

ASIA Focus: Inclusive Financing for Water

# **A Case Study of The Philippine Water Revolving Fund (PWRF)**

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# Water Supply Sector at a Glance

Coverage of piped water: (JMP 2017)	National	47% (2000)	→	43% (2015)
	Urban	63% (2000)	→	59% (2015)

## Number of Water Service Providers (WSPs) in the Philippines

Management Type	Total No. of WSPs	Percent Distribution
<b>Water Districts (WD)</b> 	<b>569</b>	<b>2%</b>
LGU-Run Utilities	4,108	17%
BWSA/RWSA/Cooperative/ Unnamed Water Service Providers	15,938	66%
Others	3,533	15%
<b>TOTAL</b>	<b>24,148</b>	<b>100%</b>

LGU – Local Government Unit

BWSA/RWSA – Barangay/Rural Water & Sanitation Associations





## *Terms & conditions of PWRF facility with DBP*

- **Tenor:** 20 years inclusive of maximum 3 year grace period
- **Financing mix:** initially 75% JICA/DBP funds and 25% PFI funds
- **Interest rate:** Fixed, benchmarked against a reference rate + interest spread (1-3%) depending on credit risk of borrower
- **Equity requirement:** Minimum of 10% based on total project cost; may be waived on a case-to-case basis
- **Take-out feature:** offered to borrowers who cannot afford the PFIs' short tenor (minimum term of 7 years); DBP & PFIs have option to be taken out; extend the loan or receive a balloon payment

## *Credit risk guarantee for PFI portion of loan*

- LGUGC can provide credit risk guarantee to PFIs of **up to 85%** of PFI loan exposure; PFIs are charged a **1% guarantee fee**
- USAID-DCA will issue a co-guarantee to LGUGC guarantee of PFI loan covering **up to 50%** of LGUGC's exposure



# Achievement

Loan agreement	2008(Loan Expiry 2017) (5 years for project formulation)
Final amount disbursed	JPY 7.6 billion (Disbursement performance 100%) A 40-year repayment period inclusive of a 10-year grace period Interest rate 1.4%
On-lending interest rate	Ranged from a low 6% to a high of 9.5%
Tenor	PFI's originally offered tenor ranged from 5-7 years only. PWRP up to 20 years.
Approved sub-projects (as of Dec. 2016)	18 PhP 4.2 billion
Participating PFIs	Bank of the Philippine Islands (BPI) Security Bank Corporation (SBC)
Default, Arrear	None

# Drivers for PWRF Development

- Political will of the Government of the Philippines
  - ▣ Executive Order 279 (2004): Government Financing Policy to institute financing reforms for water supply and sanitation sector; shift financing of creditworthy utilities to market-based sources (e.g., banks)
  
- Donor coordination
  - ▣ US-Japan Clean Water for People Initiative: launched at the World Summit for Sustainable Development in 2002 to accelerate efforts to achieve MDG for water supply and sanitation
  
- Precursor
  - ▣ JICA supported DBP by a two-step loan project for environmental infrastructure from 1999 to 2006, which was functioned as a launching pad for discussions on PWRF.

# Lessons learned (1) - Coordination

A limited number of creditworthy water service providers attract funding sources, which leads to competition. Necessity of a coordination rule.

- Competitor (1) - LWUA (Local Water Utilities Administration)
  - LWUA is a regulator for utilities and also financier as a financially independent public entity
  - Difficulty of utilities to secure waiver which entails that utilities secure prior written consent from LWUA if they borrow from other sources
- Competitor (2) - PFIs
  - PFI willingness to finance water supply and sanitation projects on their own without paying the guarantee fee
- Competitor (3) - Grant
  - Water service providers want to use grant if available.



Importance of comprehensive approach with a wide range of capacity development for PFIs and Water Service Providers.

- For PFIs
  - Credit rating system
  - Water project appraisal training
  
- For water service providers
  - Business planning
  - Project development (feasibility study)
  - Utility reform such as ring fencing and performance contracting

Complementary partnership between USAID and JICA worked well.

## JICA

- ❑ Provision of concessional **ODA loans** to DBP
- ❑ **Long tenor and grace period** which enabled liquidity cover to PFI loans
- ❑ Championed and introduced an innovative co-financing facility between DBP and PFIs
- ❑ Technical assistance to DBP and some water service providers for project development

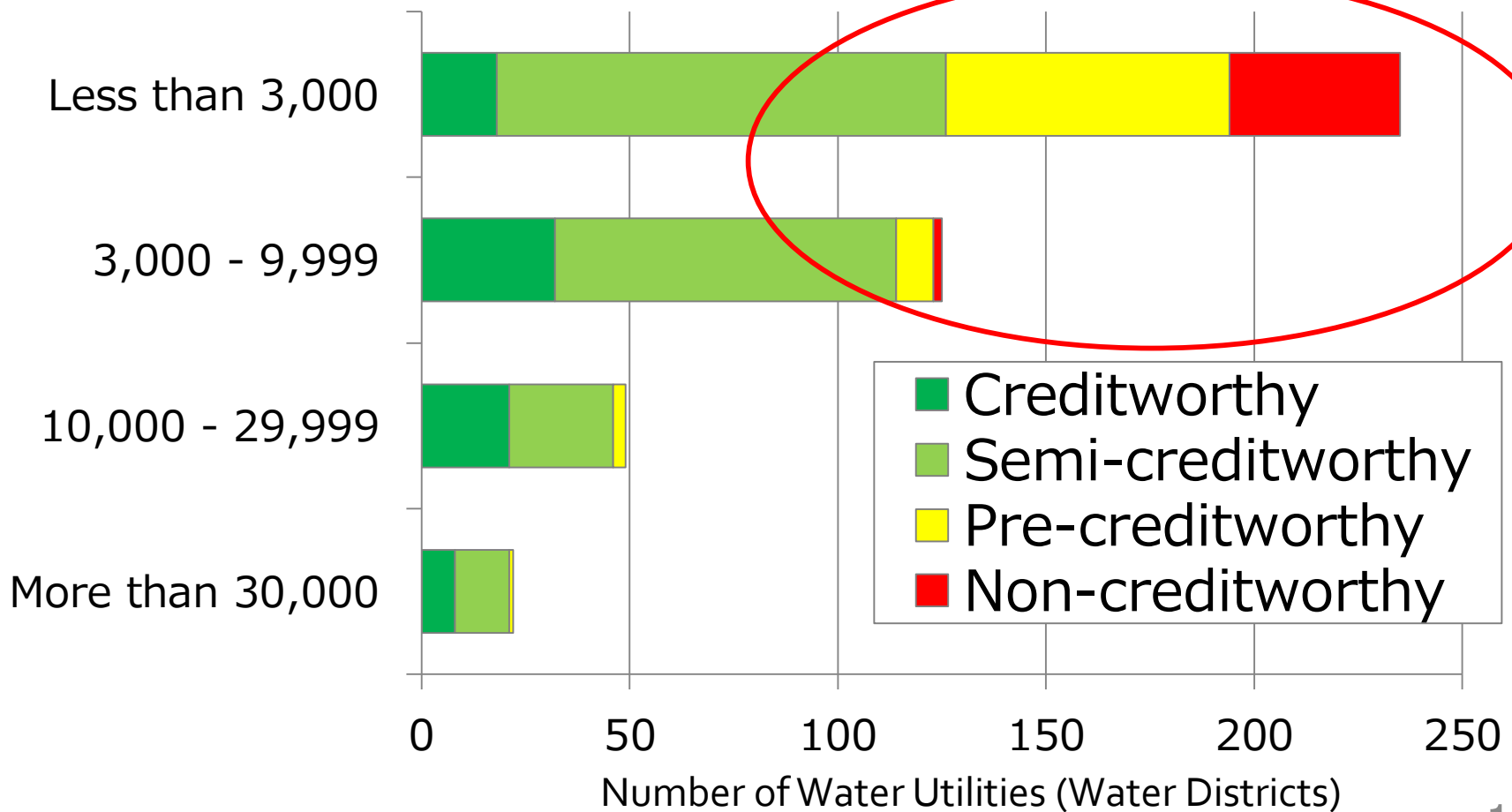
## USAID

- Provision of **co-guarantee** for PFIs
- **Institutional support**, coordination with PFIs and other stakeholders
- Assistance in **project development**
- Assistance in **policy reform**
- **Utility reform** (ring-fencing, improvements in business planning of water service providers)
- **Training** for PFIs and water service providers

# Lessons learned (4) – Sector reform

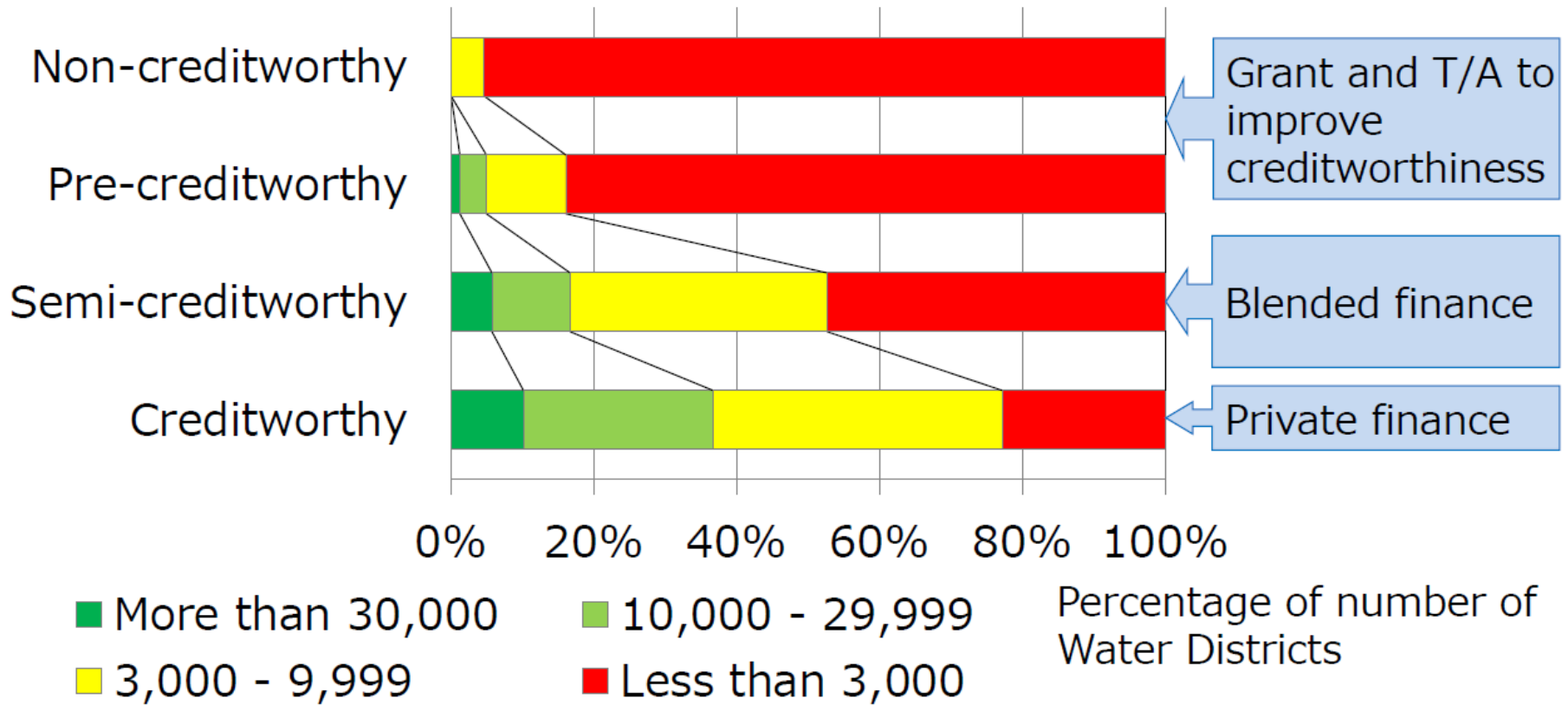
Increasing creditworthy WSPs is a challenge to sustain the PWRP. The WSPs in the Philippines are too small.

Number of connections



# Lessons learned (4) – Sector reform

Analysis of the sector and its reform are important to increase creditworthy water service providers which can use blended finance.



↑  
Sector reform to enlarge water service providers

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Thank you

Japan International Cooperation Agency (JICA)