The Philippine Water Revolving Fund Support Program

CONCEPT PAPER FOR WATER SUPPLY AND SANITATION PROJECT DEVELOPMENT FACILITY

This project is implemented by Development Alternatives, Inc. with in association with:

- The Community Group International LLC
- Resource Mobilization Advisors
- CEST, Inc.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
BID	Balkans Infrastructure Development
BOT	Build-Operate-Transfer
CAG	Corporate Affairs Group
DBP	Development Bank of the Philippines
DE	Detailed Engineering
DILG	Department of Interior and Local Government
DOF	Department of Finance
DOTC	Department of Transport and Communications
DPWH	Department of Public Works and Highways
ECOGOV	Environmental Governance Project
EIA	Environmental Impact Assessment
EISCP	Environmental Infrastructure Support Credit Program
FS	Feasibility Study
GFI	Government Financing Institutions
GTz	German Technical Cooperation
IDB	Inter-American Development Bank
IQC	Indefinite Quantity Contract
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
KfW	Kreditanstalt für Wiederaufbau
LBP	Land Bank of the Philippines
LGU	Local Government Unit
LGUPIPDF	Local Government Unit Private Infrastructure Project Development Facility
LGUUWSP	Local Government Unit Urban Water and Sanitation Project
LINAW	Local Initiative for Affordable Wastewater
LOGOFIND	Local Government Finance and Development
LWUA	Local Water Utilities Administration
MWSS	Metropolitan Waterworks and Sewerage System
MDFO	Municipal Development Fund Office
MDG	Millennium Development Goal
NEDA	National Economic Development Authority
NWRB	National Water Resources Board
ODA	Official Development Assistance
PDST	Philippine Dealing System Treasury
PPA	Philippine Ports Authority
PSP	Private Sector Participation
PCR	Project Completion Report
PDAC	Project Development Assistance Center
PDEIF	Project Development and Efficiency Improvement Fund
PDF	Project Development Facility
PDMF	Project Development and Monitoring Fund
PMO	Project Management Office

PWRF	Philippine Water Revolving Fund
RDCS	Regional Development Coordination Staff
RFP	Request for Proposal
SAPROF	Special Assistance Project Formulation
SCOTIA	Sustainable Coastal Tourism in Asia
SSLDIP	Support for Strategic Local Development and Investment Project
TA	Technical Assistance
TDA	Trade and Development Agency
TOR	Terms of Reference
WB	World Bank
WD	Water District
WSP	Water Service Providers

This paper presents the conceptual framework of a Project Development Facility (PDF) informed by lessons learned from previous project development programs implemented in the Philippines as well as in other countries. It identifies options for structuring a sustainable PDF and provides a comparative analysis of the advantages and disadvantages of these options.

1.0 Introduction

Investments in the water and sanitation sector in the Philippines have been seriously lagging. Only around 44%[1] of the population has access to safe Level 3 water supply service. The Feasibility Assessment of the Philippine Water Revolving Fund (PWRF) study estimated investment requirements of about PhP 145.6 billion (B) within 2005-2015 to meet Millennium Development Goals targets for water supply and sanitation in urban areas outside of Metro-Manila. With an estimated public investment of P53.4B, there is a funding gap of around P92.2B for this period.

Yet despite the huge funding need, real demand for financing has not been growing as expected. The situation is reflected in the pipeline of projects for the sector. In the Japan Bank for International Cooperation- Special Assistance Project Formulation (JBIC-SAPROF) Survey of December 2006, the value of proposed water supply projects from the credit-worthy and semi-credit-worthy Water Districts (WDs) and first-class LGUs totaled around Php9.24B for the period 2006-2011. In the same survey, there were practically no investments programmed for the Years 2012-2016. It was also noted that there was not even a single proposal for a sanitation or sewerage project.

It is common to see WDs with investment programs having very short planning period of one to three years, and these are financed mainly out of their internal cash generation. Some of these investment programs are simply programs of work, which clearly need to be developed further and packaged as a pre-investment document if ever the projects are proposed for financing. Of the 28 projects listed in the JBIC-SAPROF survey for the PWRF, only a handful of projects were supported with project feasibility studies.

The Local Water Utilities Administration (LWUA), the Department of Finance (DOF), donors, and other sector stakeholders have acknowledged the lack of bankable projects and have corroborated the need for a PDF. DOF has expressed its intent to mobilize funds from the budget or from donors to capitalize a PDF.

2.0 Objective and Design Criteria of a Project Development Facility

The objective of establishing the PDF is to provide a stable source of affordable funding for pre-investment studies and technical assistance to water service providers to ensure well-prepared and bankable projects.

[1] Philippines: Meeting Infrastructure Challenges

The fundamental design criteria of a PDF are:

- For sustainability and to engender value for the product, access to the Fund should not be on a pure grant basis;
- To make it attractive to water service providers (WSPs), it should offer affordable financing terms;
- For flexibility, it should not be tied to a specific capital lending program for the project's implementation; relatedly, there should be full disclosure of the pipeline to all lenders;
- For transparency and objectivity, the PDF administrator should not have an inherent conflict of interest in its mandate; and
- For efficiency of resource use, ensure competition in the procurement of services.

3.0 Philippine Experiences on Project Development Facilities

There are existing windows that WSPs can actually tap for their project development needs, although these are not, in the real sense, dedicated facilities for project development. Almost all of the available sources are tied to an ODA re-lending program for capital investments, and given as grants or loans, or a combination thereof. Some of these re-lending programs are not solely for water and sanitation projects, hence the competition from other sectors' projects.

Examples include: LWUA technical assistance (TA) for WDs and Department of Interior and Local Government (DILG) TA for LGU waterworks funded through the different financing programs of Asian Development Bank (ADB), World Bank (WB), Japan Bank of International Cooperation (JBIC), GTz, KfW, and Japan International Cooperation Agency (JICA); Municipal Development Fund Office (MDFO's) TA funded under the WB-assisted LOGOFIND; Development Bank of the Philippines (DBP's) TAs funded under the WB-assisted LGU Urban Water and Sanitation Project (LGUUWSP) and the JBIC-assisted Environmental Infrastructure Support Credit Program (EISCP), and Land Bank of the Philippines (LBP's) TA funded under the WB-assisted Support for Strategic Local Development and Investment Project (SSLDIP).

Other than the TA windows integrated with capital credit programs, three untied project development facilities have been set up, two of which were designed to revolve. These are the Land Bank's Local Government Unit Private Infrastructure Project Development Facility (LGUPIPDF), the Build-Operate-Transfer (BOT) Center's PDF, both of which focused on supporting private sector participation (PSP) investments; and the Project Development and Monitoring Fund (PDMF) administered by the National Economic Development Authority (NEDA), which targets 4th to 6th class LGUs. The LGUPIPDF ceased operations in 2004 and the BOT Center's PDF though in paper still operational has no funds available.

Table 1 summarizes the features of the various project preparation facilities. The more detailed account of the experiences for selected TA programs is discussed in Annex A.

Table 1: Project Preparation Technical Assistance Programs in the Philippines

PPTA Program	Administrator	Source of Funds	Activities for Project Preparation	Cost Recovery
LWUA TAs	LWUA	ODA loans Internal Funds	FS, DE and Construction Supervision	Loan- 100% recovery of principal
Various ODA programs	DILG	ODA loans and grants (mostly for Level 1 and 2 WS systems)	FS, Capacity Building	Grants
LOGOFIND	MDFO	World Bank loan	FS/DE and Construction Supervision	Loan
SSLDIP	LBP	World Bank loan	FS	Loan
LGUUWSP	DBP	World Bank Grant and Loan	FS	Grant
LGUPIPDF	LBP	ADB Loan and Grant to LBP for capacity building	FS/Tender for BOT Project	Loan
BOT Center PDF	BOT Center	USAID Grant	Assessment of technical, financial and economic viability; initial EIA; preparation of tender documents and draft agreement; TA in the tendering process; bid evaluation, negotiation and award, including start-up assistance after contract award.	Loan
Project Development and Monitoring Fund	NEDA	Grants from Spain, Japan and New Zealand governments	Project ID, FS, master planning, monitoring and evaluation	Grant

Most water districts have sourced their project preparation funds from LWUA. The latter offers an integrated loan package, including the feasibility study, detailed design and construction supervision. LWUA's pricing of the Feasibility Study (FS) and Detailed Design (DE) is based on a percentage of the construction cost (see Annex A). The same lending terms to a construction project are used for the project preparation loan component. While this system ensures recovery of funds, it has not encouraged water districts to prepare projects. Moreover, it ties up the capital loan, which has to wait for the completion of the FS and DE before it can be disbursed.

LGUs, on the other hand, are used to getting grants. However, many of the projects funded by grants have not been implemented. For example, under the WB-assisted LGUUWSP, more than 100 feasibility studies were prepared but only 11 were implemented.

The facilities catering to PSP projects did not also do very well. For the LBP facility, only two of the 30 identified potential LGU borrowers actually pushed through with the loan. The main

weaknesses cited were: the facility competed with grant funds, the funds were for the FS only and not for the deal process, and the loan was tied to a sole TA service provider procured by LBP. The BOT Center PDF had 47% utilization.[2] However, the Fund failed to revolve because the loans were not repaid. The repayment was supposed to come primarily from the winning bidders, but none of the projects reached contract award and financial closure; or if the project is not implemented, from the agency's own funds, but none of the agencies honored the loan. Since the BOT Center is not a lending institution it did not have the authority to demand payment or garnish assets from the borrowers.

Apart from NEDA's PDMF, there is no existing facility dedicated to project preparation.

Major lessons learned from the various project development facilities are summarized below:

Table 2: Lessons Learned from Philippine PDFs

Project Development Facilities	Lessons Learned
Various LWUA lending programs (WB, ADB, JBIC, and KfW)	Under the different programs funded by WB, ADB, JBIC and KfW, the consultants who prepared the pre-investment studies were selected and hired either by the donors or by LWUA. ♦ In discussions with WDs, many did not like LWUA to be the procuring entity. The WDs wanted to contract out the services themselves. ♦ There is no WD ownership of the study and its results. While there was coordination and consultation with the WDs during the conduct of the studies, there were cases in which the WD questioned the design and findings of the feasibility study. Some WDs dropped the project or insisted on costly design revisions during construction. ♦ Some WDs question the LWUA charges which are computed as a percentage of the total project cost. With this scheme, WDs with costly projects tend to be overcharged, and WDs with smaller projects are subsidized.
BOT Center's Project Development Facility	♦ There were only four TAs funded under the BOT Center PDF, and none of the projects were implemented. The proponent agencies did not repay the loan to the BOT Center. As it is not a lending institution, the BOT Center did not have the authority to demand payment or garnish assets from the agencies.
Local Government Unit Private Infrastructure Project Development Facility (LBP)[3]	♦ LGUs were unfamiliar with the BOT concept promoted by the facility ♦ LGUs lack the capacity to identify and submit project proposals ♦ With limited project staff and poor understanding of the facility by LBP's regional offices, marketing efforts were considered insufficient ♦ The facility contracted the consultants and the LGUs

[2] As of December 2006

[3] Project Completion Report (June 2005, ADB)

Project Development Facilities	Lessons Learned
	questioned the selection process and the high remuneration of the international consultants ♦ The interest rate for the PDF is higher than the banks' interest rate for projects; this contributed to lack of demand for the fund
Project Development and Monitoring Fund (NEDA)	♦ Seed money was provided by different donor countries but this was not replenished as expected. ♦ The PDMF utilized various regional agencies to undertake the project development work. In view of other responsibilities of those involved, the project development work lacked focus and depth in the analysis.
Local Government Unit Urban Water Supply and Sanitation Project (DBP-DILG)[4]	♦ A very small percentage of the projects prepared through grant FS actually pushed through ♦ Some of the LGUs felt the projects drawn up in the feasibility studies were over-designed. ♦ In some cases, the change in political leadership resulted to reversal of LGU commitments ♦ LGUs have limited technical capacity and the implementing agency had to provide the necessary technical support. This led to higher transaction costs.
MDFO-LOGOFIND	♦ Only two loan contracts were processed for project development studies. LGUs were reported to be not keen on spending several months to select and procure a consultant for project feasibility studies. The LGUs relied more on the available grant technical assistance offered under LOGOFIND.

4.0 PDF Design Considerations

4.1 Putting Value to the PDF

A water and sanitation PDF should go beyond just providing financing for pre-investment studies: a PDF should help remove WSP's uncertainties/risks in implementing a new project, and have added value compared to existing TA windows:

- *Value for WSP's money in doing a pre-investment study*. Cost of PDF services should be reasonable, project issues important to the WSPs are tackled thoroughly and recommendations are appropriate and doable. Many WDs question LWUA's service fees which are presently computed as a certain

Quality Cost-Based Evaluation

The difference between a quality-based evaluation and a quality-cost evaluation is that in the latter, the financial proposal is given a weight in the evaluation, up to 40% under RA 9184. The technical proposals shall be opened and evaluated first. Thereafter, financial proposals of consultants shall be opened, but only for those who meet the minimum technical rating. The ranking of the consultants shall be based on the combined numerical ratings of the technical and financial proposals.

[4] Implementation Completion Report (WB Report No: 25718-PH, June 2004)

percentage of the project cost. To ensure cost effectiveness of proposals, quality cost-based evaluation may be considered when procuring services of consultants.

- *Loan vs. grant*. Loans may be less attractive to the borrowers but would promote more efficient use of the funds. Since they have a stake, it will help screen the less serious WSPs, as well as foster greater ownership of the output.

- *Loan terms and conditions, i.e., interest rate, tenor and security.* To ensure attractiveness of the PDF, it should be able to offer affordable financing terms.

- *Availability of funding for the construction.* Most of the WSPs want to implement their projects soon after completion of the pre-investment studies thus they also want to ensure that financing is available for project construction. The PDF should be able to match the projects with suitable financing sources. WSPs should be given the option to refinance the project preparation loan with the capital loan. This gives them the benefit of longer repayment period, and on the part of the Fund, faster turn over.

- *Efficiency*. LGU-WSPs would want a project on the ground within the political term of the mayor. In this case, feasibility studies, detailed engineering, and tendering should ideally be completed within a year. This issue of changes in the political controls has been pointed out in the LGUPIPDF as one of the organizational constraints.

- *Advisory Services.* Some WSPs are not technically capable of preparing a project proposal as well as contracting out the pre-investment study. A PDF should be able to assist the WSPs in assessing their pre-investment requirements, in project identification, in TOR preparation, and in reviewing the output of consultants or any other party preparing the pre-investment studies. A PDF should also be able to provide capacity-building to the WSP, maybe on a grant basis. Advisory services could be outsourced so as not to unduly burden the PDF administrator staff nor increase the overhead cost with an unnecessary high number of permanent staff.

4.2 Funding Source

The source of funding for a PDF will dictate many aspects of the PDF operation. If funding comes from grants, the PDF would have the option of providing direct grants (e.g., PMDF, LGUUWSP) or interest-free loans. In one example of a grant-funded PDF, the Balkans Infrastructure Development Facility (BID) offered provisional grant funding for project development. If the project is implemented the grant will be converted to a loan and capitalized as part of the total project financing. It remains a grant if the project fails to obtain financing or cannot be implemented for some reason. This arrangement takes out the risk of the project turning out not feasible from the implementing agency.[5]

[5] Brad Johnson, Conceptual Framework Outline, Project Development Facility for Local Water Projects in the Philippines, April 2007

Several countries have PDF-type agencies that provide funding to local project sponsors on the condition that the sponsor hires consultants from that particular country. In the US, the Trade and Development Agency (TDA) provides this kind of support for qualified local projects in developing countries. Several other countries in Europe have similar programs. If it is determined that the PDF in the Philippines should be free to retain consultants regardless of country affiliation, it is important to make this point clear early in the funding process. This was the judgment of the BID Facility and it required extensive negotiations with donor countries that initially sought to condition grant funding for BID Facility on the use of donor country consultants. Indeed, two donor countries withdrew from the program when it was determined that the BID Facility would accept only untied assistance.[6]

PDF funding can also be through loans from the different donor agencies, as with most of the past and existing Philippine PDF and TA windows, but the implication is that the financing cost is passed on to the WSPs. Thus concessional donor funds should be targeted to ensure affordable terms for the PDF. The existence of alternative financing facilities offering lower interest rates was one of the reasons for the poor performance of the LGUPIPDF.

A donor, even if it has provided loan funds instead of grants, may impose certain conditionalities, e.g., in terms of eligible services and types of projects. A multi-donor source of PDF funding will be ideal since a wider scope of PDF service and types of projects can be offered and catered to. Of course, the greater benefit is that the PDF fund will be greater in size and more projects can be supported. The downside with a multi-donor facility is that there will be more administrative costs for dealing with more donor agencies. However, if the PDF is a revolving fund, the second generation funds should be entirely at the disposition of the administrator.

The Philippine Government could also decide to allocate funds from internal revenue, as it did recently with the subsidy given to LWUA for the Project Development and Efficiency Improvement Facility (PDEIF). The PDEIF is discussed in more detail in Annex B. This source is however limited given tight fiscal constraints. If at all there will be more resources available, they should be used efficiently such us utilizing them to leverage additional funding.

4.3 Use of Funds

Another design issue is scope of work that will be supported with PDF funds. Typically, PDFs focus on the design and engineering aspect of infrastructure projects. This is based on the assumption that local officials and project sponsors do not have the resources to fund such activities or the internal expertise to conduct such studies.[7]

In the case of BOT/PSP projects, owing to the complexity of the transaction, the funds could also be used for the preparation of tender documents and draft agreements, and technical services for the tendering process, bid evaluation, negotiation, and award, including start-up assistance after contract award.[8]

[6] Ibid
[7] Ibid
[8] Ibid

An expanded scope of services was also adopted in the BID Facility where it was determined that grant funding for feasibility studies in Southern Europe was plentiful but funding for follow-on work of the financial design and legal architecture of projects were beyond the capability of local governments. Moreover, it was felt that negotiations between private sector proponents and local government officials regarding public-private partnerships were not conducted on a level playing field. As a result, BID Facility expanded the use of PDF funds to include financial analysts and legal advisors to serve on behalf of local governments in these negotiations. The BID Facility also determined that once it became engaged in a project it would stay engaged until project financing. This is in contrast to many PDFs that simply provide funding for studies and then terminate their relationship with the client upon delivery of the PDF product.[9]

Eligible recipients of BID Facility resource are limited to national, regional or local governments, and government agencies.

BID Facility services include the following:

Project Development	Tendering and Selection Process	Transaction Services
♦ Investment Grade Feasibility Studies in limited cases ♦ PSP Strategies ♦ Financial Structuring ♦ Investment Analysis	♦ Packaging and Solicitations ♦ Promotions ♦ Bidder Conferences ♦ Advice on Bid Evaluations and Selections ♦ Probity and Business Investigation	♦ Due Diligence ♦ Term Sheets ♦ Legal and Financial Advisory Services ♦ Project and Financial Structuring ♦ PSP Agreement ♦ Negotiations

If the intention of the PDF is to support feasibility and design work of projects to be financed through traditional loan agreements, the need to expend funds for financial and legal assistance may be limited. However, given the large number of feasibility studies that have been completed for local governments in developing countries that never reach the stage of financing, it would be prudent for the Philippines PDF to provide assistance beyond the feasibility stage to help local governments properly package loan transactions for water projects. To the extent that local water providers in the Philippines seek public-private partnerships for the financing and implementation of water projects, an expanded use of PDF funds should be seriously considered.[10]

The PDF can also support capacity building, considering that many WSPs do not have technical staff trained or knowledgeable in developing pre-investment studies, tendering, and other project

[9] Ibid
[10] Ibid

development activities. While WSPs can fully rely on consultants for project development, it is prudent to have a capacitated WSP to ensure its needs, interests and concerns are fully addressed. Ownership of the project design is also ensured if the WSP actively participated in the project development activities. Under LGUUWSP, LGUPIPDF, and LOGOFIND, TAs for LGU capacity building were made available.

The PDF may also do appraisals of feasibility studies prepared by the WSPs themselves or other external parties. Lending institutions like government financing institutions (GFIs) which do not have a complete in-house technical team would benefit from this service.

4.4 Cost Recovery Models[11]

Some PDFs are structured to provide cost recovery only on deals that reach financial closure. In this case, funds spent on projects that do not close are lost and the PDF eventually runs out of resources. For successful projects, funds spent on project development are repaid when financing takes place. The life of the PDF is directly affected by the percentage of projects that are successful.

An alternative approach is to seek a premium payment beyond the costs of technical assistance to make up for the shortfall resulting from deals that never close. With this structure, the PDF's life would be extended based on the number of successful projects and the size of the premium payments.

A third option involves extension of loans for project development that must be repaid regardless of project outcome. This revolving model is the most sustainable option but the least attractive to WSPs, especially LGUs who have been used to getting grants. The attractiveness of a full cost recovery structure is having the option of turning over the PDF to a private sector operator.

Grant Facilities for Level 3 Water Supply and Urban Sanitation

At present, under the JICA Small Water Districts Improvement Project, 20 water districts are receiving grant-in-aid which will cover costs for project planning, detailed design, and construction. Also, AusAID is presently funding a water supply master plan for Bohol Island.

The concluded-LGUUWSP funded the preparation of around 100 pre- and full-blown feasibility studies for LGU-operated waterworks systems.

For sanitation, pre-investment studies for selected LGUs are being carried out under the USAID LINAW, ECOGOV and SCOTIA projects.

A full cost recovery PDF established in the Caribbean for renewable and energy-efficient projects, for example, has met with little success. Under this program, the PDF makes loans for project development that must be repaid within a certain time period regardless of project outcome. After more than two years of operation the PDF has yet to make a loan. Typical complaints about the program are that the application process is time consuming and cumbersome and that the loan repayment provision is unattractive. Management of the PDF is now considering conversion of the program to a conditional loan program.

The Inter-American Development Bank (IDB) recently established a PDF called the Infra Fund with unique cost recovery provisions. The Infra Fund's fundamental objective is to assist public

[11] Ibid

and private entities in Latin America and the Caribbean with identifying, developing and preparing bankable and sustainable infrastructure projects that have high probability of reaching financial closing. Other key goals are to help mobilize private financing for sustainable infrastructure projects in Latin America and the Caribbean and to help develop and structure sustainable public-private partnerships in the region.

Cost recovery is required if the project beneficiary does not use IDB funding. Project costs are considered grants for projects financed by IDB. This unique cost recovery model creates an incentive to finance projects with IDB loans. Project developers, however, are free to shop for the lowest priced capital and if the savings from lower interest rates is greater than the development cost covered by the Infra Fund, the developer is free to finance from other sources. It is too early to tell how this cost recovery model will be received by project developers and governments.

There are two categories of the PDF's cost-recovery requirements: (1) capital used to pay consultants and financial advisors to conduct project development activities and (2) capital used to cover the PDF's operating expenses. Although category (1) funding is expected to come directly from the capital pledged by the participating PDF members, several options exist for covering category (2) expenses. These options include using contributions from PDF donors, or charging an application fee to LGUs that seek PDF assistance. These application fees would be set at a level to cover PDF operating costs. These fees would be considerably less than the costs of the PDF studies and therefore may be more acceptable to local government officials. This approach would also limit applications for PDF assistance to serious local governments.

4.5 Procurement

Under the different Philippine PDFs and TAs discussed in this study, procurement of consultants was undertaken entirely by the fund managers and not the client government agencies or local government units. In general, the beneficiaries did not have any influence on the selection of the consultants which undertook the pre-investment activities.

However, in the project completion report (PCR) of the LGUPIPDF, one of the organizational constraints/weaknesses mentioned was the unacceptable processes for consultant selection. The LBP contracted the consultants, among which were international consultants. The LGUs questioned the selection process, as well as the relative high remuneration of the international consultants.

The advantage of having the PDF handle the procurement process is that the time expended for this activity will be shorter; it can be assumed that the PDF Administrator will have already put up streamlined procedures, have staff well-trained and adept in the consultant

IQC procurement

When the frequency or extent of the procuring agency's requirements cannot be determined with sufficient accuracy at the time the bidding documents are being prepared, an indefinite quantity contract (IQC) may be tendered.

The tender sets forth the specifications, the minimum and maximum levels of the delivered value or quantity, and the contract duration.

The contract is implemented by issuing purchase orders as the need arises. Each purchase order specifies which of the pay items covered in the contract, and the quantity, is being ordered.

selection/procurement process, and maintain a database of consulting firms and individual consultants. An IQC scheme, particularly for short assignments, may also be adopted in the PDF to speed up the procurement process.

If the TAs are provided on a grant basis, it may be expected that the project proponent will acquiesce to the selection/procurement process by the PDF administrator, although experience shows that this is not necessarily true at all times. If TAs are to be paid by the project proponent, it will insist on having control of the selection/procurement process, if only to ensure that they are getting the best deal from their investment.

It is possible that both the lender/project management office and the proponent/beneficiary will be involved in the tendering; this will help in ensuring full transparency.

4.6 Facility Manager/Administrator

The PDF will be best managed by full-time staff. The minimum functions of the PDF administrator are discussed below.

- *Fund management.* The PDF administrator shall seek loan and grant funds from donor entities, be responsible for fund management and disbursement to sub-contractors/ consultants, and provide regular reports to donor entities and relevant government agencies.
- *Business Planning and Marketing*. Prepare the business and marketing plan for the facility to a sustainable business operation and promotion of its products and services to keep a steady stream of projects
- *Procurement assistance*. Provide assistance to WSP clients in determining their project development requirements that will be the basis of the request for proposal (RFP) and terms of reference (TOR). The administrator shall also assist the WSP clients in the tendering process.
- *Procurement supervision*. Inasmuch as not all WSPs have the technical capacity to supervise/review the studies/services rendered, the PDF shall review the outputs of the sub-contractors/consultants. This review may be outsourced and will not be an added burden to the PDF staff.

Selection of the PDF administrator can be based on the following criteria:

- *Appropriate Mandate*. It should be a juridical entity that has the legal basis to administer a credit program. It should also have the authority to enter into contracts and other forms of obligations. This criterion is a minimum requirement hence is applied on a pass/fail basis.

Role Conflicts

In certain instances, being involved both in the project preparation and in the project implementation has caused conflicts. In some LWUA projects, some WDs suspended loan repayments to LWUA, claiming that mistakes in the design by the agency or the agency's consultants have resulted in poor project performance.

To prevent these conflicts, if the PDF administrator will in a way be involved in the capital funding, it should not be responsible for the selection of the consultant for the feasibility/design studies, and should make clear that the quality of the outputs (FS, etc.) is the lookout of the WSP.

- *Authority to keep income from operations.* Preferably, the administrator should have the authority to retain its revenues (i.e., not required to deposit all revenues to the national treasury) and the autonomy to dispose of funds and revenues for its operations and expansion of its services.

- *No conflict of interest.* It should not perform other roles that could potentially result to moral hazard. A regulator (e.g. NWRB) will clearly not be eligible. The PDF administrator, including its attached agencies/offices, should not be allowed to bid for any tender under the PDF, unless the procurement process is undertaken wholly by the WSP.

- *Willingness to serve role*. It should be willing to assume the role of administrator and to adopt its practices to the best operating system and standards called for in administering the PDF. It should allow any financing institution to access the project pipeline information.

- *Ability to work with WDs and LGUs*. It should be familiar with these entities, its operations, as well as water supply development projects.

- *Availability of regional network, basic infrastructure and system to manage the PDF*. Preferably, it has regional offices to improve marketing of the PDF and facilitate transactions with potential clients.

5.0 Recommendation on the PDF Structure

Based on the foregoing discussions, the recommendations on the PDF structure are as follows:

5.1 Funding Sources

- Grant funds, or **concessional** loans should be secured to lower the cost of funds.

- Funds should be **not tied** to any suppliers of services or to the capital loan provider.

- To ensure the optimum fund size is reached, aim for **multi-donor** participation. Moreover, considering donor-imposed restrictions, more types of services and projects can be covered. However, to reduce the PDF transaction costs, donor participation should be selective. Efforts should be made to find donors that can give grants/concessional loans of reasonable size and with limited or no restrictions on the use of funds.

5.2 Use of Funds

Ideally all of the following activities should be supported by the PDF. However, if PDF resources are limited, the priorization below is proposed.

- First Priority: Pre-investment studies. In the initial years of operation, the PDF will focus on supporting pre-investment studies (pre-feasibility, feasibility studies).

- Second Priority: Advisory Services, Training, Capacity Building. Capacitated WSPs ensure project design ownership. Trained WSP staff will bring about more efficient operations.

- Third Priority: Preparation of design and tender documents, tendering assistance, appraisal of pre-investment studies undertaken by third parties. The support will speed up the tender process. Appraisal will promote lending and private investments.

- Fourth Priority: Transaction support, particularly for PSP or BOT-type of projects; essentially to assist the WSP with the procurement, evaluation of proposals, PSP contract preparation or review and negotiation.

5.3 Cost-Recovery

- Full-cost recovery (revolving fund). Full cost recovery is defined as recovering the principal, cost of capital, loan loss provision and administrative costs. This ensures PDF sustainability and effectively screens out uncommitted WSPs. However in certain cases, i.e., criteria will be drawn to support social and economic objectives, interest rate subsidies may be provided. At the minimum principal should be recovered.

- Grants to WSPs for high risk projects (e.g. sanitation) will be provided only if funds are sourced from grants as well.

- To prevent abuse of grant funding and to ensure only good projects are lined up by proponents, grants can be made on a conditional basis. It will be provided only if the project is implemented, reckoned by preparation of detailed engineering or financial closure for the capex loan or contract signing.

5.4 Procurement

- WSPs will be the procuring entity, following RA 9184 (Government Procurement Reform Act). To assist the WSPs and streamline the procurement process, the PDF Administrator will prepare standard tender documents, model terms of reference, and standard contracts. The PDF Administrator should not be involved in tender evaluation.

- For WSPs with limited procurement capacity, they can employ consultants, or seek LWUA assistance for the technical and financial evaluation of tenders. The costs of such services can be funded under the PDF (see Section 5.2).

5.5 Facility Manager/Administrator

Considering the proposed functions of the PDF administrator as discussed in Section 4.6, existing entities that can be considered as facility manager for the PDF are: GFIs, LWUA, and MDFO.

LWUA has however gotten headway among the three. In December 2007, LWUA was given from National Government's 2007 budget, PhP300 million as seed capital for the Project Development and Efficiency Improvement Fund for water districts. By default, LWUA will be the administrator of this Fund. The implementation framework and the detailed operating guidelines for the fund are being drafted and will be completed in the first quarter of 2008. The framework approved by the LWUA Board in March 2008 is consistent with the recommended PDF structure as discussed above.

There may be conflict of interest issues if LWUA, while being the Administrator of the PDEIF, also intends to: (1) bid for PDEIF-funded project development activities for a WD, and (2) fund the WD's capex identified in a pre-investment study, which LWUA itself conducted.

These concerns should be addressed in the detailed operating guidelines. The following measures may be considered:

- If LWUA intends to bid for services for project development under the PDEIF, LWUA should not be involved in any way with the tendering and tender evaluation of bids for project development services. Procurement by the WD should be on a competitive-basis.

- If LWUA undertakes the feasibility study and also intends to fund the project capex, the project feasibility/proposal should be subject to an independent party appraisal, the cost of which shall be charged to the WSP. In any case, the capex financing should be open to all lending institutions.

There will still be a need to establish a separate PDF for LGU WSPs and identify an administrator for such. With its experience in municipal project financing, GFIs and MDFO are considered the most qualified.

The PDEIF

In December 2007, National Government, at the intercession of the Department of Finance, provided a PhP300 million subsidy to LWUA to capitalize a special program for project development and efficiency improvement. For project development, PhP125 million has been earmarked out of the fund.

The NG funding stems from the recognition by DOF of the need to build the pipeline of bankable projects as well as to facilitate the graduation of water utilities to become credit worthy by providing them concessional financing for efficiency improvement.

The conditions set by DOF on the subsidy are:

- Earmark funds for project development and for investments for efficiency improvement;
- Funds should revolve, hence will be used to capitalize a credit facility;
- To encourage project development and efficiency improvement measures, the credit facility can provide subsidized interest rates;
- Funds should be ring-fenced or should be separately accounted from the LWUA general fund, and will be deposited in trust accounts, say with DBP and LBP,
- DOF will monitor disposition of funds, and levels of the subsidy on the interest rate.

GFIs have the advantage of having regional office networks, which can handle marketing and facilitation of the PDEIF loan transactions. GFIs, particularly DBP and Land Bank have considerable exposure to water supply development, with both WDs and LGUs. However, considering their penchants to act as commercial banks, i.e., compete for project financing, there

may be perceived or real conflict of interest. The administering GFI will clearly have an undue advantage because of the asymmetry in information access.

Assignment of MDFO as the administrator of PDF for LGUs will be consistent with its organizational function and role. The MDFO has extensive dealings with the LGUs, and has not just financed projects but also provided technical support to the LGUs in investment planning, project development and implementation, and governance. MDFO has also implemented a LGU financing framework, which sets the provision of grants to LGUs, the level of which depends on the income class of the municipality and the type of projects. While the present framework may not be fully applicable for the PDF, their knowledge of the needs of the LGU will be invaluable for setting up a similar framework for project development.

MDFO's role as provider of capital funding will not likely pose conflict of interest, as it has manifested in the past-- adhered to its developmental role. For example, in the case of the PWRF, MDFO has agreed to "crowd-in" other financing entities.

However, MDFO's weakness lies in not having a regional presence. This can be mitigated by making use of the regional offices of NEDA, DILG, and the Leagues of Cities and Municipalities, for marketing and information dissemination. MDFO can also tie up with the different WDs, through PAWD, to conduct the preliminary technical assessment of the needs of interested LGUs. Without such arrangements, MDFO's administrative charges will be excessive if staff members have to travel several times to a prospective LGU borrower before contract closing.

Considering its strength in providing technical assistance to LGUs, MDFO is deemed more appropriate than the GFIs.

5.6 Summary of Recommendations

Shown in Table 3 is the summary of recommendations on the structure of the PDF. The current PDEIF under LWUA's administration is proposed as the take off point for an institutionalized project development facility.

Table 3: Proposed Structure of the PDF

Subject	Proposed Guidelines for a PDF	Present PDEIF guidelines	Proposed strategies/ actions on the PDEIF
1. Fund Sources	Multi-Donor Concessional loans and grant funds should be secured to lower cost of funds Source of funds should be "untied" except for grant funds	GOP	Secure additional GOP infusion and if necessary, concessional loans and grants from other donors
2. Use of Funds	1st priority: Pre-investment studies	Pre-investment studies	Consider other project development

Subject	Proposed Guidelines for a PDF	Present PDEIF guidelines	Proposed strategies/ actions on the PDEIF
	2nd priority: Advisory Services, Training, Capacity Building 3rd priority: Preparation of design and tender documents, tendering assistance, appraisal of pre-investment studies undertaken by third parties		activities
3. Cost-Recovery	Adopt at the minimum principal cost recovery, i.e. interest rate subsidies may be provided based on development objectives. Grants may also be provided to WSPs based on development objectives and only if the source is from donor grants. Provision of grants can also be made on condition that the project will be implemented.	Partial cost recovery, i.e., with interest rate subsidy	Consider provision of grants to high risk projects, such as sanitation projects
4. Procurement	WSP will be the procuring entity Competitive bidding (RA 9184)	WSP will be the procuring entity Competitive bidding (RA 9184)	
5. Administrator	LWUA and MDFO for LGU WSPs	LWUA	Review areas of cooperation/ synergy between the WD and LGU-WSPs' PDFs

6.0 Next Steps

6.1 LWUA's Project Development and Efficiency Improvement Facility

The PDEIF implementation framework has been approved by the LWUA Board of Trustees and presented as well to the PWRF Steering Committee. The detailed operating guidelines for the PDEIF have also been prepared by LWUA with the assistance of PWRF Support Program. The lending program was launched in September 2007. DOF-CAG will issue program reporting and monitoring guidelines.

6.2 Institutionalization of the Project Development Facility

The institutionalization of a project development facility will take off from the operation of LWUA's PDEIF, following the summary of recommendations and measures summarized in Table 3 above.

The PWRF Support Team will explore other sources of funds from ODA providers and will assist LWUA in developing the business plan for the long-term PDF.

6.3 PDF for LGU-WSPs

The next steps for developing the PDF for LGU-WSPs are as follows:

- PWRF Support Program will initiate preliminary discussions with MDFO on the proposed PDF framework for LGUs. Discussions will also be made with DILG and NEDA to look into possible areas of assistance to MDFO, particularly for marketing support. Source of funding may be the second generation funds of MDFO and donor grants.
- PWRF Support Program will assist MDFO prepare the fund structure, the demand analysis in collaboration with DILG, and implementation guidelines.

Annex A

Review of Selected Philippine Technical Assistance Programs for Project Development

Local Water Utility Administration's Technical Assistance to Water Districts

LWUA has been the traditional TA provider for WDs. Many of LWUA's project development assistance to the WDs were tied to programs funded by the different financing institutions like World Bank, ADB, JBIC, and KfW. Most of the project development services were undertaken by consultants hired and supervised by LWUA. In most cases, the feasibility studies were made part of the LWUA loan which covered the construction costs, construction supervision, and detailed engineering.

Typical fee structure of LWUA for project development activities:

Feasibility studies	3% of project cost
Detailed engineering	6% of project cost
Construction supervision	4% of project cost

Source: LWUA

Some WDs question the LWUA charges which are computed as a percentage of the total project cost. With this scheme, WDs with costly projects tend to be overcharged, and WDs with smaller projects are subsidized.

In discussions with WDs, many did not like the idea that LWUA selects the consultants and the WD is not involved at all in the procurement process. Under this setup, it seems that there is no WD ownership of the study and its results. While there was coordination and consultation with the WDs during the conduct of the studies, there were cases in which the WD questioned the design and findings of the feasibility study. Some WDs dropped the project, or insisted on costly design revisions during construction.

Lastly, in many situations, LWUA or its consultant is involved from the feasibility study stage all the way to construction supervision. In this situation, claiming checks and balance are in place may be questionable.

BOT Center Project Development Facility (PDF)

The BOT Center PDF supports pre-investment activities of national government agencies and LGUs for PSP undertakings. The BOT Center PDF can provide the following services: assessment of technical, financial and economic viability; initial environmental impact assessment; preparation of tender documents and draft agreement; provision of technical assistance in the tendering process; bid evaluation, negotiation and award, including start-up assistance after contract award.

The PDF was funded with a $750,000 grant from the USAID. The PDF is revolving in nature, as the BOT Center requires repayment of the TA costs by the winning bidder, or in case of a failed bidding, repayment by the implementing agency.

Since it started in 2001, the PDF has funded TAs to four national government agencies: Department of Public Works and Highways (DPWH), Department of Transport and Communications (DOTC), Philippine Ports Authority (PPA), and Metropolitan Waterworks and Sewerage System (MWSS). For the latter, TA was provided in relation to the MWSS 300 MLD bulk water supply project. There were other LGU applicants but their proposals did not pass the initial screening of the BOT Center. None of the projects that were funded proceeded to implementation via the BOT scheme. Hence the loan remained an obligation of the agency.

Local Government Unit Private Infrastructure Project Development Facility (LGUPIPDF)

Funded through an ADB TA loan and TA grant, the Land Bank of the Philippines established a revolving credit facility to finance consulting services for project feasibility preparation to solicit PSP in local infrastructure development. Another part of the project involved capacity building for LBP and participating LGUs in activities related to PSP.

Only two LGU projects out of the identified 30 LGU projects participated in the facility, and one was cancelled eventually. In the PCR[12], the main weaknesses in project design and formulation are mentioned below:

- Limited facility coverage: the PDF supported preparation of feasibility studies and bidding processes, but not the transaction cost of the projects.
- Non-familiarity with the BOT modality: LGUs were unfamiliar with the BOT concept promoted through the PDF, and were reluctant to go into this.
- Insufficient marketing efforts: Agencies involved had limited staff and offices, and the level of understanding at the regional levels remained low.
- Availability of cheaper financing assistance: Other projects offered cheaper loans or grants.
- Unacceptable processes for consultant selection: The LBP contracted the Consultants, among which were international consultants. The LGUs questioned the selection process, as well as the relative high remuneration of the international consultants.
- High market risk: Few LGUs wanted to pay for a feasibility study for a project for which successful bidding through PSP was not guaranteed.

The project evaluation report also identified the following organizational constraints that should be considered in the development of a PDF for water projects in the Philippines:

- Actual implementation was constrained by the fact that some LGUs lacked the capacity to identify and submit subprojects. Such LGUs require effort and time to develop subproject proposals.
- The TA component was a misnomer. Some LGUs initially expressed interest in the Private Infrastructure Project Development Facility, thinking that it was a direct financial grant rather than a loan.
- The on-lending interest rate to LGUs on the PDF was higher than the internal LBP interest rate to LGUs to finance their projects.

[12] Project Completion Report (June 2005, ADB)

- The LGUs perceived that official development assistance (ODA) loans entail long and tedious processing procedures and requirements. Some LGUs stated that the targeted completion time of a project would never be accomplished if financing were from ODA loans.
- Project implementation normally goes beyond the 3-year term of the local executives. Thus, previous marketing efforts were useless if newly elected executives did not support the Project. Re-marketing to create awareness of the PDF was necessary.
- LGUs were not keen on accepting international consultants imposed on them. LGUs wanted a free hand in choosing consultants because they bear the burden of paying the loans.
- Prudent private investors would not just bid on an LGU project, putting full trust on a feasibility study done by a third party unknown to them.

The Project Development and Monitoring Fund (PDMF)

The PDMF is administered by NEDA's Regional Development Coordination Staff (RDCS) and its regional units. The PDMF is operated using grant funds from the various donor agencies/countries and supports activities for project identification, feasibility studies, master planning at local and regional levels, and monitoring and evaluation. The fund beneficiaries are in general 4th to 5th class municipalities. Aside from the LGUs, proposals may also originate from members of Congress, the private sector, NGOs or even the regional offices of the various government line agencies.

Grant funding was provided by different donor countries. Spain, Japan and New Zealand provided a total funding of around P42 million, P33 million of which came from Japan (Japan Fund for Increased Food Production Program in the Philippines). The New Zealand fund itself is limited to indigenous people (IP) beneficiaries in selected regions. There are no new fund sources to date and an evaluation of the PDMF will be made later this year. Future plans for the program will be decided thereafter.

The TAs are provided as grants to the beneficiary LGUs. Equity requirement is not rigid and is set based on discussions with the beneficiaries and the NEDA regional offices. The expectation is that PDMF resources will be replenished by donor agencies on a regular basis.

Applications are submitted to the different NEDA regional offices which conduct an initial screening. The Project Development Assistance Center (PDAC) which is composed of representatives from regional line agencies serves as a regional "center of knowledge." The PDAC provides assistance during the screening stage and may even assist in undertaking the TA itself. Applications which meet the regional criteria are endorsed to the NEDA head office for final approval. Funds are eventually released to the regional offices who oversee disbursements to the implementing agencies/LGUs or contractors/consultants.

According to RDCS, most of the project development work was done by the regional/line agencies themselves.

As of the September 2007, the PDMF has funded 78 pre-investment studies, master planning activities, and capacity building programs worth P27.10 million. Twenty-two (22) PDMF-assisted projects have secured funding for implementation.

Local Government Unit (LGU) Urban Water Supply and Sanitation Project (LGUUWSP)

The main project objective of the LGUUWSP is to assist selected LGUs provide sustainable water and sanitation services, through innovative strategies which involve mandatory in-depth public consultations on willingness-to-pay and private sector participation in design-build-lease (DBL) contracts. It also involves the requisite public consultations to ensure that the projects funded are demand-driven, and that there is community support in terms of service connection and payment of tariffs. The project was financed by the WB and implemented mainly by DILG and DBP.

The success of the project was however less than expected. The initial target in terms of projects financed was in fact cut down: for Phase 2 of the LGUUWSP, the target of 60 LGUs provided with clean and sustainable water supply systems was reduced to only 11.

Some points raised in the implementation completion report[13] which are relevant to the design of the proposed water supply and sanitation PDF, are as follows:

- The project was able to generate a long pipeline of projects – feasibility studies provided as grants for more than a hundred LGUs were completed. However, only nine (9) projects were actually implemented.

- Some of the feasibility studies of the individual subprojects were not of satisfactory quality, leading to some implementation delays and problems. In particular, some of the first batch of LGUs felt that their project-funded systems were over-designed in terms of capacity, due mainly to unrealistic parameters for projecting demand. The problem was exacerbated by the insufficient technical capacity of DILG and the LGUs to adequately review the feasibility studies. To deal with this issue, subsequent FSs and even detailed engineering (DE) designs financed by this component were evaluated by the DBP's construction supervision consultant.

- There was no demand from the LGUs for sanitation investments.

- Political change at LGUs after the elections, which resulted in a reversal of LGU commitments, caused several LGUs to "drop out" of LGUUWSP.

- The capacity of the Project Management Office (PMO) in DBP initially was not equipped to deal with complicated, fast changing LGU credit market for water supply. It could not stay on top of implementation issues arising from having to deal with such a multiplicity of inexperienced clients.

[13] Implementation Completion Report (WB Report No: 25718-PH, June 2004)

- Lessons learned: LGUs have little technical capacity in undertaking such projects, and this has exerted stronger needs for technical competence at the implementing agency to be able to respond to the LGUs effectively. This in turn has inevitably led to high transaction cost for the financial intermediaries.

In addition to the above, through discussions with DILG, it was reported that many LGUs dropped out of the program as a result of failure to establish a reasonable percentage of population which is willing to connect to the new system.

Municipal Development Fund Office (MDFO) - Local Government Finance and Development (LOGOFIND) Project

The MDFO, through the LOGOFIND project, offers loans to support a wide range of LGU projects, and provides grant support, the extent of which will depend on the type of project and the income class of the LGU.

The project loan facility can be availed of to fund consultancy services for project preparation, feasibility studies, detailed engineering and construction supervision, as well as urban development planning.

The MDFO matches the loans with free training and capacity building for the participating LGUs.

There have been only a few loans taken out for project development work, as a great degree of this work was being undertaken by the MDFO-LOGOFIND team. To date, only two loan contracts for project development studies were processed. Some LGUs were reported not to be keen on spending several months just to select and procure a consultant for a project feasibility study.

Annex B

The Project Development and Efficiency Improvement Fund (PDEIF)

Background

In December 2007, National Government, at the intercession of the Department of Finance, provided a PhP 300 million subsidy to LWUA to capitalize a special program for project development and efficiency improvement. For project development, PhP 125 million has been earmarked out of the fund.

DOF recognized the need to build the pipeline of bankable projects as well as to facilitate the graduation of water utilities to become credit worthy by providing them concessional financing for efficiency improvement.

The conditions set by DOF on the subsidy are:

- Earmark funds for project development and for investments for efficiency improvement;
- Funds should revolve, hence will be used to capitalize a credit facility;
- To encourage project development and efficiency improvement measures, the credit facility can provide subsidized interest rates;
- Funds should be ring-fenced or should be separately accounted from the LWUA general fund, and will be deposited in trust accounts, say with DBP and LBP,
- DOF will monitor disposition of funds, and levels of the subsidy on the interest rate.

Framework

The following table summarizes the framework for the project development fund. Detailed guidelines for the PDEIF have been prepared and the program launched in September 2008.

PDEIF Implementation Framework

Subject	Key Guidelines for Project Development
1. Fund Allocation	Initially PhP 125 million. Funding for creditworthy WDs will be capped at 25% of the PhP 125 million. This is to avoid crowding out of the less than creditworthy WDs. *Allocation may be reviewed jointly by LWUA and DOF, based on actual demand for funds*
2. LWUA responsibilities as PDEIF administrator	(1) Market the PDEIF (2) Set up help desks to assist utilities with project identification, preparation of TOR and budget cost estimates for the pre-investment studies (3) Evaluate applications including TORs (4) Prepare standard bid documents/model TORs (reference materials for WDs) (5) Perform program and fund management and monitoring
3. Eligible Projects	(1) Feasibility studies (2) Test well drilling related to the feasibility study
4. Eligible Borrowers	All WDs.
5. Prioritization Criteria	Generally prioritization will be on a first come, first serve basis, subject to cap for creditworthy WDs; and subject to compliance with LWUA's underwriting criteria.
6. Loan Terms	
Maximum Loan Amount	No limit
Interest Rate *N.B. The interest rate subsidy will and the non-provision for defaults will diminish the value of the fund in real terms.*	<u>Rate setting formula:</u> PDF Interest Rate= PDST 5-year yield benchmark- Interest Rate Subsidy (DOF and LWUA policy input) + LWUA Admin Cost <u>Current application:</u> PDST= 5.7% Less: 20% subsidy Add: LWUA AC= 2% Interest Rate= 6.56% *Note: PDST refers to Philippine Dealing System Treasury Reference Rate (see: www.pdex.com.ph)* *No risk spread*
Tenor	Up to 5 years, inclusive of up to 2 years grace
Equity	No equity requirement
Re-financing	The borrower is required to refinance the project preparation loan from the capital loan, once project is implemented.
7. Procurement	WD is the procuring entity. Competitive bidding following RA 9184 and its implementing rules and regulations. LWUA may assist in the evaluation of bids (assistance to the BAC-TWG) subject to service fees as will be set by LWUA.
8. Ring-Fencing	Interest and Principal Loan Repayments, net of LWUA administrative cost

Subject	Key Guidelines for Project Development
and Revolving Feature	shall be put in a separate special revolving account for project development. The funds will be deposited in a trust account with say DBP or LBP. The second generation funds will be dedicated to new loans for project preparation, or be used to leverage against other funding sources, including collateral for securitization or bond issuance.
9. Program and Fund Monitoring	DOF – CAG shall review and concur with the implementation guidelines. Further amendments shall be subject to its concurrence as well. It will monitor the program's implementation and the status of the fund on a quarterly basis. In this regard LWUA will submit quarterly reports to DOF – CAG on the following: ♦ List and status of projects funded ♦ Revolving Funds' financial statement

Annex C

Key Informants

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