Rationalization of Credit Programs for the Water Sector	Report submitted to DOF and the PWRP Steering Committee	Gilbert Llanto, PhD
Philippine Water Bond Conceptual Framework	Report submitted to PWRP Steering Committee	Lyndon Ner Saulog
Concept Paper on the Project Development Facility	Report submitted to PWRP Steering Committee	Ferdinand Asuncion
Business Planning Framework for Water Service Providers	Report submitted to LWUA.	Antonio de Vera
Integrated PWRP-EDP Operating Policy Guidelines (5 <sup>th</sup> Version)	Guidelines submitted to DBP	Rodolfo Pantillano
Operating Guidelines for the MDFO Standby Credit Facility	OPG submitted to MDFO	Rodolfo Pantillano
TA assessment report and scopes of work for each LGU interested in the PWRP	Internal Document	Leila Flores/Ferdinand Asuncion
Methodology for Pricing Credit Guarantees	Submitted to LGUGC	Dr. Reid Click
Manual of Credit Rating for Water Districts	Report submitted to LGUGC	Akash Jyoti
Project Development and Efficiency Improvement Facility implementation guidelines	Guidelines submitted to LWUA	Ferdinand Asuncion
Water Project Appraisal Guide Book for Creditors and Lenders	Ongoing	Various authors Editor: Del McCluskey

Business plan toolkit for water utilities	Submitted to LWUA for comments	Anna Maria Mendoza
Proceedings of the Conference on Strengthening Regulation to Improve Water Service Performance	Distributed to participants	Doreen Erfe
Technical Assessment of Proposed Surface Water Development Project for the Cabanatuan City Water District	Submitted to Cabanatuan City WD	CEST Consultant (supervised by Ferdinand Asuncion)
Metro Cebu Septage Management Project Feasibility Study Report	Draft report submitted to MCWD for review	CEST Team (supervised by Ferdinand Asuncion)
Business Model Septage Management program	Draft for PWRFSP review	CEST Team (supervised by Ferdinand Asuncion)

**Table 2: Consultations and Workshops**

<b>Consultations/ Workshops</b>	<b>Date/Venue</b>	<b>No. of Participants</b>
1 Study Tour - Making Cities Work: Intensive Technical Training in Improving Access to Financing for Municipal Water and Sanitation Service Providers	November 4-6, 2007/Amman, Jordan	4
2 Training Workshop on Water Supply and Sanitation Project Appraisal – Visayas Region	November 22-23, 2007/Cebu City	22
3. Training Workshop on Water Supply and Sanitation Project Appraisal – Mindanao Region	January 17-18, 2008/ Davao City	34
4. Training Workshop on Water Supply and Sanitation Project Appraisal – Luzon Region	April 3-4, 2008/Clark, Pampanga	20

5.	Presentation of the Credit Rating System to the PWRF Steering Committee and EO 279 Oversight Committee	May 15, 2008/ Pasig City	20
6.	Consultations on Strengthening Regulation for Water Districts	July 2, 2008/Pasig City	43
7.	Roundtable Discussion on Water Regulatory Reform	July 4, 2008/Makati City	20
8.	Workshop on Non-revenue Water Reduction (Jolo WD)	July 16-18, 2008/Zamboanga City	15
9.	Conference on Strengthening Regulation to Improve Water Service Performance	August 5-6, 2008/Pasig City	80
10.	World Water Week	August 17-23, 2008/Stockholm, Sweden	4

**Table 3: Schedule of PWRF Steering Committee Meetings**

<b>Steering Committee Meeting</b>	<b>Date/Venue</b>
1. Meeting of the Steering Committee - Philippine Water Revolving Fund Support Program	March 13, 2007/ Meeting Room 1, JICA Office, 31/F Citibank Tower
2. Meeting of the Steering Committee - Philippine Water Revolving Fund Support Program	July 24, 2008/ Meeting Room 1, JICA Office, 31/F Citibank Tower