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THE PHILIPPINE WATER REVOLVING FUND

QUARTERLY REPORT APRIL – JUNE 2010

JULY 2010

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THE PHILIPPINE WATER REVOLVING FUND

QUARTERLY REPORT **APRIL – JUNE 2010**

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Executive Summary

USAID Mission Goal: Enhanced security, governance and capacities for sustainable, equitable economic growth.

Strategic Objective #4: Management of productive, life sustaining natural resources strengthened.

Intermediate Result 1.2: Urban environmental management improved.

Background:

The PWRF Support Program started as a one-year project with four option years. The first year is for the program's Phase 1 and is focused on the set up and operationalization of the PWRF credit facility in the Development Bank of the Philippines. However, the PWRF set-up is contingent on the availability of the JICA loan to DBP, anticipated in March 2007, but was not signed until September 2008. In view thereof, USAID decided to extend Phase 1 to March 2008, then again to March 2009. It also decided to exercise the option years. USAID's decision to continue the assistance stems from the desire to sustain the momentum gained in financing reforms, favorable response from the PFI market, and the growing interest shown by the Philippine development partners to pursue the reforms in the sector.

While the Option Year 1 or Year 2 work plan focused on capacity and institution building for PFI participation in the sector's financing, policy reforms, and formulation of the long-term financing mechanism with domestic capital market participation, the Year 3 work plan installed the PWRF program in DBP, provided technical assistance to enable local government units (LGUs) and water districts (WDs) develop a pipeline of bankable projects, and started with the development of the long term financing mechanism for water supply and sanitation projects. The latter focused on strengthening selected water and finance sector institutions vital to the water sector reform program, as outlined in the Philippine Water Sector Roadmap.

The Year 4 work plan maintained the key components of the PWRF Support Program, but adjusted the program activities to account for constraints and current development in its operating environment. Foremost is the injunction on the enforcement of EO 279, resulting to crowding out of PWRF financing for water district projects; and the elections in May 2010, which resulted to a slow down of project development among LGUs. Thus in the Year 4 work plan, the target market for PWRF shifted to private water service providers. Moreover, the team focused on institutional and capacity building of water service providers and NWRB, and advocacy with key legislative staff on the water sector reform agenda in preparation for the new Congress.

This accomplishment report shows the status of deliverables and activities of the third quarter of the Year 4 work plan.

PWRF Targets in support of IR 1.2

Accomplishments for the Quarter (April – June 2010)

A. Year 4 Work Plan

Component 1: PWRF Set-up and Institutional Development

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| <ul style="list-style-type: none"> ▪ Assist DBP in conducting the PWRF marketing events ▪ Conduct marketing road shows for PWRF potential borrowers and PFIs ▪ Monitor progress of marketing campaign ▪ Identify projects for PWRF financing ▪ Assist DBP identify measures for a more competitive PWRF; as necessary, update and improve OPG ▪ Provide on demand project evaluation and transaction support during loan negotiation and implementation | <ul style="list-style-type: none"> ▪ PWRF audio-visual presentation finalized, reproduced, and distributed ▪ No marketing road shows for the quarter ▪ Assisted DBP and LGUGC with client calls and meetings with potential PWRF borrowers, e.g, Philhydro, Manila Water |
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Component 2: Project Development

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| <ul style="list-style-type: none"> ▪ On demand basis, evaluate level of preparedness of project feasibility studies or assist targeted utilities improve project feasibility studies for financing from the PWRF or assist LGUGC and DBP evaluate projects for financing ▪ Continue assistance to MCWD, BWD, CCWD, ZCWD and SPCWD in the implementation of Septage Management projects | <ul style="list-style-type: none"> ▪ Except for SPCWD all water districts' boards have approved implementation of the project. The hold up is due to the pendency of LGU ordinances; and in the case of ZCWD the approval by the Mayor of the use of the preferred site for the STP |
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- Assist Metro Iloilo, Metro Roxas and Bacolod with the preparation of septage management projects
- Continue help desk for WDs preparing septage management plans
- Develop sanitation strategies/projects for 10 large LGUs
- Facilitate institutionalization of business planning among water districts
- Provide advisory assistance to selected utilities in the preparation of their business plans
- Metro Iloilo, Metro Roxas, and Bacolod City WDs submitted interim feasibility reports; Metro Kalibo and Bacolod City WDs signed the MOU on septage management technical assistance with PWRF SP in May.
- Isabela City WD in Basilan sent expressions of interest in PWRF SP technical assistance on septage management.
- The LGUs of Panabo and Digos sent expressions of interest in PWRF SP technical assistance on septage management.
- The business planning practice is being promoted through the PAWD Water Operators' Partnership program

Component 3: Policy and Institutional Strengthening

- Organize and conduct meetings and consultations on rationalization of public resources for WSS
- Provide technical support to facilitate DOF endorsement of requests for incentives for water sector financing
- Provide technical secretariat support to the PDF sub-Working for Water
- Conduct study on NWRB's outsourcing of asset valuation (related to tariff regulation function)
- Conduct assessment of implementation of the regulatory reform agenda
- The rationalization concept paper was revised based on DOF comments; DOF has agreed with the principles but requested to identify the focus areas based on prioritization criteria.
- Continuing to monitor the progress of BSP's evaluation of LGUGC's request for lower risk weight on loans that it guarantees.
- The PDF SWG WSS Task Force on Strategic Alliance Building and the Task Force on Institutional Strengthening met separately to discuss their priority activities.
- The NWRB Board, in its April 14, 2010 meeting, endorsed the preparation of an operations manual on asset valuation.
- All pilot coops and three of the five LGUs have adopted and institutionalized ring-fencing; the other

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| <ul style="list-style-type: none"> ▪ Subject to agreement of the InfraCom sub-committee on WSS, conduct briefings, seminars and consultations on WSS to congressional staffs and committees ▪ Continue assistance on ring-fencing ▪ Assess the feasibility and prepare design of private sector-led PDF ▪ Evaluate/award small grants related to pilot implementation of model schemes to expand water services in poor communities ▪ Monitor implementation of the Rotary Club Zamboanga West water supply project (under the International Water Alliance) ▪ Forge formal agreement with PAWD on the water operator partnership program and prepare implementation plan | <p>two LGUs confirmed the adoption of the guidelines but SB resolutions still pending</p> <ul style="list-style-type: none"> ▪ The orientation seminars for key Congressional staff and committees will be conducted in mid August or September 2010 at the request of NEDA ▪ Scheduled a training of trainers (TOT) on ring fencing for Local Resource Institutes in July and another one for LGUs in August. ▪ The preparation of report based on the survey on the need and possible structure of the PDF is still in progress. ▪ Signed Grant Agreements with TSPI Development Corporation and Institute for Popular Democracy in May. ▪ Survey on baseline information/data on sanitation and hygiene practices completed for Rotary grant and procurement of construction materials on going; construction commenced in July and expected to be completed in October 2010. ▪ Held the strategic planning workshop with PAWD and implementation planning for the WOP Program on 20-21 April in Bacolod City. Currently assisting PAWD with the implementation of the institution building activities and the WOP program |
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Component 4: Overall program support

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| <ul style="list-style-type: none"> ▪ Steering Committee meetings | <ul style="list-style-type: none"> ▪ We did not see the need to hold a Steering Committee meeting within the quarter. However monitoring meetings were held with partners, DBP, JICA, LGUGC, and MDFO |
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Chapter I: Summary of Project Objectives and Results

A. Project Objectives and Scope

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 partner countries of CWPI. Under this program, USAID and JICA have committed to establish the Philippine Water Revolving Fund to help achieve the following goals:

- Improve access to safe drinking water and sanitation through the establishment of the PWRF financing facility;
- 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.

Secondary thereto:

- 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 PWRF Support Program 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 supporting efforts to secure the JICA loan and its operating and policy guidelines; and USAID’s DCA guarantee agreement;
- 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.

Phase 2 focuses on the institutional support for the operation of PWRF and maintains the key components under the Phase 1 Work Plan.

A.2 Project Scope and Expected Outputs

Within the Year 3 plan period (October 1, 2008 to September 30, 2009), the PWRF SP encountered setbacks: change in leadership of the Board of LWUA, injunction on the enforcement of EO 279, cancellation of the 2009 Philippine Development Forum, and the shift in attention of local executives to the national elections in May 2010.

As these issues would not have been resolved immediately, the PWRF SP team made adjustments in the Year 4 work plan.

Component 1: PWRF Set-up and Institutional Development – will focus on marketing PWRF to private water service providers outside of Metro Manila; and assisting DBP streamline the PWRF operating guidelines and loan documentation requirements to make the PWRF a more attractive and flexible loan mechanism.

Expected Outputs:

- Identify projects of private water service providers and remove the 25% cap on PWRF lending to private water service providers
- Update and improve the PWRF operating guidelines and loan documentation to streamline the loan process.
- Assist DBP implement the PWRF marketing plan
- Provide transaction support to DBP and PFI partners

Component 2: Water and Sanitation Project Preparation - involves providing assistance to water service providers in preparing and improving projects for financing; assisting with the capacity building of water districts in strategic planning; and helping 10 big cities and municipalities assess sanitation needs, plan and implement sanitation projects.

Expected Outputs:

- 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 – involves assisting with the financing, regulatory and institutional reform agenda focusing on advocacy with legislators on the reform program; expanding governance reform initiative among LGUs and cooperatives; exploring the feasibility of a private-sector led project development facility; and exploring financing mechanisms to reach poor communities. Related to the latter, PWRFSP will use its small grants program to test some of these mechanisms.

Expected Outputs:

- 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 to DOF to put in place financial incentives for water sector lending
- Technical secretariat support to the PDF's sub-working group on WSS
- Support for institutional and regulatory reform action plan
 - 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
- Assessment of a private-sector led Project Development Facility
- Development of financing and implementation strategies for reaching poor communities
- Develop twinning program with the Philippine Association of Water Districts and Eco-Asia for institutional strengthening and capacity building of PAWD and local water service providers

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

Expected Outputs:

- One meeting per quarter for the Steering Committee and the Technical Working Group
- Technical papers, presentations, inputs to USAID reports and communication materials on the PWRF, as may be required by USAID
- Maintain PWRF Support Program Website

B. Overview at end of the Quarter (April 1 to June 30, 2010)

On project financing – Since the elections, there has been strong signals of the activation of the PWRP pipeline. The Zamboanga City WD Water Supply Project loan is the frontrunner with a signed agreement for PhP200 million from a PFI and the processing of DBP's refinancing of its LWUA loan. MWCI's Boracay Water and Sewerage Project have had a series of talks with DBP and LGUGC and it has consistently expressed its interest to access the PWRP facility. As MWCI expects a drawdown by January 2011, both DBP and LGUGC are undertaking expedient processing of the loan and guarantee agreement. More water supply projects are in the offing with the accounts of San Jose del Monte and San Pedro Laguna WDs being re-activated. DBP is also finalizing the request of LWUA to take over its loan to Puerto Princesa Water District (PPWD) due to lack of funds. PPWD signed up for a PhP500 million loan but LWUA can only release PhP87 million.

On sanitation project development – For sanitation projects, financial closure may take longer as Metro Cebu WD, Zamboanga City WD, Cabanatuan WD have yet to confirm LGU support and San Pablo City WD has yet to get board approval of its septage management project. Only Baliwag WD is ready to borrow from PWRP but has yet to secure a waiver from LWUA. To complement our assistance on project preparation, we are continuing our assistance to these water districts on getting LGU ordinances passed, assisting them in public hearings for the tariffs and preparation of technical specifications for the procurement of the construction/installation contract.

We are continuing our technical assistance to another set of water districts preparing septage management feasibility studies, namely: Metro Iloilo, Metro Roxas, Bacolod and Kalibo. To date these Districts are halfway through the FS preparation. In particular they have completed the household surveys, the identification of potential sites and are currently doing the volume projections that will feed to the design scale and cost estimates. The feasibility studies will be completed within the next quarter.



The presentation to Negros Occidental LGUs, attended by representatives from 18 cities and municipalities of the Province of Negros Occidental, highlighted the comprehensive toolkit prepared by PWRP-SP and the business opportunity associated with the Model.

As regards, LGUs—out of the septage management briefing we conducted in Davao and Negros Occidental, participated by 24 LGUs, so far only two requested TA to proceed to project preparation. These are Digos and Panabo. Another water district, Isabela City WD in Basilan also requested TA for project preparation. Upon signing of respective MOUs, we will provide advisory assistance to them.

On institutional development – On ring fencing of water utility operations, all the three pilot coops (O'Donnell, Matanao, Lamac) have fully adopted the ring-fencing. However, continuing mentoring assistance (resuming in July) will be required for the LGUs of Lumban, Mahayag, Margosatubig and Magallanes. For the Bohol LGUs, we still have to follow up the remaining ring-fencing activities, i.e., adoption of financial management guidelines and opening of bank accounts for their water utility operations.

We are pushing for the institutionalization of ring-fencing at three fronts: directly at the LGU or coop level through Sanggunian Bayan or Coop Board resolutions; at DILG through its administrative suasion with LGUs (issuance of a Memo Circular promoting ring-fencing) and at the Municipal Development Fund Office requiring ring-fencing as a conditionality for loan applications. So far only the MDFO measure has been passed.

As regards sustainability of capacity building for ring-fencing, we signed an agreement with LGA-Local Governance Training and Resource Institutes - Philippine Network, Inc. (LoGoTRI-PhilNet) and WSP to train and establish a network of ring-fencing trainers and mentors and to include ring-fencing & business planning modules in the training course offerings of the LRIs. When the LGA conducted its nationwide Newly Elected Officials (NEO) Orientation Program in June, we provided brochures on LGU capacity building for water service provision and ring fencing for distribution to LGA's partner LGUs. We also scheduled a training of trainers (TOT) on ring fencing for LRIs in July. We have prepared the training course design, training guide and practice set, flyers and slides for forthcoming trainings and orientation programs on ring-fencing. On the other hand, the TOT for the LGUs is slated on August 25-27.

A writeshop was held on June 28-29 to validate and finalize the coop ring-fencing guide (pictured). The guide defined the possible standard chart of accounts (SCA) for water service coops. A memorandum circular (MC) prescribing the SCA will institutionalize the ring-fencing activity and the SCA. The action plan for the finalization of the guide, roll out, and institutionalization of ring-fencing in the coop sector was also prepared. Aside from the MC, the integration of ring-fencing in the internship program of the Polytechnic University of the Philippines which currently offers a course on cooperative development will be explored.



On providing support to the PDF sub-committee on WSS – We have kept the active participation of the task forces of the sub-committee on updating the action plans, and in coordinating and fostering synergy on respective activities of partners.

On reaching the poor program – We drafted a concept note on a Microfinance Program for WSS which envisions the use of microfinance for expanding water supply and sanitation services to poor households. It also considers potential financing partnerships between microfinance

institutions (MFIs) and utilities. Key informant interviews are being conducted to assess the interest of MFIs, water districts, and microfinance wholesalers to pursue collaborative arrangements for a microfinance program for WSS. The KIIs will also determine credit enhancements needed and sources of funds for capital investment and social preparation, among others.

The three grant projects intended to pilot mechanisms for providing the poor access to water are underway. In May, we signed individual grant agreements with TSPI Development Corporation and Institute for Popular Democracy (IPD). Both grantees have started with program implementation. As of end June, TSPI was



Right photo: TSPI Executive Director Ruben de Lara (left) signs the grant agreement while PWRF SP Chief of Party Alma Porciuncula (right) reviews the document. Left photo: L-R: IPD Local Governance Field Manager Erik Villanueva, Asst. Field Manager Kristine Quiray, President and Executive Director Jude Esguerra, PWRF SP Chief of Party Alma Porciuncula, and USAID's Joy Jochico

finalizing its marketing strategy while IPD has just completed a number of preparatory activities and systems development-related tasks. Next step for TSPI is the development of marketing tools, pre-testing, and production of the collaterals. After production, it will also start branch orientation on the marketing guidelines and distribution of the marketing materials. For IPD, the preparation of the reticulation plan and the acquisition of construction permits are next.

With regard to the Rotary grant, we assisted the Rotary Club of Zamboanga City prepare and conduct a survey of randomly selected sample households to gather baseline information/data on sanitation and hygiene practices of the beneficiaries of the water supply projects. Data that will be generated from these surveys will inform the project's social development interventions for hygiene and sanitation, M&E plan, assessment of results and impact, and future policy decisions on the project and water services in the area. In late June, we helped the Rotary Club and ZCWD procure construction materials, including plant testing of uPVC pipes prior to delivery to ZCWD.



The enumerators pre-test the survey questionnaire while a market study specialist looks on.

Construction on the project started on the first week of July and is expected to be operational in October this year.

On the water operators' partnership program (WOP) – The Philippine water operators' partnership replicates the regional experience, which was jointly supported by USAID, ADB and International

Water Association. The national WOP is being implemented under the aegis of the Philippine Association of Water District. Our support to PAWD includes its institutional strengthening to serve its members' needs better and a capacity building program using the WOP platform, i.e., twinning, training, knowledge management and benchmarking. In April, we conducted a strategic planning workshop with PAWD and implementation planning for the WOP Program (right photo). PAWD re-validated its mission and identified its key strategies and priority programs for the next two years. We continue to assist PAWD implement its strategic plan and WOP program. We hired an OD specialist to help with PAWD's institutional strengthening; we are helping finalize the WOP business plan and we facilitate PAWD's link up with USAID's EcoAsia and ADB to get support for the twinning component.



Leveraging resources – The PWRF Support Program project was able to leverage resources from its project partners (see Table 1 below).

Table 1. Leveraged Resources

Donors/Partners	Activity	Cost (PhP)
LGUs: Alburquerque, Jagna, Magallanes, Margosatubig, and Mahayag Cooperatives: O'Donnel, Lamac, and Matanao	Ring fencing of water utility accounts	25, 323.78
PSA	Social Marketing for Metro Cebu WD Septage Project and Mentoring workshop for Metro Iloilo WD, Metro Roxas WD, and Bacolod City WD on septage management	89, 952.43
Metro Iloilo WD, Metro Roxas WD, Metro Kalibo WD, Bacolod City WD	Counterpart cost for Septage Management Project	595, 250
LGU Guarantee Corporation	PWRF marketing-related services	587, 740
DBP	Marketing Roadshow and Review of PWRF Business and Marketing Plan	27, 175

ADB, EcoAsia and IWA	Water Operators' Partnership	2,000 (IWA) ADB and EcoAsia – KM products
TOTAL		PHP1,327,441.21 or US\$28,826.08

Chapter II: Progress to Date and Targets for the Next Quarter

Component 1: PWRF Set-up and Institutional Support

Assistance to DBP in the implementation of the business and marketing plan for PWRF - The PWRF Audio Visual Presentation (AVP) material was finalized, reproduced, and distributed by DBP to its branches. We also sent copies to LGUGC for its private sector clients, to USAID, and JICA. The AVP material will be utilized for promotional activities lined up for the next quarter. These include marketing of the PWRF with LGUs. In a meeting with Director Manuel Gotis of the Bureau of Local Government Development within the Department of Interior and Local Government, he said that we can create LGU awareness on investments in water supply and sanitation, and relatedly, the PWRF facility through the forums of the various LGU Leagues, i.e., League of Cities, League of Municipalities, and League of Provinces. This marketing campaign will have to be coordinated with MDFO. We have agreed to assist MDFO in the conduct of the marketing campaigns.

Transaction support - We assisted LGUGC and DBP in meetings with Manila Water Company Inc. (MWCI) on the financing of the Boracay Water and Sewerage Project. MWCI Treasurer Gloria Padua de Castro expressed keen interest in tapping PWRF for the project. The total financing required is Php500M; Php300M of which is needed in early 2011 and the remaining Php200M in 2012. We also continued to follow up other private sector bulk supply project such as Philhydro, Jalaur and Abejo.

Status of these projects and other projects in the PWRF pipeline are discussed below. PWRF projects were classified into three types:

1. Those that are in advanced stage of preparation or in early negotiation stage.
2. Those that need resolution of issues and validation of proponent commitment.
3. Those that are newly identified and are in early stage of preparation.



Philhydro President Danny Tan (in green shirt) explains the various river intake facilities to PWRF SP Chief of Party Alma Porciuncula (rightmost) during a visit to the Philhydro Norzagaray treatment plant.

Table 2: Classification of Projects in the PWRP Pipeline

	Feasibility Study Undertaken	Institutional & Legal Issues Identified/ Resolved	Financing Structure Articulated by Proponent	Proponent Actively Seeking Funding	Likely Timetable of Financial Closing
Type 1	YES	YES	YES	YES	Within 6 - 12 months
Type 2	YES	PARTLY	YES/PARTLY	MAYBE	Variable
Type 3	NO	NO	NO	MAYBE	Highly Variable

Table 2. Type 1 Projects

Name:	Zamboanga City WD Water Supply Project	Philippine Hydro Inc (pH Inc) Bulacan Water Supply	Boracay Water and Sewerage Project
Borrower:	Zamboanga City WD	SPV to be created by pH Inc to house 28.7km worth of transmission assets.	MWI-PTA 80-20 JV entity "Boracay Island Water Company"
Project:	Php400M	Php134.0 million	Php 1.2 billion
Loan:	Php200 – refinancing by DBP; Php200M – Security Bank	Php105.8 million (immediate requirement)	Php 500m (immediate requirement)
Description:		To supply bulk water to Sta. Maria (5k cum), Marilao (10k) and Meycauayan (6k) for a period of 15-25 years with extension option. UPDATE: Company indicated it already has PFI financing.	Water and sewerage concession for Boracay for 25 years
Affected Population:		Meycauayan 200k, Marilao 160k, Sta. Maria (205k)	13,000 local residents and 600k Tourists per year
Status:	Signing of loan, guarantee and collateral documents for the Security Bank loan are expected within one week and loan release, within July 2010.	Meycauayan WD is reconsidering its decision to buy bulk water supply from Philhydro due to the high transmission costs involved. Should Meycauayan WD back out, the project cost will be reduced. In addition, Philhydro is more inclined to have the individual water districts (Sta. Maria and Marilao) fund the transmission lines and is willing to wait for developments at LWUA in connection with the granting of waivers before it finalizes the bulk water supply project.	In a meeting with MWCI in late June, DBP offered to work out a competitive fixed annual interest rate with a maximum term of 20 years. MWCI also said that the funds should be ready for drawdown by January 2011.

For sanitation projects classified under Type 2, i.e., Baliwag WD, Metro Cebu WD, Zamboanga WD and San Pablo City WD, only Baliwag is ready to borrow from PWRF, provided LWUA will give its waiver. San Pablo City's project has no Board approval yet while MCWD and ZCWD are still in consultations with prospective LGU partners. DBP and LGUGC agreed that these WDs should access the PWRF facility as a first option and only when there are no PFI takers should the EDP window (i.e., 100% DBP financing) be accessed.

As to the water supply projects classified under Type 2, i.e., San Jose del Monte and San Pedro Laguna WDs, DBP will set a meeting with San Jose Del Monte WD to re-activate the project, while for San Pedro WD, LGUGC mentioned that an Account Officer has already started discussions with the GM.

For the Type 2 private water service providers, the contact person of Jalaur Water Resources Dev't Corporation is currently evaluating the two options (either grant a loan to Jalaur or guarantee payment of WD to Jalaur) provided by LGUGC; and the Metro Iloilo 20,000m³ bulk water supply has been cancelled.

Component 2: Water and Sanitation Project Preparation

Technical assistance on septage management - The revised feasibility study was presented to the San Pablo City WD Board of Directors and management on May 19. It highlighted a comprehensive program and tariff schemes for septage management and two pilot options for sewerage—one for a separate sewer system and another for a combined sewerage/drainage system. As of end June, SPCWD implementation plan is still pending. Zamboanga City WD is still awaiting approval from the LGU for its use of the proposed site for the sewage treatment plant. PWRF SP will continue its technical assistance to Baliwag WD in financing and procurement and in the conduct of public hearing for tariff setting; to Cabanatuan City WD in its presentation of project to the newly elected Mayor and other LGU officials and in public hearings for tariff setting; and to Metro Cebu WD in the assessment of sites for septage treatment plant in Cordova and in the presentation of the project to the new LGU officials of Cebu City. Metro Cebu WD will seek buy in from the new officials to implement septage management program in Cebu City immediately.

After the first mentoring workshop conducted for Metro Iloilo, Metro Roxas and Bacolod City WDs in March, these three WDs have prepared the first four of eight chapters of their feasibility study. They also completed their household surveys but have yet to submit the results; their septage volume projections are also pending. The second mentoring workshop which focused on septage treatment design options, institutional arrangements, and on health and sanitation promotional activities was conducted on May 13-14 in Bacolod City. We also signed MOUs on the technical assistance with Bacolod City WD and Metro Kalibo WD at this time (photo above). Metro Kalibo, after being briefed on the highlights of the first workshop, has started



preparing the first four chapters, including the household survey and is expected to submit draft reports shortly.

The briefing on septage management with LGUs that was conducted in Davao City in March resulted in requests for technical assistance. During the quarter, we received expressions of interests from the LGUs of Digos, Panabo, and from Isabela City Water District in Basilan. A mentoring program will be prepared for these utilities.

In coordination with the Provincial Environmental Management Office (PEMO) of Negros Occidental, we presented the Septage Management Program Business Model on April 28 in Bacolod City (pictured). The one-day workshop was attended by representatives from 18 cities and municipalities of Negros Occidental as well as those from the PEMO. To date none of the LGUs requested PWRF-SP advisory assistance for FS preparation.



Strategic Business Planning for Water Districts. In a meeting with LWUA's Institutional Development Manager, Antonio Magtibay and five of the LWUA business planning mentors on June 11, we discussed status of the WDs that have received technical assistance in the preparation of business plans; problems encountered and ways to move forward for the next training workshop.

Component 3: Water and Finance Sectors Strengthening

Support to the Rationalization of Public Resource Allocation for Water Supply and Sanitation.

The rationalization concept paper was revised to take into account the comments of DOF, specifically focusing on the rationale, review of existing policies that will be affected by the allocation principle and approach, and the prioritization criteria. A meeting with DOF to discuss the revisions has been scheduled in early July.

Support for the Implementation of the Regulatory Reform Action Plan

Advocacy for Financing and Regulatory Reforms - The conduct of briefings/orientation on WSS to the legislative staff and committees of both the House of Congress and Senate is part of the strategy to facilitate discussions of the proposed regulatory reforms including the recommendation for an independent regulation of the WSS sector. The proposal for an independent regulation of the WSS sector is embodied in the draft bill on the Water Regulatory Council (WRC). This draft bill is pending with NEDA's Subcommittee on Water Resources for comments. Until the comments of the subcommittee have been released, NEDA believed a consultation workshop to discuss the bill is premature.

We submitted a legislative advocacy plan drafted by PWRF SP's Legislative Advocacy Expert to NEDA in early May. In early June we revised the plan to incorporate NEDA's suggestion to discuss in greater detail the legislative reform process. NEDA also decided to conduct the

orientation seminars for key Congressional staff and committees in mid August or September 2010 when the new Administration and Congress have assumed their duties.

NWRB Strengthening - The NWRB Board, in its April 14, 2010 meeting, endorsed the preparation of an operations manual on asset valuation. The preparation of the manual is one of the major recommendations of the study on the outsourcing of NWRB's asset valuation task. The manual will prescribe an instructive, transparent and credible procedure for valuing water utilities' assets, including the accreditation of independent appraisers. In late June, we drafted and discussed with NWRB the outline of the asset valuation guide. NWRB endorsed the outline. The preparation of the guide commenced on July 1.

We started drafting of the performance contracting toolkit. The performance contracting guide will cater to regulatory agencies and water utilities and will contain information about performance contracting of WSS, country experiences, and guidelines in forging and drawing up performance contracts. It will be used as reference for training selected water utilities on performance contracting and pilot-testing of the scheme scheduled in October of this year.

Institutionalization of Ring Fencing - We signed the partnership agreement with LGA-Local Governance Training and Resource Institutes - Philippine Network, Inc. (LoGoTRI-PhilNet) and WSP. The agreement outlined stipulations to train and establish a network of ring-fencing trainers and mentors and to include ring-fencing & business planning modules in the training course offerings of the LRIs. In mid May, the ring fencing approach and training program was presented to the General Assembly of LGA- LoGoTRI-PhilNet at UP Los Baños (pictured). When the LGA conducted its nationwide Newly Elected Officials (NEO) Orientation Program from June 14-29, 2010, we provided brochures on LGU capacity building for water service provision and ring fencing for distribution to LGA's partner LGUs. We also scheduled a training of trainers (TOT) on ring fencing for LRIs in July. We have prepared the training course design, training guide and practice set, flyers and slides for forthcoming trainings and orientation programs on ring-fencing. On the other hand, the TOT for the LGUs is slated on August 25-27.



There was a positive response to our proposal to include ring-fencing and business planning in the training course offering of the LoGoTRI-PhilNet during its General Assembly in Los Baños.

We conducted a writeshop on June 28-29 to validate and finalize the coop ring-fencing guide. The peer reviewers included representatives from the Cooperative Development Agency, NWRB, Philippine Institute of Certified Public Accountants, and accountants from PWRF SP's pilot coops. The guide defined the possible standard chart of accounts (SCA) for water service coops. A memorandum circular (MC) prescribing the SCA will institutionalize the ring-fencing activity and the SCA. The action plan for the finalization of the guide, roll out, and

institutionalization of ring-fencing in the coop sector was also prepared. Aside from the MC, we will explore the integration of ring-fencing in the internship program of the Polytechnic University of the Philippines which currently offers a course on cooperative development.

To date, all the three pilot coops (O'Donnell, Matanao, Lamac) have fully adopted the ring-fencing of their water utility operations. PWRFSP will just monitor and gather reports on their ring-fencing activities and water utility performance from now on. For the Bohol LGUs, follow up of the remaining ring-fencing activities (adoption of financial management guidelines and opening of bank accounts for their water utility operations) will still be done. However, continuing mentoring assistance (resuming in July) will be required for the LGUs of Lumban, Mahayag, Margosatubig and Magallanes.



The peer reviewers during the writeshop, comprised of accountants from concerned agencies, validated the guide and agreed on an action plan on its finalization and the institutionalization of ring fencing in the coop sector.

Strategies to Reach Poor Communities - We drafted a concept note on a Microfinance Program for WSS. The proposed program envisions the use of microfinance for expanding water supply and sanitation services to poor households. It will also look at potential financing partnerships between microfinance institutions (MFIs) and utilities. We are conducting key informant interviews to assess the need and interest of MFIs, water districts and microfinance wholesalers to pursue collaborative arrangements on a microfinance program for WSS. The KII will also determine possible credit enhancements and sources of funds for capital investment and social preparation, among others.

Technical support to DOF for the PDF sub-working group for water – Only two task forces of the SWG WSS met this quarter. The Task Force for Institutional Strengthening (TF – IS) met in 26 April 2010. The group discussed the proposed information and awareness campaign for legislative staff on water-related concerns, which will be led by NEDA and NWRB. This is the run up of the advocacy campaign for the WSS roadmaps' legislative reform agenda matter, such as independent economic regulation. NWRB Executive Director Vicente Paragas was also introduced as the new chair of the TF-IS. The SWG WSS/Task Force for Strategic Alliance Building (TF-SAB) met on 29 June. The group reviewed the progress of its 2010 Action Plan priority activities, among others. DOH Director Eduardo Janairo was introduced as the new chair of the TF-SAB. The TF agreed to secure NEDA-Infracom's full approval of the Philippine Sustainable Sanitation Roadmap during its 13 July 2010 meeting. DOH committed to support the advocacy campaign among legislators.

We kept abreast of the ongoing preparation of the implementing rules and regulations (IRR) of RA 10026, issued on 11 March 2010, which will grant income tax exemption to water

districts. The draft IRR is still under deliberation by the Inter-Office Committee within the BIR prior to its presentation to the Commissioner of Internal Revenue and the DOF Secretary.

We met with Director Dory San Pedro of Bangko Sentral ng Pilipinas - Supervision and Examination Sector regarding LGUGC's request for lower risk weights for loans and bonds for water supply and sanitation projects it guarantees. She said that she is concerned with the security of loans by water districts and private water service providers, which unlike LGUs do not have IRA pledges. She also expressed concern that LGUGC is not rated. In this regard, we, in consultation with USAID, agreed to finance the credit rating of LGUGC subject to its written commitment to maintain the rating.

Development of a Local Water Operators Partnership Program- The Philippine water operators' partnership replicates the regional experience, which was jointly supported by USAID, ADB and International Water Association. The national WOP is being implemented under the aegis of the Philippine Association of Water District. Our support to PAWD includes, its institutional strengthening to serve its members' needs better and a capacity building program using the WOP platform, i.e., twinning, training, knowledge management and benchmarking. In April we



conducted a strategic planning workshop with PAWD and implementation planning for the WOP Program (photo above right). PAWD re-validated its mission and identified its key strategies and priority programs for the next two years. We continue to assist PAWD implement its strategic plan and WOP program. We hired an OD specialist to help with PAWD's institutional strengthening; we are helping finalize the WOP business plan and we facilitate PAWD's link up with ADB and USAID's EcoAsia to get support for the twinning component. In particular, we discussed with EcoAsia collaboration for a cluster twinning arrangement for septage management and potential twinning of PAWD with American Water Works Association. With ADB we are coordinating assistance for twinning of PAWD with the Australian water utility association and Zamboanga City Water District with a partner on sewerage system development.

Setting-up of a Private Sector-led Project Development Facility (PDF)- The preparation of report based on the survey is still in progress.

Grant Program. We signed grant agreements with TSPI Development Corporation and Institute for Popular Democracy in May. Both grant projects will test models for providing access to poor communities, with elements on micro-financing and organization of a water cooperative. As of end June, TSPI was finalizing its marketing strategy—part of its first component which

The communication collateral on the right is distributed by IPD among the members of the cooperative during general membership meetings to communicate the cop's policies and business plans.



involves enlarging TSPI's loan portfolio for the sanitation loan program and the development of an appropriate marketing strategy to boost the availment of the same loan program within TSPI's existing client base in Quezon province. IPD on the other hand, has finished a number of preparatory activities for its sites, i.e., water assessments and socio-economic investigation of the target sites, community consensus-building and initial planning, Pre-Membership Education Seminars, ocular inspection of the area for the preparation of the reticulation plan, business planning, and the submission of registration documents to the Cooperative Development Authority.

With regard to the Rotary grant, PWRF SP assisted the Rotary Club of Zamboanga City in conducting a survey of randomly selected sample households to gather baseline information/data on sanitation and hygiene practices of the beneficiaries of the water supply projects in Barangays Lumbangan and Lumayang in Zamboanga City. The assistance included preparing the survey instrument, training of enumerators and analysis of results. Data that will be generated from these surveys will inform the project's social development interventions for hygiene and sanitation, monitoring plan, assessment of results and impact, and future policy decisions on the project and water services in the area. The survey was done from May 19-22. In late June, we helped the Rotary Club in the procurement of construction materials. Relatedly, we carried out plant testing of uPVC pipes prior to delivery to Zamboanga City. Construction on the project will start on the first week of July and is expected to be completed in October of the same year. PWRF SP also aided the Rotary Club in finalizing its environmental impact assessment and received USAID approval for it in June 2010. Ms. Porciuncula also participated in two Steering Committee Meetings held during the quarter: May 13 and June 3.



Pipes underwent pressure (left) and flattening (right) tests among others before they were shipped to the Rotary Grant project in Zamboanga City.

Table 3. PDF Sub-Working Group on Water Supply and Sanitation Action Plan 2010

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
Key Result Area (KRA) 1. Institutional Strengthening			
1. NWRB Strengthening	<ul style="list-style-type: none"> • Continuation and expansion of undertaking on WSP performance benchmarking <ul style="list-style-type: none"> ○ Regular updating of the original 45 WSPs' performance ○ Presentation of results of study ▪ Formulation of policy proposal to integrate performance reporting in regulatory requirements and the identification of incentives for compliance ▪ Sector assessment update • Study on outsourcing of asset valuation 	<p><i>Collection of 2008 to 2009 data from 36 water utilities and 2007 to 2009 data from 4 utilities is ongoing and is expected to be completed by September 2010</i></p> <p><i>NWRB Board endorsed the preparation of an operations manual on asset valuation in its 14 April meeting. The manual is one of the major recommendations of the study on outsourcing NWRB's asset valuation function prepared through PWRf-SP assistance. The preparation of the manual will commence in 1 July.</i></p>	<p>Benchmarked utilities formulate performance improvement plan</p> <p>Community of practice established</p> <p>NWRB Asset Valuation Manual</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> • Training on water district tariff methodology in support of NWRB's appellate functions (i.e., tariff appeals) • NWRB guidelines on light-handed regulation finalized • Registration of WSPs (non-WD) <ul style="list-style-type: none"> ○ Development of practical methods for identifying , registering and regulating small utilities that helps to inform NWRB of the cost and resource implications needed to scale up its economic regulation function 	<p><i>Training was conducted on 1-2 February 2010 by PWRF-SP. It was clarified that although EO 860 rescinded EO 123 (mandating NWRB to approve water district tariffs), NWRB's appellate function has been retained. Hence, the hands-on training will push through as soon as NWRB has a live case.</i></p> <p><i>Study is ongoing. Consultations will be held in September.</i></p> <p><i>Profiling survey of WSPs in two provinces (Camarines Norte and Northern Cebu) will be conducted after the elections with WB-WSP support. The survey results will include recommendations on the regulation of various types of WSPs, including light handed regulation.</i></p> <p><i>The initial groundwork started in the last week of June. The survey in Camarines Norte will be done in the 3rd week of July. In the case of Cebu, the survey will start in the first week of August.</i></p> <p><i>Meanwhile, simplification of tariffs under</i></p>	<p>NWRB staff trained</p> <ul style="list-style-type: none"> • Guidelines for LHR for coops adopted • Practical strategy for registration of WSPs in the two provinces tested • Approach for improving the regulatory system based on data gathered from the pilot provinces is developed

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<p><i>light handed regulation for small water utilities in the waterless municipalities.</i></p> <p><i>is also assisted by the MDG Fund.</i></p>	
	<ul style="list-style-type: none"> • Rationalization of NWRB's organization • Deputization of DENR-Regional Offices as nodes for resource regulation 	<p><i>EO 860 was issued on 8 February 2010 transferring NWRB to DENR and changing the composition of its board: DENR (chair), NEDA (vice-chair), DOJ, DOST and National Hydraulic Research Center of UP as members.</i></p> <p><i>DENR-Regional Offices are deputized as nodes for resource regulation. DENR personnel are being trained to perform this function. Deputation will be done in phases. NWRB is also doing a study on other functions that can be devolved or delegated to DENR.</i></p>	<p>Secure approval and resources to implement Rationalization Plan</p> <p><i>NWRB Board Resolution</i></p> <p><i>MOA or EO for the utilization of DENR as deputy of NWRB</i></p> <p><i>Training of available personnel</i></p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> NWRB and LWUA regulatory roles delineated and guidelines harmonized¹; facilitated by the completion of the study started in 2009, among others 	<i>EO 860 precludes NWRB from regulating the water tariffs of water districts as this function shall be undertaken by LWUA.</i>	Uphold EO 123, InfraCom/NEDA Board to resolve issue
2. Resolution of injunction of EO 279	<ul style="list-style-type: none"> Court resolution 	<i>Decision pending with the Regional Trial Court of Quezon City.</i> <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>	Uphold EO 279
3. Update the Philippine Water Supply Sector	<ul style="list-style-type: none"> PWSSR updated 	<i>The Updated PWSSR will be presented to</i>	Updated PWSSR approved

¹ Having been rendered moot by EO 860, the TF-IS agreed that the delineation and harmonization of the regulatory roles of LWUA and NWRB shall be removed from the Action Plan.

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
Roadmap (PWSSR)		<i>the Sub-Committee for Water Resources in 13 July.</i>	
4. Prepare the National Water Resources Policy (NWRP)	<ul style="list-style-type: none"> • NWRP approved by Infracom 	<p><i>Initial funding from DENR-RBCO amounted to PhP2 million. But total funding requirement is</i></p> <p><i>PhP6 M. Assistance for the funding gap is still being sought.</i></p>	National Water Resources Policy
5. <i>Further review of the Water Code of the Philippines for possible amendments considering water resources and climate change concerns/issues</i>	<ul style="list-style-type: none"> • <i>Draft amendments of the Water Code of the Philippines and stakeholder consensus</i> 	<p><i>In 2009 an initial activity was conducted with support of DOST/NAST and UNEP. Need to gather more inputs and recommendations prior to the drafting of the amendments.</i></p> <p><i>The University of the Philippines Law Center has offered to help review and draft amendments to the Code. Activities related to the amendment of the Code will also be included in the legislative advocacy plan for WSS.</i></p>	
6. <i>Maintenance of the Knowledge Management Portal</i>	<ul style="list-style-type: none"> • <i>ENR sector monitoring information uploaded to the PhilWatSan Portal</i> 		

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> • <i>KM Portal adopted as sector monitoring mechanism for PWSSR</i> 		
7. Develop National Sustainable Sanitation Policy Initiatives	<ul style="list-style-type: none"> • National Sewerage and Septage Management Program approved by Infracom 	<p><i>NSSMP documents have gone through all the TWG meetings and subsequently discussed and adopted by the Inter-Agency Steering Committee (ISC) headed by DPWH. While these, including the final details, such as oversight, sustainability and regulatory concerns were presented to the Sub-Committee on Water Resources on 10 November 2009, approval and endorsement to Infracom was deferred pending the resolution of issues/concerns raised during the meeting.</i></p> <p><i>NSSMP was approved by the Infracom Technical Level in 6 May and will be presented to .the Infracom Cabinet Level in August</i></p>	NSSMP approved and implemented
	<ul style="list-style-type: none"> • Philippine Sustainable Sanitation Sector Roadmap (P3SR) approved 	<p><i>P3SR framework has been approved by the Sub-Committee for Water Resources (SCWR) in February.</i></p>	Implementation of 2010 programmed activities pertaining to institutional strengthening

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> Integration of the PWSSR and P2SR 	<p><i>For presentation to the SCWR in 13 July for full approval</i></p>	
<p>8. Propose/formulate policies on economic regulation for LGU-run utilities, water districts and small water service providers, including proposing amendments to existing laws/policies related to economic regulation</p>	<p>Policy recommendation on independent economic regulation prepared</p> <p>WRC Advocacy Campaign</p>	<p><i>Draft bill on WRC prepared under the PWSSR Inter-Agency Steering Committee.</i></p> <p><i>The legislative advocacy plan, which includes the review of existing policies and legislative proposals on independent economic regulation, has been prepared and revised to consider NEDA's comments.</i></p> <p><i>The draft WRC bill has been referred by NEDA to the relevant government agencies for comments. A workshop will be held to further discuss the bill.</i></p>	<p>Policy proposal</p> <p>Advocacy plan prepared</p> <p>TWG Meetings/ Workshops conducted</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
			Stakeholders' consultations held Draft bill prepared/endorsed Identification/ briefing of legislative champions Proposed bill filed in Congress
<i>KRA 2. Capacity Development</i>			
1. Capacity needs analysis of LGUs and WSPs using the capacity development /assessment tool	<ul style="list-style-type: none"> List of capacity development needs of WDs, LGUs, coops, WATSANs 	<i>Capacity assessment will be conducted at the local level targeting the 36 waterless municipalities under the MDG-F 1919 "Enhancing access to and provision of water services with the active participation of the poor"</i>	Framework and capacity program for implementation

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<p><i>Program proposal for capacity assessment (national) to be prepared</i></p> <p><i>Draft Capacity Assessment Framework developed and presented to Pool of Facilitators during a Scoping Workshop held in Bohol (30 June 30-2 July)</i></p> <p><i>Pre-test of CA Framework in 3 LGUs (Luzon, Visayas and Mindanao) by mid July.</i></p>	
	<ul style="list-style-type: none"> Inventory of all training programs and activities in the water supply and sanitation sector 	<p><i>LGA has existing regional training resource centers- Local Governance Resource Centers</i></p> <p><i>Inventory of trainings on-going</i></p> <p><i>Synchronization Workshop on Trainings/Cap Dev initiatives by various sector agencies conducted in 21 June at LGA.</i></p>	<p>Incorporate water supply and sanitation training programs in the LGRCs</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> List of training/knowledge development centers 	<i>6 academic institutions identified for the Water Safety Plans</i>	
2. Build capacity of water service providers on <ul style="list-style-type: none"> - benchmarking - ring-fencing - strategic business planning - performance contracting - efficiency improvement - sustainable sanitation - project preparation 	<ul style="list-style-type: none"> Institutionalize benchmarking Institutionalize strategic business planning Circulars from DILG, CDA and NWRB requiring the ring-fencing of 	<p><i>Preparation of the strategic business planning guide for LGUs is ongoing</i></p> <p><i>Guide to ring-fencing for LGUs completed;</i></p>	<p>Policy issuances (MOUs) to institutionalize benchmarking and business planning</p> <p>Strategic business planning guide</p> <p>Coop ring-fencing guide</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	accounts	<p><i>coop ring-fencing guide already drafted</i></p> <p><i>9 LGUs/coops now implementing ring-fencing</i></p> <p><i>Training of trainors from the LoGO-Tri-PhilNET, an association of local resource institutes led by LGA on ring-fencing to be conducted; the trainors are envisioned to form the network of mentors for ring-fencing for LGUs</i></p> <p><i>Roll out of ring-fencing to other LGUs</i></p>	<p>Network of ring-fencing trainors and mentors developed for LGUs and coops</p> <p>DILG Circular promoting ring-fencing of accounts of economic enterprises to be issued</p> <p>CDA circular promoting ring-fencing and prescribing the standard charts of accounts for water service coops</p>
	<ul style="list-style-type: none"> Institutionalize performance improvement programming 	<p><i>A revolving fund (RF) will be set up in NWRB where small water utilities (SWUs) can obtain short-term loans to pay for accredited technical service providers (ATSPs). Eligible work by these ATSPs include assisting SWUs in: completing documentary requirements of NWRB for CPC and water permit applications; formulating improvement programs; ring-fencing water operations from other allied businesses of the utility, among others. The mechanics of setting up the RF is</i></p>	<p>Revolving Fund established</p> <p>TSPs accredited</p> <p>20 small utilities to be tried with ATSPs</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<i>being finalized.</i> <i>Training of technical service providers for accreditation being worked out</i>	
	<ul style="list-style-type: none"> • Formulation and institutionalization of municipal WSS sector plans • Integration of sustainable sanitation lessons learned/best practices and module development in the WatSan toolbox 		Completion of the municipal water supply, sewerage and sanitation plans for the 36 waterless municipalities by end 2010 Proposal for PW45P updating Enhancement of the WatSan toolbox Upgraded WatSan toolbox Consolidated primers and standards for capacity development to come up with a common toolkit for the sector
			Inclusion of disaster preparedness

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
			topics/modules in the WatSan toolbox
3. 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>The preparation phase (development of forms, data gathering, etc.) slated in November-December 2009; implementation phase (conduct of regional/ provincial consultations in 10 pilot provinces in Luzon, Visayas and Mindanao, consolidation/ validation of data as well as data processing and analysis, etc.) in December 2009-February 2010; writeshop and drafting of the Sector Assessment Report by end of April 2010</i></p> <p><i>Draft Sector Assessment Report to be presented in plenary during the 7th TAT Meeting to be held in 6 July 6 at DOH.</i></p> <p><i>Proposal on Sector Monitoring Process submitted by DILG to WHO was approved amounting to \$20,000 to cover 4 provinces in Luzon.</i></p> <p><i>Procurement of consultants Is on-going</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> <p>Development of a database</p> <p>Roll out of sector assessment process to the other regions (DOH and DILG to prepare proposal for funding assistance by donor agencies)</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
KRA 3. Strategic Alliance Building			
1. Pursue advocacy program	<ul style="list-style-type: none"> Advocacy programs to expand and improve WSS services for LGUs, water districts, legislators 	<p><i>The East Asia Ministerial Conference on Sanitation and Hygiene for 2010 (EASAN 2010) was successfully hosted by the DOH, in collaboration with the SWG WSS partners, among others, in 27-29 January in Sofitel Philippine Plaza. The conference had 13 participating countries in the region.</i></p> <p><i>The resulting regional action plan from the conference has been prepared and presented in succeeding meetings (Thematic Working Group)</i></p> <p><i>PWRF SP has prepared the advocacy plan for legislators, which has been revised to consider NEDA's comments. . This activity is part of the strategy to develop champions in Congress to pursue the legislative agenda spelled out in the PWSSR and the P3SR.</i></p>	EASAN 2010

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<i>Legislative advocacy seminars on WSS with concerned Congressional staffs and committees will be held in August-September 2010.</i>	Legislators' briefings Sanitation symposia
	<ul style="list-style-type: none"> Awareness programs for the general public 	<i>The World Water Day celebrations took place in 22-26 March</i>	World Water Day Global Handwashing Day National search for barangays with best sanitation practices
	<ul style="list-style-type: none"> Champions (GRP champion for water and GRP champion for sanitation) and support groups from the government, NGOs, private sector 	<i>Support groups: academic consortium on sustainable sanitation formed</i>	Executive and legislative champions identified
2. Formulate the Philippine Sustainable Sanitation Sector Roadmap (P3SR)	<ul style="list-style-type: none"> P3SR approved by Infracom 	<i>Draft plan was presented to Sub-Committee for Water Resources in 10 February. While improvements have been suggested, the SCWR approved its framework.</i>	P3SR published and programmed activities for 2010 implemented

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
	<ul style="list-style-type: none"> • National Sustainable Sanitation Plan • Drafting of National Water Sanitation and Hygiene Operation Guidelines 	<p><i>The final draft will be presented to the SCWR in 13 July for approval.</i></p> <p><i>Drafting of the NSSP is ongoing</i></p> <p><i>Terms of reference for the consultancy service have been prepared.</i></p> <p><i>Awaiting UNICEF action/approval</i></p>	<p>NSSP implementation</p>
<p><i>KRA 4. Financing and Infrastructure Investment</i></p>			
<p>1. Implement GOP WSS financing policy</p>	<ul style="list-style-type: none"> • Implementation plan on the rationalization of public resource allocation for WSS prepared 	<p><i>Draft National Rationalization Program for Water Supply and Sanitation Investments in the Philippines was submitted to the DOF in October 2009. The paper proposes the preparation of a detailed rationalization implementation plan.</i></p> <p><i>The concept paper was discussed by the EO 279 Oversight Committee in its 17 February meeting. The OC agreed to undertake a separate study to take into account other related policies as well as</i></p>	<p>Enforcement instruments</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<p><i>existing programs. DOF will prepare the Terms of Reference (TOR) for the purpose, in consultation with NEDA, DILG and LWUA. The drafting of the study will be a purely government undertaking although donor assistance will be sought.</i></p> <p><i>PWRF-SP currently revising the Oct 2009 draft paper following the directive given by DOF in 29 April.</i></p>	
	<ul style="list-style-type: none"> • Financing programs for WSS identified 	<p><i>Final report of the ADB-PPTA for the Water District Development Sector Project, which commenced in Feb 2009 has been prepared.</i></p> <p><i>The TA is completed and being closed. ADB has the final report that needs further discussion with LWUA. The loan is scheduled for approval mid 2011.</i></p> <p><i>Final Report on the ADB TA on developing models for financing small scale water service providers was submitted by Streams of Knowledge, Philippine Water Partnership and NWRB in November</i></p>	<p>WSS financing programs/facilities</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<p>2009.</p> <p><i>WB has completed its study on the establishment of a concessional loan facility for water and sewerage infrastructure. The facility is proposed to be a mix of loan and grant funds to provide soft financing for the less creditworthy water service provider.</i></p>	
<p>2. Develop financing mechanisms to leverage public resources with private financing in water supply and sanitation</p>	<ul style="list-style-type: none"> • Financing Strategy and Long-term mechanisms 	<p><i>Concept paper on bond financing has been prepared</i></p>	<p>Long-term revolving fund mechanism</p>
<p>3. Adopt an incentive system to catalyze investments for WSS development</p>	<ul style="list-style-type: none"> • Eligibility of water and sanitation projects for incentives such as lower risk weights 	<p><i>Proposal to lower risk weights of loans to water service providers (WSPs) guaranteed by LGUGC/DCA under evaluation by BSP.</i></p> <p><i>BSP-SES' concern is the security of loans by water districts and private water service providers. Unlike LGUs, these WSPs do not have IRA pledges.</i></p>	<p>BSP approval</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status as of 30 June (3)	Targets (4)
		<i>LGUGC is now seeking to be rated by Phil Rating to facilitate BSP approval of its request.</i>	

Component 4: General PWRF Program Support

Participation in conferences and meetings - PWRF-SP participated in the following meetings:

- Participated in the regional Waterlinks forum in May in ADB. The forum discussed regional twinning experience and participating country plans for replicating the water operators' partnership program. We presented our national program with PAWD.
- Held a PWRF Monitoring Meeting among USAID, JICA, LGUGC, and DBP partners last June 24, 2010. The meeting discussed the PWRF project pipeline, assessment of process flow, the phasing-in of the EDP consultants, PWRF marketing program, and the status of other PWRF SP activities. The next Monitoring Meeting is tentatively set on the last week of July 2010.
- Participated in the roundtable discussion conducted by EcoGov with DENR and COA on June 22. The ring-fencing experiences of our pilot LGU utilities were shared during the discussion. DENR committed to push for capacity building of LGUs on and institutionalization of ring-fencing of environment-related enterprises (solid waste management) and water supply operations with DILG.

Issues and New Development

1. The quarter is marked by the run-up to the elections, its orderly conclusion, and the initial phase of the settling down of the new administration. The election resulted to a moratorium on policy and legislative advocacy work, given the distraction of local officials on the campaign and the anticipation of new officials. The elections results however, bode well for PWRF. We are starting to see weakening of the political capital of the LWUA leadership and coupled with its dwindling resources, it is beginning to ease up on its stranglehold on water district financing. In fact, LWUA is seeking re-financing for some of its big ticket projects, allegedly to raise funds for undisbursed tranches of loans made over the past two years. LWUA reportedly reactivated or created at least 400 more water districts, which were given grants and highly concessional loans for capital investments. In addition many existing water districts were also given grants and soft loans. In the next month, when the LWUA leadership is confirmed, we could then make an assessment of the market potential for PWRF. The progressive stance and political will of the LWUA leadership to abide by government financing policy is still the most critical factor for PWRF's utilization. Water district projects for both water supply and sanitation make up the significant portion of its pipeline.
2. During the quarter we continued to focus PWRF marketing on private sector water supply projects. Some of the projects declined PWRF, notwithstanding the longer tenor it can provide, and opted to use private bank financing, without any credit guarantee. With the continuing low interest regime, relationship banking and expedient processing, pure private bank financing can compete with PWRF. Again, these cases show that the private sector attach a great value on expediency. We will have to keep hammering this point to DBP. We are encouraged by its expression of commitment to facilitate loan processing; however, they still need to strengthen internal coordination. Fortunately the JICA TA team for the EDP

program will be mobilized in July. The team can provide the much needed support to ensure the process is on track and nothing falls through the cracks.

3. As mentioned in the last accomplishment reports, all LGU related activities were affected by the elections. We anticipate the resumption of activities by August. In preparation we have introduced the PWRf in LGA's briefing sessions with newly elected officials. We have also discussed with MDFO a marketing program for LGUs.
4. The implementation plan for the rationalization of public resources is the foundation of the long-term financing mechanism for water supply and sanitation. We revised the concept note guided by the parameters set out by DOF. In the last meeting with USec Paul, where we presented the paper he approved the rationale, the principles and the general criteria for public resource allocation. As to the next steps, he requested the team to use the criteria and identify the geographic areas, which will require government support.

Major Activities and Targets for the Next Quarter

Table 4 shows the major activities of the project for the next quarter (July– September 2010). The targets are:

Table 4. Major Activities for the Next Quarter

Project Component	Targets for the Next Quarter
Component 1: PWRf Set up and Institutional Support	<ul style="list-style-type: none"> ▪ Assist DBP in conducting the PWRf marketing events ▪ Monitor progress of marketing campaign ▪ Identify projects for PWRf financing ▪ Assist DBP identify measures for a more competitive PWRf ▪ Provide on-demand transaction support during loan processing
Component 2: Water Supply and Sanitation Project Preparation	<ul style="list-style-type: none"> ▪ Provide assistance on project development (on demand) ▪ Continue assistance to MCWD, CCWD, BWD ZCWD and SPCWD in implementing septage management/ sewerage treatment facilities ▪ Assist Metro Iloilo, Metro Roxas, Metro Kalibo, and Bacolod City WDs with the preparation of septage management projects ▪ Conduct workshops to selected water districts to disseminate Septage Management Business Model for WDs ▪ Provide advisory assistance to selected utilities in the preparation of their business plans ▪ Develop business planning guidebook for LGUs
Component 3: Water and Finance Sector Strengthening	<ul style="list-style-type: none"> ▪ Provide technical secretariat support to the PDF sub-Working Group for water ▪ Subject to agreement of the InfraCom sub-committee on WSS, conduct briefings, seminars and consultations on WSS to congressional staffs and committees ▪ Conduct advocacy activities to improve economic regulation for WSS development ▪ Continue assistance on ring-fencing of water utility operations of LGUs and coops; roll out and institutionalize ring fencing ▪ Assess the feasibility and prepare design of private sector-led PDF ▪ Continue with the development of the MFI financing mechanism to reach

Project Component	Targets for the Next Quarter
	<p>poor communities</p> <ul style="list-style-type: none"> ▪ Monitor implementation of small grants related to pilot of model schemes to expand water services in poor communities ▪ Monitor implementation of the Rotary Club Zamboanga West water supply project (under the International Water Alliance) ▪ Continue with the development of the PAWD institution building program and the water operators partnership program ▪ Conduct training on performance contracting and pilot test performance contracting arrangement ▪ Assist NWRB advocate corporate governance and performance contracting
Component 4: Overall Program Support	<ul style="list-style-type: none"> ▪ Hold Steering Committee Meeting ▪ Provide technical secretariat support to the PDF Sub-Working Group on WSS; relatedly continue technical assistance to Usec Paul on water related matters

Chapter III: Contract Deliverables (Overall Status of Accomplishment)

Table 5. Overall Status of Accomplishment

Component 1: PWRf Set-up and Institutional Support	
Updated financial model for the PWRf	Completed and submitted to DBP
Information memorandum for ICC	Completed; ICC approval of PWRf obtained
PWRf Operating Policy Guidelines of the JICA loan to DBP	Completed; Submitted final draft of integrated EDP and PWRf OPG to DBP
MOA between DBP and PFIs and inter-creditor agreement	<i>Dropped.</i> In lieu thereof, solicited comments of PFIs on the standard loan agreement, including the creditor agreement and incorporated them in the final documents.
Draft Operating Guidelines and Manual of Operations	<i>Dropped.</i> DBP said the OPG will suffice as its existing credit manual will be applied to PWRf.
Business plan and marketing strategy of the PWRf	Completed and accepted by DBP; team has printed the marketing collaterals and reproduced/distributed the audio visual presentation and the marketing implementation program
PWRf marketing events	Completed the three regional marketing road shows in Luzon, Visayas, and Mindanao
Finalized standard loan agreement, guarantee agreement, MDFO loan agreement	Completed; Consolidated the comments of the various PFIs on the standard loan documents on the PWRf. The following PFIs have submitted their respective comments on the standard loan documents: Bank of the Philippine Islands, Allied Bank, Banco de Oro.
Draft guidelines for the Standby Credit Line	Completed. Submitted final draft of the guidelines to MDFO
Credit rating manual for water districts	Completed; submitted final copy to LGUGC in May 2008
Training of PFIs, DBP and other PWRf Stakeholders on Water Project Appraisal	Completed. Conducted training seminars in Manila, Cebu, Davao and Clark, Pampanga to cover participants from North

	Luzon.
Study tour for 8-10 participants to examine US experience with pooled financing mechanisms	Completed.
Reform program and action plan of the US SRF Study Tour Group	Completed. The action plan includes: setting up of a project development facility; more comprehensive rationalization of credit programs, capacity building assistance and support for regulatory reforms. The convening of the sub-committee under the PDF will be the first step in getting consensus on the overall reform agenda for the sector.
Inputs to the USAID Philippine Mission Action memo to the Development Credit Authority for the new guarantee agreement with LGU Guarantee Corporation	Completed. Agreement has been signed.
Briefing of DBP Regional Marketing Centers on the PWRf	Completed. Conducted 5 regional consultative meetings, coinciding with the training seminars on project appraisal.
Internal marketing of PWRf to DBP account officers and training on the PWRf OPG and project appraisal	Completed
Water Project Appraisal Guidebook	Published and launched in May 2009
Reform program and action plan of the US SRF Study Tour Group	Completed. The action plan includes: setting up of a project development facility; more comprehensive rationalization of credit programs, capacity building assistance and support for regulatory reforms. The convening of the sub-committee under the PDF will be the first step in getting consensus on the overall reform agenda for the sector.
Concept and framework of bond issue for WSS project financing	Completed
Assistance to LWUA's securitization exercise	<i>Dropped upon advise from LWUA</i>

Component 2: Water Supply and Sanitation Project Preparation

Prioritization criteria developed and approved by the PWRf Steering Committee and DBP	<i>Dropped. Deemed not necessary; prioritization criteria has been included in the DBP's OPG for PWRf</i>
At least 7 and up to 10 projects are ready for PWRf funding	Transactions in progress
Credit ratings completed for at least two projects	Completed; final report submitted to LGUGC in May 2008
Plan developed for establishing a Project Development Facility	Completed; final report submitted in December 2008
Establishment of procurement mechanism for providing technical assistance needs to utilities	<i>Dropped upon advice of LWUA</i>
TA for project feasibility update	On demand; reviewed/ improved 2 FS: Lasam and Alfonso Lista
Training for selected WDs on business planning	None yet under the Year 4 work plan.
Trainings, TA to WDS and LGUs on sanitation projects	<p>Currently assisting four water districts, namely: Iloilo, Metro Roxas, Bacolod and Kalibo with respective FS for septage management</p> <p>PWRf-SP received requests for technical assistance on Septage Management Panabo, Digos and the Isabela City WD in Basilan in June 2010.</p>
FS for Septage Management Project and Business Model for Metro Cebu Water District, Cabanatuan City Water District, Baliwag Water District, and Zamboanga City WD	Completed FS of MCWD, CCWD, Baliwag WD, and ZCWD
FS for Septage Management for San Pablo	Completed. The final FS was presented to

City WD	the SPCWD Board of Directors and management in May.
Two regional workshops on septage management business model with local association of WDs	Completed. 33 WDs from Luzon, Visayas, and Mindanao regions attended 3 regional training workshops in November and December 2009
Training course for LGUs for project development, financing, and utility operations	<i>Dropped as similar training programs are already being provided by other donor programs.</i>
Implementing guidelines of the LWUA-administered Project Development and Efficiency Improvement Facility	Completed. Operating guidelines accepted by LWUA; the Facility is now operational
Assistance to LWUA on the marketing of PDEIF	<i>Dropped upon advise from LWUA</i>
Component 3: Water and Finance Sector Strengthening	
Implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines	<i>Dropped. This has been superseded by efforts to prepare rationalization plan.</i>
Rationalization implementation plan for public resource allocation for water supply and sanitation projects	Rationalization concept paper revised and presented to DOF; DOF approved approach; PWRf SP team asked to apply criteria to identify the priority geographic areas needing government support
Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance/ Incentives for private sector lending to WSS projects	On LGUGC's request to consider lower risk weights (50%) for its guaranteed loans and bonds, BSP said it is concerned with the security of WD and WSP loans. PWRfSP is looking at having LGUGC credit rated to take out this concern.
Pilot ring-fencing of LGU-water utility account	Completed. Five LGUs and three cooperatives were part of the pilot program.
Recommendations on segmentation of the market based on credit classification criteria consistent with international standards	Suspended in view of DOF decision on the rationalization plan
Recommendations on short-term credit program to assist non-creditworthy utilities to reform and restructure operations to improve creditworthiness	Suspended in view of DOF decision on the rationalization plan

Trainings for NWRB and CDA staff on tariff-setting and review	Completed; conducted a seminar for NWRB and CDA staffs on tariff setting methodology last February 2010
Harmonization of NWRB's and LWUA's regulatory roles	<i>Dropped. EO 123 was revoked by EO 860, thus rescinding mandate of NWRB to review and approve tariffs of water districts.</i>
Conduct of study, operation manual, and orientation seminar on outsourcing of asset valuation	The final report was submitted to NWRB on March 29
Report on Sustainable Financing Plan for NWRB	Completed; submitted final report in May 2009.
Paper on Performance Contracting	Study was finalized and submitted to NWRB in November 2009; training on performance contracting for government agencies conducted also in November; training of water utilities and pilot testing to be done in September 2010
Performance Contracting Guide	No progress
Briefings, seminars and consultations on WSS to congressional staffs and committees	Scheduled in September upon NEDA's request
Advocacy seminars and workshops activities to improve economic regulation for WSS development	No progress
Study on private sector-led Project Development Facility	Preparation of report is still in progress
Model schemes to expand water services in poor communities	Signed separate grant agreements with two selected grantees.
Study on the conceptual and operational design of a microfinance facility	Drafted a concept note on a Microfinance Program for WSS.
Long-term business planning guide for water districts	Completed and accepted by LWUA; TOT of LWUA and Regional Training Centers of WDs conducted; 10 pilot WDs trained and mentored on respective business plans. All 10 are completing their strategic business plans

Business Planning Guidebook for LGUs	
Recommendations on the long term financing policy mechanism for water supply and sanitation projects	<i>Suspended in view of DOF decision on rationalization plan.</i>
LGUGC Pricing Policy and Framework	Completed. USAID has submitted the final report to LGUGC.
Concept paper and design framework for a Water Operators' Partnership program	Held a strategic planning workshop with PAWD and implementation planning for the WOP Program in April; As of end June, the business plan of the WOP Program and the implementation plan of PAWD's strategic plan were being prepared.
Component 4: Overall Program Support	
At least one meeting per quarter for the Steering Committee and the Technical Working Group	Meeting last quarter was not necessary
Technical papers, presentations, inputs to USAID reports and communication materials on the PWRf as may be required by USAID	On demand
Small Grants Program	Signed individual grant agreements with TSPI Development Corporation and Institute for Popular Democracy in May 2010
Set up PWRf Website	The website is operational. It is continually updated.
Meetings and consultations with the key implementing agencies as necessary	Periodically holding meetings with key implementers to resolve emerging issues
PWRf Performance Monitoring Plan	The PMP has been finalized. PMP reports will accompany the project's annual report to USAID.
Technical Secretariat Support to the PDF Sub-Working Group on Water Supply and Sanitation	Sub-working Group now operational. The four Task Forces, i.e., Institutional Strengthening, Capacity Development, and Strategic Alliance Building, Financing and Infrastructure Investments have been conducting their own meetings to achieve their respective action agenda.