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THE PHILIPPINE WATER REVOLVING FUND

QUARTERLY REPORT JANUARY – MARCH 2010

APRIL 2010

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THE PHILIPPINE WATER REVOLVING FUND

QUARTERLY REPORT **JANUARY – MARCH 2010**

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Executive Summary

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

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

Intermediate Result 1.2: Urban environmental management improved.

Background:

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

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

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

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

**PWRF Targets in support
of IR 1.2**

**Accomplishments for the Quarter
(January – March 2010)**

A. Year 4 Work Plan

Component 1: PWRF Set-up and Institutional Development

- | | |
|---|---|
| <ul style="list-style-type: none"> ▪ Assist DBP in conducting the PWRF marketing events ▪ Conduct marketing road shows for PWRF potential borrowers and PFIs ▪ Monitor progress of marketing campaign ▪ Identify projects for PWRF financing ▪ Assist DBP identify measures for a more competitive PWRF; as necessary, update and improve OPG ▪ Provide on demand project evaluation and transaction support during loan negotiation and implementation | <ul style="list-style-type: none"> ▪ Finalizing the PWRF audio-visual presentation ▪ The second and third PWRF marketing road shows took place on January 20, 2010 in Manila and on February 26, 2010 in Cebu City. ▪ Assisted DBP and LGUGC with client calls and meetings with potential PWRF borrowers: Philhydro, Manila Water, Calapan Water and Jalaur River Corporation |
|---|---|

Component 2: Project Development

- | | |
|--|--|
| <ul style="list-style-type: none"> ▪ On demand basis, evaluate level of preparedness of project feasibility studies or assist targeted utilities improve project feasibility studies for financing from the PWRF or assist LGUGC and DBP evaluate projects for financing ▪ Continue assistance to MCWD, SPCWD, and ZCWD in the implementation of Septage Management projects | <ul style="list-style-type: none"> ▪ Lasam, Cagayan Valley LGU decided to accept the LWUA offer of PhP25 million loan to revive the non-operational WD formed by the LGU in the 1990s ▪ On February 3, 2010, officials of the Municipality of Alfonso Lista, PNB and LGUGC signed the Trust Indenture, Underwriting Agreement, and Guarantee Agreement for the issuance of PhP72.5 Million Alfonso Lista Bonds for the construction of the municipality's water supply system ▪ The FS of the Zamboanga City sewerage rehabilitation and upgrading plan was completed and submitted to ZCWD in January 2010; ZCWD is awaiting approval by the Mayor of the use of the |
|--|--|

- Assist Metro Iloilo, Metro Roxas and Bacolod with the preparation of septage management projects
 - Continue help desk for WDs preparing septage management plans
 - Develop sanitation strategies/projects for 10 large LGUs
 - Facilitate institutionalization of business planning among water districts
 - Provide advisory assistance to selected utilities in the preparation of their business plans
- preferred site for the proposed sewage treatment plant; the SPCWD draft FS was to account for the new volume forecasts. The FS will be presented to SPCWD management in April.
 - PWRF SP signed separate MOUs for the advisory assistance on the septage feasibility studies with Metro Iloilo and Metro Roxas on March 2 in Iloilo City; the MOU with BACIWA has been approved by its Board and will be signed during the second workshop scheduled in May.
 - PWRF-SP, in coordination with EcoGov, presented the Septage Management Business Model to representatives from the Cities of Tagum, Panabo, General Santos, Digos and Samal, Municipality of Sta. Cruz and General Santos City Water District in March 2010

Component 3: Policy and Institutional Strengthening

- Organize and conduct meetings and consultations on rationalization of public resources for WSS
 - Provide technical support to facilitate DOF endorsement of requests for incentives for water sector financing
 - Provide technical secretariat support to the PDF sub-Working for Water
 - Conduct of trainings on tariff-setting and review to CDA and NWRB staff
 - Conduct study on NWRB's outsourcing of asset valuation (related to tariff regulation function)
- We have submitted the implementation framework to DOF for its review. No comments were given back but DOF indicated preference to undertake a purely government-led study on the rationalization of public resources
 - Continuing to monitor the progress of BSP's evaluation of LGUGC's request for lower risk weight on loans that it guarantees.
 - The PDF SWG/WSS met in March to discuss three major sanitation initiatives: Philippine Sustainable Sanitation Sector Roadmap (PSSSR), the National Sustainable Sanitation Plan (NSSP), and the National Sewerage and Septage Management Program (NSSMP)
 - A seminar on the water district tariff setting methodology was conducted last February 2010 for NWRB staffs directly involved in the review of applications for new tariff rates and proposals for tariff adjustment; the orientation-workshop on the

- Conduct assessment of implementation of the regulatory reform agenda
 - Subject to agreement of the InfraCom sub-committee on WSS, conduct briefings, seminars and consultations on WSS to congressional staffs and committees
 - Continue assistance on ring-fencing
 - Assess the feasibility and prepare design of private sector-led PDF
 - Evaluate/award small grants related to pilot implementation of model schemes to expand water services in poor communities
 - Monitor implementation of the Rotary Club Zamboanga West water supply project (under the International Water Alliance)
 - Forge formal agreement with PAWD on the water operator partnership program and prepare implementation plan
- NWRB 5-year tariff methodology for selected 25 participants consisting of Community Development Specialists of the Cooperative Development Authority was held on February 4-5, 2010
- The final report on the assessment of the feasibility of outsourcing NWRB's asset valuation task was submitted to NWRB on March 29, 2010
 - All pilot coops and three of the five LGUs have adopted and institutionalized ring-fencing; the remaining two LGUs confirmed the adoption of the guidelines after the May 2010 elections
 - We sent out in March the survey questionnaires to selected water districts and private water service providers to assess the need and possible structure of the PDF.
 - Selected two top-ranked candidates for the remaining two PWRF SP grant awards: TSPI Development Corporation and Institute for Popular Democracy; signing of individual grant agreement with the grantees will be held in late April 2010.
 - The transfer of funds to the Rotary Club has been delayed so that the bidding process for supplies and materials has just started.
 - We signed a MOU with the Philippine Association of Water Districts (PAWD) to provide the Association technical assistance to develop a local WOP program; relatedly, we prepared the design of the strategic planning workshop of PAWD scheduled in April 2010

Component 4: Overall program support

- Steering Committee meetings
- We did not see the need to hold a Steering Committee meeting within the quarter.

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 JICA have committed to establish the Philippine Water Revolving Fund to help achieve the following goals:

- Improve access to safe drinking water and sanitation through the establishment of the PWRF financing facility;
- Through the successful utilization of PWRF and subsequent investment in water and sanitation infrastructure, help reduce morbidity and mortality from waterborne diseases and, specifically in the case of sanitation and wastewater treatment, contribute to biodiversity conservation, particularly in coastal areas.

Secondary thereto:

- Attract private sector investment in water and sanitation infrastructure projects thereby enabling the Philippines to meet its MDG commitments; and
- Strengthen the capacity of key institutions in the water and finance sectors – chiefly water utilities – to effectively obtain and utilize funds for infrastructure investments.

A. 1 PWRF Support Program Objectives

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

- Set up the appropriate institutional arrangements for the PWRF, including supporting efforts to secure the JICA loan and its operating and policy guidelines; and USAID’s DCA guarantee agreement;
- Strengthen selected water and finance sector institutions vital to PWRF Program’s success; and
- Assist LGUs and WDs to develop a pipeline of viable projects in anticipation of an operational PWRF.

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

A.2 Project Scope and Expected Outputs

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

As these issues will not be resolved any time soon, the PWRF SP team has made adjustments in the Year 4 work plan.

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

Expected Outputs:

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

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

Expected Outputs:

- On demand basis, provide technical assistance to water service providers to update or improve pre-investment studies for PWRF funding.
- Train at least 10 WDs on the septage management business model
- On demand basis, assist about 10 big cities and municipalities with assessment of sanitation problems, project identification and preparation for investments
- Maintain Help Desk for septage management planning and implementation
- Institutionalize strategic business plan training in LWUA; support LWUA's adoption of a policy requiring water districts to have business plans before submitting tariff adjustment and loan approval applications
- On demand basis, train and mentor 10 water districts in strategic business planning

Component 3: Water and Finance Sector Strengthening – involves assisting with the financing, regulatory and institutional reform agenda focusing on advocacy with legislators on the reform program; expanding governance reform initiative among LGUs and cooperatives; exploring the feasibility of a private-sector led project development facility; and exploring financing mechanisms to reach poor communities. Related to the latter, PWRFSP will use its small grants program to test some of these mechanisms.

Expected Outputs:

- Implementation plan on rationalization of public resource allocation to WSS projects and long-term financing mechanism
- Support the design of a long-term financing mechanism to implement the rationalization plan.
- Support to DOF to put in place financial incentives for water sector lending
- Technical secretariat support to the PDF's sub-working group on WSS
- Support for institutional and regulatory reform action plan
 - NWRB strengthening/capacity building on WD tariff review, performance contracting
 - Advocacy for financing and regulatory reforms
 - Promotion of ring-fencing, business planning and performance contracting
 - Three (3) more LGUs and cooperative water utilities adopting ring-fencing
 - Training of LWUA, NWRB, DILG, CDA and utilities on performance contracting
 - Pilot testing of performance contracting in two utilities
- Assessment of a private-sector led Project Development Facility
- Development of financing and implementation strategies for reaching poor communities
- Develop twinning program with the Philippine Association of Water Districts and Eco-Asia for institutional strengthening and capacity building of PAWD and local water service providers

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

Expected Outputs:

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

B. Overview at end of the Quarter (January 1 to March 31, 2010)

On project financing – We have actively participated in identifying projects, client meetings and site visits along with DBP and LGUGC to pursue financing projects of private water service providers, i.e., Manila Water, Philhydro Corporation, Calapan Water/ Jolliville, Abejo Builders, and Solarex Corp. The PWRf marketing road shows we conducted in Manila and Cebu City have helped us touch base with managing executives of these potential PWRf clients. In these meetings, we highlighted the value proposition of PWRf. We also offered technical assistance in the form of loan document review and financial viability analysis. A number of these potential clients have immediate needs for financing and DBP and LGUGC are seriously looking at ways to respond to their requirements on loan terms, particularly on the tenor. However, we are tempering our expectations considering that the implementation of the projects is dependent on finalization of contracts between water districts or LGUs and the private providers.

We again lost another account to LWUA with the acceptance of Lasam, Cagayan Valley LGU of the LWUA offer of PhP25 million loan to revive the non-operational WD formed by the LGU in the 1990s. On the other hand, the Municipality of Alfonso Lista signed the underwriting and guarantee agreements with PNB and LGUGC, respectively, for the issuance of PhP72.5 Million municipal bond for the construction of the municipality's water supply system. We assisted Alfonso Lista with the review and improvement of its feasibility and will continue our TA by providing the works engineer for the lenders. The works engineer will validate the status of completion of the project.

On sanitation project development – We have completed and submitted the FS of the sewage treatment facility of the Zamboanga City WD in January. The recommendations were approved by the Water District. The District will implement the project as soon as it gets the LGU's approval on the use of the lot owned by the latter for locating the sewage treatment facility. The last leg of our TA is the preparation of technical specifications and performance standards for the design-build TOR for the procurement.

The completion of the FS for San Pablo City WD is delayed. We had to revisit the analysis and recommendations given substantial revisions in the volume forecasts. The FS is scheduled to be presented to SPCWD this April.

The launch of the Business Model and Toolkit for Septage Management at the Annual Convention of PAWD this February has increased awareness among WDs about the need for septage management in their own areas. A number of WDs has expressed their intention to participate in the forthcoming training workshops within the year. We are just waiting for a minimum number to signify interest before scheduling the next workshop. We intend to continue our collaboration with PAWD in the conduct of these workshops.

As mentioned in our last report, the regional training workshops we have conducted in November and December last year have created a bandwagon effect on WDs. In early March, we signed MOUs with Metro Iloilo and Metro Roxas for the technical assistance on their septage management projects. Bacolod City and Metro Kalibo WDs have already confirmed that they will also sign technical assistance agreements with us. Some WDs in Bulacan have also shown interest, owing to the testimonial of Baliwag, one of our first clients for the septage TA.

Aside from WDs, we have started working with LGUs too, in coordination with EcoGov. In March we presented the Septage Management Program Business Model to representatives from the Cities of Tagum, Panabo, General Santos, Digos and Samal, Municipality of Sta. Cruz and General Santos City Water District. All six LGUs expressed interest in preparing their respective feasibility studies and are requesting PWRF-SP advisory assistance. We are also organizing a similar presentation to the Negros Occidental LGUs in April, again with the help of EcoGov.

On institutional development – Due to continuous monitoring and mentoring, all pilot coops (Matanao Multipurpose Cooperative in Davao del Sur, Lamac MPC in Cebu and O'Donnell MPC in Tarlac) and three (Jagna and Albuquerque in Bohol and Margosatubig in Zambo del Sur) of the five LGUs have adopted and institutionalized ring-fencing. The remaining two LGUs (Mahayag and Magallanes) will work on the adoption of their guidelines after the May election. We have also prepared and submitted a draft memorandum circular to DILG WSS PMO and Office of Project Development Services as part of the institutionalization of the ring-fencing process. The memo circular aims to promote ring-fencing among LGUs. A proposal to MDFO on the inclusion of ring-fencing as part of its lending requirements has been endorsed to its Policy Governing Board for discussion in its next meeting. For its part, the Local Government Academy (LGA) agreed to organize a training course on ring-fencing among its Local Research Institutes (LRIs). The LRIs are academic institutions or NGOs located across the country. They offer trainings to LGUs.

On reaching the poor program – We received and reviewed seven grant proposals in February 2010 out of 10 shortlisted candidates. These proposals were evaluated based on technical application (40 points), team composition and availability (30 points), cost of project (20 points) and relevant performance (10 points). The two top ranked candidates were TSPI Development Corporation and Institute for Popular Democracy (IPD). TSPI will offer micro-finance to households to put up toilets and septic tanks. IPD will organize cooperatives to put up water supply reticulation systems and facilitate a mother meter agreement with the formal utility. The IPD proposal also includes training of cooperatives to operate and maintain the distribution system and a micro-finance component for connection fees. Signing of the grant agreement with each of the grantees is expected at the end of April.

With regard to the International Water Alliance of USAID and Rotary International, the disbursement of the grant to the Rotary Club of Zamboanga City West is delayed due to the delay in remittance of contributions from other Rotary Clubs. The Rotary Foundation (TRF), which administers the grants, requires all funds to be deposited to its account before any draw downs are made. As of this writing, the TRF has advised RCZW that it has received all contributions and is facilitating transfer of funds to the RCZW special project account. Procurement is underway (solicitation of quotes for construction materials) and implementation is expected to commence in May.

On water operators' partnership program - PWRF SP signed a MOU with PAWD in March, to formalized collaboration in the development of the water operator partnership in PAWD. This initiative was inspired by the WOP program promoted by the UNSGAB in line with the MDG-related strategies. In particular, we will provide TA to PAWD for its institutional strengthening, for administering a local twinning program, training, knowledge management and continuous improvement benchmarking. We are coordinating this effort with ADB and USAID's EcoAsia project to learn from their past experiences and take advantage of related activities. For

example, EcoAsia and its partner IWA are conducting a capacity building needs assessment among PAWD members. The results can inform the development of local WOP program. ADB for its part is supporting international twinning arrangements. It has also signified interest to support local twinning partnerships.

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

Table 1: Leveraged Resources

Donors/Partners	Activity	Cost (PhP)
LGUs: Alburquerque, Jagna, Magallanes, Margosatubig, and Mahayag Cooperatives: O'Donnel, Lamac, and Matanao	Ring fencing of water utility accounts	20,454
PSA	Social Marketing for Metro Cebu WD Septage Project and Mentoring workshop for Metro Iloilo WD, Metro Roxas WD, and Bacolod City WD on septage management	299,364.80
Ecogov	Workshop for LGUs on septage management	5,226.01
Metro Iloilo WD, Metro Roxas WD, Bacolod City WD	Counterpart cost for Septage Management Project	262,500
LGU Guarantee Corporation	PWRF marketing-related services	417,940
DBP	Marketing Roadshow and Review of PWRF Business and Marketing Plan	23,150
ADB and EcoAsia	Water Operators' Partnership- needs assessment	5,000
TOTAL		PHP1,033,634.81 or US\$23,332.61

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

Component 1: PWRF Set-up and Institutional Support

Assistance to DBP in the implementation of the business and marketing plan for PWRF- We conducted the PWRF briefing for private water service providers on January 20, 2010 at the DBP Head Office. A total of 32 representatives from various private WSPs attended the briefing. Among the participants were Philhydro, Clark Water, Calapan Water/ Jolliville Holdings, TGV Builders, and Maynilad Water. On February 26, 2010, the third of the PWRF regional marketing fora was conducted in Cebu City (right photo). More private water service operators, account executives from DBP- Visayas Regional Marketing Center, LGUs operating water utilities, and WDs with ready projects for investments in the Visayas Region attended the event. We had a total of 21 participants.



A PWRF briefing was also conducted for DBP head office marketing units composed of officers from Corporate Banking, Financial Intermediary (Wholesale) and Branch Banking. The briefing was targeted to officers handling water projects but unfamiliar with PWRF. The briefing also aimed to foster a common understanding on how to expedite loan applications of targeted accounts (e.g. Manila Water, Philhydro, Abejo Builders, Calapan Water and Mactan Rock) and the PWRF process flow.

With regard to the PWRF audio-visual presentation, interview footages of DBP EVP Benedicto Bitonio, PNB SVP Alfonso Tanseco, and LGUGC President Lydia Oriol were included in the material. As of March 2010, the AVP was being polished and finalized. Reproduction of the AVP is expected in April.

Transaction support- In the last three months, we have been assisting DBP and LGUGC conduct client calls and meet with prospective borrowers to offer PWRF as a viable financing source. We participated in a site visit to Philhydro Corporation's water treatment facility (using high rate permanent media filtration system) in Norzagaray, Bulacan. Philhydro Corporation is a private water service provider with existing contracts with Legaspi Water District and LGUs (such as Bambang Nueva Vizcaya). Philhydro's treatment facility (see photo below) can supply up to 26,000 cubic meters per day. It sources its raw water from the Norzagaray-Angat River. PhilHydro and Norzagaray WD have an existing bulk supply contract. The company is planning to expand bulk supply service to nearby water districts. In particular it is contemplating PWRF financing for the transmission pipes (estimated at Php300million) to deliver treated water to three other water

districts in Bulacan (i.e. Sta. Maria, Marilao, Meycauyan). Furthermore, Philhydro plans to work with five municipalities and several WDs this year for concessions and bulk water supply respectively. It has an immediate capital requirement of PhP160 million for transmission mains to connect Marilao and Meycauyan Water Districts to the bulk water supply facility currently serving Norzagaray WD.



We also met with representatives of Jalaur River Corporation (JRC), a joint venture company among Barotac Nuevo Water District, Houston Hydrotech and other local investors to present PWRF's indicative terms. They agreed to seriously consider the proposal; in particular, JRC found the long-term tenor of PWRF attractive. The company has a PhP850 million water supply treatment and transmission project with a capacity of 60,000 cubic meters per day. JRC aims to supply 50% of the output to Iloilo City and the other 50% will be for Barotac Nuevo and neighboring LGUs.

We followed up on a possible financing requirement of Calapan Water/ Jolliville Holdings, operator of the water supply system of Calapan City and Tabuk City (Kalinga). Calapan Water plans to increase the connections of the Tabuk Water System from 2,800 to 6,000. There are no firm cost estimates yet for the project.

Table 2: Project Pipeline of Private Water Service Providers

Water Service Provider	Project	Financing required (PhP Million)
Philhydro Corporation	Install transmission pipes to deliver treated water to three other water districts in Bulacan (i.e. Sta. Maria, Marilao, Meycauyan).	300
Jalaur River Corporation	Develop a surface water supply treatment facility and transmission project with a capacity of 60,000 cubic meters per day to supply 50% of the output to Iloilo City and the other 50% to Barotac Nuevo, and other neighboring LGUs.	850
Manila Water Company	Boracay Water and Sewerage Project	500

Water Service Provider	Project	Financing required (PhP Million)
Abejo Builders	20 MLD bulk water supply to MCWD	160
Calapan Water/ Jolliville Holdings,	Expand distribution network to increase the connections of the Tabuk Water System from 2,800 to 6,000.	TBD

Component 2: Water and Sanitation Project Preparation

Technical assistance on septage management. As an offshoot of the septage training workshops conducted in Davao, Cebu, and Manila in November and December last year, four WDs signed up for the PWRF SP TA on the preparation of septage management feasibility study, namely: Metro Iloilo, Metro Roxas, Bacolod City, Metro Kalibo. The MOUs for the advisory assistance on the septage feasibility studies between PWRF-SP and Metro Iloilo and Metro Roxas were signed on March 2 in Iloilo City. The MOUs with Bacolod and Metro Kalibo are scheduled for signing in May. The first of three mentoring workshops was conducted on March 2-3 with the participation of WD and LGU representatives from Metro Iloilo, Metro Roxas, and Bacolod City (photo above right). The WDs have started preparing the FS. The second mentoring workshop is scheduled in the last week of April. Metro Kalibo WD (MKWD) which signified interest for the TA later than the three will be brought up to speed by our technical specialist.



We have also started to make inroads with LGUs regarding septage management programs. The PWRF-SP, in coordination with EcoGov, presented the Septage Management Program Business Model to representatives from the Cities of Tagum, Panabo, General Santos, Digos and Samal, Municipality of Sta. Cruz and General Santos City Water District (right photo). All six LGUs expressed interest in preparing their respective feasibility studies and are requesting PWRF-SP advisory assistance. The one-day workshop was held on March



16 at the EcoGov Office in Davao City. A similar presentation is scheduled in the last week of April in Bacolod City for a number of Negros Occidental LGUs.

With regard to our on-going technical assistance to San Pablo Water District, we were given revised volume forecasts with significant difference in magnitudes; hence we had to revisit the analysis and recommendations. The draft has been revised and is ready for submission to the District. We will meet with the management to discuss the results in April.

On the FS of the Zamboanga City Water District sewerage treatment facility, the study has been submitted to the District in January 2010. The District accepted the recommendations and will implement the project as soon as it gets the approval of the City to use a lot owned by the latter to locate the treatment plant. Meanwhile ZCWD will carry out topographic survey and soil quality testing, which will be included in the bid terms of reference. We will continue our TA by providing the District with technical specifications and performance standards that will be required of the bidder for the design-build contract.

Business Model for Septage Management of Water Districts. PWRF SP Chief of Party Alma Porciuncula presented PWRF as a financing option to the PAWD Annual Convention held last February. She also launched two publications of PWRF-SP, the Strategic Business Planning Guide and the Business Model for Septage Management (see right photo).



After the presentation, a number of water districts expressed interest to be trained on septage management. In this regard, PWRF-SP in coordination with PAWD will schedule another round of training workshops. We have also given, upon the invitation of the Bulacan Association of Water Districts (BAWD), a brief presentation of the Septage Management Business Model during BAWD's meeting on March 24, 2010 in Bulacan, Bulacan. There were 13 water districts which attended, of which a number expressed interest in the Business Model.

Business Planning Model for LGU-Operated Water Systems. Initial preparations were carried out for tailor-fitting the Strategic Business Plan Guide for Water Districts to suit LGU-operated water systems.

LGU projects for PWRF financing. Earlier we assisted Lasam, Cagayan Valley LGU prepare its water supply project for PWRF financing, interestingly, using 100% PFI funds with a stand-by credit line from MDFO to lengthen the tenor. We upgraded the FS and presented the study to Mayor Eulogio Agatep in December 2009. Unfortunately in January 2010, the deal fell through. The LGU decided to accept the offer of LWUA for grant financing if it revives the non-operational water district established in the 1990s. In February, Lasam signed up for LWUA's PhP25 million loan.

On February 3, 2010, officials of the Municipality of Alfonso Lista, PNB and LGUGC signed the Trust Indenture, Underwriting Agreement, and Guarantee Agreement for the issuance of PhP72.5 Million municipal bond for the construction of a water supply system. Earlier we reviewed and revised the technical study. Our TA will continue until the completion of the construction of the project. Specifically, we committed to deploy a part-time Works Engineer for the construction supervision of the project. The main tasks of the Works Engineer will be to provide technical advisory assistance to the LGU construction supervision team and to verify work accomplishment and claims of the contractor.

We held initial discussions on the proposed expansion of Tabuk, Kalinga LGU water system operated by Calapan Waterworks Corp., a private WSP. PWRF-SP has offered the private operator technical assistance in the updating of the LGU water system's feasibility study.

Component 3: Water and Finance Sectors Strengthening

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

We submitted the report on the rationalization implementation plan to DOF on October 12, 2009. DOF took up the plan in the meeting of the EO 279 Oversight Committee on February 17, 2010. While no comments from DOF and the Committee were relayed to us, DOF, in the PDF SWG WSS meeting on March 23 (pictured), announced that it has decided to prepare a new TOR and to do a purely government-led study. As regards the rationalization paper prepared by PWRF-SP, DOF agreed that it be shared with the members of the PDF Task Force on FII.



Support for the Implementation of the Regulatory Reform Action Plan

Advocacy for Financing and Regulatory Reforms.

We reviewed and submitted the Inception Report of the Legislative Advocacy Expert to NEDA on March 10. NEDA agreed to lead this activity. The preparation of the legislative advocacy plan is on-going. A meeting with NEDA is scheduled on April 6 to discuss the complementation of the proposed advocacy plan with the PWSS Roadmap activities.



NWRB Strengthening. In February we conducted a seminar for NWRB on the water district tariff setting methodology. The seminar was supposedly one of the capacity building activities for the NWRB staff to prepare them for implementing their role as economic regulator of WDs, as mandated by EO 123. The differences and nuances of the LWUA water district and the

NWRB 5-year tariff methodologies were presented during the seminar (the NWRB uses a return on rate base approach, while LWUA uses a cash-flow approach). The participants were then taught the fundamentals and mechanics of tariff setting for water districts. A hands-on practice familiarized them with the tariff setting process starting with cash flow preparation, tariff structuring and testing for affordability (photo above right). The NWRB staffs deemed that the knowledge they gained from training would be helpful in the performance of their appellate function (i.e. when they evaluate appeals related to tariff adjustments made by water districts), pending the full assumption of their regulatory role under EO 123. They also said that lessons learned will also be useful when they review and assess technical and operational gaps of NWRB's 5-year tariff methodology, an activity which is included in their work plan this year.

However, on February 18, 2010, President Arroyo issued EO 860, which effectively revoked EO 123. EO 860 categorically stated that NWRB will not review and approve water district tariffs, rather LWUA will. Hence, further technical assistance related to the hands-on coaching of NWRB staffs on actual WD tariff review will no longer be pursued.

In February, we also conducted the orientation-workshop on the NWRB 5-year tariff methodology for 25 Community Development Specialists of the Cooperative Development Authority (CDA). The conduct of the workshop was in compliance with the commitment of the NWRB in a Memorandum of Agreement signed with CDA on October 16, 2008 to train CDA staff and cooperative trainers to facilitate the enforcement of NWRB regulations with the water cooperatives and associations. The workshop walked the CDA staffs through the tariff setting process and methodology of NWRB for



water cooperatives, private utilities and the LGU-run water systems. It was followed by hands-on exercise on the use of the Excel-based tariff setting tool developed by NWRB (photo above).

The workshop was a major step in strengthening the NWRB-CDA partnership in regulating the water service cooperatives. It is envisioned that the trained CDA specialists will be able to assist water cooperatives comply with NWRB's technical and documentary requirements for tariff proposals and facilitate the regulation of more cooperatives by NWRB. Currently, the number of regulated water cooperatives with Certificates of Public Convenience (CPCs) stands at only 36 out of about 200 water cooperatives.

The final report on the assessment of the feasibility of outsourcing NWRB's asset valuation task was submitted to NWRB on March 29. A meeting is scheduled on the first week of April to get NWRB's guidance on the next steps, including the formulation of the operating manual on asset valuation which should guide accredited appraisers in asset valuation. The report establishes NWRB's authority to accredit independent appraiser firms and enforce guidelines on asset valuation in the exercise of its regulatory functions and quasi-legislative power. Based thereon, it recommends the following: a) a modified ERC asset valuation approach for NWRB, b)

accreditation of SEC-accredited independent appraisers, and c) formulation of operating guidelines that the independent appraisers should adhere to.

Institutionalization of Ring Fencing- In the last three months, we continued mentoring pilot LGUs and cooperatives, namely: Alburquerque, Jagna, Antequera, Magallanes, Margosatubig, Mahayag, Lasam LGUs and O'Donnell, Lamac, and Matanao Cooperatives. So far, all pilot coops (Matanao Multipurpose Cooperative in Davao del Sur, Lamac MPC in Cebu and O'Donnell MPC in Tarlac) and three (Jagna and Alburquerque in Bohol and Margosatubig in Zambo del Sur) of the five LGUs have adopted and institutionalized ring-fencing. The remaining two LGUs (Mahayag and Magallanes) committed to adopt the guidelines after the May election.

As a step towards institutionalizing ring fencing of water utility accounts, we drafted a memorandum circular for DILG to issue to LGUs. The draft was submitted to DILG's WSS PMO and Office of Project Development Services. However, DILG said it wants to see more cases of LGU's ring-fencing before issuing the memorandum circular. DILG is agreed to roll-out training on ring-fencing to more LGUs after the May elections.

We also enjoined MDFO to include ring-fencing as a lending pre-requisite. The MDFO Secretariat has endorsed the proposal to its Policy Governing Board. The proposal is included in the agenda of the PGB meeting in April.

In March, we also touched base with the LGA to explore the establishment of a network of ring-fencing mentors/coaches among its Local Resource Institutes, as well as the inclusion of ring-fencing in their regular course offerings. LGA agreed to organize a training course on ring-fencing for its LRIs. Core/regional training teams are envisioned to be formed from among the trainees. LGA will also include an information kit on ring-fencing in their neo programs (orientation programs on governance for incoming LGU officials) which will be conducted in July this year. PWRf-SP will initially draft the training course design for discussion with LGA on April 5 and will prepare flyers and slides for proposed inclusion in the neo programs. To ensure the commitment of the selected LGUs in the roll out, the ring-fencing training-workshop will be held after the May elections, possibly in July 2010. See Box 1 on the description of the LRI network.

Box 1: PhilNet and Local Resource Institutes

The Local Government Academy (LGA) is an attached agency of the DILG and serves as its training arm. A Council of Advisers, composed of representatives from the academe, NGO, business sector and the leagues of government, provides LGA with advisory services. LGA, with DILG, established the Local Governance Training and Resource Institutes - Philippine Network, Inc. (LoGoTRI-PhilNet) in 2003 to rationalize and direct the capacity development efforts in local governance and to institute mechanisms for a sustainable, responsive and quality capacity building interventions to LGUs.

The organization, which is duly registered with the Securities and Exchange Commission (SEC), sets standards for knowledge products made available for LGUs and develop and implement relevant programs and services that enhance the LGUs' capacities for good governance. It serves as the umbrella organization of 81 Local Resource Institutes (LRIs) from the academe, government, private and non-government sectors providing the manpower and technical advisory services to LGA in the conduct of its training programs and course offerings for LGUs.

We prepared the work plan and followed up with CDA their inputs for the development of the coop ring-fencing guide. To date CDA has not responded. This activity will be dropped if any inputs from CDA are not forthcoming within April.

Strategies to Reach Poor Communities-

The grant agreement with the Rotary Club of Zamboanga City West for the installation of Level 3 water supply system for two rural baranggays in Zamboanga City was signed in January 2010. We conducted the work planning session with the grantee and another partner, ZCWD in the same month. During the session, we also finalized the spending plan. The groundbreaking ceremony was held in January 31 and was attended by the



officials of the Rotary Club of Zamboanga City West, ZCWD and the City Mayor (photo above). The drawdown of the Rotary Foundation grant component has been delayed so that the bidding process for supplies and materials has just started.

On the other grants, we received seven proposals from the 10 shortlisted candidates, from which we chose two: TSPI Development Corporation and Institute for Popular Democracy. TSPI proposes to offer micro-finance to poor households to fund construction of toilets and septic tanks. IPD proposes to organize cooperatives to put up, manage and maintain a reticulation system; and adopt a mother meter agreement for the water supply from a formal service provider. IPD also has a micro-finance component for connection fees. A series of discussions with the individual grantees was held in the last two months to fine tune their technical proposals, review their budgets, and inform them of USAID requirements. The signing of individual grant agreement with the grantees will be held in late April 2010.

Technical support to DOF for the PDF sub-working group for water- In February, we backstopped SWG WSS Chair and DOF Undersecretary Jeremias Paul in his presentation to the PDF Infrastructure Working Group during its 3rd Plenary Meeting. Usec Paul reported to the Working Group the priority agenda of the SWG WSS: financing programs that rationalize allocation of public resources, regulatory reform, capacity building targeting 36 waterless areas and adoption of the sanitation roadmap. The Action Plan is presented in Table 3.

On March 23, we convened the PDF/SWG WSS (right photo). The group discussed the Philippine Sustainable Sanitation Sector Roadmap (P3SR) which aims to set the overarching framework and direction to achieve the following: (a) MTPDP 2010-2016 targets; (b) 2015 MDG commitments; (c) adequate institutional arrangements; (d) demand creation and financing on sanitation; and, (e) sustainability of sanitation systems. Similar to the Philippine Water Supply Sector Roadmap, it has the following key result areas: (a) Responsive Sanitation Governance and Regulatory Strengthening; (b) Improved Service Delivery through Communications and Capacity Development; (c) Strengthened Strategic Alliances; (d) Financing and Adequate Infrastructure Investments; and, (e) Emergency Sanitation Response. The presentation of the P3SR was supplemented with the identification of its priority programs to provide the member donors with information on which areas they could assist in implementing the roadmap.



Two other major sanitation initiatives were also presented, the National Sustainable Sanitation Plan (NSSP) and the National Sewerage and Septage Management Program (NSSMP). These plans and programs are anchored on the principles of the P3SR, which sets the overarching framework for sustainable sanitation. NSSP 2010-2016's vision of *Sustainable Sanitation for all Filipinos* recognizes that sustainable sanitation is a cornerstone of good health and is essential to total human development. It is gender and culture sensitive and is focused on the poorest population groups. Meanwhile, NSSMP's goal is to improve water quality and public health in the country. Its specific objectives are: (a) enhance the ability of local implementers to build and operate wastewater treatment systems; and (b) promote a behavior change and enabling environment needed for the systems to be effective and sustainable.

Development of a Local Water Operators Partnership Program – In March, PWRF SP signed a MOU with PAWD to provide the Association technical assistance in developing a local WOP program (see picture below right).

Specifically, the partnership aims to:

- Create a platform for local utilities to foster peer to peer learning partnerships based on mutual benefit and access international expertise and knowhow
- Support the organizational development of the Philippine Association of Water Districts to serve development needs of the industry
- Through PAWD, raise awareness and interest of utilities to participate in the WOP program
- Identify potential sources of funding and schemes to leverage these funds for twinning arrangements



Our technical assistance includes the institutional strengthening of PAWD, organization within PAWD of the WOP program and support for three pilot twinning partnerships. In addition to twinning, the WOP includes training, knowledge management and continuous improvement benchmarking.

Setting-up of a Private Sector-led Project Development Facility (PDF) – A PDF exists for Water districts (managed by LWUA) and for LGUs (managed by MDFO). What does not exist at present is a PDF for private water utilities. This was the basis for coming up with a project development funding needs assessment of WSPs and distilling from such assessment practical ideas on the administration, structure and mechanism of a PDF for water supply and sanitation. Our current (Year 4) work plan states that PWRF SP will explore the setting up of a private sector-led PDF. In March 2010, we sent out the survey questionnaires to selected water districts and private water service providers to assess the need and possible structure of the PDF. Follow up and collection of the survey questionnaires are underway. Should there be strong indications of demand, we will pursue the design of the PDF.

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

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
Key Result Area (KRA) 1. Institutional Strengthening			
1. NWRB Strengthening	<ul style="list-style-type: none"> • Continue and expand undertaking on WSP performance benchmarking <ul style="list-style-type: none"> ○ Regular updating of the original 45 WSPs' performance ○ Presentation of results of study ○ Formulation of policy proposal to integrate performance reporting in regulatory requirements and the identification of incentives for compliance 	<p><i>Data collection involving 50 water utilities is ongoing and is expected to be completed by 30 April 2010 under WB assistance.</i></p>	<p>Additional 50 utilities benchmarked</p> <p>Benchmarked utilities formulated performance improvement plan</p> <p>Community of practice established</p>
	<ul style="list-style-type: none"> • Study on outsourcing of asset valuation 	<p><i>The study has been completed and is pending finalization after NWRB review.</i></p>	<p>Assessment of feasibility/viability of outsourcing</p>
	<ul style="list-style-type: none"> • Training on water district tariff methodology in support of NWRB's appellate functions (i.e., tariff appeals) 	<p><i>The training was conducted in 1-2 February</i></p>	<p>NWRB staff trained</p>
	<ul style="list-style-type: none"> • NWRB guidelines on light-handed regulation finalized 	<p><i>Survey of WSPs in two provinces (Camarines Norte and Northern Cebu) will be conducted after the elections with WB-WSP support. The survey results, which are due in September 2010, will include recommendations on the regulation</i></p>	<p>Guidelines for LHR for coops adopted</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
		<i>of various types of WSPs, including light handed regulation. Meanwhile, simplification of tariffs under light handed regulation for small water utilities is also assisted by the MDG Fund project of Spain.</i>	
	<ul style="list-style-type: none"> Rationalization of NWRB's organization 	<i>EO 860 was issued on 8 February 2010 transferring NWRB to DENR and changing the composition of its board to include DENR (chair), NEDA (vice-chair), DOJ, DOST and National Hydraulic Research Center of the UP as members.</i>	Secure approval and resources to implement Rationalization Plan
	<ul style="list-style-type: none"> NWRB and LWUA regulatory roles delineated and guidelines harmonized; facilitated by the completion of the study started in 2009, among others 	<i>EO 860 precludes NWRB from regulating the water tariffs of water districts as this function shall be undertaken by LWUA.</i>	Uphold EO 123, InfraCom/NEDA Board to resolve issue
2. Resolution of injunction of EO 279	<ul style="list-style-type: none"> Court resolution 	<p><i>Decision pending with the Regional Trial Court of Quezon City.</i></p> <p><i>Office of Government Corporate Counsel has advised that implementation of the other provisions of EO 279 which have no implications on LWUA personnel can continue.</i></p>	Uphold EO 279
3. Update the Philippine Water Supply Sector Roadmap (PWSSR)	<ul style="list-style-type: none"> PWSSR updated 	<i>Updating is ongoing and the consultant for the purpose has been engaged.</i>	Updated PWSSR published

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
4. Prepare the National Water Resources Policy (NWRP)	<ul style="list-style-type: none"> NWRP approved by Infracom 	<i>Initial funding from DENR-RBCO amounted to Php2 million. But total funding requirement is Php6 M.</i>	National Water Resources Policy
5. Develop National Sustainable Sanitation Policy Initiatives	<ul style="list-style-type: none"> National Sewerage and Septage Management Program approved by Infracom 	<i>NSSMP documents have gone through all the TWG meetings and subsequently discussed and adopted by the Inter-Agency Steering Committee (ISC) headed by DPWH. While these, including the final details, such as oversight, sustainability and regulatory concerns were presented to the Sub-Committee on Water Resources on 10 November 2009, approval and endorsement to Infracom was deferred pending the resolution of issues/concerns raised during the meeting.</i>	NSSMP approved and implemented
	<ul style="list-style-type: none"> Philippine Sustainable Sanitation Roadmap 		Implementation of 2010 programmed activities pertaining to institutional strengthening
6. Propose/formulate policies on economic regulation for LGU-run utilities, water districts and small water service providers, including proposing amendments to existing laws/policies related to economic regulation	Policy recommendation on independent economic regulation prepared	<p><i>Draft bill on WRC prepared under the PWSSR Inter-Agency Steering Committee.</i></p> <p><i>A legislative advocacy expert has been engaged by PWRf-SP to assist/facilitate the advocacy undertaking with the legislators. The legislative advocacy plan, which includes the review of</i></p>	Policy proposal

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
		<i>existing policies and legislative proposals on independent economic regulation, is currently being prepared.</i>	
KRA 2. Capacity Development			
1. Framework on Capacity Development	<ul style="list-style-type: none"> List of capacity development needs of WDs, LGUs, coops, WATSANs 	<p>Capacity assessment framework will be conducted at the local level targeting the 36 waterless municipalities under the MDG-F 1919 “<i>Enhancing access to and provision of water services with the active participation of the poor</i>”</p> <p>Prepare program proposal for capacity assessment (national)</p>	Framework and capacity program for implementation
	<ul style="list-style-type: none"> Inventory of all training programs and activities in the water supply and sanitation sector 	<p><i>LGA has existing regional training resource centers- Local Governance Resource Centers</i></p> <p><i>Inventory of trainings on-going</i></p>	Incorporation of water supply and sanitation training programs in the LGRCs
	<ul style="list-style-type: none"> List of training/knowledge development centers 	<p><i>6 academic institutions identified for the Water Safety Plans</i></p>	
2. Build capacity of water service providers on benchmarking, ring-fencing, strategic business planning, performance contracting, efficiency improvement, sustainable sanitation and proj. dev.	<ul style="list-style-type: none"> Institutionalize benchmarking Institutionalize strategic business planning Issue Joint Circular from DILG, CDA and NWRB requiring the ring-fencing of accounts Institutionalize provincial and municipal sector plans 		<p>Policy issuances (MOUs) to institutionalize benchmarking and business planning</p> <p>Roll out of ring fencing to 10 additional WSPs (LGUs and cooperatives)</p> <p>Completion of sector plans for 36</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
			waterless barangays. Updating of PW45P Integration of sustainable sanitation lessons learned/best practices and module development in the WatSan toolbox (MDG-F 1919)
3. Institutionalize WATSAN sector assessment process	<ul style="list-style-type: none"> Institutionalized national and local process of data collection, systematic data scrutiny, data analysis, and updating for continuous and periodic assessment Sector assessment reports 	<i>The preparation phase (development of forms, data gathering, etc.) slated in November-December 2009; implementation phase (conduct of regional/ provincial consultations in 10 pilot provinces in Luzon, Visayas and Mindanao, consolidation/ validation of data as well as data processing and analysis, etc.) in December 2009-February 2010; writeshop and drafting of the Sector Assessment Report by end of April 2010</i>	Design the sector assessment process Standardize data gathering processes, definitions and indicators Research and consolidation of sector data Development of a database Roll out of sector assessment process to the other regions (DOH and DILG to prepare proposal for funding assistance by donor agencies)
	<ul style="list-style-type: none"> WSPs (non-WD) registered 	<i>Selection of consultants ongoing</i>	Registry of WSPs/ mapping out all over the country
KRA 3. Strategic Alliance Building			
1. Pursue advocacy program	<ul style="list-style-type: none"> Advocacy programs to expand and improve WSS services for LGUs, water districts, legislators Awareness programs for the general public 	<i>The East Asia Ministerial Conference on Sanitation and Hygiene for 2010 (EASAN 2010) was held in January 2010. The resulting regional action plan from the conference is still being prepared.</i>	EASAN 2010 Legislators' briefings Sanitation symposia Global Hand washing Day National search for barangays with best sanitation practices

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
	Champions (GRP champion for water and GRP champion for sanitation) and support groups from the government, NGOs, private sector	<i>Support groups: academic consortium on sustainable sanitation formed</i>	Executive and legislative champions identified
2. Formulate the Philippine Sustainable Sanitation Roadmap (PSSR)	<ul style="list-style-type: none"> PSSR approved by Infracom 	<p><i>Finalization of the Roadmap is ongoing.</i></p> <p><i>Draft plan was presented to Sub-Committee on Water Resources on 10 February 2010. While improvements have been suggested, the SCWR approved its framework.</i></p>	PSSR published and programmed activities for 2010 implemented
	<ul style="list-style-type: none"> National Sustainable Sanitation Communication Plan 	<i>Drafting of the NSSCP is ongoing</i>	NSSCP implementation
	<ul style="list-style-type: none"> Drafting of National Water Sanitation and Hygiene Operation Guidelines 	<i>Terms of reference for the consultancy service has been prepared; awaiting UNICEF action/approval</i>	
KRA 4. Financing and Infrastructure Investment			
1. Implement GOP WSS financing policy	<ul style="list-style-type: none"> Implementation plan on the rationalization of public resource allocation for WSS prepared 	<i>Draft National Rationalization Program for Water Supply and Sanitation Investments in the Philippines was submitted to the DOF in October 2009. The paper proposes the preparation of a detailed rationalization implementation plan.</i>	Enforcement instruments

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
		<p><i>The EO 279 Oversight Committee discussed the concept paper in its 17 February meeting. The OC agreed to undertake a purely government-led study. DOF will prepare the Terms of Reference (TOR) of said study.</i></p>	
	<ul style="list-style-type: none"> • Financing programs for WSS identified 	<p><i>Final report of the ADB-PPTA for the Water District Development Sector Project, which commenced in Feb 2009 has been prepared..</i></p> <p><i>Final Report on the ADB TA on developing models for financing small scale water service providers was submitted by Streams of Knowledge, Philippine Water Partnership and NWRB in November 2009.</i></p> <p><i>WB is currently undertaking a study on the establishment of a concessional loan facility for water and sewerage infrastructure. The facility is proposed to be a mix of loan and grant funds to provide soft financing for the less creditworthy water service provider.</i></p>	<p>WSS financing programs/facilities</p>
<p>2. Develop financing mechanisms to leverage public resources with private financing in water supply and sanitation</p>	<ul style="list-style-type: none"> • Financing Strategy and Long-term mechanisms 	<p><i>Concept paper on bond financing has been prepared</i></p>	<p>Long-term revolving fund mechanism</p>

Agreed Action Agenda (1)	Identified Measures/Outputs (2)	Status (3)	Targets (4)
3. Adopt an incentive system to catalyze investments for WSS development	Eligibility of water and sanitation projects for incentives such as lower risk weights	<i>Proposal to lower risk weights of loans guaranteed by LGUGC/DCA under evaluation by BSP</i>	BSP approval

Component 4: General PWRF Program Support

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

- Participated in the EASAN 2 conference. We were a member of the technical committee and we led the documentation task.
- Presented PWRF as a financing option to the PAWD Annual Convention in February 2010 and launched two publications of the Program
- Assisted USAID's MSME Project in Cambodia with the technical agenda, facilitation of meetings of its study tour group, consisting of Cambodian water officials and water service providers.

Issues and New Development

1. Box 2 shows the reported issues in the June 2009 Quarterly Report. Unfortunately, these issues still remain unresolved. As such we continue to focus our marketing efforts to private water service providers. While we have clearly established the demand, the implementation of projects will depend on the conclusion of contracts with water districts, LGUs or in the case of Boracay project with the Philippine Tourism Authority. From previous experience, the processing and final approval of contracts can be protracted and tedious. Hence, it will be hard to project when the transactions we are working on can be brought to fruition.
2. All LGU related activities will be affected by the elections. The resumption of activities may not be until July or August.
3. The implementation plan for the rationalization of public resources is the foundation of the long-term financing mechanism for water supply and sanitation. Without the policy direction from DOF the design of the financing mechanism will be rudderless. As such we will hold off on this activity.

Box 2: Issues and New Development (reported in the June 2009 Quarterly Report)

1. LWUA continues to be a hurdle for PWRF financing, on two points: it has not been forthcoming with the issuance of financing waivers and approval of tariffs, both critical conditions for loan approval; and it competes for the same target clientele. DBP, LGUGC and the BAP representative (PNB) voiced this concern in the last PWRF Steering Committee meeting.

The competition from LWUA is expected to get worse in view of the new money it is expected to get in July or August this year (2009). This refers to the transfer of the PhP 1.5 billion budgetary appropriation from DOH and the PhP 600 million equivalent new loan from KfW. LWUA has reportedly been offering concessional financing, even grants, to even the creditworthy WDs.
2. Land Bank also competes for the PWRF market, and is able to offer more concessional terms, in view of its ODA funded programs.
3. 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.

Major Activities and Targets for the Next Quarter

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

Table 4: Major Activities for the Next Quarter

Project Component	Targets for the Next Quarter
Component 1: PWRf Set up and Institutional Support	<ul style="list-style-type: none"> ▪ Assist DBP in conducting the PWRf marketing events ▪ Conduct marketing road shows for PWRf potential borrowers and PFIs ▪ Monitor progress of marketing campaign ▪ Identify projects for PWRf financing ▪ Assist DBP identify measures for a more competitive PWRf ▪ Provide on-demand project evaluation and transaction support during loan negotiation and implementation
Component 2: Water Supply and Sanitation Project Preparation	<ul style="list-style-type: none"> ▪ Provide assistance on project development (on demand) ▪ Continue assistance to San Pablo City WD and Zamboanga City WD in the preparation of FS for septage management and sewerage treatment facility, respectively ▪ Assist Metro Iloilo, Metro Roxas and Bacolod with the preparation of septage management projects ▪ Conduct workshops to disseminate Septage Management Business Model for WDs ▪ Develop sanitation strategies/projects for 10 large LGUs (outside of Ecogov areas) ▪ Provide advisory assistance to selected utilities in the preparation of their business plans ▪ Develop business planning guidebook for LGUs ▪ Conduct business planning trainings
Component 3: Water and Finance Sector Strengthening	<ul style="list-style-type: none"> ▪ Provide technical secretariat support to the PDF sub-Working Group for water ▪ Subject to agreement of the InfraCom sub-committee on WSS, conduct briefings, seminars and consultations on WSS to congressional staffs and committees ▪ Conduct assessment of implementation of the regulatory reform agenda ▪ Conduct advocacy activities to improve economic regulation for WSS development ▪ Continue assistance on ring-fencing ▪ Assess the feasibility and prepare design of private sector-led PDF ▪ Monitor implementation of small grants related to pilot of model schemes to expand water services in poor communities ▪ Monitor implementation of the Rotary Club Zamboanga West water supply project (under the International Water Alliance) ▪ Develop with PAWD the local water operators partnership program
Component 4: Overall Program Support	<ul style="list-style-type: none"> ▪ Hold Steering Committee Meeting ▪ Provide technical secretariat support to the PDF Sub-Working Group on WSS; relatedly continue technical assistance to Usec Paul on water related matters

Chapter III: Contract deliverables (Overall Status of Accomplishment)

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

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

Component 2: Water Supply and Sanitation Project Preparation

Prioritization criteria developed and approved by the PWRf Steering Committee and DBP	<i>Dropped. Deemed not necessary; prioritization criteria has been included in the DBP's OPG for PWRf</i>
At least 7 and up to 10 projects are ready for PWRf funding	Transactions in progress
Credit ratings completed for at least two projects	Completed; final report submitted to LGUGC in May 2008
Plan developed for establishing a Project Development Facility	Completed; final report submitted in December 2008
Establishment of procurement mechanism for providing technical assistance needs to utilities	<i>Dropped upon advice of LWUA</i>
TA for project feasibility update	On demand; reviewed/ improved 2 FS: Lasam and Alfonso Lista
Training for selected WDs on business planning	None yet under the Year 4 work plan.
Trainings, TA to LGUs on sanitation projects	PWRf-SP, in coordination with EcoGov, presented the Septage Management Business Model to representatives from the Cities of Tagum, Panabo, General Santos, Digos and Samal, Municipality of Sta. Cruz and General Santos City Water District in March 2010
FS for Septage Management Project and Business Model for Metro Cebu Water District, Cabanatuan City Water District, Baliwag Water District, and Zamboanga City WD	Completed FS of MCWD, CCWD, Baliwag WD and ZCWD
FS for Septage Management for San Pablo City WD	SPCWD draft FS has been revised to account for the new volume forecasts. The results of the FS will be presented to the District in April

Two regional workshops on septage management business model with local association of WDs	Completed. 33 WDs from Luzon, Visayas, and Mindanao regions attended 3 regional training workshops in November and December 2009
Training course for LGUs for project development, financing, and utility operations	<i>Dropped as similar training programs are already being provided by other donor programs.</i>
Implementing guidelines of the LWUA-administered Project Development and Efficiency Improvement Facility	Completed. Operating guidelines accepted by LWUA; the Facility is now operational
Assistance to LWUA on the marketing of PDEIF	<i>Dropped upon advise from LWUA</i>

Component 3: Water and Finance Sector Strengthening

Implementing guidelines to rationalize credit programs and draft ICC resolution adopting guidelines	<i>Dropped. This has been superseded by efforts to prepare rationalization plan.</i>
Rationalization implementation plan for public resource allocation for water supply and sanitation projects	DOF indicated that a new TOR will be prepared for the conduct of a purely government-led study on the rationalization of public resources
Position Paper for Central Bank on eligibility of water projects for Agri-Agra Law compliance/ Incentives for private sector lending to WSS projects	Position paper was submitted to DOF and discussed with BSP. BSP declined the application for agri agra eligibility of water projects in view of lack of explicit legal basis, and instead agreed to consider lower risk weights (50%) for LGUGC guaranteed loans and bonds. PWRfSP continues to provide TA to DOF for BSP approval of the latter alternative incentive.
Pilot ring-fencing of LGU-water utility account	Completed. Five LGUs and three cooperatives were part of the pilot program.
Recommendations on segmentation of the market based on credit classification criteria consistent with international standards	Suspended in view of DOF decision on the rationalization plan
Recommendations on short-term credit program to assist non-creditworthy utilities to reform and restructure operations to improve creditworthiness	Suspended in view of DOF decision on the rationalization plan

Trainings for NWRB and CDA staff on tariff-setting and review	Completed; conducted a seminar for NWRB and CDA staffs on tariff setting methodology last February 2010
Harmonization of NWRB's and LWUA's regulatory roles	<i>Dropped. EO 123 was revoked by EO 860, thus rescinding mandate of NWRB to review and approve tariffs of water districts.</i>
Conduct of study, operation manual, and orientation seminar on outsourcing of asset valuation	The final report was submitted to NWRB on March 29
Report on Sustainable Financing Plan for NWRB	Completed; submitted final report in May 2009.
Paper on Performance Contracting	Study was finalized and submitted to NWRB in November 2009; training on performance contracting for government agencies conducted also in November; training of water utilities and pilot testing to be done after May 2010 elections
Performance Contracting Guide	No progress
Briefings, seminars and consultations on WSS to congressional staffs and committees	Scheduled in May
Advocacy seminars and workshops activities to improve economic regulation for WSS development	
Study on private sector-led Project Development Facility	Sent out the survey questionnaires to selected WSPs to assess the need and possible structure of the PDF in the third week of March 2010.
Model schemes to expand water services in poor communities	Small grants that will pilot model schemes have been processed; signing expected in April 2010
Study on the conceptual and operational design of a microfinance facility	No progress yet
Long-term business planning guide for water districts	Completed and accepted by LWUA; TOT of LWUA and Regional Training Centers of WDs conducted; 10 pilot WDs trained and mentored on respective business plans. All 10 are completing their strategic business plans

Business Planning Guidebook for LGUs	
Recommendations on the long term financing policy mechanism for water supply and sanitation projects	<i>Suspended in view of DOF decision on rationalization plan.</i>
LGUGC Pricing Policy and Framework	Completed. USAID has submitted the final report to LGUGC.
Concept paper and design framework for a Water Operators' Partnership program	Signed a MOU with PAWD to provide the Association technical assistance to develop a local WOP program
Component 4: Overall Program Support	
At least one meeting per quarter for the Steering Committee and the Technical Working Group	Meeting last quarter was not necessary
Technical papers, presentations, inputs to USAID reports and communication materials on the PWRf as may be required by USAID	On demand
Small Grants Program	Evaluated seven proposals and selected two top-ranked candidates for the remaining two PWRf SP grant awards that will be used to pilot test model schemes to expand water services in poor communities: TSPI Development Corporation and Institute for Popular Democracy; signing of individual grant agreement with the grantees will be held in late April 2010.
Set up PWRf Website	The website is operational. It is continually updated.
Meetings and consultations with the key implementing agencies as necessary	Periodically holding meetings with key implementers to resolve emerging issues
PWRf Performance Monitoring Plan	The PMP has been finalized. PMP reports will accompany the project's annual report to USAID.
Technical Secretariat Support to the PDF Sub-Working Group on Water Supply and Sanitation	Sub-working Group now operational. The four Task Forces, i.e., Institutional Strengthening, Capacity Development, and Strategic Alliance Building, Financing and Infrastructure Investments have been conducting their own meetings to achieve their respective action

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