



USAID
FROM THE AMERICAN PEOPLE

THE PHILIPPINE WATER REVOLVING FUND

ANNUAL REPORT

OCTOBER 1, 2008 – SEPTEMBER 30, 2009

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Chapter I: Overview of Project and Highlights of Year 3 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)¹, 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.

A. Project Objectives and Scope

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

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

- 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 four 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 I 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. The JICA loan was finally signed in September 2008, which enabled the operationalization of the PWRF in October of the same year.

A.2 Project Scope

Component 1: PWRF Institutional Development - involves establishment of PWRF lending window in DBP and provision of institutional support on its implementation

Component 2: Water and Sanitation Project Preparation - involves assisting water districts and LGUs in improving capacity to prepare water supply and sanitation projects; 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 3/Option Year 2 work plan are shown in Table 1.

B. Highlights of Year 3/Option Year 2 Accomplishments

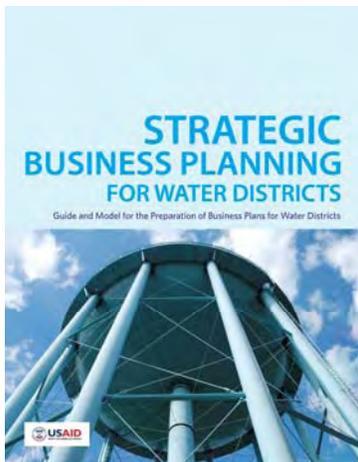
Facilitation of PWRF deals – We assisted LGUGC and DBP in facilitating the following deals: San Pedro WD, San Jose WD, Metro Cebu WD, Subic Water, and Bolinao LGU. We are also providing assistance to Alfonso Lista and Lasam LGUs. However, no loan

transactions came of all the earlier deals as San Pedro and San Jose WDs were offered funding by LWUA. Metro Cebu held its project to expand the distribution network in view of pending procurement of bulk water supply contracts², Bolinao LGU and Subic Water decided to borrow from Land Bank.

PWRF Marketing- We completed the strategic business and marketing plan of PWRF for DBP. This technical assistance included the preparation and production of marketing collaterals, i.e., brochure, folders and video.

Sanitation project development – We have completed the feasibility studies for septage management for Metro Cebu WD, Cabanatuan City WD and Baliwag WD, We have presented the interim reports for the FS of San Pablo WD septage management project and to Zamboanga City WD's sewage treatment plant. It is hoped that these bigger WDs will influence others to also do programs for sanitation.

Business model and toolkit for septage management - We completed the business model for septage management and an accompanying excel-based planning workbook. The model and workbook will be used for the regional training workshops on septage management scheduled in November and December 2009.



Strategic business planning for WDs – We conducted training of trainers on strategic business planning for water districts and pilot implementation initially in five water districts, namely: Orani, Baliwag, San Pedro, Floridablanca, and Surigao. LWUA and the WD participants appreciated taking part in the enhancement of the guidebook and the accompanying excel-based workbook. Previously, training materials were based on the individual resources prepared by the trainers, thus, varied in scope and depth of analysis.

² Metro Cebu WD intends to expand its distribution network; however this will be dependent on the procurement of contracts with private bulk water supply providers. The procurement has been delayed.

The guidebook provides a standard outline and a systematic process for preparing the business plan. It is currently being designed and laid-out and will be printed in November 2009.



Four of the five (Orani, Baliwag, San Pedro and Surigao) presented their output to the PWRF-SP and LWUA mentors. The constructive critique of the mentors was well received. Baliwag and Surigao have submitted their plans to the Board. Orani has completed the workbook but is still working on the report. San Pedro and Floridablanca are still working on their respective plans. In June, five more WDs participated in the same training workshop: San Pablo, Metro Roxas, Zamboanga, Guagua, and Cagayan de Oro (pictured). All of these WDs are still preparing their business plans.

A significant development for this activity is LWUA's agreement to take the next steps to institutionalize the process. It agreed to create a Business Planning Unit, which shall serve as the brain trust for the strategic business planning guide and workbook. It also committed to allocate resources in its budget for related activities leading to institutionalization, e.g., harmonizing tariff approval guidelines with the business planning guide, mentoring of WDs and training of Regional Training Centers of water districts.

Policy reform initiatives – The PDF Sub-working group for WSS and its Task Forces (Institutional Strengthening, Capacity Development, Strategic Alliance Building, and Financing and Infrastructure Investment) have been an effective forum for coordination of the reform agenda. During the PDF Infrastructure Working Group Workshop last May 2009, it was decided that the high priorities of the sub-working group for water supply and sanitation would be:

- guidelines to clarify GOP WSS financing policy parallel with the promotion of a regulatory reform agenda, particularly strengthening of NWRB;
- formulation of the sanitation roadmap; and
- sector assessment and monitoring.

Rationalization of the allocation of government subsidies for water supply and sanitation projects – We were tasked by the PDF sub-working group on WSS task force on financing and infrastructure investment to prepare a concept paper on subject rationalization. With the assistance of our international finance advisor, Brad Johnson, we prepared a concept paper for an implementation plan to rationalize government subsidies, following the financing policy embodied in Executive Order 279. The framework of the implementation plan was accepted by the task force. The task force directed us to proceed with the preparation of the implementation guidelines. We drafted a paper on the guidelines and subjected it to a peer review on August 6, 2009. The comments were incorporated and the draft paper was submitted to the Department of Finance on October 12, 2009.



Ring-fencing of water utility accounts of LGUs

– We assisted the Water Sanitation Program (WSP) finalize the “Guide to Ring-fencing of Local Government-Run Water Utilities”. Using this guide, we conducted two (2) training workshops in May and July 2009 for a total of 67 participants, including managers (GMs) and accountants of the pilot LGUs and cooperatives and coordinators from the DILG, CDA, LGA, MDFO and LWUA. We mobilized PWRF-SP consultants, assisted by DILG, CDA and MDFO trainers, to provide mentoring assistance to the ring-fencing teams of eight (8) LGUs and three (3) coops which committed to participate in the pilot-testing of the approach. An average of three (3) mentoring visits per pilot utility is targeted to produce the segregated utility accounts.

Strengthening of NWRB - The PWRF-SP signed a technical assistance agreement with NWRB in November 2008 to strengthen regulatory processes and mechanisms to improve water service provision. This was one of the follow through recommendations of the conference on regulatory reform for water supply and sanitation held in August last year. The TA includes support for development of a sustainable financing plan (i.e., retention of revenues generated) for NWRB; harmonization of regulatory roles of NWRB and LWUA; training of NWRB staff on performance contracting; and assistance to NWRB activities in the advocacy and pilot testing of performance contracting arrangements with selected water service providers. Later, NWRB also requested technical assistance in developing an implementation plan to outsource asset valuation, an input to its economic regulation; and training of its staff on tariff review for water districts. We completed the financing plan, with the conclusion that there is no legal basis for NWRB to retain the fees it collects. In view thereof, the study focused on justifications for NWRB to increase its allocation from government's annual appropriation. The harmonization of NWRB and LWUA's regulatory roles was shelved in view of non-cooperation from LWUA.



International recognition of PWRF as a financing best practice- PWRF SP supported the participation of Undersecretary Paul (pictured) in various panels and in the ministerial forum of the World Water Forum 5, where sustainable financing initiatives were discussed. The PWRF has been recognized as a laudable initiative to expand and deepen financing for water supply and sanitation.

Reaching the poor program – A report on the strategies to expand water services to poor communities was finalized in June. The paper presented the rationale for the program, outlines the approach and methodology, and details the implementation plan for the various models being tried in the Philippines and in other countries. We have also prepared the PWRF Grant Manual that is currently pending USAID approval. Meanwhile we have prepared the Request for Application, and have issued calls for concept papers—preceding issuance of the RFA.

Support to the USAID and Rotary International Water Alliance – We provided assistance in disseminating information to Rotary Clubs on the Alliance. We signed a tripartite MOU with the Rotary Club of Zamboanga City West and Zamboanga City Water District to develop a proposal to provide water supply to depressed barangays in the City. The proposal was submitted to Rotary International and USAID last June 30, 2009.

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 Php3, 972,356.56 or US\$84,518.22.

Donors/Partners	Activity	Cost (Php)
PSA	MCWD Septage Management	682,103
LWUA	Mentoring of WDs for Strategic Business Plans	150,750
WSP	Ring-fencing toolkit	863,170.76
ADB/WB/AusAID	Sub-working Group Meetings	135,500
MCWD, CCWD, Baliwag, ZCWD, SPCWD	Counterpart cost of WDs for Septage Management Project	350,000.00
Zamboanga City WD	US Ambassador's Visit	50,000
LGUs	Ring - fencing	269,992.80
LGUGC	PWRF marketing-related services	772,940
DBP	Training of RMCs and Review of PWRF Business and Marketing Plan	697,900
TOTAL		PHP 3,972,356.56

C. Challenges and Opportunities

Challenges

Financing Policy in Limbo- In last year's annual report, we cited threats to the enforcement of EO 279; in particular the pending resolution of the injunction on EO 279 and LWUA's non-compliance, if not outright contravention of the policy. As of this writing, the injunction is still in force and LWUA is even more empowered to thwart the PWRF progress by: 1) non-issuance of a waiver for financing, and/or 2) non-approval of tariff adjustments required for the viability of projects, and 3) offering concessional loans (including loan/grant packages) to water districts, including those capable of

market-based loans. LWUA was able to get government subsidy, such as the transfer of the PhP 1.5 billion budgetary allocation to DOH under the General Appropriation Act of 2009, for new grants and loans. Furthermore, LWUA expanded its reach by buying a thrift bank and gearing this Bank's operation to be the "Water and Energy Bank". Recently, it has come to our attention that the bank's initial transactions are the re-financing of water district loans with private financing institutions. Hence, not only is LWUA competing for prospective projects, it is also reversing the early gains of PFI financing of WSS projects.

Short Project Pipeline- The project preparation facility of the Municipal Development Fund Office is still largely untapped. The pipeline of LGU projects has not increased. Furthermore for those projects in the pipeline, at least those currently proposed for PWR3 financing, their pre-investment studies needed upgrading. The loan processing has been delayed in view of the validation or re-doing entirely the technical studies and financial analysis.

Cancellation of the Philippine Development Forum – We banked on the Philippine Development Forum as the venue for spotlighting the policy and institutional issues in the WSS sector and to make the call for a government champion who will coordinate development efforts and pursue the reform agenda for the sector. Unfortunately the PDF for 2009 was cancelled. The PDF could have pushed further the momentum of the Philippine Water Supply Roadmap.

Opportunities

Sustained PFI Interest – PFIs remained keenly interested in WSS projects. In FY 2009, private banks financed three water supply projects, namely: Mabalacat WD loan with Allied Bank (PhP150 M); PhilHydro loan with Metro Bank for a bulk water supply project for Norzagaray WD (PhP70 M); and Davao WD loan with Allied Bank (PhP100 M). These three projects are estimated to benefit 99,000 people. The latter is a test case of a PFI not getting an LGUGC guarantee. PFIs continue to aggressively look for projects. Interest rates remain low and could have made PFI loans competitive had they been allowed to operate in an even playing field.

Headway with Sanitation Projects – In addition to Metro Cebu and Cabanatuan City, three (3) more water districts, namely: Baliwag, Zamboanga City and San Pablo City requested technical assistance to prepare septage management and sewage treatment projects. These five WDs, including Dumaguete and recently Davao, which have similar initiatives, will be advocates and examples among their peers of providing sustainable and financially viable sanitation services.

Ring-fencing of LGU and Coop Water Utilities – We initially targeted three LGUs and coops to pilot ring-fencing of their water utilities' accounts. However, we got a total of ten requests from LGUs and coops to be part of the pilot group. The experience from the ten has been positive, i.e., mayors, governing boards and managers appreciated the value of ring-fencing especially because it gave them the tool to see the utilities' performance indicators as they are. The pilot group committed to pursue governance and efficiency improvements of their utilities.

D. *Next Steps*

We will maintain the four key components of the project: PWRF institutional and transaction support; project development; policy and institutional reform and overall program support. Barring any major policy shift that reverses the premise of PWRF, Year 4 (Option Year 3) expected outputs are:

Component 1: PWRF Set-up and Institutional Development

- Market PWRF to LGUs and private water service providers
- Continually update and improve the PWRF operating guidelines and loan documentation to streamline the loan process
- Provide assistance to DBP to implement PWRF marketing plan
- Provide loan transaction support to DBP and PFI partners

Component 2: Project Development

- On demand basis, provide technical assistance to water service providers to update or improve pre-investment studies for PWRF funding
- Train at least 10 WDs on the septage management business model
- On demand basis, assist about 10 big cities and municipalities with assessment of sanitation problems, project identification and preparation for investments
- Maintain Help Desk for septage management planning and implementation
- Institutionalize strategic business plan training in LWUA; support LWUA's adoption of a policy requiring water districts to have business plans before submitting tariff adjustment and loan approval applications
- On demand basis, train and mentor 10 water districts in strategic business planning

Component 3: Water and Finance Sector Strengthening

- Prepare implementation plan on rationalization of public resource allocation to WSS projects and long-term financing mechanism
- Support the design of a long-term financing mechanism to implement the rationalization plan
- Support DOF to put in place financial incentives for water sector lending
- Provide technical secretariat support to the PDF's sub-working group on WSS
- Support institutional and regulatory reform action plan, covering:
 - NWRB strengthening/capacity building on WD tariff review, performance contracting
 - Advocacy for financing and regulatory reforms
 - Promotion of ring-fencing, business planning and performance contracting
 - Three (3) more LGUs and cooperative water utilities adopting ring-fencing
 - Training of LWUA, NWRB, DILG, CDA and utilities on performance contracting
 - Pilot testing of performance contracting in two utilities
 - Training of LGUs and cooperative water utilities in business planning
- Assess a private-sector led Project Development Facility

- Develop financing and implementation strategies for reaching poor communities

Component 4: Overall Program Support

- Convene PWRF Steering Committee at least once every quarter
- Prepare technical papers, presentations, inputs to USAID reports and communication materials on the PWRF, as may be required by USAID
- Maintain PWRF Support Program Website
- Administer small grants program

Table 1: Summary of Year 3 (Option Year 2) Expected Outputs and Accomplishments

A. Year 1 Outstanding Deliverables

Component 1: PWRF Set-up

1. PWRF Business and Marketing Plan for DBP

Completed and accepted by DBP; team currently finalizing the marketing collaterals and the marketing implementation program

Component 3: Policy Reform

2. Position Paper on Agri-agra eligibility of water sector loans

Completed position paper, consultations with and letter of DOF to BSP requesting Agri-Agra eligibility of water and sanitation project loans. The request was denied by BSP. We then held consultations with BSP staff to clarify their reasons for denial, and prepared another letter for DOF seeking reconsideration. A meeting between DOF and BSP in July resulted in lining up other options to incentivize PFI financing for the water sector in lieu of the agri-agra eligibility: lowering risk weights (up to 50%) for LGUGC/DCA guaranteed water project loans by PFIs or issuing GOP-backed bonds.

B. Year 3 Work Plan

Expected Outputs

Accomplishments for the Year

Component 1: PWRF Institutional Development

Finalize and print the Project Appraisal Guidebook

The final Water Supply Project Appraisal Guidebook was launched on 26 May 2009.

Conduct internal information dissemination and marketing workshops for DBP's account officers

Four marketing workshops covering DBP's regional marketing centers in Luzon, Visayas, Mindanao, and the head office were held in May 2009.

Conduct marketing road shows for PWRF potential borrowers and PFIs

The marketing road shows are scheduled to begin in the last quarter of 2009. The first one will be

B. Year 3 Work Plan

Expected Outputs	Accomplishments for the Year
Continuing updates of PWRF operating guidelines and loan documentation	held in October.
Assistance to LWUA on the securitization of loan receivables	Dropped. With the change in LWUA Board's chairmanship, priorities shifted. LWUA advised PWRF-SP to hold in abeyance the securitization plan and related activities (Letter from W. Feleo dated November 4, 2008).
Roadmap for the long-term financing structure of PWRF	
Identify projects for PWRF financing/ facilitate deal making activities	A number of prospective projects for financing were discussed with DBP and LGUGC—San Pedro WD, Metro Cebu WD, Bolinao LGU, Subic Water, and San Jose del Monte WD. Bolinao and Subic Water were dropped after they decided to apply with Land Bank. Metro Cebu postponed review of financing. The waiver approval of San Jose del Monte WD, on the other hand, is pending with LWUA while San Pedro WD was offered alternative funding by LWUA.
<i>Component 2: Project Development and Capacity Building of Utilities</i>	
On demand basis, provide assistance on project development	Reviewed technical feasibility of the Bolinao LGU and Subic Water's water supply and sewerage project proposed for PWRF financing (both eventually decided to get loans from Land Bank) Facilitated introduction of PWRF financing to San

B. Year 3 Work Plan

Expected Outputs	Accomplishments for the Year
Feasibility analysis of septage management and preparation of a business model for water districts	Jose WD; assisted LGUGC in evaluating the technical viability of the proposed water supply project of Alfonso Lista LGU.
Conduct workshops to disseminate septage management business model	Completed the feasibility studies of Cabanatuan City and Baliwag WDs. We continue to assist Metro Cebu in its pricing analysis while the preparation of feasibility studies for San Pablo City and Zamboanga City is ongoing.
Set up a help desk for WDs preparing septage management plans	The septage management business model has been by PSA, LWUA, DOH, PAWD, and Manila Water and is being finalized. The next step is to conduct training and advocacy among WDs and activate the help desk for project development of septage management projects. Three regional training workshops have been scheduled in November and December 2009.
Implementation support to LWUA's Project Development and Efficiency Improvement Fund	Completed. Operating guidelines accepted by LWUA; the Facility is now operational.
Assist Jolo Mainland Water District (JMWD) with capacity building	A training needs assessment for JMWD was conducted in the last week of June 2009 to ascertain the WD's level of preparedness for the proposed combined project management training/team building workshop. With the change

B. Year 3 Work Plan

Expected Outputs	Accomplishments for the Year
	<p>in management, the team concluded that the training should be postponed until such time that the new general manager is able to settle in. The team will await the advice of the new GM when to conduct the training.</p>
<p><i>Component 3: Water and Finance Sector Strengthening</i></p>	
<p>Policy analysis on the rationalization of public resources for water supply and sanitation investments</p>	<p>The draft final report that contains the principles and prioritization criteria for the allocation of grants and subsidies and the proposal for a more in-depth study of the rationalization mechanics has been submitted to DOF and USAID for review.</p>
<p>Assist NWRB with the development of a sustainable financing plan</p>	<p>Submitted the final report entitled "Development of a Sustainable Financing Plan for the National Water Resources Board" to NWRB in June; NWRB used recommendations to justify request for higher budget appropriation for 2010.</p>
<p>Facilitate harmonization of NWRB's and LWUA's regulatory roles</p>	<p>Study on the harmonization of the regulatory roles of NWRB and LWUA is held in abeyance in view of LWUA's position not to share regulatory role with NWRB as regards water districts.</p>
<p>Hold training of trainers for ring-fencing of LGU/cooperative utilities</p>	<p>Two rounds of training of trainers on ring fencing of accounts of LGU run water utilities were held in May (Manila) and July (Cebu) 2009. A total of 67 participants from DILG, CDA, MDFO, NWRB, LWUA, selected LGUs, and multipurpose cooperatives nationwide were trained as future trainers who will be responsible for rolling out the training on ring fencing nationwide.</p>

B. Year 3 Work Plan

Expected Outputs	Accomplishments for the Year
Identify pilot LGUs and cooperatives for ring-fencing of water utilities	A total of 7 LGUs and 3 coops have confirmed to participate in the pilot-testing of the ring-fencing approach, namely: Lasam, Mahayag, Margosatubig, Magallanes, Jagna, Alburquerque and Antequera LGUs and O-Donnel, Lamac and Matanao Coops.
Draft concept paper to expand water services in poor communities	Submitted final report and grant program on expanding water services to poor communities to USAID. The PWRF-SP Grants Manual has been finalized.
Training of LWUA trainers and 10 WDs on strategic business planning	The training of trainers and business planning exercise for five pilot WDs (Orani, Floridablanca, Surigao, Baliwag, and San Pedro) were held in December 2008. The second conducted in June included: San Pablo, Metro Roxas, Zamboanga, Guagua, and Cagayan de Oro. All ten are completing their strategic business plans.
Provide technical secretariat support to the PDF sub-Working Group on WSS	Four Task Forces were formed under the PDF Sub-Working Group on WSS: Institutional Strengthening, Capacity Development, Financing and Infrastructure Investment (chaired by DOF and co-chaired by USAID), and Strategic Alliance Building. The Task Force on Financing and Infrastructure Investment's agenda included the issuance of operating guidelines on GOP financing policy, adoption of an incentive system to catalyze investments for WSS development, establishment of financing mechanisms to leverage public resources with private financing in WSS, and the implementation

B. Year 3 Work Plan

Expected Outputs

Accomplishments for the Year

of financing facilities for project preparation and pre-investment studies

Component 4: Provide overall program support to USAID and JICA

Overall program support to USAID and its collaboration with JICA

We continued to provide overall program support to USAID and to its collaboration with JICA

Technical secretariat support to the PWRF Steering Committee

Organized two meetings (February and August) of the Steering Committee

Knowledge management tool: PWRF website

Website launched and operational at www.pwrf.info. We continue to refine the presentation and add materials.

Chapter II: Accomplishments for Year 3 (Option Year 2)

1. Component 1: PWRF Institutional Development

Under the Year 3 work plan, the objectives of Component 1 were to establish the PWRF program window in DBP upon signing of the JBIC loan and to recommend the long term financing mechanism for water supply and sanitation projects.

Based on consultations with the DBP implementing unit for PWRF, the technical assistance to DBP shall cover the following areas: transaction support (target 5 pilot deals), formulation and implementation of a marketing plan, project appraisal training and continuing program support.

Transaction Support

Within the year we assisted DBP and LGUGC in the facilitation and technical review of the following projects:

Table 2. Volume of loans for water supply and sanitation projects (2008 – 2009)

Project Proponent	Project Cost (PhP M)	Status
1. San Pedro WD	143	LWUA offered alternative funding
2. San Jose del Monte WD	266	LWUA offered alternative funding
3. Subic Water	400	Decided to take LBP offer
4. Bolinao LGU	50	Decided to take LBP offer
5. Lasam LGU	15	On-going (proposed for 100% PFI financing)
6. Alfonso Lista LGU	70	On-going (proposed for 100% PFI financing)
Total	944	

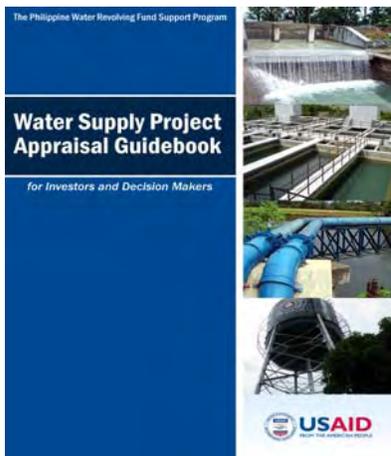
Unfortunately, our efforts came to naught as all these projects were offered financing by Land Bank or LWUA at more concessional terms.

Assistance to DBP in the preparation of the business and marketing plan for PWRF

The PWRF business and marketing plan prepared by C.Virata and Associates for DBP came primarily from nationwide focus group discussions conducted with both senior DBP and PFI officers. Approximately 40 senior and junior bank executives were asked pointed questions to surface insights and concerns regarding the PWRF. The final report focused its recommendations on three main areas: core product, price, and placement.

Since it was agreed with DBP that the marketing of the PWRF should begin with the bank's account executives who frontline the marketing activities of DBP, we conducted training workshops on the PWRF (first day) and project appraisal (second day) for the four regional marketing centers of DBP nationwide. About 125 marketing executives from DBP's branches nationwide participated in these workshops. The series of marketing road shows for external clients are slated towards the last quarter of 2009 with the first one scheduled in the third week of October.

Water Supply Project Appraisal Guidebook



We launched subject Guidebook, designed as an easy guide on how to evaluate the technical and financial aspects of water project proposals, in the last week of May. Officers of USAID, JICA, LGU Guarantee Corporation, Municipal Development Fund Office, Bankers' Association of the Philippines, private commercial banks, donor agencies, and general managers of water districts, and key stakeholders attended the event. The Guidebook has been

disseminated to DBP branches, water districts, and other PWRF partners and stakeholders.

2. Water and Sanitation Project Preparation

The objective of Component 2 under the Year 3 work plan was to establish mechanisms and provide technical assistance to enable local government units (LGUs) and water districts (WDs) develop a pipeline of bankable projects.

Feasibility Study and Business Model for Water Districts on Septage Management

After our technical assistance to Metro Cebu and Cabanatuan for the feasibility studies of their septage management projects, Baliwag, Zamboanga City and San Pablo WDs also signed-up for a similar technical assistance from PWRF SP. The study for Baliwag was completed in June 2009; and the other two are expected to be finished in November 2009.



After submitting the completed report to Baliwag, we presented the findings of the feasibility study to the Baliwag Water District Board who gave its approval in principle for the implementation of the project. For the Cabanatuan City WD, we presented the project to the city mayor who granted his support for the passage of an ordinance to require regular de-sludging of septic tanks.

We continue to assist Metro Cebu with its pricing strategy and service mechanics for the provision of Septage Management Services based on the volume of water consumption. In September, we presented the preliminary results of the feasibility studies of San Pablo City and Zamboanga City WDs.

Business Model for Septage Management of Water Districts

The business model for septage management of water districts which includes more pricing options and a toolkit/workbook has been peer-reviewed by representatives from

the Local Water Utilities Administration, Manila Water Company, Inc, Department of Health, Philippine Sanitation Alliance, and the Philippine Association of Water Districts. The draft final version will be tested in the regional septage management training workshops scheduled in November and December 2009, then finalized in January in time for its launch in February 2010 during the annual PAWD convention. The regional trainings will be conducted jointly with PAWD.

3. *Water and Finance Sector Strengthening*

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

Earlier this year we drafted a discussion paper, "Rationalizing Grants and Subsidies in the WSS Sector" and was commented on by USAID and DOF. The paper reviewed the financing policy framework for allocating public resources; identified areas for optimal use of grants and subsidies from government and ODA sources; and proposed a framework and strategies to rationalize the use of grants and subsidies for WSS development. It also included the SOW for the preparation of a policy instrument and operating guidelines on the proposed framework. In June 2009, the Inception Report on the preparation of the implementation plan for the rationalization policy was submitted to DOF Undersecretary Paul and Director Cruz for comments.

Dir. Cruz said she preferred government to agree on its position on the rationalization plan before it is presented to the PDF. She suggested that the following process be followed: a) subject the draft rationalization implementation plan to a peer review by experts, in lieu of convening the PDF Task Force on Financing and Infrastructure



Investments; b) incorporate the comments and recommendations of the peer group in the revised paper to be submitted to DOF; c) DOF to route the paper to members of the EO Oversight Committee for their comments; d) present to the PDF TF-FII; and e) DOF

to endorse to the NEDA Infrastructure Working Group and ICC Technical Board for adoption.

Following Dir Cruz's suggestion of having the rationalization plan be reviewed by experts, the paper was peer reviewed in August by Dr. Cecilia Soriano and Dr. Gilbert Llanto. They recommended the incorporation of details on the allocation policy including the principles, prioritization criteria, mechanics and administration of grants and subsidies in the paper. The revised paper, which contains the principles and prioritization criteria for the allocation of grants and subsidies and the proposal for a more in-depth study of the rationalization mechanics was submitted in early October to DOF and USAID for review.

Support for the Implementation of the Regulatory Reform Action Plan



As a follow through on the recommendations of the conference on regulatory reform for water supply and sanitation held in August last year, the PWRF-SP signed a technical assistance agreement with NWRB in November 2008 to strengthen regulatory processes and mechanisms to improve water service provision.

The TA includes support for development of a sustainable financing plan (i.e., retention of revenues generated) for NWRB; training of NWRB on performance contracting; and NWRB activities in the advocacy and pilot testing of performance contracting arrangements with selected water service providers. We also signed in November 2008, a technical assistance agreement with DILG for the ring-fencing of LGU-run water utilities. The TA will assist DILG in promoting, pilot-testing, and institutionalizing ring fencing of LGU water services.

A. NWRB Strengthening

A.1 Sustainable Financing Plan. The final report on the "Development of a Sustainable Financing Plan for the National Water Resources Board" was

submitted to NWRB in June 2009. The Financing Plan is envisioned to guide NWRB in sourcing and implementing its budget to fully support the performance of its mandates, especially its expanded economic regulatory function. It recommended implementable strategies to enable NWRB to undertake its expanded economic regulatory functions including improvement in revenue generation to give it added leverage in justifying its budget requests from DBM, use of excess income provided under the General Appropriations Act, approval of its rationalization plan and mobilization of ODA assistance in strengthening the NWRB's capability to perform its expanded regulatory functions, among others. The other activities included in the technical assistance, i.e., training of NWRB on performance contracting; and NWRB activities in the advocacy and pilot testing of performance contracting arrangements with selected water service providers have been moved back until after the selection of LGUs and cooperatives that have been trained on and will be piloting the ring-fencing of their accounts. These same water service providers will be selected for the performance contracting arrangement.

A.2 Harmonization of NWRB and LWUA Regulatory Roles. The scope of the study on the harmonization of regulatory roles of NWRB and LWUA covers the rationale and constraints for harmonization e.g. legal, institutional, etc. if any; strategies and implementation plan; and capacity building and resource requirements for NWRB to exercise required and recommended regulatory functions. It was decided to hold this initiative in abeyance in light of LWUA's plan to revoke EO 123, which was the basis of NWRB's mandate over WDs.

A.3 Performance contracting. The study on performance contracting has been finalized. The report covers a review of economic regulation in the Philippines including the initiative to establish an independent economic regulatory body; a section on performance contracting in other countries; and the design of a training workshop on performance contracting. The training workshop will be held in November 2009.

A.4 Capacity building on water district tariff review and outsourcing of asset valuation. The NWRB identified its need for a TA on outsourcing of asset valuation and water district tariff review. We prepared the terms of reference which are envisaged to enhance the capacity of NWRB to perform its economic regulatory function and facilitate a transparent and systematic tariff setting and review process for water service providers. The outsourcing study is on-going. The training on tariff review has been postponed to January 2010 upon the request of NWRB.

B. TA to DILG on Ring Fencing



The first orientation and training of trainers (TOT) on ring fencing was held on May 27-29, 2009. A total of 34 participants from DILG, CDA, MDFO, NWRB, LWUA, selected LGUs, and multipurpose cooperatives were trained as future trainers who will be responsible for

rolling out the training on ring fencing nationwide. The participants were chosen based on their familiarity with national and local government accounting system. Most were accountants or have been trained in accounting. The second one, conducted for the Visayas and Mindanao group was held on July 8-10 in Cebu City. A total of 33 trainers were trained on ring-fencing from the pilot LGUs and cooperatives, DILG, and CDA. The orientation and training, conducted to deepen the participants' understanding and appreciation of the proposed system for the financial ring-fencing of LGU run water utilities, discussed the importance of ring fencing, the steps in implementing it, its operational framework, and walked the participants' through the account reconstruction process where the water utility accounts are separated from the general financial accounts. This procedure ultimately leads to a trial balance and ring-fenced financial statements.



A total of seven LGUs and three cooperatives, namely: Lasam, Magallanes, Albuquerque, Antequera, Jagna, Margosatubig, Mahayag LGUs and Lamac, O'Donnell and Matanao Coops participated in the pilot-testing of the ring-fencing approach. The actual pilot-testing, involving account reconstruction for the year 2008 and Jan-July 2009 and setting up of the ring-fenced books of accounts took place from July 15 to September 15. Our team provided mentoring assistance on the ring fencing approach to the pilot utilities and the development of the ring fencing financial management guidelines. We held a culminating workshop in October 2009. The workshop will bring together the pilot utilities, DILG, and CDA officials and staff members to discuss experiences, challenges, and the next steps to roll out and institutionalize the ring-fencing process. We are currently preparing the documentation of the pilot program, lessons learned, and the next steps on the ring-fencing initiative (see success story on ring-fencing in Annex 1).

C. Strategies to Reach Poor Communities

We submitted to USAID in June a report on the strategies to expand water services to poor communities. It set the stage for the implementation of selected models for expanding water services into poor communities through a small grants program. The paper presents the rationale for the program, outlines the approach and methodology, and details the implementation plan for the various models being tried in the Philippines and in other countries. The report was informed by consultations with companies and entrepreneurs (Manila Water, Balibago Waterworks System, Inc and Mr. Belisario of Sta. Cruz, Davao water supply system) who have tried similar strategies. Furthermore, the review of various approaches in other countries made the report more comprehensive. To round off the report, a request for application (RFA) for the pilot implementation through the grants program was annexed.

Relatedly, the PWRF SP Grants Manual has been finalized. The Manual sets the guidelines for procuring and awarding grants in support of the reaching the poor program. One of pilot projects being considered is the water supply project for Barangay Lumbangan in Zamboanga under the USAID-Rotary Water Alliance. PWRF-SP signed an MOU with Rotary Club Zamboanga West and Zamboanga City Water District in June to collaborate on this project.

Financial Incentives for WSS lending

The background and position paper addressed to Bangko Sentral ng Pilipinas (BSP) to consider water supply and sanitation loans as alternative compliance to the mandatory credit of the Agri-agra Law was submitted in 2008. DOF reviewed and submitted the position paper to BSP but the request was not approved³ in view of the impression that the request included ODA loan proceeds re-lent under the PWRF program. A revised position paper was drafted and again reviewed by DOF and transmitted to BSP for reconsideration. In a meeting between DOF U/Sec Paul and BSP Deputy Governor Espenilla, the latter said that while he supports providing this incentive for water projects, this is not merely a policy decision for BSP, rather there has to be an explicit legal basis for the eligibility. In lieu of the agri-agra eligibility, other options to incentivize PFI financing for the water sector were suggested, such as lowering risk weights (up to 50%) for LGUGC/DCA guaranteed water project loans by PFIs; and, issuing GOP-backed bonds, say thru NDC that can be offered to PFIs.

³ 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.

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



In its meeting on 12 November 2008, the PDF Sub-Working Group on Water Supply and Sanitation (PDF/SWG WSS) agreed to: (a) approve the Terms of Reference of the PDF/SWG WSS; (b) approve the SWG WSS Action Plan, 2008-2009; and (c) identify and confirm the composition of the SWG WSS Core Group and Task Forces. The four different task forces under the PDF SWG WSS

Action, i.e., Institutional Strengthening, Capacity Development, Strategic Alliance Building, and Financing and Infrastructure Investment held their own meetings to move their own respective agenda.

PWRF-SP assisted in technical secretariat work and in the facilitation of the meetings of the various Task Forces. During the PDF Infrastructure Working Group Workshop last May 2009, it was decided that the high priorities of the sub-working group for water supply and sanitation would be

- guidelines to clarify GOP WSS financing policy parallel with the promotion of a regulatory reform agenda, particularly strengthening of NWRB;
- formulation of the sanitation roadmap; and
- sector assessment and monitoring.

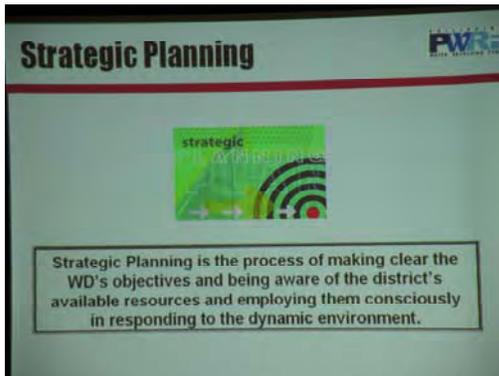
The Task Force on Institutional Strengthening successfully shepherded the strengthening of NWRB; publication of the Philippine Water Supply Sector Roadmap and the development of a national sustainable sanitation program through the completion of the National Sustainable Sanitation Framework as well as the National Sewerage and Septage Management Plan.

Pending the completion of the capacity development framework for the WSS sector, the Task Force on Capacity Development spurred building the capacities of water districts, LGUs and cooperatives on benchmarking, ring fencing, etc. including the institutionalization of the sector assessment process.

Various advocacy programs were moved by the Task Force on Strategic Alliance Building, including the formulation of the National Sustainable Sanitation Communication Plan and the Philippine Sustainable Sanitation Roadmap which are expected to be finalized in the last quarter of 2009. With the Department of Health as lead agency, the Task Force, which serves as the Organizing Committee, is in the midst of the preparations for the 2010 East Asia Ministerial Conference on Sanitation and Hygiene. The bid of the Philippines to host the event was supported by the regional offices of WHO, UNICEF and WB-WSP. With the theme, *Building Regional Cooperation to Accelerate Progress towards Sustainable Sanitation*, slated to be held on 25-27 January 2010 in Manila, the summit will be attended by 14 to 16 countries, with an expected total of 200 participants. Under the guidance of the Steering Committee, the various sub-committees are the Technical Program Committee, Logistics, Invitation, Documentation, Ways and Means and Media Relations. PWRF-SP will chair the documentation committee and PSA the media relations committee. The proposed program for the 2-day Conference is a mix of plenary sessions, panel discussions, workshops and a marketplace and fair where exchange of knowledge, experiences and expertise including products and services will be displayed as posters and exhibits. A high level consultation in the form of a facilitated Ministerial Roundtable Discussion will be one of the highlights of the Conference. The milestones of the Task Force on Financing and Infrastructure Investments include the operationalization of the Philippine Water Revolving Fund, Project Technical Assistance and Contingency Fund and the Project Development Efficiency and Improvement Fund.

Table 3 shows the consolidated and updated SWG WSS Action Plan of the sub-Working Group for 2008-2009.

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 ValuAdd, a US-based firm specializing in utility reform, in October 2008 to prepare a strategic business planning manual. The manual described the

purpose, scope, data requirements and financial model for the business plan. The manual was finalized in consultation with LWUA and selected water districts. ValuAdd also conducted a training of trainers among LWUA, water districts with Regional Training Centers and pilot WDs undertaking strategic business planning.



The training of trainers on strategic business planning for water districts and pilot implementation in five water districts (Orani, Baliwag, San Pedro, Floridablanca, and Surigao) was well received. LWUA and the WD participants appreciated taking part in the enhancement of the guidebook and the accompanying excel-based model. Previously,

training materials were based on the individual resources prepared by the trainers, thus, varied in scope and depth of analysis. The guidebook provides a standard outline and a systematic process for preparing the business plan. It is currently being designed and laid-out and will be printed in November.

Four of the five (Orani, Baliwag, San Pedro and Surigao) presented their output to the PWRF-SP and LWUA mentors. The constructive critique of the mentors was well received. Baliwag and Surigao have submitted their plans to the Board. Orani has completed the workbook but is still working on the report. San Pedro and Floridablanca are still working on their respective plans. In June, five more WDs participated in the

same training workshop: San Pablo, Metro Roxas, Zamboanga, Guagua, and Cagayan de Oro. All of these WDs are still preparing their business plans.

4. Overall Support for the PWRF Program

We continued to provide overall program support to USAID and to its collaboration with JICA. We organized two Steering Committee meetings in February and August.

The PWRF website is operational at www.pwrf.info. We continue to refine the presentation and materials.

Table 3. PDF Sub-Working Group on Water Supply and Sanitation Action Plan ⁴, 2008-2009⁵

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
Key Result Area (KRA) 1. Institutional Strengthening						
1. NWRB Strengthening	<ul style="list-style-type: none"> NWRB and LWUA regulatory roles delineated and guidelines harmonized Sustainable NWRB financing plan developed⁶ 	<p><i>Inception Report of the study to identify areas and strategies for harmonization has been completed. Continuation of the study has been deferred in view of LWUA pronouncement to regulate WSPs invoking PD 198.</i></p> <p><i>Study on the development of sustainable NWRB financing plan has been completed. While NWRB's retention of revenues will need a legislative measure, it is pursuing the other recommendations of the study, such as negotiating with DBM</i></p>	<p>Uphold EO 123, InfraCom/NEDA Board to resolve issue</p> <p>Authority to retain revenues for NWRB operations</p>	<p>NEDA, DOF, NWRB, LWUA</p> <p>NWRB, DBM, DOF</p>	<p>Within 6 months</p> <p>Within 6 months</p>	<p>PWRF-SP TA</p> <p>PWRF-SP TA</p>

⁴ Covering the period November 2008 to June 2009

⁵ Status as of September 2009

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
	<ul style="list-style-type: none"> NWRB guidelines on light-handed regulation finalized 	<p><i>to fill up its vacant positions in order to increase its personnel complement.</i></p> <p><i>Framework and guidelines for LHR for SSWP's drafted. MOA between NWRB and CDA on LHR of water coops had been signed.</i></p>	Guidelines and operating procedures	NWRB, CDA	Within 6 months	WSP-TA
	<ul style="list-style-type: none"> Rationalization of NWRB's organization 	<p><i>Rationalization plan is under evaluation by DBM</i></p>	Secure approval and resources to implement Rationalization Plan	NWRB, DBM	Within 6 months	GOP
2. Resolution of injunction of EO 279	<ul style="list-style-type: none"> Court resolution 	<p><i>Decision pending with the Regional Trial Court of Quezon City.</i></p> <p><i>Office of Government Corporate Counsel has advised that implementation of the other provisions of EO 279 which have no implications on LWUA personnel can continue.</i></p>	Uphold EO 279	LWUA, OGCC, EO 279 Oversight Committee	Within 6 months	

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
3. Formulate a Philippine Water Supply Sector Roadmap (PWSSR)	<ul style="list-style-type: none"> PWSSR approved Preparation of the National Water Resources Policy 	<p><i>Roadmap was published in July 2009.</i></p> <p><i>INFRACOM Sub-Committee on Water Resources has tasked NEDA and NWRB to collaborate in undertaking the study.</i></p> <p><i>The Terms of Reference for the consultant(s) to prepare the study has been finalized.</i></p> <p><i>Funding support from DENR-RBCO for the preparation of the study has been requested.</i></p>	<p>Final PWSSR document</p> <p>National Water Resources Policy</p>	<p>NEDA, NWRB, Infracom Sub Committee on Water Resources</p> <p>NEDA, NWRB</p>	<p>July 2009</p> <p>Within 6 months</p>	<p>GTZ</p> <p>DENR-RBCO (for consultancy services)</p>
4. Develop a National Sustainable Sanitation Program (NSSP)	<ul style="list-style-type: none"> National Sustainable Sanitation Framework 	<p><i>Completed. Portions of the NSSF will be incorporated in the Sanitation Roadmap which is currently</i></p>		<p>DOH, DENR, DPWH, NEDA, LWUA, selected LGUs, CAPS/PEN</p>	<p>2nd Quarter 2009</p>	<p>WSP/SIDA, WB and concerned LGUs</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
	<ul style="list-style-type: none"> National Sewerage and Septage Management Plan 	<p><i>being formulated.</i></p> <p><i>The TA is being implemented by AECOM together with a TWG composed of DILG, DOH, DPWH, DENT-EMB, LWUA, MWSS, NEDA with Manila Water Company and Maynilad Water in advisory capacity. The TA involves the formulation of the intervention and investment framework, institutional arrangements and financing options.</i></p> <p><i>NSSMP documents have gone through all the TWG meetings and have been recently discussed and adopted by the Inter-Agency Steering Committee (ISC) headed by DPWH. These will be presented to the</i></p>		<p>AECOM, DILG, DOH, DPWH, DENR-EMB, LWUA, MWSS, NEDA, MWC, MW</p>	<p>6 March – 31 August 2009</p>	<p>WB/WSP, ADB</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<p><i>Sub-Committee on Water Resources on 28 October 2009. The final details, oversight and sustainability/regulatory concerns will be threshed out in this meeting and when completed, will be endorsed to Infracom.</i></p> <p><i>Major decisions adopted by the ISC and for recommendation to Infracom:</i></p> <ol style="list-style-type: none"> <i>1. Creation of the NSSMP Office under the DPWH umbrella.</i> <i>2. Sourcing of funds for rolling out the NSSMP (US\$270,000) which will include training and promotions from external sources to be explored by NEDA and DILG.</i> <i>3. Capital investment program of</i> 				

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<p><i>DPWH/DOH from the new subsidy policy for septage (12%) and sewerage (55%).</i></p> <p><i>4. New policy or pro-forma MOA that will allow DPWH to transfer subsidy funds directly to beneficiary LGUs.</i></p>				
	<ul style="list-style-type: none"> Local Sanitation Plan 	<p><i>LSPs have been adopted by concerned city and municipal councils</i></p>	<p>NSSP and 7 LSP and 7 LSC (Mt. Province, Dagupan City, Eastern Samar, So. Cotabato, Gen Santos City, Saranggani and San Fernando, La Union)</p>			
KRA 2. Capacity Development						
<p>1. Framework on Capacity Development</p>	<ul style="list-style-type: none"> List of capacity development needs of WDs, LGUs, coops, WATSANs Inventory of all training programs and activities in the water supply and sanitation sector 	<p><i>Needs assessment matrix has been distributed to the concerned agencies</i></p> <p><i>LGA has existing regional training resource centers-Local Governance</i></p>	<p>Collection and consolidation by middle of August 2009</p> <p>Incorporate water supply and sanitation training programs in the</p>	<p>DILG, DoH, CDA, LGA, LWUA</p> <p>LGA/DILG, CDA, DoH</p>		

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<i>Resource Centers</i> <i>Inventory of trainings on-going</i>	LGRCs			
	<ul style="list-style-type: none"> List of training/knowledge development centers 	<i>6 academic institutions identified for the Water Safety Plans</i>		DoH, LWUA		AusAID, WHO
2. Build capacity of water districts on - benchmarking - business planning - efficiency improvement - sanitation	<ul style="list-style-type: none"> Institutionalize benchmarking 	<i>Benchmarking system pilot-tested in 45 WSPs</i>	Policy issuances (MOUs) to institutionalize benchmarking and business planning	LWUA, WSPs	<i>Within 6 months</i>	WSP
	<ul style="list-style-type: none"> Institutionalize business planning 	<i>Toolkit on business planning developed by LWUA and PWRP-SP</i> <i>Trainors' training (ToT) and training of 5 WDs conducted in Dec 2008</i>				PWRP-SP
3. Develop capacity of LGUs and cooperatives on -ring-fencing -benchmarking -master planning -performance contracting	<ul style="list-style-type: none"> Joint Circular from DILG, CDA and NWRB requiring the ring-fencing of accounts 	<i>Toolkit for ring-fencing developed</i> <i>TA for DILG on ring-fencing is on-going; Guide has been</i>	Pilot testing of ring fencing in 7 LGUs & 3 cooperatives	DILG, CDA, LGUs, NWRB	2008-2009	WSP, PPIAF WSP, PWRP-SP

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
-sustainable sanitation		<p><i>developed; and two TOTs conducted in May and July</i></p> <p><i>TA to NWRB on performance contracting commenced in March 2009</i></p>				PWR3-SP
	<ul style="list-style-type: none"> • Benchmarking toolkit developed • Formulation and institutionalization of Provincial and Municipal Master Plans 	<p><i>Benchmarking system pilot-tested in 45 WSPs, plus 18 LGUs and cooperatives</i></p> <p><i>36 municipal master plans to be developed under the MDG-F 1919, Enhancing access to and provision of water services with the active participation of the poor</i></p> <p><i>Provincial plans of Central Visayas provinces have been updated. There is no proposal yet for plan updating of other provinces.</i></p>	<p>Policy issuance (MOUs) to institutionalize benchmarking & business planning</p> <p>Completion of the 36 plans by end of 2010</p> <p>All provinces have updated WSS plans</p>	<p>DILG, NWRB, CDA</p> <p>DILG, NWRB, DoH, LWUA</p> <p>DILG, NEDA</p>	2009-2010	<p>GTZ</p> <p>UNDP</p> <p>GTZ</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
4. Sector Assessment and Monitoring	<ul style="list-style-type: none"> Database on water supply and sanitation by level of services (including updating of database on water availability and projected demand on water supply and sanitation) 	<i>Portal has been developed and maintained by NWRB</i>	<p>MIS on WSS, sanitation indicators, responsible agencies in data collection & management established</p> <p>Data collected on water availability and projected demand for Angeles, Baguio, Bacolod and Davao</p>	<p>LWUA, DILG, NWRB, DoH</p> <p>NWRB</p>	<p>2008-2009</p> <p>2008-2009</p>	<p>NWRB Budget</p> <p>GTZ, WHO</p>
	<ul style="list-style-type: none"> WSPs (non-WD) registered 	<i>Selection of consultants ongoing</i>	Registry of WSPs/ mapping out all over the country	NWRB, DILG		WSP
5. Institutionalize WATSAN sector assessment process	<ul style="list-style-type: none"> Institutionalized national and local process of data collection, systematic data scrutiny, data analysis, and updating for continuous and periodic assessment Sector assessment reports 	<p><i>Concept note developed by Roadmap Secretariat has been approved by the NEDA Infracom Sub-Committee on Water Resources</i></p> <p><i>National Sector Assessment Workshop conducted on 21 April 2009</i></p>	<p>Design the sector assessment process</p> <p>Standardize data gathering processes, definitions and indicators</p> <p>Research and consolidation of sector data</p>	NEDA-Infracom Sub-Committee on Water resources	2009 – April 2010	GTZ, UNICEF WHO

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<p><i>discussed the approaches, implementation arrangement of the sector assessment process and the annotated Table of Contents for the sector assessment report</i></p> <p><i>Inter-agency Steering Committee (IASC) and Technical Assessment Team (TAT) organized.</i></p> <p><i>The TORs of the IASC, TAT and the consultants have been finalized, including the annotated Table of Contents, Work and Financial Plans and coverage (9 provinces). The next steps of the sector assessment process have been agreed upon.</i></p>	<p>Development of a database</p>	<p>DILG as lead implementing agency and DOH as co-chair</p>		

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
KRA 3. Strategic Alliance Building						
1. Develop advocacy program and identify appropriate champions	<ul style="list-style-type: none"> Advocacy programs to expand and improve WSS services Champions and support groups from the government, NGOs, private sector 	<i>Consultations/ conference on regulations with key stakeholders conducted in July and Aug 2008</i>	Integrated advocacy action plan	Road Map IASC, leagues, dev't partner agencies	2008-2009	
2. Develop a National Sustainable Sanitation Communication Plan (NSSCP)	<ul style="list-style-type: none"> National Sustainable Sanitation Communication Plan (NSSCP) and local SCCP Sanitation Summit (National/Regional/ Local) Series of local (city/municipal) International Year of Sanitation launchings 	<i>Drafting of the NSSCP is ongoing.</i> <i>Local SCCP for 6 municipalities under SUSEA Program completed</i> <i>Done on 9 -10 July 2008 at the ADB Headquarters</i> <i>Grand launching on 18 Feb 2008 in Mandaluyong City. Provincial launching in Guiuan, Eastern Samar in March 2008</i>	1 NSSCP + 6 LSSCP (Mt. Province, Dagupan City, E. Samar, So. Cotabato, GenSan, Saranggani) National-every other year; Regional-yearly; Local-yearly Schedule varies	DoH, LGU partners DoH, LGU partners, dev't partner agencies DoH, LGU partners, dev't partner agencies	2008-2009 2008 and beyond	SIDA, WSP/WB, DoH, LGUs
	<ul style="list-style-type: none"> Series of launching of Water, Sanitation and Hygiene Day by LGU 	<i>Done during the celebration of Global Handwashing Day on</i>	Schedule varies	DoH, LGU partners, dev't partner		

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
	<p>program partners</p> <ul style="list-style-type: none"> National Awarding for the Search for Barangays with Best Sanitation Practices Hosting by the Philippines of the 2010 East Asia Ministerial Conference on Sanitation and Hygiene (EASAN 2010) 	<p><i>15 Oct 2008 in Makati City, Quezon City, Iloilo City and Bukidnon</i></p> <p><i>Completed on 10 Dec 2008. 28 municipalities were given awards</i></p> <p><i>The Philippine Government's bid for the hosting of the EASAN 2010, which is slated in January 2010, with DoH as the lead agency, has been awarded by WHO, WB-WSP and UNICEF.</i></p> <p><i>Organization of tasks and appropriate bodies/ preparations to be done for the event ongoing among members of the TF, along with other agencies/ organizations.</i></p>	<p>2 barangays per region</p> <p>EASAN 2010</p>	<p>agencies</p> <p>DoH</p> <p>DoH, dev't partner agencies</p>	<p>February 2010</p>	
3.	<ul style="list-style-type: none"> PSSR Formulated 	<p><i>Draft Roadmap will be presented to DOH and Sub-Committee on Water</i></p>	<p>Final PSSR</p>	<p>DoH</p>	<p>September 2009</p>	<p>WHO</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<i>Resources in Oct-Nov 2009. It is expected to be completed/finalized in fourth quarter 2009.</i>				
	<ul style="list-style-type: none"> <i>Drafting of National Water Sanitation and Hygiene Policy and Strategies</i> 	<i>Terms of reference for the consultancy service has been prepared.</i>		DoH	September 2009	WHO

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
KRA 4. Financing and Infrastructure Investment						
1. Implement GOP WSS financing policy	<ul style="list-style-type: none"> Implementation plan to operationalize GOP WSS financing policy 	<i>WSS Financing Principles and Operational Framework discussed and endorsed by the TF-FII to the SWG WSS.⁷ The SWG WSS during its 11 Dec 2009 meeting agreed that the framework be elevated by NEDA to Infracom for a possible NEDA Board Resolution for its adoption.</i>	Enforcement instruments	DOF, NEDA, LWUA, NWRB, EO 279 Oversight Committee, GFIs, Donor agencies with water financing programs	Within 6 months	PWRF-SP, WB
	<ul style="list-style-type: none"> Policy study on rationalization of public resource allocation for WSS conducted 	<i>Preparation of the implementation plan for the proposed rationalization of public resource allocation for WSS is ongoing.</i>	Policy Issuance	DOF, NEDA, GFIs, Donor agencies with water financing programs	Within 6 months	PWRF-SP, WB

⁷ The WSS Financing Framework is anchored on the following operating principles:

- Shifting creditworthy utilities to market-based sources
- Mobilizing private resources
- Tying concessional financing of less creditworthy utilities to a graduation program
 ----- Blend grant and ODA re-lent at market rates
- Rationalizing grants to the water sector

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<p><i>The TF-FII in its 20 May meeting agreed on the need to have a rationalization policy on allocating public resources for water supply and sanitation services; the details of which will be threshed out later.</i></p> <p><i>The proposed rationalization was discussed in the 28 May 2009 meeting of the EO 279 Oversight Committee. It was agreed that the draft rationalization policy/implementation plan will be presented to the EO 279 OC prior to its presentation before the TF-FII.</i></p> <p><i>The draft National Rationalization Program has been submitted to DOF for review/comments</i></p>				

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<p><i>and endorsement to EO 279 Oversight Committee.</i></p> <p><i>WB Study to improve LWUA's financial sustainability and support its reorientation under EO 279 through a performance –based graduation scheme on-going.</i></p>				
	<ul style="list-style-type: none"> • Financing programs for WSS identified 	<p><i>WB approach to meet requirements of SCW and PCW WDs thru blending of grant and ODA loans proposed to LWUA.</i></p> <p><i>ADB-PPTA for the Water District Development Sector Project commenced in Feb 2009</i></p> <p><i>ADB TA on developing models for financing small scale water service providers is being conducted by Streams of</i></p>	WSS financing programs/facilities	DOF, NEDA, GFIs, Donor agencies with water financing programs	Within 6 months	PWRP-SP, JICA, WB, WSP, ADB

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
		<i>Knowledge, Philippine Water Partnership and NWRB</i>				
2. Adopt an incentive system to catalyze investments for WSS development	<ul style="list-style-type: none"> Eligibility of water and sanitation projects for Agri-Agra Law compliance 	<p><i>BSP has advised DOF to submit the request for eligibility of WSS financing as alternative compliance with the agri-agra law only when it finds an explicit legal basis to warrant the inclusion.</i></p> <p><i>Other possible incentives, such as lowering risk weights of loans guaranteed by LGUGC/DCA has been endorsed by DOF for BSP approval.</i></p>	Monetary Board Resolution and revision of BSP's manual for banking supervision	DOF	Within 6 months	PWRP-SP TA to DOF
	<ul style="list-style-type: none"> Revised guidelines on private sector participation 	<p><i>Revised guidelines to be drafted</i></p> <p><i>Related case studies that may be used to generate analysis are currently being conducted by WB</i></p>	PDF-WatSan position paper on PSP guidelines	DOF and NEDA WB case studies to generate analysis	Within 6 months	WB for the case studies

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)	Responsible Agencies/ Parties (5)	Timetable (5)	Fund Source (7)
3. Develop financing mechanisms to leverage public resources with private financing in water supply and sanitation (from the IWG Work Agenda)	<ul style="list-style-type: none"> Co-financing arrangements between GFIs and PFIs facilitated; WSS projects financed and operational Operationalize the Philippine Water Revolving Fund 	<p><i>JBIC-DBP loan signed on 30 Sept 2008; PWRF launched on 20 Oct 2008</i></p> <p><i>Securitization held in abeyance by LWUA</i></p>	<p>JBIC loan signed and revolving fund launched in Oct 2008</p>	<p>DOF, DBP, LGUGC, MDFO, USAID, JBIC, PWRF-SP</p> <p>DOF, DBP, LGUGC, MDFO, USAID, JBIC, PWRF-SP</p>	<p>2008-2009</p> <p>October 2008 onwards for project financing</p>	<p>JBIC for the loan, USAID for the support program</p>
	<ul style="list-style-type: none"> Financing Strategy and Long-term mechanisms 	<p><i>Concept paper on bond financing prepared by PWRF-SP</i></p>	<p>Long-term revolving fund mechanism</p>	<p>DOF, DBP, LGUGC, MDFO, USAID, JBIC, PWRF-SP</p>	<p>2008-2009</p>	<p>PWRF-SP, WB</p>
4. Implement financing facilities for project preparation, pre-investment studies, efficiency improvement support	<ul style="list-style-type: none"> PTAC-Fund of MDFO PDEIF of LWUA 	<p><i>PTAC-Fund now operational</i></p> <p><i>PDEIF now operational</i></p>	<p>Plan to institutionalize project development facilities</p>	<p>DOF</p>	<p>2008-2009</p>	<p>PWRF-SP</p>

Chapter III: Performance Monitoring Plan (PMP) Report

PWRF SP falls within USAID’s Environment Program Framework and SO 4 for strengthening the management of productive, life-sustaining natural resources (Figure 1). Of the three intermediate results (IR) under SO 4, only one relates directly to PWRF SP—4.3 Improved urban environmental management—with the following indicators:

- ◆ 4.3 C. Number of people with access to potable water
- ◆ 4.3 D. Number of people with access to sanitation

Figure 1. USAID Environment Program and SO4 Objective Tree and Indicators

Mission Goal	ENHANCED SECURITY, GOVERNANCE AND CAPACITIES FOR SUSTAINABLE, EQUITABLE ECONOMIC GROWTH		
Strategic Objective No. 4	MANAGEMENT OF PRODUCTIVE, LIFE-SUSTAINING NATURAL RESOURCES STRENGTHENED		
Indicators	4.A Hectares under improved natural resources management 4. B Carbon dioxide emissions avoided		
Intermediate Results	4.1. SUPPLY OF RELIABLE, AFFORDABLE, AND CLEANER ENERGY INCREASED	4.2. GOVERNANCE OF FOREST, WATER, COASTAL RESOURCES IMPROVED, PARTICULARLY IN MINDANAO AND OTHER CONFLICT-AFFECTED AREAS	4.3. IMPROVED URBAN ENVIRONMENTAL MANAGEMENT
Indicators	4.1.A - Key energy policy reform matrix	4.2.A - Hectares of natural forests under improved management	4.3.A - Percentage of compliant vehicles
	4.1.B - Number of individuals with access to renewable energy	4.2.B - Hectares of forestland under productive development	4.3.B - Number of local governments diverting 25% of wastes to recycling/ composting
	4.1.C - Use of alternative fuels by transport sector increased	4.2.C - Hectares of coastal-marine areas under improved management	4.3.C - Number of people with access to potable water
		4.2.D - Hectares of marine sanctuaries placed under improved management	4.3.D - Number of people with access to sanitation
		4.2.E - Percentage increase of fish stocks from baseline	
		4.2.F - Number of government institutions practicing good environmental governance	

Figure 2, the PWRF SP results framework, relates project inputs, activities, and outputs to the USAID's IR 4.3 (improved urban environmental management).

The project efforts aim to contribute to the number of people with improved access to piped water supply and sanitation services, as a result of increased investments thereon. The reckoning will be the financial closing of projects under any of the PWRF financing modalities. These will include people who will have better quality service for existing water supply piped connections as well as those who will be connected for the first time.

The major outputs are direct results of the PWRF-SP technical assistance. Table 4 shows the major outputs, the targets therein and the accomplishments.

Figure 2: PWRF Support Program Results Framework

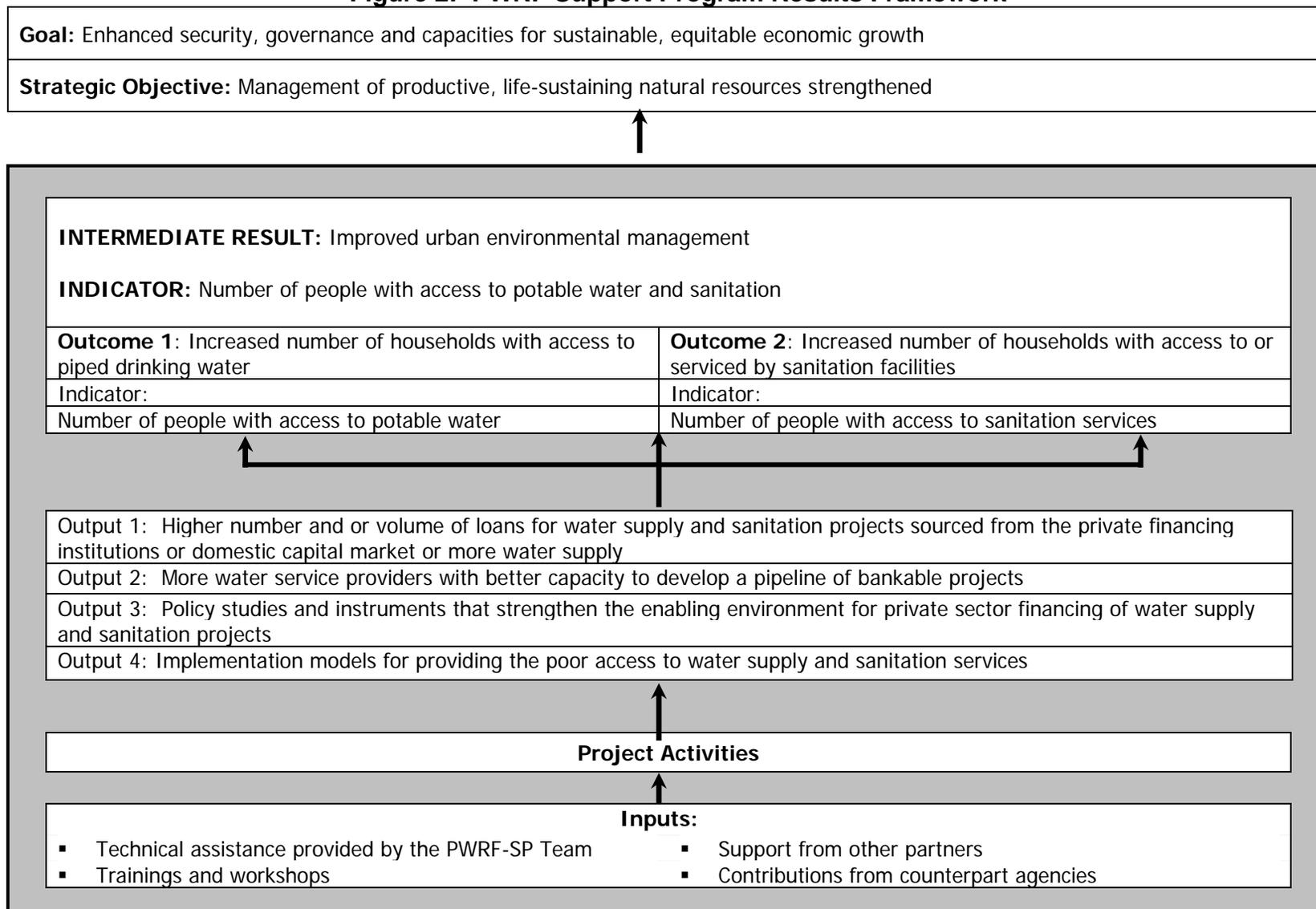


Table 4. PWRF Performance Monitoring Plan Major Outputs, Targets and Accomplishments

Life of Project Deliverables	Year 3 Targets and Accomplishments (Oct.08-Sep.09)	Year 4 Targets (Oct.09-Sep.10)
Total loan volume of PhP 2.0 billion for water supply and sanitation projects. This includes the PFI loan contribution.	<p>Total of PhP 700 million loan application for water supply and sanitation (WSS) projects with a total of 230,000 people with new access or improved services</p> <p><i>Accomplishment: two projects, Norzagaray (PhP70 M PFI loan) and Mabalacat (PhP150 M loan of which 90% from a PFI and 10% from LWUA) will provide piped water supply access to 98,795 people. In addition Davao WD signed a PhP100M loan with a private bank, but has not drawn it yet.</i></p>	Total of PhP 950 million loan application for water supply and sanitation (WSS) projects with a total of 300,000 people with new access or improved services
Total number of feasibility studies that were updated/reviewed in aid of project development	<p>Target: 4 Feasibility Studies</p> <p><i>Accomplishment: reviewed and improved 6 feasibility studies but none proceeded to PWRF funding</i></p>	4 Feasibility Studies
Long-term financing mechanism for WSS projects	<p>Concept and financing structure</p> <p><i>Accomplishment: financial models identified but need further study and validation by market</i></p>	Implementation Plan (subject to DOF approval of the rationalization guidelines for public resource allocation)
WSPs with better capacity and sound governance practices	<ul style="list-style-type: none"> • Roll out of pilot implementation of ring-fencing; 3 LGUs and cooperative water utilities adopting ring-fencing • Training of 10 water districts in business planning and assistance for the 	<ul style="list-style-type: none"> • 3 more LGUs and cooperative water utilities adopting ring-fencing • Training of 10 water districts in business planning and assistance for the preparation of their respective plans

Life of Project Deliverables	Year 3 Targets and Accomplishments (Oct.08-Sep.09)	Year 4 Targets (Oct.09-Sep.10)
	<ul style="list-style-type: none"> • preparation of their respective plans • Training of at least 10 WDs on the septage management business model • At least 5 WDs adopting business planning as a governance tool • Training of 5 utilities on performance contracting <p><i>Accomplishment:</i></p> <ul style="list-style-type: none"> • 7 LGUs and 3 coops trained in ring-fencing • LGUs and 3 coops adopting ring-fencing • DILG, MDFO and CDA ring-fencing trainors mobilized • 10 WDs trained and preparing business plans • 5 with completed business plans and adopted as governance tool 	<ul style="list-style-type: none"> • Training of at least 20 WDs on the septage management business model • 5 more WDs adopting business planning as a governance tool • Institutionalizing business planning training in LWUA • LWUA adoption of policy requiring business plans for tariff and loan approval applications • Training of 5 utilities on performance contracting • Pilot implementation of performance contracting in 2 utilities
<p>Strengthened capacity of regulatory agencies to improve water service performance</p>	<ul style="list-style-type: none"> • Training of NWRB, LWUA and DILG on performance contracting • MOA clarifying and delineating regulatory roles of NWRB and LWUA (dropped in view of non-cooperation from LWUA) • Sustainable financing plan for NWRB <p><i>Accomplishment:</i></p> <ul style="list-style-type: none"> • Study on NWRB sustainable financing plan completed; proposed actions identified from the study • Study on performance contracting completed 	<ul style="list-style-type: none"> • Policy issuance institutionalizing ring-fencing training in DILG • Implementation plan for NWRB regulation of WDs (held in abeyance in view of LWUA issue) • Training of NWRB, LWUA and DILG on performance contracting • Advocacy activities on the single economic regulatory body

Life of Project Deliverables	Year 3 Targets and Accomplishments (Oct.08-Sep.09)	Year 4 Targets (Oct.09-Sep.10)
<p>Policy studies and instruments that strengthen the enabling environment for private sector financing of water supply and sanitation projects</p>	<ul style="list-style-type: none"> • BSP approval of Agri-agra eligibility of WSS loans • Marketing the Project Development and Efficiency Improvement Facility of LWUA (dropped upon advice from LWUA) • Financing reform agenda drafted <p><i>Accomplishment:</i></p> <ul style="list-style-type: none"> • <i>BSP disapproved agri-agra eligibility of WSS projects, instead will consider lower risk weights for bonds and loans guaranteed by LGUGC</i> • <i>Paper on proposed rationalization framework and criteria prepared. An in-depth study will be undertaken to determine the mechanics and financing options for the rationalization process.</i> 	<ul style="list-style-type: none"> • Long-term financing mechanism for a Project Development Facility • Assistance in the implementation of the financing reform agenda
<p>Implementation models for providing the poor access to water supply and sanitation services</p>	<ul style="list-style-type: none"> • Identifying models for expanding WSS services to urban poor communities • Piloting of models with two (2) water service providers <p><i>Accomplishment:</i></p> <ul style="list-style-type: none"> • <i>Models identified</i> 	<ul style="list-style-type: none"> • Implementation of models using financing incentives, including grant/ soft loan access • Roll out of pilot models in three (3) WSPs

Annex A. Success story

Ring-fencing Water Utility Accounts: Paving the Way for Utility Reform

“Ring-fencing of waterworks accounts makes it easier for us to monitor and track the financial performance of our water utility. It opened our eyes to unnecessary subsidies that we are providing,” said Mayor George Minor of Margosatubig, Zamboanga del Sur. For his part, Mayor Exuperio Lloren of Jagna, Bohol believed that *“ring-fencing enabled us to gauge the viability of our water utility and determine the proper actions to enhance service delivery. Aside from ring-fencing our waterworks and solid waste management operations, we intend to apply this approach in other economic enterprises in our municipality.”* Mayor Wilfredo Arambulo of Magallanes, Sorsogon realized that *“ring-fencing has made it easier for us to determine the appropriate level of tariff for water supply services.”* *“We thought that we will profit from our contracting arrangement with our LGU in providing water to our constituents. With ring-fencing, we realized that we are the one subsidizing the LGU,”* said Zenaida Martinez, BOD Chair, Matanao Multipurpose Cooperative in Davao del Sur. These are some of the realizations expressed by the pilot local government units (LGUs) and cooperatives after ring-fencing their water utility operations.

LGUs and cooperatives play a crucial role in the achievement of the MDG goals and targets for water supply and sanitation (WSS) services. More than having the advantage of knowing local needs and conditions, LGUs and coops are mandated under the Local Government Code and the New Cooperative Code, respectively, to provide basic services to their constituents. Presently, LGUs provide 40% of the population with water supply service.

Addressing the Challenge for Utility Improvement. Compelling LGUs and coops to carry out their mandates, however, is an enormous challenge. Compared with corporate utilities, LGU-run systems and coops fare poorly financially and operationally. This is due partly to lack of access to technical advice, lack of capacity to design new and expansion projects, low appetite to invest, and poor accountability and transparency since their utilities’ accounts co-mingle with the general fund.



Mr. Rolf Anderson, Chief of the OEE of the USAID, in his opening remarks during the Workshop on Ring-fencing on October 13, 2009, indicated that ring-fencing is an essential first step to utility reform

In response to this challenge, USAID’s Philippine Water Revolving Fund Support Program (PWRF-SP) teamed up with the Water and Sanitation Program (WSP), Department of the Interior and Local Government (DILG) and the Cooperative Development Authority (CDA) to provide technical assistance (TA) to LGUs and cooperatives to build capacities for performance improvement. As an initial and requisite step to utility reform, the collaboration promoted the ring-fencing of water utilities. This undertaking supports the action plan for water utility reform outlined in the Philippine Water Supply and Sanitation Roadmap. Ring-fencing entails the segregation of the utility’s operations and account as an autonomous economic enterprise.

Setting the Pace- Four enabling strategies underpinned the ring-fencing initiative: a) mobilizing the support of the local executive and legislative units (Sanggunian Bayans or SBs) and coop BODs; b) developing a core of ring-fencing trainers and advocates; c) one-on-one mentoring of municipal/coop ring-

fencing (RF) teams (comprised of water utility managers and accountants); and d) leveraging of resources.

The process of pilot-testing commenced with the selection of seven (7) LGU-run and three (3) coop-managed utilities. Vital to the selection of the pilot utilities was the commitment of the local chief executive (mayor) or the coop board of directors (BOD) to participate in the process. The direct involvement of the mayors, councilors and board members of cooperatives was crucial in mobilizing local support for the process. The LGU and coop officials were engaged during briefings on the concept, presentation of the ring-fenced accounts and preparation of action plans based on results of the ring-fencing activity. This strategy built awareness of key officials on the value of ring-fencing and drew their support to mandate and institutionalize it at the local level. A number of mayors, utility managers and members of the board of directors of cooperatives, in fact, have become leading advocates of ring-fencing.



Briefing on the ring-fencing approach to the BOD of the O'Donnell Resettlement Multi-purpose Cooperative.



One-on-one mentoring assistance was provided to the pilot LGUs and coops using their own utility accounts.

Using the “Guide to Ring-fencing of Local Government-Run Water Utilities” developed by WSP, training workshops were conducted to introduce the ring-fencing approach to the participants. A total of 50 participants, i.e., managers (GMs) and accountants of the pilot utilities, coordinators from the DILG, CDA, the Municipal Development Fund Office and Local Water Utilities Administration were trained to conduct, facilitate and coordinate ring-fencing activities.

The PWRF-SP mentors, assisted by DILG, CDA and MDFO trainers, were mobilized to coach the ring-fencing teams of LGUs and coops. Guidance was provided in every step of the process - starting with systems and procedures mapping, organization review and re-alignment and financial account reconstruction. An average of three to four mentoring visits per pilot utility

was made over three months to produce the segregated utility accounts. This capacity building strategy allowed the LGUs and coops to fully understand and embrace the approach. The training workshop and hands-on training also developed a core of trainers from government agencies and the pilot utilities. Now, they can be tapped to serve as resource persons and assist in replicating the process in other areas.

Finally, by pooling resources of PWRF SP, WSP, national and local government agencies, more pilot utilities were served. From an initial target of only three utilities, the TA was able to cover a total of 10 utilities. WSP drew significant inputs from the pilot-testing activities for the enhancement and finalization of its guide on ring-fencing. The collaboration also expanded the capacity building assistance provided by DILG, CDA and MDFO.

Building on the Gain- Three months after ring-fencing their water supply operations, LGU and coop officials of the pilot utilities acknowledged benefits from the technical assistance, particularly the ability to: a) generate reliable financial reports showing the actual performance of their water utilities; and b) identify operational gaps, which informed their efficiency and performance improvement plans. Their testimonies and action plans that were prepared based on the ring-fencing results showed that the TA contributed to improving governance of water utilities. The experience also ensured the mayors' and coop officials' commitment to pursue a utility reform program involving ring-fencing, business planning and implementation of performance improvements strategies.



Ms. Zenaida Martinez, BOD Chair of the Matanao Multipurpose Cooperatives, narrates her cooperative's experiences in ring-fencing its water utility operations and expresses their commitment to continue the process.

Furthermore, DILG and CDA, the main partner national government agencies in promoting the process, were convinced that ring-fencing will promote accountability and sound management practices in water utilities. Both agencies also committed to advocate and roll-out ring-fencing to other LGUs and coops, integrate ring-fencing in their capacity building programs and work for its institutionalization at the national level. USAID also expressed their support for the full implementation of the ring-fencing process and initiatives in the utility reform and performance improvement continuum.



DILG Undersecretary Austere Panadero hands a certificate of recognition to Mayor George Minor of the municipality of Margosatubig in Zamboanga del Sur. The pilot utilities were commended for their pioneering efforts in utility reform.

The groundwork for utility reform has been laid. Having garnered the support and commitment of the stakeholders, the utilities are more than ready to continue the process of completing the transition and transforming their water utilities into full blown economic enterprises. The initiative can now be replicated to assist more water service providers improve their performance and ensure delivery of reliable and safe water services.

Annex B. List of Reports, Workshops and Steering Committee Meetings

Table 5. PWRP Reports in Year 3 (Option Year 2)

Title of Report	Status	Lead
Philippine Water Revolving Fund Marketing Plan for the Development Bank of the Philippines	Final report submitted to DBP	CVAI and Associates
Water Supply Project Appraisal Guidebook for Investors and Decision Makers	Guidebook launched and disseminated to project stakeholders and WDs	Various authors Editor: Del McCluskey
Metro Cebu Septage Management Project Feasibility Study Report	Completed and submitted to MCWD and USAID	CEST Team (supervised by Ferdinand Asuncion)
Cabanatuan City WD Septage Management Project Feasibility Study Report	Completed and submitted to CCWD and USAID	CEST Team (supervised by Ferdinand Asuncion)
Baliwag WD Septage Management Project Feasibility Study Report	Completed and submitted to CCWD and USAID	CEST Team (supervised by Ferdinand Asuncion)
Business Model for a Water District Septage Management Program	Draft	CEST Team (supervised by Ferdinand Asuncion)
National Rationalization Program for Water Supply and Sanitation Investments in the Philippines	Draft submitted to DOF and USAID for review	Brad Johnson
Justification Statement proposing a budget for water supply and sanitation projects that may be included in the 2010 General Appropriations Act (GAA)	Submitted to DOF	Doreen Erfe
Development of a Sustainable Financing Plan for the National Water Resources Board	Final report submitted to NWRB and USAID	Adora Navarro
Using Performance Agreements to Improve Water Sector Performance in	Draft report submitted to NWRB	John Sitton

Title of Report	Status	Lead
the Philippines		
A Program to Expand Water Supply and Sanitation Services in Poor Communities	Report submitted to USAID	Alma Porciuncula/Del McCluskey
PWRF Support Program Grant Manual	Pending USAID approval	Daniel Macri/ Aida Mendoza
Business Planning: Guideline and Model for the Preparation of Business Plans for WDs	Completed; being designed for printing	ValuAdd

Table 6. Consultations and Workshops

Consultations/ Workshops	Date/Venue	No. of Participants
1 Training of Trainers on Strategic Business Planning for WDs	December 9,-11, 2008/Quezon City	16
2 Study Tour – World Water Forum	March 16-22/Istanbul, Turkey	1
3. Training Workshop on PWRF Operating Policy Guidelines and Water Project Appraisal – Visayas Region	May 7-8, 2009/Cebu City	18
4. Training Workshop on PWRF Operating Policy Guidelines and Water Project Appraisal - Mindanao Region	May 21-22, 2009/ Davao City	37
5. Training Workshop on PWRF Operating Policy Guidelines and Water Project Appraisal – Luzon Region	May 11-12, 2009/Baguio	25
6. Training Workshop on PWRF Operating Policy Guidelines and Water Project Appraisal - Manila	May 14-15, 2009/ Manila	45
7. Training of Trainers on Ring – fencing of Water Utility Accounts – Luzon Region	May 27-29. 2009/Pasig City	43
8. Training Workshop on Strategic	June 16-18, 2009/Pasig City	18

Consultations/ Workshops	Date/Venue	No. of Participants
Business Planning		
9 Training of Trainers on Ring – fencing of Water Utility Accounts – Visayas and Mindanao Regions	July 8-10, 2009/Cebu City	33

Table 7. Schedule of PWRF Steering Committee Meetings

Steering Committee Meeting	Date/Venue
1. Meeting of the Steering Committee - Philippine Water Revolving Fund Support Program	February 10, 2009/ Function Room F, PNB Financial Center, D. Macapagal Ave., Pasay City
2. Meeting of the Steering Committee - Philippine Water Revolving Fund Support Program	August 10, 2009/ JICA Office, 40/F RCBC Plaza