ASIA Focus: Inclusive Financing for Water

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

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August, 2019
## Water Supply Sector at a Glance

Coverage of piped water:

|--------|----------|------------|------------|

*(JMP 2017)*

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

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

LGU – Local Government Unit
BWSA/RWSA – Barangay/Rural Water & Sanitation Associations

*Source: National Water Resources Board (NWRB), Listahang Tubig, Infographics (October 2014 to May 2015)*
**Development Bank of the Philippines (DBP)**

- **Philippine Water Revolving Fund (PWRF)**

**Creditworthy Water Service Providers**

**Credit enhancers**
- MDFO – Municipal Development Fund Office
- DCA – Development Credit Authority
- LGUGC – Local Government Unit Guarantee Corporation

**Lenders**
- DBP/MDFO
- USAID/DCA
- LGUGC

**Borrowers**
- GRP (DOF)
- JICA (ODA)

**Co-Financing**
- 25%

**Reflows**
- 75%

**Terms**
- Slightly lower rate and longer tenor than commercial
- Local currency (peso)

**DBP**
- Stand-By Credit Line to cover liquidity risk of PFI loan (if 20 year tenor)

**USAID/DCA**
- Co-guarantees LGUGC

**LGUGC**
- Partial credit risk guarantees of PFI loan

**GRP (DOF)**
- Provides sovereign guarantee for JICA loan

**JICA (ODA)**
- Concessional loans to DBP

**PWRF Financing Structure**

DBP collects repayment and distributes to the PFI, DBP general fund, JICA, and PWRF
Key Features of PWRF

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
| 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                                              | PFIs originally offered tenor ranged from 5-7 years only. PWRF 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 financer 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.
Lessons learned (2) – Capacity development

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
Lessons learned (3) – Donor coordination

Complementary partnership between USAID and JICA worked well.

<table>
<thead>
<tr>
<th>JICA</th>
<th>USAID</th>
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<tbody>
<tr>
<td>❑ Provision of concessional ODA loans to DBP</td>
<td>❑ Provision of co-guarantee for PFIs</td>
</tr>
<tr>
<td>❑ Long tenor and grace period which enabled liquidity cover to PFI loans</td>
<td>❑ Institutional support, coordination with PFIs and other stakeholders</td>
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<td>❑ Championed and introduced an innovative co-financing facility between DBP and PFIs</td>
<td>❑ Assistance in project development</td>
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<tr>
<td>❑ Technical assistance to DBP and some water service providers for project development</td>
<td>❑ Assistance in policy reform</td>
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<tr>
<td></td>
<td>❑ Utility reform (ring-fencing, improvements in business planning of water service providers)</td>
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<tr>
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<td>❑ Training for PFIs and water service providers</td>
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Increasing creditworthy WSPs is a challenge to sustain the PWRF. The WSPs in the Philippines are too small.
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.

- Non-creditworthy
  - Grant and T/A to improve creditworthiness
- Pre-creditworthy
  - Blended finance
- Semi-creditworthy
  - Private finance
- Creditworthy

Percentage of number of Water Districts:
- More than 30,000
- 10,000 - 29,999
- 3,000 - 9,999
- Less than 3,000

Sector reform to enlarge water service providers
Thank you

Japan International Cooperation Agency (JICA)