

The Philippine Water Revolving Fund Support Program

QUARTERLY REPORT

October 1 – December 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 JICA loan to DBP, anticipated in March 2007, but was not signed until September 2008. In view thereof, USAID decided to extend Phase 1 to March 2008, then again to March 2009. It also decided to exercise the option years. USAID's decision to continue the assistance stems from the desire to sustain the momentum gained in financing reforms, favorable response from the PFI market, and the growing interest shown by the Philippine development partners to pursue the reforms in the sector. While the Option Year 1 (Year 2) work plan focused on capacity and institution building for PFI participation in the sector's financing, policy reforms, and formulation of the long-term financing mechanism with domestic capital market participation, the Option Year 2 (Year 3) work plan will install the PWRF program window in DBP upon signing of the JBIC loan, establish mechanisms and provide technical assistance to enable local government units (LGUs) and water districts (WDs) develop a pipeline of bankable projects, develop the long term financing mechanism for water supply and sanitation projects, and strengthen selected water and finance sector institutions vital to the water sector reform program as outlined in the Philippine Water Sector Roadmap.

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

PWRF Targets in support of IR 1.2

Accomplishments for the Quarter (October - December 2008)

A. Year 1 Outstanding Deliverables

Component 1: PWRF Set-up

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|---|---|
| 1. PWRF Business and Marketing Plan for DBP | ▪ On-going; completed the Inception Report of the DBP TA |
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Component 3: Policy Reform

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|--------------------------------|---|
| 2. Position Paper on Agri-agra | ▪ Completed position paper, consultations with and letter of DOF to BSP requesting Agri-Agra eligibility |
|--------------------------------|---|

eligibility of water sector loans

of water and sanitation project loans. The request was denied by BSP. We then held consultations with BSP staff to clarify their reasons for denial, and prepared another letter for DOF seeking reconsideration. The letter is still pending with DOF.

B. Year 3 Work Plan

Component 1: PWRf Set-up and Institutional Development

Targets for the Quarter

- Assist DBP in preparing PWRf Marketing Materials
- Identify projects for PWRf financing
- Facilitate deal-making activities for PWRf
- Edit and print the Water Project Appraisal Guidebook for Lenders
- **Securitization-** Assist LWUA in drafting the RFP for Financial Adviser, Underwriter, and Bond Counsel.
- Cesar Virata and Associates Inc., a local firm, has been subcontracted to prepare the PWRf Marketing Materials. It submitted the Inception Report In December 2008
- Two prospective projects for financing were discussed with DBP and LGUGC—San Pedro WD and Metro Cebu WD.
- Assisted in the review of financial statements and investment documents of both San Pedro WD and Metro Cebu WD.
- The articles are undergoing final editing.
- **Held in abeyance;** LWUA requested to postpone the securitization process until it is able to clarify financing policy directions of its new Board of Trustees Chairman.

Component 2: Project Development

Targets for the Quarter:

- On demand basis, evaluate level of preparedness of project feasibility studies; or assist targeted utilities improve project feasibility studies, for financing from the PWRf; or assist LGUGC and DBP evaluate projects for financing
- Assist Jolo Water District with capacity building
- Finalize the concept paper on the Project Development Facility
- A TA on the preparation of a septage management study has been granted with Baliwag Water District in December 2008.
- The second training, i.e., values formation and project management, has been moved to the first quarter of 2009 at the request of Jolo WD.
- Completed

- Assist LWUA with the marketing of **PDEIF** and prepare model RFPs and tender documents for PDEIF proposals
- **Cancelled upon advice of LWUA**
- Assist MCWD and CCWD implement Septage Management projects
- The Phase 1 strategy of the MCWD septage management was revised upon advice of MCWD. The implementation plan is currently being reviewed by MCWD. The CCWD draft septage management study has been submitted for review by the WD.
- Conduct workshops to disseminate business model
- The workshops are targeted to be conducted starting March 2009.

Component 3: Policy and Institutional Strengthening

Targets for the Quarter

- Continue to provide technical support to DOF in securing BSP approval of agri-agra eligibility of water sector lending
- Prepare policy paper on rationalization of public resource allocation for water supply and sanitation projects
- Discussion paper and the SOW for the preparation of the policy guidelines are being drafted, following the directions agreed in the roundtable discussion of financing issues.
- Organize and conduct the roundtable discussion on rationalization of public resources for WSS
- Two roundtable meetings have been held, the last of which formally reconstituted the group into the Task Force on Financing and Infrastructure Investment of the PDF Sub-Working Group on WSS.
- Develop a financing reform agenda
- Organized the 3rd meeting of the sub Working Group in December 2008 where the three task forces reported on their progress in their respective Action Agenda
- Provide technical secretariat support to the PDF sub-Working Group on WSS
- Facilitate NWRB and LWUA's harmonization of their regulatory roles
- The TA with NWRB was signed in October. The action plan and core team however, was formalized in December.
- Assist NWRB develop a sustainable financing plan
- Scheduled to commence in January 2009

- Conduct training of selected water service providers on performance contracting and pilot testing
- Assist NWRB advocate corporate governance and performance contracting
- Conduct training on ring-fencing for DILG coordinators and selected LGUs and cooperatives
- Develop model schemes to expand water services in poor communities
- Put in place a grant program to implement model schemes
- Prepare training modules/toolkit on business planning for WDs and LGUs
- Conduct business planning training of trainers and selected WDs
- The training schedule was moved to the second quarter of 2009 to dovetail with the ring-fencing exercise with LGUs and water cooperatives
- Targeted to commence end of the first quarter of 2009; Awaiting finalization of the ring-fencing manual being prepared by WSP; peer review of the ring-fencing training manual is scheduled in February 2009.
- Scheduled to commence in January 2009
- The training modules/toolkit are being finalized
- The training of trainers and business planning exercise for five (5) pilot WDs were held in December 2008. The follow-up is scheduled end of March 2009.

Component 4: Overall Support to USAID and JBIC

Targets for the Quarter:

- Steering Committee and TWG meetings
- The first PWRf Steering Committee Meeting will be held in January 2009

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

A.2 Project Scope and Expected Outputs

USAID extended Phase 1 execution until March 2009. Continuing into the second year of Phase 2, our team agreed with USAID on the following priorities:

Component 1: PWRf Set-up and Institutional Development - involves establishing the PWRf program window in DBP upon signing of the JBIC loan and recommending the long term financing mechanism for water supply and sanitation projects.

Expected Outputs:

- Assistance to DBP on the establishment of the PWRf lending window
- Assistance to DBP in the preparation of the business and marketing plan for PWRf
- Training Workshops for DBP on project appraisal (second round)
- Water Project Appraisal Guidebook for Lenders
- Continuing updates of PWRf operating guidelines and loan documentation
- Assistance to LWUA on the securitization of loan receivables
- Roadmap for the long-term financing structure of PWRf

Component 2: Water and Sanitation Project Preparation - involves setting down mechanisms and providing technical assistance to enable local government units (LGUs) and water districts (WDs) to develop a pipeline of bankable projects.

Expected Outputs:

- On demand basis, provide technical assistance to water service providers to update or improve pre-investment studies
- Establish Help desk for septage management planning and implementation
- Implementation support to LWUA's Project Development and Efficiency Improvement Fund

Component 3: Water and Finance Sector Strengthening – involves strengthening selected water and finance sector institutions vital to the water sector reform program as outlined in the Philippine Water Sector Roadmap¹

¹ The preparation of the Philippine Water Sector Roadmap is jointly led by the National Economic Development Authority and National Water Resources Board. The Roadmap outlines the institutional, policy, regulatory and financing reforms for the water supply sector, with the end view of achieving universal coverage and efficient services.

Expected Outputs:

- Policy paper on rationalization of public resource allocation to WSS projects
- Support to DOF to put in place financial incentives for water sector lending
- Technical secretariat support to the PDF's sub-working group on water supply and sanitation
- Support for NWRB for the implementation of the regulatory reform action plan
- Training of LGUs on ring-fencing of water service operations and pilot implementation in five (5) LGUs
- Development of implementation strategies for reaching poor communities
- Training of LWUA trainers and ten (10) WDs on strategic business planning

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
- 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 (October 1 to December 31, 2008)

On financing - The euphoria from the PWRF launch, which signaled the operationalization of the PWRF Program was tempered by obstacles encountered in processing the loan of San Pedro WD, supposedly the maiden deal for PWRF. The experience of SPWD portends the difficulties for the program. In particular, LWUA review, grant of waiver is still a formidable hurdle. DBP revised its policy for pricing of loans, which effectively increased the cost of its loan component, thereby lessening the value of PWRF. Land Bank still offers concessional rates to creditworthy WDs, and apparently is targeting the signed deals for re-financing.

Apart from a project for Metro Cebu WD, no new projects were identified. Some of the WDs approached by PFIs and LGUGC stated that they are "waiting and seeing" if the LWUA chair will make good his pronouncement of deep cuts in LWUA's interest rates.

PWRF SP fared better in other areas:

On sanitation project development – We have substantially completed the FS of MCWD and CCWD for septage management. At least one other water district which has heard of this assistance requested the same, thus we are currently helping Baliwag WD. All three are leaders among peers and hopefully will influence others to also do programs for sanitation.

On capacity building – The strategic business planning training of trainers and pilot implementation in five water districts was well received. LWUA and the WD participants appreciated taking part in the enhancement of the guidebook and the accompanying excel-based model. Previously, training materials were based on the individual resources prepared by the trainers, thus, varied in scope and depth of analysis. The guidebook provides a standard outline and a systematic process for preparing the business plan.

On policy reform initiatives – The PDF Sub-working group for WSS and its Task Forces have been an effective forum for coordination of the reform agenda. In its last meeting in December, the Sub-Working Group has agreed on an integrated short term action plans to address top three priority issues in the areas of financing, capacity building, and regulation.

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

Component 1: PWRF Set-up and Institutional Support

Launching of the PWRF – The Governments of the Philippines, Japan, and the United States jointly launched the Philippine Water Revolving Fund (PWRF) lending window on October 20, 2008 at the Development Bank of the Philippines (DBP). We coordinated and led all the arrangements for the launch.



A **Collaboration Agreement on PWRF Implementation Measures and Guidelines** was signed by state-owned Development Bank of the Philippines (DBP), the Municipal Development Office (MDFO), LGU Guarantee Corporation (LGUGC), Japan International Cooperation Agency (JICA) and the United States Agency for International Development (USAID). Photo shows (from L-R) MDFO Executive Director Helena Habulan, USAID Mission Director Jon Lindborg, DBP President Reynaldo David, US Ambassador Kristie Kenney, DOF Secretary Margarito Teves, JICA Chief Representative Norio Matsuda, and LGUGC President Lydia Oriol.

It was attended by senior government officials, the U.S. Ambassador, representatives from the JICA and the Japanese Embassy, and other key stakeholders.

Assistance to DBP on the establishment of the PWRF lending window – Over the last three months, we have been meeting with DBP and JICA to discuss the EDP-PWRF Operating Policy Guidelines (OPG). In an earlier meeting, DBP advised the group that it will abide by the recommendation of the Monetary Board to price its loans to end borrowers based on: all in cost of the JICA loan + risk spread. Recently, DBP reversed this and said it will now base its pricing on PDST reference rates with the following formula: PDST rate + credit risk spread + fixing premium (up to 200 basis points for 18 year term loans). The credit risk spread is based on the internal credit risk rating by DBP (e.g. 100 bps for AAA accounts). This is due to the recent change in DBP's internal pricing policies on loans. This decision will increase the cost of PWRF financing, given that prevailing market interest rates are higher than the JICA loan all in cost.

Another provision in the OPG that was discussed was the issue of the standby credit line (SCL). As there is still no firm DBP management commitment in terms of availability and pricing, Ms Marissa Soriano suggested that SCL pricing mirror the commitment fee rate paid by DBP to JICA which is 0.1%.

JICA, on the other hand, has informed the group that it would require annual COA financial audit of the EDP-PWRF program, further stating that, in the future, any delay in the release of audit report could also affect the release of JICA funds. With regard to the participation of LWUA in the PWRF, JICA recommended that DBP should maintain the original PWRF structure/ arrangement (with no LWUA co-financing) at least on the first three deals.

With regard to projects for PWRF financing, two are currently being discussed, San Pedro Laguna Water District (SPWD) project and the Metro Cebu Water District (MCWD) project:

- On the SPWD deal, the loan amount for the new project is recommended to be reduced to Php100 million as the district has failed to get a LWUA tariff approval for the original amount of Php 400 million. In addition, SPWD indicated interest to refinance its existing

Php43 million loan from LWUA for better facilitation among partners. Note that with the refinancing, SPWD will no longer need to get the LWUA waiver for new loans, as well as approval of the required tariff adjustment.

- On the MCWD project, DBP expressed interest in financing the Php500 million expansion project on top of the district's existing P1.1 billion loan with DBP. DBP mentioned that MCWD has an AAA internal credit rating, and thus is likely to be assigned a low credit risk spread.

Assistance to DBP in the preparation of the business and marketing plan for PWRF – In November 2008, PWRF-SP sub-contracted Virata and Associates to carry out the technical assistance to DBP on the PWRF Marketing Plan. One of the initial activities is the conduct of focused group discussions (FGDs) among DBP marketing units and PFIs. The FGDs are scheduled in January 2009. Virata and Associates has submitted the Inception Report last December and is currently under review.

Component 2: Water and Sanitation Project Preparation

Review of potential projects for PWRF financing – Table 1 below shows the status of projects identified as potential candidates for PWRF financing.

In December 2008, Mabalacat Water District's loan has been signed but has yet to be enrolled with DCA for re-guarantee cover. It joins Calamba and Cabanatuan WDs which have also accessed PFI financing but have not been enrolled yet. Two WDS, Sta. Maria and Dagupan WDs have processed loan agreements ready for signing. Dagupan is waiting for LWUA approval of tariff adjustments required for the financial viability of the project; and Sta. Maria is waiting for progress on LWUA's proposal to do a bulk water supply project for a cluster of WDs in Bulacan. The latest deals being processed are San Pedro and Metro Cebu Water District's projects.

New TA for septage management - On November 18, we signed a Memorandum of Understanding (MOU) with the Baliwag Water District (see photo: Alma Porciuncula, PWRF-SP Chief of Party and Artemio Baylosis, Baliwag Water District General Manager) granting it technical assistance for a pre-investment study on septage management. The septage team held a kick-off meeting with the General Manager and the WD counterpart study team on December 8, 2008.



TA to MCWD and CCWD on septage management – MCWD requested revision of the implementation plan for Phase 1 of the septage management project to locate the treatment plant in a different city, in view of the disagreement with the Cebu City mayor to host the plant. Moreover, the mayor wants a pilot implementation in three barangays only, instead of covering the entire service area of MCWD in the City. The septage study team revised the plan: identified another site in a different municipality, revised demand projections, project cost, operating plan and financial analysis. PWRF-SP presented to MCWD the revised Phase 1 implementation plan on 18 December. In that meeting, we also discussed with MCWD the

activities that can be pursued after the feasibility study stage, including LGU consultations, land acquisition, public hearing for the proposed environmental fees, and tendering. We committed to continue assisting MCWD in the implementation phase.

As regards CCWD, we have presented the technical options for septage management and discussed Phase 1 recommendations with the Water District. We also submitted the draft feasibility study report for CCWD's review. We expect their comments in January 2009.

Component 3: Water and Finance Sectors Strengthening

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

- In its meeting on November 12, 2008, the consultative group on WSS financing consisting of representatives from ADB, AusAID, World Bank, USAID, DOH, NEDA and DBP was reconstituted formally into the Task Force (TF) on Financing and Infrastructure Investment of the PDF Sub Working Group on WSS. The group endorsed the financing principles and framework for WSS which mainly stipulates the shifting of creditworthy utilities to market-based sources, rationalization of grants to the water sector, and that concessional financing of less than creditworthy utilities be tied to a graduation program. These financing principles and framework and the rationalization of grants and subsidies for WSS were also discussed with the USAID DCA Team November 14. A white paper on the rationalization of grants and subsidies for WSS is being prepared based on the discussions.

Another discussion paper on the principles of EO 279 and related issues has already been prepared for the NEDA Secretariat's reference for the preparation of a NEDA Board Resolution reiterating the EO's financing policy guidelines. This Resolution is intended as a fall back for EO 279, considering the pending resolution of a court injunction on its implementation. The paper is intended as a guide for discussions at the NEDA InfraCom or ICC, and possibly even the Economic Managers Group.

Support for the Implementation of the Regulatory Reform Action Plan – PWRF-SP signed a technical assistance agreement with NWRB in November 2008 to strengthen regulatory processes and mechanisms to improve water service provision. The TA includes support for development of a sustainable financing plan (i.e., retention of revenues generated) for NWRB; training of NWRB on performance contracting; and NWRB activities in the advocacy and pilot testing of performance contracting arrangements with selected water service providers. For its part, NWRB identified the core teams that would be involved in the development of the sustainable financing plan and performance contracting activities.

The scope of work for the development of the NWRB sustainable financing plan has also been drafted. The financing plan is envisaged to identify sources of financing, including the possible retention of earnings, to enable NWRB to effectively carry out its economic regulatory activities (tariff setting, ring fencing, performance contracting and utility performance monitoring).

In the same vein, we also signed in November 2008, a technical assistance agreement with DILG for the ring-fencing of LGU-run water utilities. The TA will assist DILG in promoting, pilot-testing and institutionalizing ring fencing of LGU water services. This TA will dovetail with the finalization of the Ring-fencing manual being prepared by WSP and the pilot implementation in Antiquera LGU in Bohol.

Table 1: List and Status of WSS Projects with PFI Financing

		Loan Volume						Date of enrollment under DCA	Release Date
		LWUA		DBP		PFI			
Water District		Php (in million)	%	Php (in million)	%	Php (in million)	%		
Pilot Project under the Municipal Water Financing Loan Initiative (pre-cursor of PWRF)	Metro Iloilo/ Rehabilitation and expansion of Water System; Refinancing of LWUA Loans			138.672	75	46.224	25	April 7, 2006	March 31, 2006
Yr 1 Projects	Calamba/ Repair and Rehabilitation of Existing Water System					40	100	Not enrolled	June 29, 2007
	Legazpi/ Bulk Water Supply					105	100	Not enrolled	October 5, 2007
	Silang/ Rehabilitation and Expansion of Water System					189	100	September 28, 2007	November 29, 2007
Yr 2 Projects	Laguna/ Expansion of Water System					100	100	January 8, 2008	December 19, 2007
	San Fernando, Pampanga/ Rehabilitation and Expansion of Water System	23	10			203.4	90	April 17, 2008	April 9, 2008

(Continuation Table 1)		Loan Volume						Date of enrollment under DCA	Release Date
		LWUA		DBP		PFI			
Water District		Php (in million)	%	Php (in million)	%	Php (in million)	%		
	Indang/ Expansion of Water System					15	100	May 12, 2008	May 5, 2008
	Cabanatuan/ Rehabilitation and Expansion of Water System					250	100	For enrollment	June 27, 2008
Yr 3 Projects	Mabalacat/ Rehabilitation and Expansion of Water System	15	10			135	90	For enrollment	December 5, 2008
	Dagupan					100	100	Not yet closed	-
	Zamboanga	19.278	10			173.502	90	Not yet closed	-
	Sta. Maria	14.025	10			126.225	90	Not yet closed	-
Under processing	Metro Cebu			250		250			
	San Pedro			71.5		71.5			

Relatedly, the conduct of ring-fencing training of trainers (TOT) has been discussed with the Water and Sanitation Program (WSP). The TOT is targeted to be conducted in March 2009 to give allowance for the finalization of the manual. In this regard, WSP is organizing a peer review of the ring-fencing training manual in January or February 2009. The review team will consist of representatives from the LGA, BLGF, COA, LGUCC, DBM, CDA and an LGU. In a meeting on ring fencing with WSP and LGA held in early December, we discussed the activities to be undertaken in 2009 including the peer review of the ring-fencing manual, training of trainers, and roll out of ring fencing in at least two LGUs and one Cooperative-run utility, and institutionalization of ring fencing in the regular training programs of LGA.

Business plan guidebook and training guide for water districts – ValuAdd, led by Phil Giantris, developed the business plan model and the training guide for water districts. The PWRF SP team used these materials in the training of trainers on December 3-5, which was attended by a total of 26 trainers from LWUA and five WDs with Regional Training Centers. The 3-day business planning course covered strategic planning, resource programming, revenue needs analysis and tariff setting, implementation and monitoring plan. Eight of the trained trainers facilitated the business planning exercises with five (5) pilot water districts (Floridablanca, Orani, Baliwag, San Pedro and Metro Surigao) on December 9-11, 2008 (see photo). The pilot water districts learned the key elements of a business plan, how to use the business planning toolkit, and how to discuss the process of plan preparation, schedules and milestones. The trainers are expected to facilitate the process and mentor the key WD personnel in their respective business plan preparation. The completed business plans will be presented in April 2009 to the Water Districts' s Boards.



The business plan model and the training guide are being finalized by ValuADD and will be submitted to PWRF-SP in January 2009.

Technical support to DOF for its leadership of the sub-working group for water under the Philippine Development Forum – In its second meeting on 12 November, the PDF Sub-Working Group on Water Supply and Sanitation agreed to: (a) approve the Terms of Reference of the PDF/SWG WSS; (b) approve the SWG WSS Action Plan, 2008-2009; and (c) identify and confirm the composition of the SWG WSS Core Group and Task Forces. This Working Group also agreed to request NEDA to lead a high-level briefing on the Philippine Water Supply Sector Roadmap (PWSSR) in January 2009 to bring the new LWUA Chair and DOH Secretary up to speed regarding the development agenda and strategic direction of the sector. We also assisted the Chair (DOF) and Co-chairs (USAID and JICA) of the PDF/SWG SS prepare presentation and talking points for the 2nd PDF Working Group on Infrastructure meeting held in NEDA on 12 December 2008.

Component 4: General PWRF Program Support

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

- 2nd National Conference on Small Water Service Providers on October 16-17, 2008 in San Carlos University in Cebu City; and
- Workshop on the Water Sector Diagnostic Study conducted by the World Bank and Castalia Consultants on October 28, 2008 at the Discovery Suites in Pasig City.

Technical Support to USec Paul for the OECD Conference – We coordinated and provided technical support for the participation of USec Paul in the high-level conference organized by OECD in Paris, France on Dec. 2-3, 2008. We discussed the conference objectives and presentation requirements with OECD, then prepared background materials and talking points of Undersecretary Paul related to the high-level panel discussion on sustainable water financing. We also prepared at the request of OECD, a case in point discussion on the Philippines' experience in developing sustainable financing mechanisms, which will be an inset on a book that will be launched at the World Water Forum in March 2009, in Istanbul Turkey. The conference lauded PWRF as one of the innovative financing mechanisms that can be replicated in other countries. The conference recommendations will be presented to the World Water Forum.

DBP buy-out of PFI shares in LGUGC – A monitoring meeting was held between JICA and USAID in November to discuss the issue on the LGUGC PFI shares buyout by DBP. As a result of the meeting, we drafted letters for the DBP President and Sec. Teves, outlining the implications of the buy-out to private sector participation in WSS financing. At the request of Usec Paul, we also drafted a memo for Sec. Teves in December recommending the following:

- Enjoin DBP to desist from buying out the PFI shares and closing down LGUGC; and
- To address DBP's concern of double exposure, assist DBP in finding buyers for its share in LGUGC, including as a last resort, national government buying its share. DOF has the opportunity to direct the use of ODA grant funds to buy out the DBP shares. The 37% share of DBP in LGUGC has a book value of about PhP164 million².

As of this writing, Usec Paul is still reviewing the memo.

Steering Committee Meeting – The quarterly Steering Committee Meeting is scheduled in January 2009. The agenda includes, among others, the LGUGC buy out issue and the uneven competition from Land Bank (LBP is offering to re-finance PFI WD accounts at concessional rates)

² Book value as on November 2008 was at PhP155.00 per share.

Issues and New Development

1. LWUA advised indefinite postponement of the securitization project- Prompted by the change in financing policy of the new Board Chairman, LWUA advised PWRF SP to hold in abeyance the technical assistance for the securitization of existing loans. LWUA prioritized the exploration of setting up a water development bank that will cater to all water districts’ financing needs. The LWUA chair has strong political capital and, if his buy-in is not secured, he can adversely affect the implementation of the financing and sector reform agenda
2. Unresolved Injunction of EO 279 – The court case remains unresolved, hence, the policy implementation plan is also on hold. In particular, LWUA financing policy is still not aligned with the EO, graduation program has not been formulated, and LWUA has not been re-engineered yet according to the ascribed mandate from the EO.
3. LGUGC Buy-out Issue- DBP aggressively pursued the plan to buy out PFI shares in LGUGC. Offer letters were issued to PFIs and many, allegedly, have signified agreement to sell. If the buy out makes LGUGC a public entity, then the USAID co-guarantee agreement will be rescinded as this is conditioned on supporting a private entity. Moreover, DBP is allegedly buying out PFI shares to facilitate the closure of LGUGC, positing that it has outlived its usefulness. DOF was consulted on the matter, in view of the possible setback to PFI financing if the credit enhancement is no longer available. As of this writing DOF has not made any concrete action to address the issue.
4. The close coordination among donors and some of the key agencies remain a bright light for the move to come up with a rational, integrated and coherent reform agenda for the sector. The coordination is now formalized under the PDF Sub-working Group for Water Supply and Sanitation. The group can be an effective platform to ensure efficiency of donor assistance.
5. International recognition of PWRF – In the OECD conference attended by USec Paul, PWRF was lauded as an innovative financing mechanism that could be replicated in other countries. OECD will again feature PWRF in the World Water Forum scheduled in March 2009. This will be an opportunity for the Philippines to be recognized as a leader in this field. However, it also stands to lose face if the implementation of the program fails.

Major Activities and Targets for the Next Quarter

Table 2 shows the major activities of the project for the next quarter (January to March 2009). The targets are:

Table 2: Major Activities for the Next Quarter

Project Component	Targets for the Next Quarter
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Project Component	Targets for the Next Quarter
Component 1: PWRf Set up and Institutional Support	<ul style="list-style-type: none"> ▪ Finalize and print the Project Appraisal Guidebook ▪ Prepare the design and implementation plan of PWRf's long term financing mechanism ▪ Conduct policy consultations on the financing structure ▪ Prepare the DBP medium term business plan and marketing plan for PWRf ▪ Implement training workshops on loan packaging and syndication ▪ Implement training workshops on DBP's OPG for PWRf
Component 2: Water Supply and Sanitation Project Preparation	<ul style="list-style-type: none"> ▪ Provide assistance on project development (on demand) ▪ Assist MCWD and CCWD in the implementation of Septage Management projects ▪ Assist Baliwag WD in the preparation of FS for septage management ▪ Conduct workshops to disseminate business model ▪ Set up a help desk for WDs preparing septage management plans
Component 3: Water and Finance Sector Strengthening	<ul style="list-style-type: none"> ▪ Draft white paper on rationalization of public resources and SOW for the preparation of the policy guidelines ▪ Provide assistance to NWRB in the development of its sustainable financing plan ▪ Conduct assessment of the status of implementation of the regulatory reform agenda ▪ Commence assistance to DILG on training of trainers for ring-fencing of LGU/cooperative utilities ▪ Draft concept paper to expand water services in poor communities ▪ Provide advisory assistance to selected utilities in the preparation of their business plans
Component 4: Overall Program Support	<ul style="list-style-type: none"> ▪ Hold Steering Committee Meeting ▪ Convene and provide technical secretariat support to the PDF Water Sub-committee; relatedly continue technical assistance to Usec Paul on water related matters ▪ Provide technical support to the participation of Usec Paul to the World Water Forum, scheduled on March 16 to 22, in Istanbul, Turkey ▪ Present WSS Financing Options in the PAWD Conference scheduled on February 12, 2009

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	The Inception Report has been submitted in December 2008 and is being reviewed
Finalized standard loan agreement, guarantee agreement, MDFO loan agreement	Completed; Consolidated the comments of the various PFIs on the standard loan documents on the PWRf. The following PFIs have submitted their respective comments on the standard loan documents: Bank of the Philippine Islands, Allied Bank, Banco de Oro.
Draft guidelines for the Standby Credit Line	Completed. Submitted final draft of the guidelines to MDFO
Credit rating manual for water districts	Completed; submitted final copy to LGUGC in May 2008
Training of PFIs, DBP and other PWRf Stakeholders on Water Project Appraisal	Completed. Conducted training seminars in Manila, Cebu, Davao and Clark, Pampanga to cover participants from North Luzon.
Study tour for 8-10 participants to examine US experience with pooled financing mechanisms	Completed.
Inputs to the USAID Philippine Mission Action memo to the Development Credit Authority for the new guarantee agreement with LGU Guarantee Corporation	Completed. Agreement is ready to be signed.
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 business and marketing plan	Ongoing
DBP training on Loan Packaging and Syndication	Training workshops are scheduled in the first quarter of 2009
Water Project Appraisal Guidebook	Articles are going through final editing; Guidebook will be launched in March 2009
Reform program and action plan of the US SRF Study Tour Group	Completed. The action plan includes: setting up of a project development facility; more comprehensive rationalization of credit programs, capacity building assistance and support for regulatory reforms. The convening of the sub-committee under the PDF will be the first step in getting consensus on the overall reform agenda for the sector.
Concept and framework of bond issue for WSS project financing	Completed
Assistance to LWUA's securitization exercise	Postponed upon request of LWUA

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 projects	Completed; final report submitted to LGUGC in May 2008
Plan developed for establishing a Project Development Facility	Completed; final report submitted in December 2008
Establishment of procurement mechanism for providing technical assistance needs to utilities	<i>Dropped upon advice of LWUA</i>
TA for project feasibility update	On demand; no requests for TA yet
FS for Septage Management Project and Business Model for Metro Cebu Water District, Cabanatuan City Water District and Baliwag Water District	The revised Phase 1 implementation strategy was presented to the MCWD in December; the draft septage feasibility study report has been submitted to CCWD and is being reviewed. The TA for the FS for Baliwag WD commenced in December 2008.
Training course for LGUs for project development, financing, and utility operations	<i>Dropped as similar training programs are being already being provided by other donor programs.</i>
Pilot ring-fencing of LGU-water utility account	Scheduled in the first quarter of 2009
Implementing guidelines of the LWUA-	Completed. Operating guidelines accepted by

administered Project Development and Efficiency Improvement Facility	LWUA; the Facility is now operational
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Component 3: Water and Finance Sector Strengthening

Implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines	Pending DOF deliberation on the appropriate executing instrument, i.e., DOF-CAG issuance or ICC resolution
Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance	Completed. Submitted to DOF position paper and draft cover letter to BSP
Long-term business planning framework for water districts	The Training of trainers and business planning exercise for five pilot WDs were held in December 2008. The business plan for the 5 pilot WDs are expected to be completed in April 2009
Recommendations on the long term financing policy mechanism for water supply and sanitation projects	TBD
Recommendations on financial incentives for PFIs to lend to the water sector	TBD
LGUGC Pricing Policy and Framework	Completed. 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	The first Steering Committee Meeting for Option Year 2 will be held in January 2009
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	The website is operational. It is continually updated.
Meetings and consultations with the key implementing agencies as necessary	Periodically holding meetings with key implementers to resolve emerging issues
PWRf Performance Monitoring Plan	The PMP is being finalized.
Technical Secretariat Support to the PDF Sub-Working Group on Water Supply and Sanitation	Sub-working Group now operational. The organizational meeting was conducted in September 2008 and two other working meetings (most recent meeting held in December) have been held since then. The sub working group on WSS is divided into three Task Forces, i.e., Institutional Strengthening, Capacity Development, and Financing and Infrastructure Investments. PWRf-SP belongs to the last group.