

The Philippine Water Revolving Fund Support Program

QUARTERLY REPORT

April 1 - June 30, 2007



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

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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.

PWRF Targets in support of IR 1.2	Accomplishments for the Quarter (April - June 2007)
<p>1. Establish and operationalize the PWRF</p> <p><u>Targets for the Quarter</u></p> <ul style="list-style-type: none"> ▪ ICC approval of PWRF ▪ Completion of Operating Policy Guidelines ▪ PFI consultation on the inter-creditor agreement ▪ MDFO mechanism for the stand-by credit line ▪ Manual on WD Credit Rating (for LGUGC) ▪ Needs assessment on training needs of DBP and PFIs on project appraisal 	<ul style="list-style-type: none"> ▪ Obtained NEDA ICC Cabinet Committee approval of the PWRF on May 9, 2007 ▪ Conducted further review of the DBP PWRF Operating Policy Guidelines focusing on the operational aspects of the PWRF lending window. The fourth (4th) iteration will be submitted to DBP prior to the JBIC fact finding mission scheduled on July 23-27, 2007. The fourth iteration includes the agreements reached with DBP regarding the concerns of DBP's Chief Operating Officer, Edgardo Garcia on inequitable risk allocation between DBP and PFIs. Mr. Garcia agreed to provide an automatic standby credit line provided DBP charges a fee for it and that the interest rate of its loan component will be at par with the PFIs rate, inclusive of the guarantee fee. ▪ Conducted a review of the PWRF Standard Loan Agreement including the inter-creditor agreement with DBP's Program Development and Fund Sourcing Departments. Revised documents were submitted to DBP in July for final review and presentation to PFI representatives. ▪ Conducted a peer group review of the MDFO Standby Credit Facility. The second draft was submitted to MDFO in July for its Policy Governing Board approval. ▪ Signed the Technical Assistance agreement with LGUGC containing the terms of reference for the development of a manual on WD credit rating

system

- Designed and drafted the Private Financial Institution Training Needs Assessment survey instrument. Survey was conducted in July.
 - Commenced with preparations for a US Study Tour scheduled in mid September; presented to USAID preliminary program and itinerary. Drafted invitation letter to participants (invitations were issued by USAID on June 29, 2007)
2. Assist in the preparation of at least 10 projects a year for PWRF financing

Targets for the Quarter:

- Prioritization criteria of projects for PWRF funding
 - Rapid assessment of priority projects identified in the JBIC-SAPROF demand analysis
 - Processing of selected projects
- Conducted a survey on WSPs investment programs, complementing the 2006 SAPROF Demand Survey. Questionnaires were sent to 66 WSPs recently classified as credit worthy. At the end of the report period, the PWRF received responses from 10 WSPs.
 - Discussed with DILG the LGU-WSPs which may have projects ready/eligible for financing under the PWRF.
 - Signed MOU with Cabanatuan City WD to provide technical assistance in preparing pre-investment studies for developing a surface water source. Specifically, PWRF will conduct a technical analysis of water treatment options and the financial analysis of the project. The team has conducted a preliminary field investigation and held discussions with the WD on design parameters.
 - Together with SCOTIA, the team is assisting the Municipality of El Nido, Palawan review pre-investment studies for water supply and sanitation (WSS) projects for the Municipality and identify financing options. The Team has conducted field investigations, held discussions with the incoming Mayor, LGU department heads and key officials, and other stakeholders on the project design and financing. Moreover, a workshop was conducted to discuss project issues, design alternatives, and future activities/actions to complete the pre-investment studies. The team has prepared a preliminary assessment of the financial feasibility of El Nido Integrated Water Supply and Sanitation System.

- Signed MOU with Puerto Princesa WD for technical assistance in pre-investment studies, including a review of market demand forecast and technical design, NRW assessment, and project financial analysis. The team has prepared the financial model and preliminary assessment of the financial feasibility of the Puerto Princesa Water District Water Supply Expansion Program.

- 3. Strengthen the policy, regulatory, and institutional environment for enhancing the viability of PWRF operation.

Targets for the Quarter

- Analysis paper of the rationalization guidelines
- Conduct of stakeholder consultation meetings on the rationalization guidelines
- Draft rationalization guidelines
- PWRF through Dr. Gilbert Llanto is currently drafting the analysis paper and operating guidelines to rationalize credit programs for water supply and sanitation projects. In this regard, Dr. Llanto and the team conducted one-on-one consultative meetings with NEDA, LWUA, DBP, DOF, LBP, LGUGC, PFIs, WB, WSP, and GTZ on related issues and opinions on the rationalization of credit programs.
- Met with ADB (Rudolf Frauendorfer and Chris Bellinger) and LGUGC to discuss ADB's participation in PWRF. The immediate role will be as a co-guarantor of LGUGC, similar to the role of USAID Development Credit Agency. ADB proposes to match DCA's current 30% share. Hence potentially LGUGC's exposure can be reduced by 60%. This arrangement could more than double the existing guarantee capacity of LGUGC. ADB indicated that they can take on the entire 60% once USAID-DCA's allocation is used up. The project pipeline was sent to ADB on May 31, 2007.

- 4. Provide overall program support to USAID and JBIC
- The COP presented financing options for water supply and sanitation in two conferences:

Targets for the Quarter:

- Steering Committee and TWG meetings
- Regional Sanitation Summit 2007 (June 27, Davao City) ; and
- SCOTIA Stakeholders Workshop (June 22, Dumaguete City)

Chapter 1: 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 pilot countries of CWPI. Under this program, USAID and JBIC 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 a successful PWRF;
- Through the successful utilization of PWRF and subsequent investment in water and sanitation infrastructure, help reduce morbidity and mortality from waterborne diseases and, specifically in the case of sanitation and wastewater treatment, contribute to biodiversity conservation, particularly in coastal areas.

Secondary thereto:

- Attract private sector investment in water and sanitation infrastructure projects thereby enabling the Philippines 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 Phase 1 Objectives

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

- Set up the appropriate institutional arrangements for the PWRF, including supporting efforts to secure the JBIC 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 by June 2007.

Implementation of Phase 2 “PWRF Operations” depends upon successfully meeting the Phase 1 objectives. Phase 2 will adapt to emerging priorities vital to the institutionalization of PWRF, the mobilization of funds from the domestic capital market the institutional strengthening of water utilities, and the establishment of the conditions to sustain a robust project pipeline for water supply and sanitation.

A.2 Project Scope and Expected Outputs

Component 1: PWRF Set-up and Institutional Development - involves establishing and operationalizing the PWRF lending program and putting the DCA guarantee in place. PWRF Phase 1 will concentrate on Component 1 activities.

Expected Outputs:

- Updated financial model for the PWRF;
- Information memorandum for ICC;
- Working Paper for the MDFO Secretariat for the stand-by credit line arrangement;
- Draft credit framework arrangement sections of the Operating Policy Guidelines of the JBIC loan to the Development Bank of the Philippines;
- MOA between DBP and PFIs and inter-creditor agreement;
- Draft Operating Guidelines and Manual of Operations;
- Business plan and marketing strategy for the PWRF;
- Finalized standard loan agreement, guarantee agreement, MDFO loan agreement;
- Draft guidelines for the Standby Credit Line;
- Draft credit screening guidelines for water districts;
- Training workshops on familiarization with the water sector and utility operation indicators, credit screening of water utilities; and
- Study tour for 8-10 participants to examine Indian experience with pooled financing mechanisms. *(The team decided with USAID to conduct the study tour in the US, which has broader and deeper experience in operating water revolving funds.)*

Component 2: Water and Sanitation Project Preparation - involves assisting water districts and LGUs to improve or update pre-investment studies and implement immediate measures to enhance project bankability or the creditworthiness of borrower. These activities will begin in Phase 1 and continue in Phase 2.

Expected Outputs:

- Prioritization criteria developed and approved by the PWRF Steering Committee and DBP;
- At least 7 and up to 10 projects are ready for PWRF funding;
- Credit ratings completed for at least two projects;
- Plan developed for establishing a Project Development Facility; and
- Establishment of procurement mechanism for providing technical assistance needs to utilities.

Component 3: Water and Finance Sector Strengthening - involves helping implement strategic reforms that facilitate achieving the targets under Components 1 and 2. The most immediate and critical reform is the rationalization of credit programs. Activities will begin in Phase 1 and continue in Phase 2.

Expected Outputs:

- Draft EO 279 implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines;
- Recommendations on segmentation of the market based on credit classification criteria consistent with international standards;
- Recommendations on short-term credit program to assist non-creditworthy utilities to reform and restructure operations to improve creditworthiness;
- Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance;
- Long-term business planning framework for water districts; and
- Small grants program design.

Component 4: General PWRP Program Support- involves serving as the technical secretariat to the PWRP Steering Committee and Technical Working Group and supporting USAID in reporting, advocacy, and collaboration with JBIC on the PWRP. Activities will begin in Phase 1 and continue in Phase 2.

Expected Outputs:

- At least one meeting per quarter for the Steering Committee and the Technical Working Group;
- Meetings and consultations with the Implementation Committee as necessary;
- Technical papers, presentations, inputs to USAID reports and communication materials on the PWRP as may be required by USAID; and
- Set up PWRP Website

Component 5: Small Grants Program Administration- involves small grants to NGOs and private sector associations to support PWRP objectives. The small grants program will begin in Phase 2.

B. Overview at end of the Quarter (April 1 to June 30, 2007)

As of this writing there is still no certainty of when the JBIC loan for PWRP will be provided in the near future. The team has continued to work on the institutional support to establish the PWRP. It is also pursuing a number of projects for financing using in the interim DBP second generation or internal funds; or in cases where viable 100% PFI financing. However, without the JBIC financing the program cannot be rolled out. In view thereof the team will

accelerate the analysis of pooled bond financing. The study tour scheduled in the US in September will be used to deepen the participants' knowledge and appreciation of revolving funds accessing the capital market. It will also be used to prepare the implementation plan with the key policy makers and implementers represented in the study tour group.

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

Component 1: PWRF Set-up and Institutional Support

Drafting of the DBP PWRF OPG - The DBP PWRF Operating Policy Guidelines is already in its fourth iteration. After several meetings and document revisions, many of the suggestions and disagreements have been finally worked out. Nevertheless, there are still important issues to be resolved between DBP and JBIC in the upcoming JBIC appraisal mission. The list of the topics in the table below shows the changes that have been made in the OPG in response to the consultations with the stakeholders.

Features of the Modified PWRF OPG

Topic	Issue	Features/ Modifications to the PWRF- DBP OPG
Mode and Extent of Private Sector Participation	DBP argued that private equity be counted as private sector participation. Relatedly, private developers should be considered as eligible borrowers in view of the many bulk water projects being proposed in the market under BOT modalities, provided they put in a minimum equity contribution.	Private developers can be eligible borrowers of PWRF. DBP can lend up to a maximum 75% of the total project cost (or Php250 million which ever is smaller), while the remaining 25% shall be financed by private capital funds. For the first generation PWRF funds, exposure to private developers shall be limited to only 25% of the total funds in order not to crowd out Water Districts and Local Government Units.
Private Banks as Eligible Borrowers	Similar to its wholesale lending programs, DBP argued PFIs should be eligible borrowers, provided they put in a counterpart loan contribution from its own funds.	PFIs can borrow from the PWRF and re-lend to WSPs provided that they finance 25% of the project using their own funding sources and assume the entire credit risk.
Full PFI Financing with DBP/MDFO Standby Credit Line	It is suggested to have flexibility in case the PFI wants to fully finance the project.	If the PFI is willing to finance projects 100%, using its own internal funds, the PFI may secure a standby loan to refinance the loan on the condition the loan is amortized to approximate the natural re-payment cycle of the

		project. Standby loan is subject to availability of funds at DBP and MDFO. DBP agreed to provide a standby credit line provided that it will charge a standby credit fee.
Retroactive Financing of Water Projects	Given the delays in the JBIC funding, there is a suggestion to include an eligibility period for projects initially financed by internal DBP funds, and to be re-financed later using the EDP/PWRF loans.	There is still a disagreement as to the effective date for the retroactive period. DBP suggests 365-days prior to loan-signing date, while JBIC wants the pledging date as the benchmark date.

Operating Guidelines and Pricing Mechanics for the MDFO Standby Credit Facility. We drafted the Operating Policy Guidelines for MDFO's Standby Credit Facility which contains the process and requirements for MDFO's resource allocation and pricing of the facility. The Standby Credit Facility OPG has undergone peer review by BAP, LGUGC and DBP representatives, and the results therefrom have been incorporated in the revised draft. The second draft has been submitted to MDFO for presentation to its Policy Governing Board for approval.

There were two important issues raised during the peer review. The first pertains to reasonableness of basing MDFO's pricing of the stand-by credit fee on its current lending rates which are higher than market rates (MDFO pricing is not benchmarked on market index rather is set by the Policy Governing Board). MDFO will recommend to its PGB revising its pricing reflecting market-based benchmarks. The reviewers lauded the definition of a parametric pricing formula in the OPG, which makes price setting and adjustment transparent. The second issue pertains to MDFO's mechanism in setting aside funds for the stand-by facility. MDFO is not wont in putting them in an escrow account. BAP and LGUGC reviewers agreed that as long as the funds are unencumbered and earmarked, and can be separately identified and monitored in MDFO's depository bank (i.e., Land Bank) then this mechanism will be acceptable to PFIs availing of the standby facility.

Review of Standard Loan Agreements including inter-creditor agreement. The team, together with our International Consultant, Mr. Brad Johnson, conducted a review with DBP Officers the standard loan agreement, consisting of the following documents: General Conditions of the Loan, Term Loan Agreement, Standby Credit Loan Agreement, Deed of Assignments of Collaterals and the Guarantee Agreement. The review focused on clarifying issues related to risk sharing and ensuring consistency of the provisions with the long-term goal of transitioning to securitization or pooled bond issuance. The loan documents were revised by the team to incorporate DBP's suggestions. The revised documents were submitted to DBP's Program Development for final review and presentation to PFIs.

Operationalizing the PWRF and internal rationalization of credit programs within DBP. In consultations with DBP on the OPG many policy and implementation issues affecting PWRF surfaced. One such is the potential competition from DBP's other water lending window, the World Bank APL. DBP's Program Development Department suggested preparing a "traffic control guidelines" for water loans, which will set the policy and criteria to determine the appropriate funding source. Another issue is the potential competition of DBP branches with PFIs originating WD or LGU water loans. In this regard, DBP is seeking assistance in conducting briefings on the PWRF for their regional management committees (RMCs), which are in-charge of branch operations. DBP will schedule these briefings as soon as the on-going reorganization of the RMCs is completed.

Training Needs Assessment for PFIs and PWRF Stakeholders on Water Project Appraisal. Our team prepared the PFI needs assessment survey instrument that will be used to evaluate the training needs of Private Financial Institutions on familiarization with the sector and project appraisal. The results of the survey will be used to inform the design of the training program. The survey was conducted in early July, while the training workshop is scheduled in August.

Component 2: Water and Sanitation Project Preparation

Review of potential projects for PWRF financing – Our project development specialist reviewed the list of projects identified in the JBIC SAPROF demand analysis, as well as projects identified by LGUGC and DBP. To date, the list of potential projects was narrowed down to seven (7) water districts (WDs): Silang, Davao, Puerto Princesa, Sta. Maria, Cabanatuan, San Jose Del Monte and San Pedro. For LGUs, there are two (2) in the pipeline: Allacapan and El Nido (see Figure 1). The projects were identified on the basis of preparedness, i.e., feasibility study (FS) completed and/or expression of interest from the WD or LGU to seek financing.



Metro Davao Water District Pumping Station

Two water districts, Bacolod and Metro Cebu has identified new projects, but these are programmed for implementation later next year. The status of each project is summarized below:

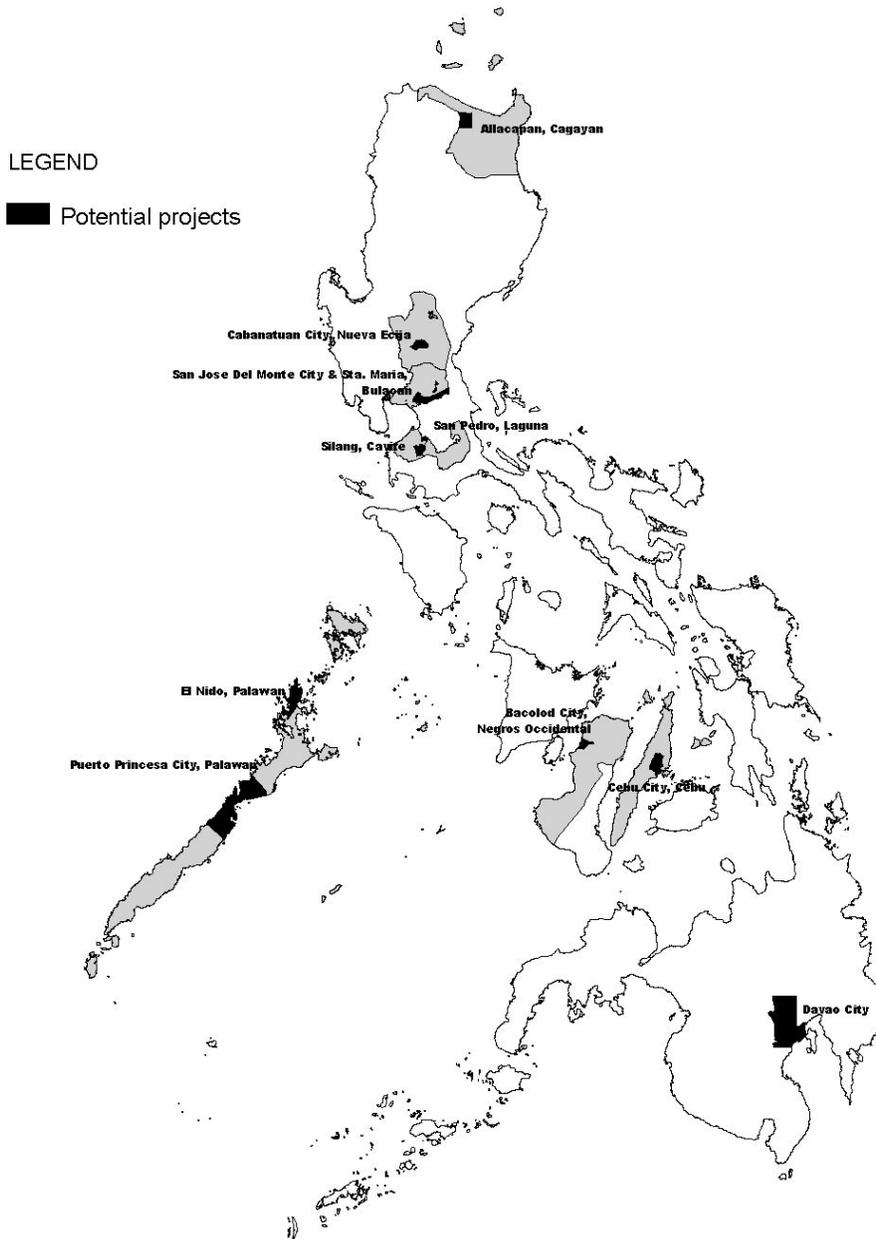
WSP	Project Description	Issues/Status
Silang WD Classification: CW	The project involves development of new water sources and system expansion covering 21 barangays. Proposed works include: 1. Drilling of 20 production wells 2. Construction of two elevated tanks	Proposed for 50-50, DBP and PNB financing; lending term: 10 years, 10.5% max fixed; DBP currently reviewing cashflow projections and technical design by its in-house consultant; geo-resistivity study may be required; review expected first

	<p>and four ground reservoirs</p> <p>3. Mainline extension/rehabilitation</p> <p>The project is estimated to cost around P198 million (excluding land acquisition costs).</p>	<p>week of June.</p> <p>[Silang WD prepared a Master Plan/Project Scope of Works; LWUA clearance will be required].</p>
<p>Davao WD</p> <p>Classification: CW</p>	<p>> Bunawan-Lasang Project</p> <p>The project involves the expansion and improvement of the existing water system covering the barangays of Panacan, Tibungco, Bunawan and Lasang.</p> <p>The proposed works are:</p> <ol style="list-style-type: none"> 1. Drilling of two production wells 2. Construction of a ground reservoir 3. Re-drilling of two production wells 4. Installation of: <ul style="list-style-type: none"> - 4,043m x 200mm dia PVC - 17,158m x 250-400mm steel pipe (SP) - Mainline extension/pipeline looping (100-250mm PVC/SP) <p>The project was estimated to cost around P237 million, but part of the works has been undertaken by the WD using its internal funds. The project is now estimated to cost a little less than P200M.</p> <p>Other projects:</p> <p>> Dumoy System Rehab (P100 million project cost)</p> <p>Tamugan Surface Water Development Project (P6 billion project cost)</p>	<p>PWRF Team approached the GM to explore the WD's interest in loan financing. The GM said the WD is certainly looking for financing and will await the offer sheet from DBP.</p> <p>Project FS has been forwarded to LGUGC and DBP.</p> <p>Project may be financed by LWUA with 50-50 sharing with a PFI. Still, the GM advised PWRF that WD is still open to other financing options/offers. Pre-investment documents forwarded to DBP and LGUGC.</p> <p>FS updating to be tendered in 2007.</p>
<p>Puerto Princesa WD</p> <p>Classification:</p>	<p>The project involves the expansion and improvement of the water district system in 36 barangays.</p>	<p>Project feasibility study is being finalized by LWUA.</p> <p>The PWRF Team is assisting the WD</p>

SCW	<p>The proposed works are:</p> <ol style="list-style-type: none"> 1. Drilling of seven production wells 2. Construction of 3,930 m³ storage facility 3. Provision of 16 standby power generator sets 4. Installation of: <ul style="list-style-type: none"> - 146.9 km of 50mm-400mm distribution pipelines - 2,437 service connections <p>Estimated project cost is P370.4M.</p>	for the review of market projections, project financial analysis, NRW assessment.
Sta. Maria WD Classification: SCW	Scope of Work is being reviewed by the WD.	May be turned over to DBP RMC 3; cashflow projections being reviewed. Initial findings require 15 years maturity.
Cabanatuan City WD	Surface water source development	FS being prepared by WD. PWRF TA will be extended to the WD for water treatment and financial/economic analyses. [MOU signed 9 May 2007].
San Pedro WD: Classification: CW	Project design on-going	FS under preparation by local engineering consulting firm.
San Jose Del Monte WD Classification: SCW	<p>The project will involve utilization of an additional 30,000 m³/day of water supply from MWSS.</p> <p>Estimated project cost: P700M (preliminary)</p>	FS under preparation by local engineering consulting firm.
Metro Cebu WD Classification: SCW	<p>Bulk water acceptance, involves distribution system improvement/expansion (related to Carmen Project).</p> <p>Estimated project cost: P680 million</p>	<p>The Carmen Water Supply Project (Ayala BOT) is still being pursued by Ayala. Bidding (including the swiss challenge) will take place at the end of the year.</p> <p>It is noted that the WD looked at alternative water source development projects (Cotcot and Bonbon rivers), in case the Carmen project does not push through. The WD was preparing for the necessary project studies for these alternative water sources (rough cost estimates P1.1 billion for the development of the two sources).</p>

<p>Bacolod WD: Classification: SCW</p>	<p>Based on accomplished survey questionnaire (May 2007), the WD is proposing three (3) new projects, with a combined cost of around P490 million.</p> <p>The projects involve new source development (45,000 m³/day) and expansion of the distribution system (10% additional coverage).</p>	
<p>Allacapan LGU</p>	<p>The project involves development of a Level III water system for 10 barangays.</p> <p>Proposed works include:</p> <ol style="list-style-type: none"> 1. Drilling of four production wells 2. Installation of iron removal facilities 3. Construction of 160 m³ elevated water tank 4. Installation of: <ul style="list-style-type: none"> - 12.7 km of 50-150mm PVC pipes - 660 service connections <p>Estimated project cost is P32.63 M.</p>	<p>DBP is reviewing the mode of financing for Allacapan.</p>
<p>EI Nido LGU</p>	<p>Water Supply Component:</p> <p>Covering six barangays, the proposed project involves the improvement/expansion of the LGU water system. The proposed works include:</p> <ol style="list-style-type: none"> 1. Drilling of three production wells 2. Construction of 400 m³ ground reservoir 3. Installation of: <ul style="list-style-type: none"> - 50-250mm distribution pipes <p>Estimated project cost is P49.4M.</p> <p>Sanitation Component: Involves construction of a separate sewage collection system and a centralized sewage treatment plant (STP).</p> <p>Estimated project cost is P50M+ (SCOTIA).</p>	<p>PWRF Team and SCOTIA will jointly package the water supply and sanitation components as a single project. SCOTIA will focus on technical matters, while the PWRF will cover the project financial and economic analyses.</p>

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



In view of the uncertainty of the JBIC loan for PWRF, USAID advised the team to slow down with the in-depth project development work, especially the technical assistance to WDs or LGUs in improving their project studies.

Component 3: Water and Finance Sectors Strengthening

Pooled Water Bond Concept Study. We prepared the scope of work for a Bond Financing Concept Paper. We engaged Mr. Lyndon Ner Saulog, a leading bond market specialist to prepare this study. Having worked previously on bond issues and structured financing, Mr. Saulog's assignment is to prepare a framework to facilitate the transition from loans to capital market financing via securitization or pooled bond offering for water infrastructure projects. His paper will outline the step by step process to undertake a pooled bond offering in the Philippines context. It will also identify potential road blocks and suggest possible solutions. The study shall propose a pro-forma structure of the bond and identify the features that will be attractive to the capital market.

Rationalization of credit programs - The rationalization of credit programs remains a priority policy measure of the program to set a level playing field for PWRF. Dr. Gilbert Llanto a credit policy expert is leading the effort to prepare the analysis and the recommendations on how to rationalize the credit programs. Starting in April, Dr. Llanto conducted one-on-one consultations among the key stakeholders: LWUA, GFIs, donors, DOF, NEDA, DILG, MDFO, private financing institutions and water service providers to ensure that their issues and views are considered. This was complemented by a multi-stakeholder consultation held in July.

Dr. Llanto is expected to recommend the approach and guidelines that government can adopt, through an ICC resolution or DOF circular to GFIs and other government entities engaged in lending to water projects.

Component 4: General PWRF Program Support

The COP presented financing options for water supply and sanitation in two conferences:

- Regional Sanitation Summit 2007 (June 27, Davao City) ; and
- SCOTIA Stakeholders Workshop (June 22, Dumaguete City)

The team prepared the opening remarks of Usec Paul in the LWUA- PAWD Forum held last June 21, 2007. The annual forum's agenda focused on financing.

Issues

- The Writ of Injunction on EO 279 is still unresolved.
- To date, there is no official advise yet of the inclusion of EDP/PWRF under the current JBIC 27th Yen Loan Program. A delay in the JBIC loan will significantly affect the

implementation of the PWRF. The momentum may be lost as the interest of both DBP and PFIs may be dampened.

Major Activities and Targets for the Next Quarter

Table 1 shows the major activities of the project for the next quarter (July to September 2007). The targets are:

Project Component	Targets for the Next Quarter
Component 1: PWRF Set up and Institutional Support	<ul style="list-style-type: none"> ▪ Completion of Operating Policy Guidelines ▪ PFI consultation on the inter-creditor agreement ▪ MDFO mechanism for the stand-by credit line ▪ Manual on WD Credit Rating (for LGUGC) ▪ Study on water project risk pricing (for LGUGC; TA in collaboration with DCA) ▪ Training seminars for PFI staff ▪ Study Tour in the US
Component 2: Water Supply and Sanitation Project Preparation	<ul style="list-style-type: none"> ▪ Assessment of proposed WSP projects ▪ TA for selected WSPs ▪ Concept paper for establishing a Project Development Facility ▪ Procurement mechanism for providing TA needs to WSPs
Component 3: Water and Finance Sector Strengthening	<ul style="list-style-type: none"> ▪ Guidelines to rationalize credit programs for water projects ▪ Concept Paper and Framework for water project bond financing ▪ Position paper for Central Bank on incentives for PFI participation in financing water projects ▪ Business plan framework for water utilities

Component 4: Overall Program Support	<ul style="list-style-type: none">▪ PWRF Second Year Work Plan▪ Steering Committee and TWG Meetings▪ PWRF Website
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Chapter IV: Level of effort in person – months

Position	Budget LOE	LOE Used (Oct 06 - June 07)	Remaining LOE (as of June 2007)	Projected LOE (July - Sept 2007)
DAI				
LTTA				
Alma Porciuncula Chief of Party	204.0	142.00	62.00	62.00
Project Management & Administration				
Aida Mendoza Administrative Support Specialist	220.0	141.00	79.00	65.00
Liza Cruz Exec. Asst & Bookkeeper	260.0	162.00	98.00	65.00
STTA				
Del McCluskey Home Office Technical Support	40.0	20.63	19.37	20.00
Rachel Tchakuk Project Associate	28.0	1.13	26.87	20.00
TBD STTA-DAI Senior Policy/Institutional Specialist	55.0	0.00	55.00	20.00
Antonio De Vera Senior Legal Specialist	15.0	0.00	15.00	15.00
Manuel Gonzalez Senior Financial Policy Specialist	20.0	0.00	20.00	20.00
Gilbert Llanto Water Sector & Institutional Finance Specialist	30.0	0.00	30.00	30.00
Cecilia Soriano	20.0	0.00	20.00	20.00
Lyndon Saulog	20.0	0.00	20.00	20.00
Subtotal LOE -DAI	892.0	466.8	425.2	357.0
SUB CONTRACTS				
TCGI				
Antonio Pantillano Senior Sanitation Infrastructure Financing Specialist	192.0	105.00	87.00	86.00
STTA TBD	27.0	11.18	15.82	5.00
Subtotal LOE - TCGI	219.0	116.2	102.82	91.00
CEST				
TBD Senior Policy Framework Specialist	65.0	0.00	65.00	65.00
Ferdinand Asuncion Senior Project Specialist	143.0	76.38	66.62	66.00
STTA TBD	100.0	4.50	95.50	90.00
Subtotal LOE - CEST	308.0	80.88	227.12	221.00
TOTAL PROGRAM LOE	1,419.0	663.9	755.1	669.0

Chapter V: Contract deliverables (Overall Status of Accomplishment)

The status of the contract's expected outputs is shown below:

Table 4: 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
Working Paper for the MDFO Secretariat for the stand-by credit line arrangement	MDFO PGB approved SCL and allocation of SCL on March 2007
PWRF Operating Policy Guidelines of the JBIC loan to DBP	Drafts of the OPG have been discussed with DBP and JBIC; 3 rd iteration was submitted in July for approval of DBP
MOA between DBP and PFIs and inter-creditor agreement	
Draft Operating Guidelines and Manual of Operations	<i>DBP said the OPG will suffice as its existing credit manual will be applied to PWRF. Hence this task will be dropped.</i>
Business plan and marketing strategy of the PWRF	Postponed until after the pledging of the JBIC loan
Finalized standard loan agreement, guarantee agreement, MDFO loan agreement	Draft has been submitted to DBP, LGUGC, MDFO, JBIC and USAID
Draft guidelines for the Standby Credit Line	Guidelines have been reviewed by MDFO and a peer group composed of BAP, LGUGC and DBP; revised draft was submitted to MDFO in July for PGB approval
Draft credit screening guidelines for water districts	Terms of reference for the TA team have been finalized; awaiting USAID waiver to subcontract study to CRISIL, an Indian firm
Training workshops on familiarization with the water sector and utility operation indicators, credit screening of water utilities.	Training seminars will be conducted in August 2007
Study tour for 8-10 participants to examine US experience with pooled financing mechanisms	The study tour will be conducted on September 15-23, 2007
Component 2: Water Supply and Sanitation Project Preparation	
Prioritization criteria developed and approved	Deemed not necessary; prioritization criteria has

by the PWRF Steering Committee and DBP	been included in the DBP's OPG for PWRF
At least 7 and up to 10 projects are ready for PWRF funding	TAs being provided to three (3) WSPs, projects of seven (7) WDs and (2) LGUs projected to be ready for financing within 2007
Credit ratings completed for at least two projects	Will be undertaken as part of the preparation of the WD credit rating manual
Plan developed for establishing a Project Development Facility	First draft of concept paper prepared
Establishment of procurement mechanism for providing technical assistance needs to utilities	

Component 3: Water and Finance Sector Strengthening

Implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines	
Recommendations on segmentation of the market based on credit classification criteria consistent with international standards	Will be part of the preparation of the WD credit rating manual
Recommendations on short-term credit program to assist non-creditworthy utilities to reform and restructure operations to improve creditworthiness	
Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance	
Long-term business planning framework for water districts	

Component 4: Overall Program Support

At least one meeting per quarter for the Steering Committee and the Technical Working Group	Last SC meeting was held on March 6, 2007
Meetings and consultations with the Implementation Committee as necessary	
Technical papers, presentations, inputs to USAID reports and communication materials on the PWRF as may be required by USAID	
Set up PWRF Website	Under preparation