

The Philippine Water Revolving Fund Support Program

QUARTERLY REPORT

January 1 – March 31, 2008



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

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

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Executive Summary

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

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

Intermediate Result 1.2: Urban environmental management improved.

Background:

The PWRF Support Program started as a one-year project with four option years. The first year is for the program's Phase 1, and is focused on the set up and operationalization of the PWRF credit facility in the Development Bank of the Philippines. However, the PWRF set-up is contingent on the availability of the JBIC loan to DBP, previously anticipated in March 2007, but to date has not been committed. In view thereof, USAID decided to extend Phase 1 to March 2008. It also decided to exercise the option years. USAID's decision to continue the assistance stems from the desire to sustain the momentum gained in financing reforms, favorable response from the PFI market, and the growing interest shown by the Philippine development partners to pursue the reforms in the sector. However, USAID committed funds only for the Year 2 work plan. The Year 2 work plan focuses on capacity and institution building for PFI participation in the sector's financing, policy reforms, and formulation of the long-term financing mechanism with domestic capital market participation.

This accomplishment report shows the status of deliverables and activities of the Years 1 and 2 Work Plans.

PWRF Targets in support of IR 1.2

Accomplishments for the Quarter (January-March 2008)

A. Year 1 Outstanding Deliverables

Component 1: PWRF Set-up

- | | |
|-------------------------------|---|
| 1. PWRF Business Plan for DBP | ▪ Deferred until pledging of the JBIC-PWRF loan to DBP; JBIC loan appraisal is scheduled on April 17-25, 2008. Pledging is anticipated in June or July 2008. |
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Component 3: Policy Reform

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| 2. Draft Manual on WD Credit Rating (for LGUGC) | ▪ Ongoing; presented the credit rating model for water districts to LGUGC and key stakeholders. The model was concurred by LGUGC. The consultant is currently preparing the credit rating manual. The draft manual will be presented in April. Final draft |
|---|---|

- 3. Rationalization Guidelines
 - report and training on use of manual is scheduled in May.
 - **Delivered;** both papers have been submitted to DOF. Our team is awaiting final concurrence of DOF on the recommended rationalization guidelines. Submission of the recommendations to ICC rests with DOF.
- 4. Position Paper on Agri-agra eligibility of water sector loans
 - **On-going;** DOF has submitted to and discussed the position paper on agri-agra eligibility with BSP. BSP Deputy Governors Espenilla and Guinigundo agreed in principle with the recommendations. PWRF-SP team member currently helping DOF work out the mechanics of the implementation guidelines with BSP.

B. Year 2 Work Plan

Component 1: Support to PWRF Development

Targets for the Quarter

- Continue training of PFIs and other PWRF stakeholders on Water Project Appraisals + DBP RMC Briefings on PWRF
- Finalized model on guarantee fee pricing (for LGUGC; TA led by DCA)
- Action Memo to DCA for the new guarantee agreement
- TA to LWUA on securitization process
- Final report of concept paper on bond financing
- The third consultative meetings with DBP's Regional Marketing Centers on the PWRF co-financing window and the credit rationalization guidelines was held in Davao City on January 17-18, 2008. The representatives from DBP were from the Mindanao region and comprised of regional heads and account officers.
- Conducted the training workshop on Water Sector Overview and Water Supply and Sanitation Project Appraisal in Davao City on January 17 – 18, 2008. The workshop was attended by 34 DBP and PFI officers. Out of the 34 participants, 11 came from four PFIs and 23 from DBP's Mindanao Regional Offices. The workshop had the General Manager of Davao City WD present the WD's funding requirements.
- USAID Mission submitted the final report on the methodology for guarantee fee to LGUGC.
- Assisted USAID Mission finalize Action Memo to DCA's Credit Review Board in relation to request for approval of new guarantee agreement with LGUGC; also provided inputs to the Mission's negotiation with LGUGC. CRB approved the guarantee agreement last April 9, 2008.

- The MOU between PWRF and LWUA on the Technical Advisory Assistance for the Securitization of LWUA Receivables was submitted to LWUA and was duly concurred with by Acting Deputy Administrator for Investment and Financial Services, Wilfredo Feleo. The MOU will still need final approval from the Board of Trustees (BOT). PWRF also conducted preliminary assessment of the feasibility of LWUA Securitization using initial data provided by LWUA and presented the findings to Mr. Feleo, Mr. Landingin, Usec Paul and Ms. Helen Habulan of MDFO. LWUA's possible asset securitization has also been discussed with potential investors such as the Investment and Capital Corporation of the Philippines (ICCP) who are looking for long term investment opportunities.
- The draft final report of the discussion paper on securitization/ bond financing of water projects was submitted to the Steering Committee members for comment during the last Committee meeting held on March 13, 2008.

Component 2: Project Development

Targets for the Quarter:

- Assistance on project development (on demand)
- TA to MCWD and CCWD on septage management
- Final report on concept paper for establishing a Project Development Facility
- Implementation guidelines for the LWUA-administered Project Development and Efficiency Improvement Facility
- No projects were given to the team for review.
- A Memorandum of Understanding for a feasibility study (FS) on a septage management project and a business model to facilitate replication in other water districts was signed last February 26, 2008 with Metro Cebu Water District (MCWD). PWRF-SP enlisted the assistance of Philippine Sanitation Alliance, another USAID project to help with the social preparation aspect of the study. The FS and business model are expected to be completed by September 2008.
- A similar MOU was signed with Cabanatuan City WD (CCWD) on 11 March 2008 for the conduct of a pre-investment septage management study and a

business model for similar sized WDs.

- The final draft of the concept paper for the Project Development Facility was sent out to the members of the PWRF Technical Working Group for comments. The members were given until 18 April to submit their comments, if any.
- PWRF-SP is providing assistance in the preparation of guidelines for the Project Development and Efficiency Improvement Fund (PDEIF). The guidelines set forth the eligible projects/activities to be funded, loan terms, and the condition to earmark and ring-fence the fund, among others. The framework was approved by the LWUA board on February 26, 2008, and was presented to the EO 279 Oversight Committee Meeting on April 10, 2008.

Component 3: Policy and Institutional Strengthening

Targets for the Quarter

- ICC Resolution on water credit rationalization;
- Assistance to DOF in the discussions with Central Bank on position paper for agri-agra eligibility of financing of water projects
- Business plan training modules for water utilities
- Conference on water utility reform
- PWRF-SP submitted the draft ICC resolution to the office of Usec Paul for review and comment. In the last meeting of the Steering Committee held on 13 March 2008, Usec Paul clarified that part of their review is to determine the appropriate executing instrument, i.e., they will consider an alternative instrument to the NEDA-ICC resolution. For example, Usec Paul said it could be through an issuance from DOF-CAG, whose review is a pre-requisite to ICC evaluation anyway.
- DOF has submitted to and discussed the position paper on agri-agra eligibility with BSP. BSP Deputy Governors Espenilla and Guinigundo agreed in principle with the recommendations. PWRF-SP team member currently helping DOF work out the mechanics of the implementation guidelines with BSP.
- The consultant for the business plan training modules has been engaged and has started preparing the detailed business planning framework.

- Discussed with NWRB and NEDA Infrastructure Staff (group handling WSS Roadmap) the plan for a conference-workshop on WSS regulation, to get consensus on the action plan for the regulatory reform agenda. Also discussed with AusAid's Partnership for Economic Governance Reforms, regarding possible collaboration on the regulatory reform initiatives. AusAid agreed, and for a start will provide a resource person to the conference.

EcoAsia's collaboration on the regulatory reform conference was also sought. EcoAsia will explore arranging a twinning agreement between NWRB and a regulatory body in Malaysia for capacity building purposes. EcoAsia also indicated that they may be able to provide international experts to the planned conference.

Component 4: Overall Support to USAID and JBIC

Targets for the Quarter:

Steering Committee and TWG meetings

- Coordinated with LWUA the field visit of DOF/Usec Paul to selected WDs in Mindanao last January. The field visit was intended to familiarize Usec Paul with the operations of water districts.
- Held last February 1, 2008 a Monitoring Meeting with USAID, JBIC, and LGUGC in attendance
- Held a Work Planning workshop in Subic, Olongapo on February 11-12, 2008, with PWRF-SP's Cognizant Technical Officers, to map out the projects strategic direction and year 2 work plan.
- Held a Steering Committee Meeting on March 13, 2008
- The COP
 - ◆ Presented PWRF updates and highlight of US Study Tour at the SO4 Partners' Meeting on January 28, 2008;
 - ◆ Attended the pre-PDF meeting of the Infrastructure WG organized by World Bank on March 10. The group agreed on the key result areas for the water sector reform program; and
 - ◆ Attended the Donor's Meeting on the Philippine Water Sector Roadmap organized by GTz on March 31, 2008.

Chapter I: Summary of Project Objectives and Results

A. Project Objectives and Scope

The Clean Water for People Initiative (CWPI), a partnership of the Governments of the United States of America (USG) and Japan (GOJ) to help selected countries achieve their targets for water supply and sanitation under the Millennium Development Goals (MDG) spurred the development of the Philippine Water Revolving Fund. The Philippines is one of the 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 to meet its MDG commitments; and
- Strengthen the capacity of key institutions in the water and finance sectors – chiefly water utilities – to effectively obtain and utilize funds for infrastructure investments.

A. 1 PWRF Support Program Objectives

The PWRF Program is divided into 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.

Phase 2 was supposed to focus on “PWRF Operations”. However, since the PWRF lending window has not been established yet due to the delay of the JBIC loan, USAID in deciding to continue the TA, recognized the need to continue support for 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. Phase 2 thus retains the key components under the Phase 1 Work Plan.

A.2 Project Scope and Expected Outputs

The remaining deliverables under Phase 1 are:

- PWRF Business Plan for DBP
- Credit Rating System for Water Districts

USAID extended Phase 1 execution until March 2009. The credit rating manual is expected to be completed in May 2008. However, the PWRF Business Plan preparation is deferred until the JBIC loan is committed. The loan appraisal is scheduled on April 17 to 25, 2008; and if all goes well, pledging is anticipated in July 2008.

For Phase 2 our team agreed with USAID on the following priorities:

Component 1: PWRF Institutional Development - involves establishing and operationalizing the PWRF lending program and putting the DCA guarantee in place and building capacity of key implementers

Expected Outputs:

- Action Memo to DCA requesting approval of its Credit Review Board on the new guarantee agreement with LGUGC
- TA to LWUA for the pilot transaction securitization of its receivables
- On demand-basis, TA to a water district for a bond issuance
- Concept and Design of a long-term financing mechanism (informed by the result of the policy analysis on resource allocation)
- Training Workshops for PFIs and PWRF Partners on Water Project Appraisal
- Water Project Appraisal Guidebook for Lenders
- Subject to JBIC loan commitment, institutional support to DBP to establish PWRF lending window

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.

Expected Outputs:

- On demand basis, TA to water utilities to update or upgrade pre-investment studies
- Feasibility Assessment and Design of a Project Development Facility
- Implementation guidelines for the LWUA-administered Project Development and Efficiency Improvement Fund
- Feasibility analysis of septage management in water districts and business model
- LGU training program on WSS project development

Component 3: Water and Finance Sector Strengthening - involves helping implement key policy and institutional reforms to improve viability of PWRF.

Expected Outputs:

- Policy paper on the rationalization of public resource allocation for water and sanitation projects
- Support to DOF request to BSP for financial incentives for water sector lending
- Technical assistance to DOF for the coordination of water sector reform agenda (through the water sub-committee of the Philippine Development Forum)
- Conference on regulatory reform for water supply and sanitation
- Selected water utilities trained in long-term business planning and business plans required by LWUA for tariff and/or loan application approvals

Component 4: General PWRF Program Support- involves serving as the technical secretariat to the PWRF Steering Committee and Technical Working Group and supporting USAID in reporting, advocacy, and collaboration with JBIC on the PWRF. 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 scheduled as necessary with the key implementers
- Technical papers, presentations, inputs to USAID reports and communication materials on the PWRF, as may be required by USAID
- Set up and maintain PWRF Support Program Website

B. Overview at end of the Quarter (January 1 to March 31, 2008)

Our team held a retreat with USAID in February to take stock of where we are and what would be the priority action plan as we move forward. The result is a revised work plan. While the main objectives remain, the key tactical adjustments are:

- Re-focus Component 1 on the development and piloting of capital market-based financing schemes, such as the securitization of LWUA receivables; nonetheless keep a place holder for the institutional support to DBP for the co-financing arrangement once the JBIC loan is committed;
- Re-orient the approach of Component 2 on project development; instead of actively identifying projects and offering technical assistance for improving pre-investment studies, provide the technical assistance on demand basis; assistance could be provided

- to projects in the pipeline of DBP or LGUGC; invest greater effort in long-term enablers for project development, specifically on the capacity building of LGUs on project development and institutionalizing a project development facility;
- Under Component 3, add a policy analysis on the rationalization approach for resource allocation; in EO 279, the government subsidy will be allocated on the basis of creditworthiness; the policy analysis will review if this premise responds to the long-term goal for the sector. In particular, allocation of government subsidy, as in the case of US Revolving Funds, may be on the basis of development objectives, such as compliance with standards of the Clean Water Act.

The revised work plan was submitted to USAID for its concurrence at the end of February.

The significant developments during the quarter are:

- LWUA affirmed its interest on the securitization transaction. We are keen on getting it implemented on two counts: it opens a new paradigm of raising funds for LWUA and it will test the appetite of the domestic capital market for water sector projects.
- The agreement of government and donors to establish a sub-committee for water under the PDF is a welcome development. It can facilitate the agreement on the overall reform agenda for the sector and coordinate more efficiently the contributions of all key stakeholders to the pursuit of the agenda. It also established the leadership of DOF not just in financing reforms but in requisite institutional and regulatory reforms. DOF will co-chair the sub-committee with NEDA.
- The water sector roadmap, an effort led by NEDA shall be the anchor of the reform agenda. The sub-committee will work closely with the steering committee and technical secretariat of the roadmap.
- PWRF-SP has initiated discussions with other donors and NWRB and DOF to sponsor a conference on regulatory reforms, which will bring together executive and legislative representatives to discuss the draft bill for a Water Regulatory Commission. The agenda will be enriched by presentations/discussions of international resource persons on experiences and best practices on regulatory reform. With USAID's advocacy, we have been successful in harnessing support from other development partners, such as GTZ, WB, WSP, AusAid, Eco Asia—another USAID project. Each will have contributions, such as policy papers, draft bill, resource persons.

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

Component 1: PWRF Set-up and Institutional Support

Briefing of DBP Regional Marketing Center (Mindanao Region) – We hosted the third regional DBP-RMC briefing on the PWRF financial structure and operating policy guidelines in Davao City. We also presented the proposed credit rationalization guidelines.

Training of DBP and PFIs on Project Appraisal – We conducted the third of the series of workshops for PFIs and DBP account officers on WSS project appraisal and familiarization with the water sector policy, institutional and regulatory framework in Davao City to cover the Mindanao region. One of the highlights of the workshop was a presentation by Engr. Rodora Gamboa, General Manager of the Davao City of the WD's funding requirements and capital expenditure plans for the medium term. We had 34 participants, 11 representatives from four PFIs and 23 from DBP's Mindanao Regional Offices.

Finalized model on guarantee fee pricing – The DCA consultant, Dr. Reid Click finalized the methodology for guarantee fee pricing for LGUGC. We provided Dr. Click a local consultant who did the cost review; and general backstop support.

Action Memo to DCA for the new guarantee agreement – We provided the background analysis for the risk assessment, e.g., review of LGUGC, economic analysis of water sector investments, and review of water districts. We also helped draft the action memo and helped with the sensitivity analysis used in the negotiation with LGUGC.

TA to LWUA on securitization process – We conducted a number of briefings for LWUA and DOF officials on the proposed asset-backed securitization of LWUA receivables. While waiting for LWUA's request for legal opinion on their mandate to do securitization, we reviewed similar local deals and tried to draw lessons therefrom. We also consulted with an investment house to get their initial impression on the appetite of the market for such an instrument for water projects. The investment house said it had apparent potential, however much depends on how it will be structured to provide an attractive risk reward ratio. At least for the initial offer, investors may look for belts and suspenders in the security package.

Discussion Paper on Bond Financing of Water Project - The draft final report was submitted to the members of the PWRF Steering Committee for comments. Its intent is to raise awareness of the Committee on an alternative financing scheme through the domestic capital market, and its advantages. The discussion paper presents the conceptual framework for a bond issuance for water projects. It also discusses the untapped opportunities in the financial market, i.e., that lending to the water sector is less than .1% of the total resources, and the credit enhancements and enabling environment that will make it attractive. The paper also tackles the LWUA asset-backed securitization, which will be an opportunity to test the appetite of the market, as well as expand the paradigm of LWUA for sourcing funds.

Component 2: Water and Sanitation Project Preparation

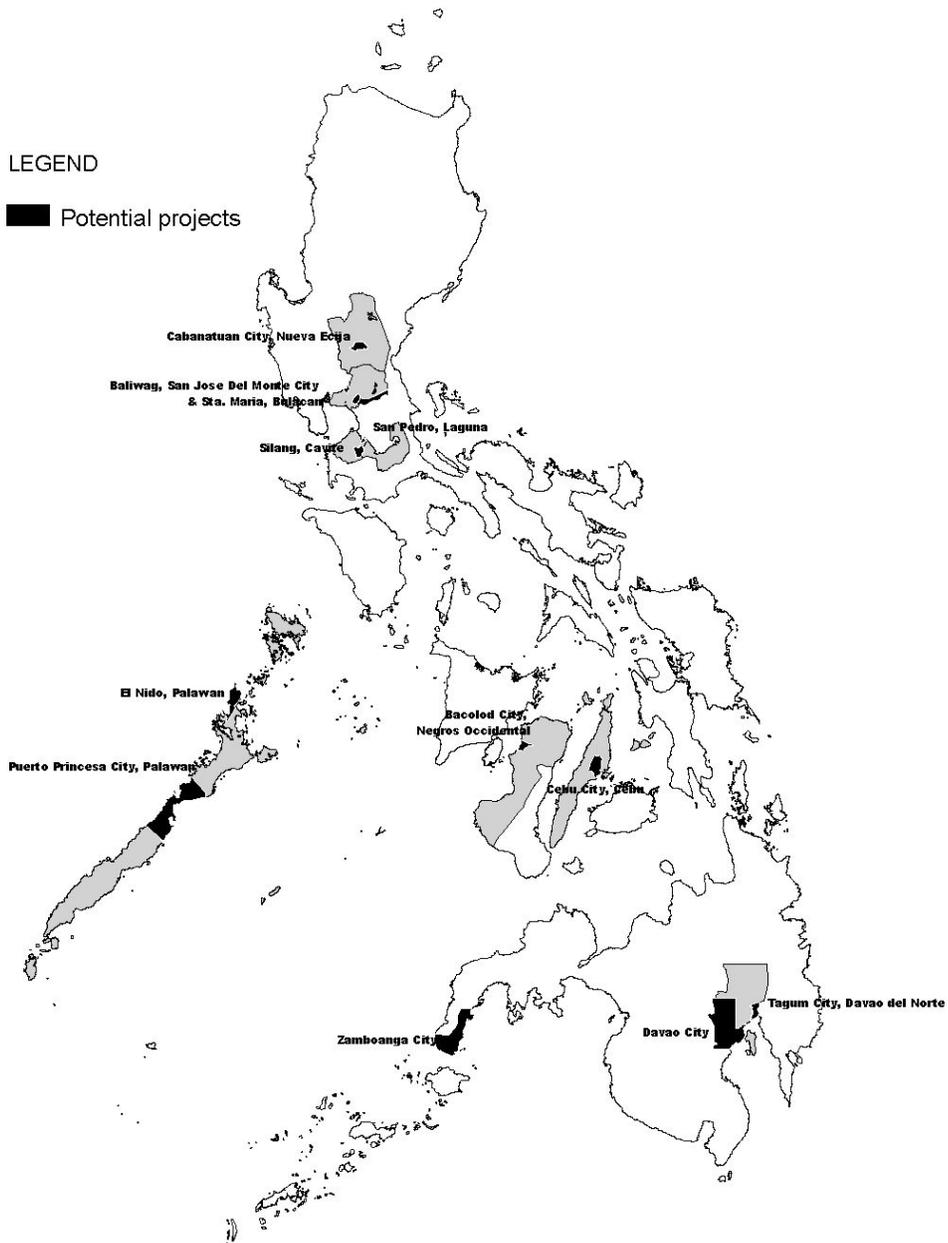
Review of potential projects for PWRF financing – The table below shows the status of the projects identified as potential candidates for PWRF financing.

To date five projects (Silang, Calamba, Laguna, Indang and San Fernando) have accessed PFI financing and have been enrolled with DCA for re-guarantee cover; one more projects Sta. Maria is in process for loan financing by a PFI. Sta. Maria will also be enrolled for DCA re-guarantee. Four projects (Dagupan, Cabanatuan, Puerto Princesa and El Nido) are all ready for PWRF financing. Davao Water District also has in its 2008 pipeline a number of projects with total cost of about Php600 million ready for PWRF financing.

WSP	Project Description	Issues/Status
Davao WD Classification: CW	The WD has the following proposed projects: For 2008: 1. Riverside (with technical evaluation) Project Cost: P19M 2. Toril (with technical evaluation) Project Cost: P20M 3. Lubogan (with technical evaluation) Project Cost: P27M 4. Cabantian (with feasibility study) Project Cost: P30M 5. Indangan (with feasibility study) Project Cost: P55M 6. Dumoy (with feasibility study) Project Cost: P231M 7. Panacan/Bunawan-Lasang (with feasibility study) Project Cost: P284M Other Projects in the Medium-Term: 1. Tugbok Project Cost: P211M 2. Tamugan Surface Water Development Project Cost: P3 billion	WD evaluating different financing offers and will consider an offer sheet from DBP or other financing institutions. In discussions with LGUGC, GM indicated that she will ask for Board clearance to send a letter of intent for a project financing application Project FS for Dumoy and Bunawan-Lasang projects have been forwarded to LGUGC and DBP. Tamugan Project FS updating being tendered. FS will be undertaken in 2008 and will be completed by early 2009.
Puerto Princesa WD Classification: SCW	The project involves the expansion and improvement of the water district system in 36 barangays. The proposed works are: 1. Drilling of seven production	The technical sections of the project feasibility study have been prepared by the LWUA. The PWRF Team assisted the WD in the review of the system

WSP	Project Description	Issues/Status
	<p>wells</p> <ol style="list-style-type: none"> 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 P340M (Phase 1).</p> <p>Phase 2 cost: Php342M (2012-2013)</p>	<p>implementation and project design as well as the project financial analysis. DBP and LGUGC are presently reviewing the project proposal.</p>
<p>Sta. Maria WD</p> <p>Classification: SCW</p>	<p>Scope of Work is being reviewed by the WD.</p> <p>Estimated project cost is P135M</p>	<p>The loan was approved by PNB on Dec 20, 2007. Documentation process is on-going. Expected financial closing by April 2008.</p>
<p>Cabanatuan City WD</p>	<p>The project involves construction of shallow wells, water treatment facilities, and transmission lines.</p> <p>The WD is also considering a septage management program.</p> <p>Estimated project cost: P70 M (Phase 1, including septage facilities); P30 M (Phase 2)</p>	<p>Draft FS for water treatment prepared.</p> <p>PWRF will extend TA to the WD to develop their septage management program</p>
<p>San Pedro WD:</p> <p>Classification: CW</p>	<p>Project feasibility study completed.</p> <p>Estimated project cost: P300M.</p>	
<p>San Jose Del Monte WD</p> <p>Classification: SCW</p>	<p>Based on an on-going FS by a local consulting firm, the project will involve utilization of an additional 30,000 m³/day of water supply from MWSS.</p> <p>Estimated project cost: P700 M.</p>	<p>FS finalized in September 2007.</p>
<p>Metro Cebu WD</p> <p>Classification: SCW</p>	<p>MCWD Project Pipeline: P1,515 B (2008-2012)</p>	<p>These exclude alternative water source development projects.</p> <p>Carmen BOT project was cancelled by the WD.</p> <p>PWRF will extend TA to the WD to</p>

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



Technical Assistance for Project Development – We submitted the final report for the Cabanatuan City Water District (CCWD) technical study on the comparative analysis of alternative treatment systems, including capital and operating cost estimates. CCWD is currently in discussion with LGUGC for the financing of the project's implementation with a commercial bank.

Special Assistance to Jolo Water District – USAID requested us to assist Jolo Water District with capacity building to complement the capital grant assistance by Growth with Equity in Mindanao (another USAID project). We met with the Jolo WD management to do agree on the priority training needs, which included: efficiency improvement planning, business planning and reorganization and team building.

Draft Final report on the concept paper for establishing a Project Development Facility (PDF) – We submitted the draft final report to the PWRP Steering Committee for comments. The paper discusses the Philippine and international experiences in operating project development facilities. Lessons learned therefrom were considered in the conceptual framework. The next step to the concept paper is the preparation of the design and implementation plan.

Implementation guidelines for the LWUA-administered Project Development and Efficiency Improvement Facility (PDEIF) – Parallel to the preparation of the PDF concept paper, DOF was able to get subsidy for LWUA to capitalize a project development and efficiency improvement fund. The Fund has a PHP 125 million allocation each for project preparation, and quick gestating capital projects for efficiency improvement, such as reduction of non-revenue water. We helped LWUA prepare the policy and implementation framework, which was approved by its Board of Directors in March 2008. We are currently helping LWUA prepare the operating guidelines. The PDEIF was factored in the PDF concept paper. However, presently, it services only water districts. We will still need to address the needs of Local Government-run utilities.

TA to MCWD and CCWD on septage management – We signed MOUs with MCWD and CCWD to help them prepare feasibility studies for septage management. The feasibility studies will be used as the platform to also prepare business models for water districts on septage management. For the MCWD Study, we will work with the Philippine Sanitation Alliance on the social preparation and promotion of LGU buy-in, specifically in getting an ordinance that will support the septage management service.

Component 3: Water and Finance Sectors Strengthening

Water District Credit Rating Manual – After the presentation to LGUGC and key stakeholders of the credit rating model last March 7, 2008, CRISIL (an Indian-based credit rating company, majority owned by Standard and Poors), the PWRP-SP sub-contractor, drafted the credit rating manual. The manual will be presented to LGUGC in the last week of April for its review. It will then be finalized and submitted to LGUGC in mid May, together with the report on the pilot ratings for Silang and Laguna Water Districts. Moreover, we will present

the credit rating model PWRF Steering Committee and EO 279 Oversight Committee and train LGUGC personnel on the use of the Manual.

Incentives to promote private sector lending for water supply and sanitation projects – Earlier we prepared a position paper to qualify loans or securities for water supply and sanitation projects as alternative compliance to the mandatory credit of the Agri-agra Law¹. DOF submitted the position paper to Central Bank (CB) and got a schedule in April to discuss the matter with the concerned CB Deputy Governors.

Business plan framework for water utilities – Taking off from the business plan outline prepared in the last quarter, we prepared the business plan framework for water utilities. The framework describes the purpose, scope, data requirements and financial model for the business plan. The next step will be the preparation of training modules, training of selected water districts and institutionalization of the training program in LWUA.

Technical secretariat support to PDF sub-committee for water – In the pre- Philippine Development Forum (PDF) meeting on infrastructure held last March 10, the group endorsed the proposal to spin off an Infrastructure Working Group (IWG) from the Growth and Investment Working Group and to establish under the working group a sub-committee on water. In the follow-up meeting on March 12 the group agreed on DOF-NEDA co-chairmanship of the sub-committee. The PWRF Steering Committee in its March 13 meeting agreed that the membership of the sub-committee be composed of GOP representatives in the Philippine Water Sector Roadmap Steering Committee and private sector and donors involved in water sector development. Upon the request of DOF we drafted the Terms of Reference of the sub-committee, and submitted it to Undersecretary Paul shortly after the SC meeting.

Relatedly, DOF requested for a technical associate to backstop Undersecretary Paul in the facilitation of WSS financing and other related policy reforms advocated by the PWRF initiative, and coordination of related activities thereon. The technical associate will specifically support Undersecretary Paul's leadership of the upcoming subcommittee on water under the PDF. The associate will be fielded in early April.

Component 4: General PWRF Program Support

Field visit of DOF/Usec Paul to selected WDs in Mindanao – We coordinated with LWUA the field visit of USec Paul and his staff Olga Arceo to a number of WDs in Mindanao to familiarize him with the management of water districts. He visited the following WDs: Davao City, Metro Kidapawan, Bansalan, Digos, and Sta. Cruz.

Participation in conferences - The COP participated in three meetings:

¹ The Agri – Agra Law (Presidential Decree No. 717), *Providing an Agrarian Reform Credit and Financing System for Agrarian Reform Beneficiaries through Banking Institutions* was enacted into law in May 1975. It requires, among others, all banking institutions, both government and private, to set aside at least 25% of loanable funds¹ for agricultural credit in general. Most of the private banks have found it difficult to comply with this requirement.

- SO4 Partners' Meeting (January 28, Manila);
- Pre-PDF meeting of the Infrastructure Working Group (March 10, Manila);
- Donors' Meeting on the Philippine Water Sector Roadmap (March 31, Manila)

Steering Committee meeting – We held last March 13 a Steering Committee meeting to present to the members the draft ICC resolution on the rationalization of the water credit flows and the draft guidelines of the PDEIF. The proposed sub-committee on water under the Infrastructure WG was also discussed. We also updated the Committee on our Year 2 work plan and informed them of the imminent signing of the new DCA-LGUGC guarantee agreement.

Issues and New Development

- The Writ of Injunction on EO 279 remains unresolved. Fortunately DOF is pursuing the reconvening of the Oversight Committee to pursue the discussion on the critical financing reforms. The Committee is meeting in April to discuss LWUA's progress in preparing its financing program based on the new guidelines of EO 279.
- Government concurrence on the recommendations on the water credit rationalization guidelines is still pending.
- The LWUA securitization process is not proceeding as expeditiously as planned. LWUA has yet to secure a favorable legal opinion from the Office of the Government Corporate Counsel on their authority to undertake asset-backed securitization. LWUA also has yet to get COA guidance on the accounting of the ABS transaction. We believe it is critical to get these issues out of the way before the process is started.
- There is again a change in the leadership of DBP's Program Department, which is the lead for PWRF's establishment. Mr. Mar Encio retired effective March 31, 2008. We were told more officers involved in the PWRF are also expected to retire within the year. We hope the processing of the JBIC loan for EDP/PWRF will revive the momentum in DBP to deal with the policy and operational issues related to the eventual implementation of the PWRF financing modalities: co-financing, whole sale lending to PFIs, extension of stand-by credit lines for liquidity cover of PFIs and lending to private developers, subject to counterpart equity financing of at least 20%

Major Activities and Targets for the Next Quarter

Table 1 shows the major activities of the project for the next quarter (April to June 2008). The targets are:

Project Component	Targets for the Next Quarter
Component 1: PWRF Set up and Institutional Support	<ul style="list-style-type: none"> ▪ Continue TA to LWUA on securitization process ▪ Start drafting the Project Appraisal Guidebook ▪ Finalize the discussion paper on bond financing ▪ Finalize report on the LGUGC Credit Rating Manual and

Project Component	Targets for the Next Quarter
	present model to PWRF Steering Committee and EO 279 Oversight Committee <ul style="list-style-type: none"> ▪ Train LGUGC personnel on the use of the Manual
Component 2: Water Supply and Sanitation Project Preparation	<ul style="list-style-type: none"> ▪ Provide assistance on project development (on demand) ▪ Continue TA to MCWD and CCWD on septage management ▪ Sign MOU with Jolo Mainland Water District and prepare training program ▪ Finalize PDEIF Operating Guidelines ▪ Prepare Model RFPs/Tender Documents for Bulk Water Supply
Component 3: Water and Finance Sector Strengthening	<ul style="list-style-type: none"> ▪ Finalize WD Credit Rating Manual (for LGUGC) ▪ Finalize ICC Resolution on water credit rationalization; ▪ Assist DOF in the discussions with Central Bank on the position paper for agri-agra eligibility of water projects ▪ Prepare business plan training modules for water utilities ▪ Start with preparations for conference on regulations ▪ Prepare policy paper on rationalization of public resource allocation for WSS
Component 4: Overall Program Support	<ul style="list-style-type: none"> ▪ Hold Steering Committee and TWG Meetings ▪ Provide technical papers on request to the EO 279 Oversight Committee ▪ Convene and provide technical secretariat support to the PDF Water Sub-committee; relatedly field technical associate for Usec Paul

Chapter IV: 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
PWRF Operating Policy Guidelines of the JBIC loan to DBP	Completed; Submitted final draft of integrated EDP and PWRF OPG to DBP
MOA between DBP and PFIs and inter-creditor agreement	<i>Dropped.</i> In lieu thereof, solicited comments of PFIs on the standard loan agreement, including the creditor agreement and incorporated them in the final documents.
Draft Operating Guidelines and Manual of Operations	<i>Dropped.</i> DBP said the OPG will suffice as its existing credit manual will be applied to PWRF.
Business plan and marketing strategy of the PWRF	Postponed until after the pledging of the JBIC loan
Finalized standard loan agreement, guarantee agreement, MDFO loan agreement	Completed; Consolidated the comments of the various PFIs on the standard loan documents on the PWRF. The following PFIs have submitted their respective comments on the standard loan documents: Bank of the Philippine Islands, Allied Bank, Banco de Oro.
Draft guidelines for the Standby Credit Line	Completed. Submitted final draft of the guidelines to MDFO
Credit rating manual for water districts	On-going; scheduled for completion in May 2008
Training of PFIs, DBP and other PWRF Stakeholders on Water Project Appraisal	Completed. Conducted training seminars in Manila, Cebu, Davao and Clark, Pampanga to cover participants from North Luzon.
Study tour for 8-10 participants to examine US experience with pooled financing mechanisms	Completed.
Inputs to the USAID Philippine Mission Action	Completed. The action memo has been

memo to the Development Credit Authority for the new guarantee agreement with LGU Guarantee Corporation	submitted to the Credit Review Board for consideration.
Briefing of DBP Regional Marketing Centers on the PWRF	Completed. Conducted 5 regional consultative meetings, coinciding with the training seminars on project appraisal.
Assistance to DBP in the preparation of the PWRF marketing plan	<i>Contingent on the commitment of JBIC loan</i>
DBP training on Loan Packaging and Syndication	<i>Contingent on the commitment of JBIC loan</i>
Water Project Appraisal Guidebook	
Reform program and action plan of the US SRF Study Tour Group	Completed. The action plan includes: setting up of a project development facility; more comprehensive rationalization of credit programs, capacity building assistance and support for regulatory reforms. The convening of the sub-committee under the PDF will be the first step in getting consensus on the overall reform agenda for the sector.
Concept and framework of bond issue for WSS project financing	Sent discussion paper on water supply bonds to SC members for comments
Assistance to LWUA's securitization exercise	Continued with the due diligence on the securitization; met with possible private investors and conducted preliminary assessment of the feasibility of the LWUA securitization. Preliminary findings were presented to DOF in aid of DOF's endorsement of the LWUA securitization.

Component 2: Water Supply and Sanitation Project Preparation

Prioritization criteria developed and approved by the PWRF Steering Committee and DBP	<i>Dropped. Deemed not necessary; prioritization criteria has been included in the DBP's OPG for PWRF</i>
At least 7 and up to 10 projects are ready for PWRF funding	Completed. Three projects with financial closing; three projects with loans in process; and six projects ready for PWRF financing.
Credit ratings completed for at least two	On-going; expected in May 2008

projects	
Plan developed for establishing a Project Development Facility	<p>Draft concept paper sent out to TWG members for comments.</p> <p>Currently preparing detailed guidelines for LWUA's Project Development and Efficiency Improvement Facility (PDEIF)</p>
Establishment of procurement mechanism for providing technical assistance needs to utilities	Will be prepared as part of the tools of the LWUA's PDEIF
TA for project feasibility update	On demand; no requests for TA yet
FS for Septage Management Project and Business Model for Metro Cebu Water District and Cabanatuan City Water District	MOU and TOR for MCWD and CCWD signed on 26 February and 11 March 2008 respectively
Training course for LGUs for project development, financing, and utility operations	TBD
Pilot ring-fencing of LGU-water utility account	TBD
Plan developed for institutionalizing a Project Development Facility	Submitted draft final report to the PWRF Technical Working Group members for comments.
Implementing guidelines of the LWUA-administered Project Development and Efficiency Improvement Facility	Implementation framework approved by LWUA's Board of Trustees on 26 February; currently preparing operating guidelines
Component 3: Water and Finance Sector Strengthening	
Implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines	Draft ICC guidelines submitted to DOF for comments
Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance	Submitted to DOF; DOF has sent paper to Central Bank and has scheduled meeting with concerned Deputy Governors in April.
Long-term business planning framework for water districts	Submitted the business planning framework for water utilities to LWUA for review; follow through work will include designing training program and preparing the modules, and institutionalizing the training in LWUA; consultant tasked to do above already engaged
Recommendations on the long term	TBD

financing policy mechanism for water supply and sanitation projects	
Recommendations on financial incentives for PFIs to lend to the water sector	Will prepare another position paper to Central Bank to decrease risk weight of credit to water utilities
Long-term business planning framework for water districts and training of selected water utilities	Submitted the business planning framework for water utilities to LWUA for review
LGUGC Pricing Policy and Framework	USAID has submitted the final report to LGUGC.

Component 4: Overall Program Support

At least one meeting per quarter for the Steering Committee and the Technical Working Group	Held last February 1, a monitoring meeting with USAID, JBIC and LGUGC and a Steering Committee Meeting on March 13.
Technical papers, presentations, inputs to USAID reports and communication materials on the PWRF as may be required by USAID	On demand
Set up PWRF Website	Under preparation
Meetings and consultations with the key implementing agencies as necessary	Periodically meeting with key implementers to resolve emerging issues
PWRF Performance Monitoring Plan	Under preparation
Technical Secretariat Support to the PDF Water Sub-committee	Submitted TOR of the sub-committee to DOF; will target convening of the Committee on May 2008