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Working Paper

Water Financing Programs in the Philippines: Are We Making Progress?

PIDS Discussion Paper Series, No. 2013-34

Provided in Cooperation with:

Philippine Institute for Development Studies (PIDS), Philippines

Suggested Citation: Llanto, Gilberto M. (2013) : Water Financing Programs in the Philippines: Are We Making Progress?, PIDS Discussion Paper Series, No. 2013-34, Philippine Institute for Development Studies (PIDS), Makati City

This Version is available at:

<https://hdl.handle.net/10419/126956>

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Philippine Institute for Development Studies
Surian sa mga Pag-aaral Pangkaunlaran ng Pilipinas

Water Financing Programs in the Philippines: Are We Making Progress?

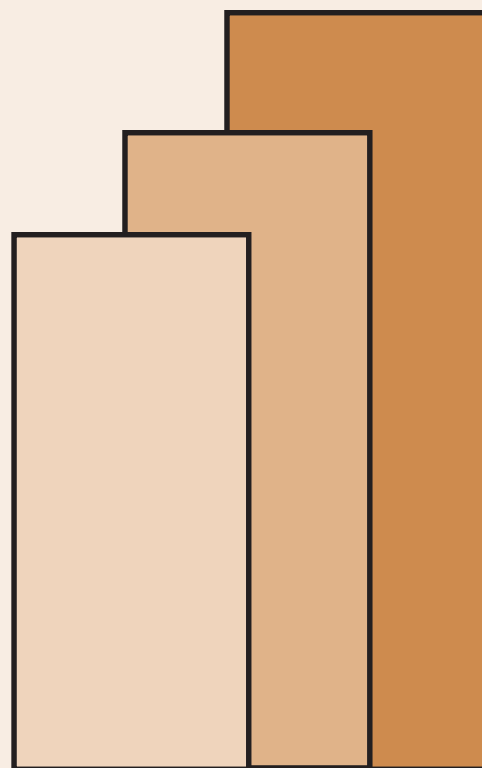
Gilberto M. Llanto

DISCUSSION PAPER SERIES NO. 2013-34

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May 2013

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WATER FINANCING PROGRAMS IN THE PHILIPPINES: ARE WE MAKING PROGRESS?

Gilberto M. Llanto¹

Summary

The paper argues the case for developing more innovative financing schemes for the water supply sector. The use of traditional ODA-dependent financing channeled through government lending institutions has a somewhat moderate success record in developing and improving the water supply sector. There are limitations to the use of public funds and public institutions in financing water delivery systems and it will be helpful to think of PPP or PSP arrangements or schemes that can come up with innovative solutions to address the issues in this sector. The Philippine Water Revolving Fund (PWRF) is one such innovative financing model and there could be others but developing and establishing such models will require the collaborative effort of the concerned stakeholders. Government lending institutions must be forced by policy makers to collaborate with the private sector in solving the long-standing water supply problem for a very large segment of the population. Those government lending institutions have the advantage of ODA funds, which they traditionally use to lend to target borrowers. The ODA funds can be blended with private sector resources, including credit guarantees that have been demonstrated as good credit enhancements, to lower the cost of financing water supply projects.

Key words: waterless municipalities, local government units, water supply systems, LWUA, MDFO, government financial institutions, output-based aid, MDG,

¹Senior Research Fellow, Philippine Institute for Development Studies. The author thanks Kris Francisco for compiling information on the current government and ODA-supported programs and projects in the water sector, and Kristina Ortiz for data on loans to the water sector and a summary of national government programs for waterless communities.

I. INTRODUCTION

In the Philippines and many other developing countries the lack of access to safe drinking water has taken its toll on the health and productivity of people, especially poor households. It is a critical problem. The provision of safe drinking water has been established as a main target of environment sustainability, one of the eight Millennium Development Goals (MDGs) agreed upon in 2000 by 189 nations. The ultimate objective of the MDGs is to free people from extreme poverty and multiple deprivations by 2015². Specifically, the MDG targets to halve the proportion of people with no access to safe drinking water and basic sanitation by 2015.

Since 2000 global efforts to achieve the MDGs have resulted to increased access to safe drinking water.³ However, despite the great progress made in several countries, one out of ten people may still be without access to safe drinking water by 2015⁴. The Philippines' Progress Report on the MDGs in 2010 suggests that the country is on track to attain its MDG commitment. Nevertheless achieving 100-percent coverage remains a big challenge because about 15.73 million Filipinos still do not have access to safe water supply⁵.

The Philippine MDG Report also noted the uneven progress in improving access to safe drinking water in urban and rural areas. There is a need to increase efforts to narrow down the disparity in accessibility as rural areas have traditionally lagged behind cities and the bigger towns in providing their inhabitants with access to safe drinking water. Several factors explain this situation: (i) the wider dispersal of population in rural areas, which result in higher cost of service delivery, (ii) availability of water from various other sources, e.g., springs and rivers, which substitute for piped water, (iii) lower incomes and thus, lower affordability of rural households, (iv) challenges of geography, which increase investment requirements, and (v) policy, regulatory, and institutional barriers.

²<http://www.undp.org/content/undp/en/home/librarypage/mdg/the-millennium-development-goals-report-2012/>

³<http://www.undp.org/content/undp/en/home/librarypage/mdg/the-millennium-development-goals-report-2012/>

⁴ MDG Report 2011

⁵ Philippine Development Plan 2011-2016, Chapter 5

There is a low level of investments in water supply and sanitation, which as noted in the 2011-2016 Philippine Development Plan (PDP), has hindered the full achievement of the MDG target for this sector. A major development partner confirmed the underinvestment in the water supply and sanitation sector. It noted that investments in water supply and sanitation have been significantly low relative to overall public spending (World Bank 2005). Aside from the low level of investments in water and sanitation, a common finding is the bias in public infrastructure spending by the national government in favor of Metro Manila and major urban areas, the recently packaged program for waterless municipalities and barangays notwithstanding.

Both the PDP and the World Bank suggest that the lack of a coherent water financing framework has been a factor behind the low level of investments in water and sanitation in the Philippines. The PDP indicates the need to rationalize financing in the water sector in order “to make the fullest use of limited public funds and encourage concessional financing, and private sector investments.”⁶

In this light, the paper has the following objectives: (a) comment on the government’s water financing programs and (b) suggest some policy recommendations that may contribute to the formulation of a coherent water financing framework. It has four sections. After a brief Introduction, Section II gives a brief overview of the Philippine water supply sector to provide context to the problem of access to water financing. Section III analyzes the water financing programs. The last section concludes with some policy recommendations.

A word of caution, a *caveat*, is in order on the scope and limitations of available data on the water and sanitation sector. In the course of writing this paper it was found out that lack of reliable and outdated data on water and sanitation are a big constraint to a sensible analysis of the sector. Available data are sometimes of poor quality. The Philippine Development Plan (2011-2016) itself pointed out that data on the number of service providers remain inconsistent and have not been consolidated. Indeed, the Philippine Water Supply and Sector Roadmap (2005)

⁶Philippine Development Plan 2011-2016, Chapter 5

notes that weak monitoring systems make it difficult to ascertain accurately the extent of water supply coverage and population access to safe drinking water and sanitation services⁷.

Several government agencies like the National Statistics Office (NSO), Department of the Interior and Local Government (DILG), National Statistical Coordination Board (NSCB), and Local Water Utilities Administration (LWUA) have individual efforts to compile data on the water supply sector. Despite these initiatives, there are still no consolidated and consistent information and data on the actual access and coverage of water supply services in the country. This makes investment planning, programming, project implementation, and monitoring of the water sector a very difficult exercise to undertake. It will make sense for these government agencies to coordinate their data collection activities and designate who among them will be the main government agency responsible for reporting/publishing the data collected and monitoring developments in the sector.

⁷Public-Private Infrastructure Advisory Facility (2008) “Small Utility Access to Market Credit: Lessons and Options” SWIF Project-Component 3, Completion Assessment Report, Water and Sanitation Program-East Asia and the Pacific, The World Bank, Jakarta, Indonesia, December.

II. A BRIEF OVERVIEW OF THE PHILIPPINE WATER SUPPLY SECTOR

Water availability and accessibility

Data seem to indicate that the Philippines has abundant water resources. According to the NSCB, the country has about 421 principal rivers, with drainage areas ranging from 40 to 25,469 square kilometers, 59 natural lakes, numerous individual streams and four major groundwater reservoirs, whose areas range from 6,000 to 10,200 square kilometers, which, when combined with other smaller reservoirs identified, would aggregate to an area of about 50,000 square kilometers⁸. The World Resources Institute data shows that per capita water availability in the country is twice as much as the rest of Asia, and about six times above global scarcity threshold of 1,000 cubic meters per person⁹. However, water availability varies greatly among the different islands in the country. Differences in rainfall pattern and watershed capacity are factors responsible for varying levels of water availability¹⁰. Central Visayas, for instance, has the lowest potential in terms of sources for both groundwater and surface water, while Region II (Cagayan Valley) has the highest potential in terms of sources of groundwater. On the other hand, Region X (Northern Mindanao) has the highest potential in terms of surface water¹¹. The continuous depletion of the remaining forests of the country and inefficient management of the watersheds constrain the availability of raw water.

The right perspective on water availability considers the level of demand for water by a growing population and a surging economy. Looking at the relative abundance of water without considering the level of demand and how fast that demand is growing is misleading. Greenpeace (2007) viewed demand for water as being greatly affected by population distribution such that higher levels of scarcity are experienced in major urban areas especially Metro Manila than in relatively sparsely populated areas.

⁸ Source of information: <http://www.nscb.gov.ph/peenra/Publications/asset/water.pdf> (date accessed 22 December 2012)

⁹ Data from 1977-2001.

¹⁰ Water District Development Sector Project 2010.

¹¹ Philippine Economic Monitor 2003.

In addition, temporal and geographic variations, changes in the land use patterns, e.g., conversion of watersheds, rapid urbanization, and increasing discharges of untreated wastes and various pollutants also affect the availability of water for human consumption¹².

The Philippine Water Supply Sector Roadmap reports the following information on water accessibility. Based on National Statistics Office data, in 2004 around 80.2 % of households in the Philippines have access to water. These same 2004 figures are reported in the February 2010 MDG Watch compiled by National Statistical Coordination Board (NSCB)¹³. Of the 80.2% with access to water from formal providers, only 44 % are connected to level 3 systems which are deemed the safest and most convenient sources of water supply. The rest get their water from level 1 or 2 systems. The local government units (LGUs) and community-based organizations (CBOs) combined have remained as the biggest water-service providers serving 55 % of those with access to water, followed by the water districts at 20% and private operators at 5 %. The remaining 20% of the population rely on informal sources to satisfy their water requirements.

In 2009, the World Bank¹⁴ estimated that 13.7 million people (or 16% of the population) do not have improved access to water while just over a third of the population has access to residential piped water. Accessibility or coverage has worsened mostly in urban areas. The drop in water accessibility in urban areas is partly driven by rapid urbanization. However, in the same World Bank report an improvement in water access had been detected. The World Bank (2009) mentioned an improvement in water access with 90% of the population having improved access to drinking water in 2006¹⁵ and this was attributed to the increase in shared connections to a water supply network in urban and rural areas.

¹² <http://www.nscb.gov.ph/peenra/Publications/asset/water.pdf> (date accessed 22 December 2012)

¹³ 2004 Annual Poverty Indicators Survey. Total population with access to water is estimated at 71.8 million (comprising of 15.5 million households) in 2007.

¹⁴ Baker, Judy, editor (2009) *Opportunities and Challenges for Small Scale Private Service Providers in Electricity and Water Supply: Evidence from Bangladesh, Cambodia, Kenya, and the Philippines*. Washington, D.C.: World Bank, page 204.

¹⁵ The World Bank relied on data from the National Statistics Office (2008) *2006 Family Income and Expenditure Survey*.

More recent estimates seem to indicate a deteriorating situation in the water supply sector. As noted earlier, about 15.73 million Filipinos still do not have access to a safe water supply. This is the result of the low level of investments in water supply and sanitation and the lack of a resolute commitment on the part of government to address the situation.

“Waterless” local government units

The government has identified “waterless areas” in the country that are now the focus of government interventions to make safe water accessible to the population concerned. The National Anti-Poverty Commission defines “waterless areas” as those municipalities outside Metro Manila or barangays inside Metro Manila wherein less than 50% of the total household population are connected to any water supply system. Based from the National Household Targeting System (NHTS), the government reports that 455 municipalities have remained waterless (**Table 1**)¹⁶. The main sources of domestic water requirements of households in those municipalities are shallow wells, deep wells, open dug wells, springs and rivers.

Table 1. Number of Waterless Municipalities, April 2011¹⁷

Region	No. of waterless municipalities
CAR (Cordillera Administrative Regions)	7
Region I (Ilocos Region)	19
Region II (Cagayan Valley)	20
Region III (Central Luzon)	3
Region IV-A (CALABARZON)	23
Region IV-B (MIMAROPA)	23
Region V (Bicol Region)	34
Region VI (Western Visayas)	53
Region VII (Central Visayas)	41
Region VIII (Eastern Visayas)	19
Region IX (Zamboanga Peninsula)	43
Region X (Northern Mindanao)	33
Region XI (Davao Region)	19
Region XII (Soccksargen)	15
Region XIII (Caraga)	9

¹⁶Philippine Water Supply Sector Roadmap 2nd Edition, NEDA Secretariat (2010). Henceforth in the paper, this will be referred to as the “Roadmap.”

¹⁷ Please see **Annex 1** for the complete list of waterless municipalities as of April 2011.

ARMM (Autonomous Region in Muslim	94
Total	455

Source: MDG-F website, 2012.

<http://www.mdgf1919salintubig.org.ph/index.php/project/salintubig/coverage/455-waterless-municipalities>

To provide water to those waterless communities, the government has launched the “Sagana at Ligtas na Tubig Para sa Lahat (Salintubig)” Project in 2011. The DILG, the Department of Health (DOH) and the National Anti-Poverty Commission (NAPC) were assigned to coordinate and execute the said project. Memorandum Circular No. 2012-83 provides the policy guidelines in its implementation. The Circular states that the “Program is designed to provide water supply systems for the 455 waterless municipalities, waterless barangays, waterless health centers, and waterless resettlement sites; and enhance the capacity of the LGUs/water service providers in the planning, implementation, and operation of water supply facilities.” **Box 1** has a description of the Project.

Box 1. Description of Sagana at Ligtas na Tubig sa Lahat (Salintubig) Project	
Program Objectives	<ol style="list-style-type: none"> 1. Provide water supply systems to 455 waterless municipalities, barangays, health centers, and resettlement sites. 2. Provide capacity building activities/programs to LGUs/water service providers in the planning, implementation, and operation of water supply facilities.
Expected Outcomes	<ol style="list-style-type: none"> 1. Increased water service for the waterless population by 50% 2. Reduced number of water-borne and sanitation related diseases by 20% 3. Improved access of the poor to sanitation services by at least 10% 4. Established sustainable operation of all water supply and sanitation projects constructed, organized and supported by the program.
Target Areas/Communities	<p>Waterless municipalities outside Metro Manila</p> <ul style="list-style-type: none"> • For 2011: <ul style="list-style-type: none"> - 115 waterless municipalities - 62 waterless barangays - 55 health centers

	<ul style="list-style-type: none"> - 24 waterless resettlement sites • For 2012: <ul style="list-style-type: none"> - 80 municipalities - 43 barangays - 46 health centers - 12 resettlement areas • For 2013-2016: The program is set to cover the remaining 290 of the 455 identified waterless areas in the country.
Implementation Period	2011-present
Government interventions:	
a. Investments	a. Php 1.5 billion (2011); Php 800 million (2012); Php 1.811 billion (2013)
b. Capacity building	b. Different capacity development interventions are provided to LGUs in the pre-implementation, implementation, and sustainability phase of the program.
Government Agencies Involved	Department of Interior and Local Government (DILG) Department of Health (DOH) National Anti-Poverty Commission (NAPC)
Accomplishments	<ul style="list-style-type: none"> • In 2011: <ul style="list-style-type: none"> - 26% of the total target areas have completed water supply systems projects - Capacity development interventions were all completed - 78.45% of the amount allocated for the project was utilized • In 2012: <ul style="list-style-type: none"> - Only 1.2% of the water supply systems projects for target areas were completed - Funds utilization rate of 70.81% - Two out five capacity development activities were completed in 2012; the remaining three are to be conducted in the 3rd and 4th quarter of 2013 <p>(Please see Annex 2 for specific details of the accomplishment report of Salintubig project from 2011 to April 2013)</p>

Source: DILG, April 2013; MDG Achievement Fund in the Philippines (MDGF); DOH; DILG

In connection to this, the DILG has also been tasked by the national government to be the implementing agency in the Provision of Potable Water Supply program for the Autonomous Region in Muslim Mindanao (ARMM). This project is part of the Transition and Investment Support Plan (TISP) for ARMM which has been crafted in line with the ARMM Roadmap for Reform. In its implementation in 2011, a total amount of Php 1,275,790,202.00 has been appropriated to DILG¹⁸. Seventy-five percent (75%) of the target construction projects in the five provinces of ARMM are on-going; capacity development interventions are also being provided wherein three out of five activities were already completed.¹⁹ Such program is also conducted specifically in Basilan but with additional infrastructure investments.

Before the Salintubig project, the government has already been implementing a joint program of the United Nations Development Programme (UNDP) and the United Nations Children's Fund (UNICEF) in 2009, entitled, “MDGF 1919: Enhancing Access to and Provision of Water Services with the Active Participation of the Poor”. This program complements the Salintubig project as it recognizes the immense importance of developing capacity building mechanisms and providing technical assistance to local government units (LGUs) in the pursuit of efficient and sustainable water supply services in the country. **Box 2** shows the details of the program.

Box 2. MDGF 1919: Enhancing Access to and Provision of Water Services with the Active Participation of the Poor	
Program Objectives	Establish and develop support mechanisms (i.e. capacity building, incentives options, “funds leveraging”) and provide technical assistance to target waterless areas in the country.
Expected Outcomes	Outcome 1: Investment support mechanisms established for poor communities/municipalities to improve efficiency, access, affordability and quality of potable water

¹⁸ Based on an article in 2012 entitled, “Transition Investment Support Plan for ARMM,” Municipality of Pulilan, Bulacan Philippines.
<http://www.pulilan.gov.ph/eprocurement.php?id=5>

¹⁹ DILG (2013) “Sagana at Ligtas na Tubig sa Lahat (Salintubig) Program/Provision of Water Supply: Accomplishment Report as of April 30, 2013”

	<ul style="list-style-type: none"> • Output 1.1 Incentives mechanisms and partnership modalities developed and enhanced for public and private investments in “waterless” and poor communities • Output 1.2 Financing and programming policies in the sector reviewed and amended as necessary to rationalize assistance and increase ownership and accountability <ul style="list-style-type: none"> Output 1.2.1 NG-LGU cost sharing policy reviewed and amended, as necessary Output 1.2.2 P3W programming policies reviewed and amended, as necessary • Output 1.3: Local WATSAN councils and water user associations organized to effect participative provision of water supply services • Output 1.4: Adjustment of NWRB’s tariff-setting guidelines for small water service providers <p>Outcome 2: Enhanced local capacities to develop, operate and manage water utilities</p> <ul style="list-style-type: none"> • Output 2.1 Capacities at the local level strengthened, with participation of marginalized groups especially women. <ul style="list-style-type: none"> Output 2.1.1: Skills and knowledge transferred/shared through institutionalization of local mentoring mechanisms Output 2.1.2: WATSAN Toolbox rolled out implemented • Output 2.2 Improved sector plans formulated and monitoring mechanisms established • Output 2.3 Localized customer service code developed and adopted • Output 2.4 Information, education and communication programs
Target Areas/Communities	5 regions (II, V, IX, X, XIII)→ 12 provinces → 36 waterless municipalities
Implementation Period	2009-2012; At present, the program is already in its finalization stage.

<p>Government interventions:</p> <ul style="list-style-type: none"> ▪ Investments ▪ Capacity building 	<p>a. The program is currently endowed with budget amounting to \$ 5.375 M wherein \$ 3,834,813 was donated by the UNDP while the remaining amount of \$ 1,540,187 was granted by the UNICEF.</p> <p>b. The capacity development interventions focused “in the areas of sector planning and monitoring, development of service codes, tariff setting and regulation, management and operation, and sanitation” (UNDP, 2012)</p>
<p>Government Agencies Involved (Implementing partners)</p>	<p>National Economic Development Authority (NEDA); National Water Resources Board (NWRB); DILG</p>
<p>Accomplishments</p>	<ul style="list-style-type: none"> • Target services/goods were delivered to all beneficiaries (Please see Annex 3) • Moreover, “target LGUs are willing to support and be involved in the implementation and achievement of program outputs” (MDGF, 2012)
<p>Outstanding issues in the course of the program</p>	<ul style="list-style-type: none"> • Despite presence of such political will by LGU officials, financial constraints might still hinder them from continuing the objectives and outputs of the program²⁰. • There was a lack of coordination with the government which caused delay in implementation of the program. • There were also problems on the availability of technical personnel for joint-program (JP) activities.

Source: MDG-F Semi-Annual Report Dec. 2012

There may be a scope for expansion of the water supply services provided by the two private water concessionaires to cover the waterless barangays in Metro Manila. Obviously, the two private water concessionaires have their own resources and access to the capital markets to undertake those water investments. Those waterless barangays are not currently connected to a

²⁰Caen, S. and P. Pelaez [2012] “MDG-F Philippines Mission Report”, sourced from DILG

piped water supply system but they are at least able to access potable water through water vendors (independent private providers)²¹. The two private water concessionaires, the largest in the country continues to invest and make improvements in their respective areas of responsibility as required by their respective concession agreement and their own calculation of the profit-making potential in those areas. These are hard-nosed business firms who do not provide the water service out of charity but out of a sense of profit. They would not miss a profit-making opportunity if they could find one. Connecting those densely populated waterless barangays in Metro Manila to a piped water supply system will surely contribute to those firms' meeting their respective profit objectives.

The cost to urban households in Metro Manila of vended water creates an incentive for an efficient water provider such as the two private water concessionaires to expand their services to waterless barangays of Metro Manila. It is noted that even in areas where there is access to safe drinking water poor households may find it costly if they are not properly connected to piped sources. Those poor households have to rely on more expensive vended water. David et. al. (2000) found that households without access to piped water pay ten times higher than the official water tariffs. Inocencio (2001) verified this result in Metro Manila pointing out that people in poor and depressed areas pay the most expensive water prices, at the rate of Php 100 to Php 250 per cubic meter from vended sources. By way of contrast, in 2011, the Manila Water Company announced a tariff rate of Php 58.73 per connection for low income households consuming less than 10 cubic meters of water. For those consuming more than 10 cubic meters, the first ten cubic meters are assessed a tariff of Php 97.88.

On the other hand, the situation in waterless municipalities outside Metro Manila is a different case. A much more creative approach than straightforward private water service provision through a concessionaire that is feasible in a highly urbanized and densely populated area such as Metro Manila but not in rural communities will be required. The constraints to inaccessibility of safe water in rural areas or in only small municipalities are different ranging from geographic barriers, e.g., upland barangays, coastal municipalities, wide dispersion of the

²¹Table 3 below shows some data.

rural population, relatively larger size of (potentially unremunerated) investments in rural compared to urban areas, to lack of institutional capacity to low affordability.

Table 2 shows how funds have been allocated across waterless municipalities. According to the DILG²² the Salintubig Project is a priority program of the government. NAPC identified the waterless municipalities that are given funds ranging from Php7 to Php 10 million. The program targets also areas with thematic concerns waterless barangays (Php 1-3 million allocation), waterless resettlement sites (Php 3-5 million) and waterless rural health units (Php 1 million allocation). A sound understanding of local demand and investment requirements supported by good feasibility studies will improve fund allocation across those waterless municipalities/areas. It is also important to ascertain local institutional capacity to efficiently and effectively use those funds.

Table 2. Allocation of Infrastructure Investment Funds for Potable Water Supply System, Waterless Municipalities 2012²³

DILG Regions	Total Allocation (in millions)	Amount Released to LGUs (in millions)	Amount released/total allocation (%)
Region I	42	31	74
Region II	43	29	67
Region III	21	11	52
Region IV-A	116	97.75	84
Region IV-B	50	40.50	81
Region V	52	26	50
Region VI	88	36	41
Region VII	83	64	77
Region VIII	99	55	56
Region IX	5	1.5	30
Region X	26	21	81

²² Interview with a project officer of DILG Salintubig Project (May 10, 2013).

²³ Please see **Annex 2** for other details of allocation of funds in 2012

Region XI	35	17.5	50
Region XII	45	36	80
Region XIII	44	39.75	90%
CAR	21	15	71%
TOTAL	770	521	68%

Source: DILG Salintubig Project Accomplishment Report as of April 2013

The government should explore more creative approaches to addressing the water supply problem of those far-flung communities. The government should also consider the most efficient public sector intervention to entice private sector investments in the rural water sector, more specifically in those waterless municipalities. The government faces a budget constraint and thus, could not conceivably pour out billions of pesos to address this problem. It really has to explore creative and innovative approaches.

Government intervention may not necessarily consist of the traditional “input-based” public co-financing such as subsidizing the cost of specific civil works (Saghir, 2003), or investing in public taps/stand pipes as common facilities to be accessed by rural households and similar approaches. On the contrary, there is great merit in exploring innovations such as the output-based aid schemes for the delivery of basic services, e.g., electricity, water, health and education to the poor. This paper does not have space to discuss details of such innovations but the use of an output-based aid scheme for the electricity sector is informative.

In the electricity sector, the government employs a tax-and-subsidy scheme under Republic Act 9136 to subsidize investments in missionary electrification. The consumer’s electricity bill carries a universal charge for missionary electrification. **Box 2** illustrates how an output-based aid (OBA) subsidy has been used to provide electricity to remote islands in the country.

Box 2. Output-based aid for missionary electrification in the Philippines

The Philippines has introduced an output-based aid (OBA) subsidy scheme to improve electricity supply on remote islands as a way to enhance living standards in the poor communities there. The subsidy, to come from a national fund financed by a surcharge on all electricity users, will be paid to private generators selected through competitive bidding, and disbursed on the basis of the energy they supply. These generators will take over from the government provider, entering into a supply agreement with the cooperatively owned distribution utility on each island. The competitive bidding process should ensure that the costs of supply, and thus the required subsidy, will be lower. That will allow subsidy funds to be used more efficiently, benefiting more communities. The quality of electricity service should also improve. The first transaction, focusing on three pilot areas, has been successfully completed.

Source: Grewal and others (2006)

There is no equivalent tax-and-subsidy scheme in the water supply sector but an output-based-aid (OBA) subsidy scheme has been recommended by donors and policy analysts as a creative approach to solve the problem of public service provision in the presence of market failure. The scheme could be a component of private sector participation or public-private joint ventures to provide water services to waterless municipalities. A strategy using output-based aid (OBA) subsidy may create a strong incentive for private water service providers to operate in waterless municipalities. **Box 3** enumerates some examples of output-based-AID subsidy schemes.

Box 3. Output-based Subsidies

- OBA subsidy for coverage expansion- a lump sum payment for each new connection in poor areas
- OBA subsidy for tariff transition- support gradual tariff increase to cost-recovering level, payment based on service delivered (quality parameter, collection rate) over a limited period
- OBA subsidy for consumption- subsidize minimum consumption for poor households

- OBA subsidy for wastewater treatment- subsidy based on amount of pollution removed

Source: Saghir (2003)²⁴

Water quality

The issue of water quality is of paramount importance for the health and well-being of households²⁵. The World Bank (2009) notes the relatively high access in the water sector but also the poor quality of that access. The World Bank observation is based on the survey data of the 1998 and 2003 Philippines Demographic and Health Surveys. Data show that there has been an overall deterioration in access to improved drinking water sources although there were more households with piped water into their houses in 2003 (34%) as compared to the situation in 1998 (30%). **Table 3** below shows data on household access to drinking water generated by the two surveys. A large percentage (47.1% in 2003 vs. 51.6% in 1998) of households still has protected wells and others as source of water. The surveys described “others” as sources such as rainwater, open dug or unprotected well, spring, river, water tanker truck or water refilling station. It is obvious that the public policy issue is not just the provision of water but more importantly, potable and safe water to households.

²⁴Saghir, Jamal (2003) “Innovative Options in the Public and Private Financing of Urban Systems: Moving Beyond the Public-Private Debate,” presentation at the International Conference on Financing Water and Sanitation Services, Washington D.C., November 11.

²⁵ The Philippine National Standards for Drinking Water are defined in Administrative Order 2007-0012 of the Department of Health, issued on March 9, 2007.

Table 3. Household Access to Drinking Water, 1998 and 2003

(percentage of total households)

Source of water	1998 (% of HH)	2003 (% of HH)
Improved drinking water sources	85.9	84
Piped water into house	30.2	34.3
Piped into yard	6.6	5.3
Public tap/standpipe	11.6	13.1
Protected well	32.5	26.6
Others	19.1	20.5

Source: Table IIID.1 World Bank (2009), 1998, 2003 Philippines Demographic and Health Surveys

Water service providers

The two concessionaires, Maynilad Water Services Inc. and Manila Water Company are the contracted water providers in Metro Manila²⁶. The Manila Water Company provides water services to more than 1 million households in the East Zone concession area through more than 811,753 water service connections and 51,000 sewer service connections. More significantly, of the more than six million people connected to the water network, 1.6 million people or about 274,962 households belong to the low-income communities²⁷. On the other hand, Maynilad Water Services is the water and wastewater services provider for the 17 cities and municipalities that comprise the West Zone of the greater Metro Manila area²⁸. It does not report the number of customers in its web site unlike Manila Water Company and efforts to get data from this company proved futile. It can be assumed though that it also serves more than 1 million households in its concession area.

²⁶The legal framework for the privatization of water supply delivery in Metro Manila was the Water Crisis Act of 1995.

²⁷http://www.manilawater.com/section.php?section_id=5

²⁸ In its web site, Maynilad does not report the number of its customers, only the areas they service: Caloocan, Las Piñas, Malabon, Manila, Muntinlupa, Navotas, Pasay, Parañaque, Valenzuela, parts of Quezon City, a part of Makati; and the cities of Bacoor, Cavite and Imus and the municipalities of Kawit, Noveleta, and Rosario in the province of Cavite. The West Zone covers a total of 540.43 square kilometers.

The latest available information indicates that there are approximately 5,400 water service providers in the country²⁹. This list is not accurate because the government does not really have accurate information on the water supply sector. Outside Metro Manila the major water service providers outside Metro Manila are the local water districts. There are 831 local water districts registered with the Local Water Utilities Administration (LWUA). Local water districts have access to loans and technical assistance from LWUA, and also loans from government financial institutions (GFIs) and the Municipal Development Fund Office (MDFO)³⁰. They can potentially provide quality water service to a wider and larger customer base because of the accessibility of financial and technical assistance from these government agencies. However, many local water districts have remained small, inefficient, and financially weak.

The Roadmap reported that as of the end of 2009, local water districts covered less than 40% of the population in their jurisdictions.³¹ The situation mentioned in the Roadmap shows the lack of improvement or even a worsening of the situation since 2003. According to Jamora (2008) in 2003, in terms of water district (WD) coverage, 47% of the 1,500 cities and municipalities are served by WDs. However, 86% of those covered by WDs have population coverage below 50% of their populace³². The majority of the local water districts (76% of total) are too small with 5,000 or less connections. To address this situation, LWUA has adopted the policy of reviving non-operational water districts and creating new ones in areas where there are none.

LGU-operated water utilities also serve the population outside Metro Manila. In 2008, the PPIAF estimated that there are around 660 LGU-operated utilities, all considered as “small,” that is, those water utilities with less than 5,000 connections³³. The Local Government Code has

²⁹Sector overview of the Roadmap.

³⁰MDFO is a bureau under the Department of Finance.

³¹Philippine Water Supply sector Roadmap 2nd edition, NEDA Secretariat.

³²Jamora, Lorenzo (2008), “Credit Rating System to Enhance Credit Flow for Water Supply Projects in the Philippines” Local Water Utilities Administration

³³ PPIAF (2008), “Small Utility Access to Market Credit: Lessons and Options,” SWIF Project-Component 3, Completion Assessment Report, Water and Sanitation Program, World Bank-Jakarta Office, December.

given LGUs the responsibility of providing safe drinking water to their constituents. LGU-operated utilities are subsidized by the local government units (LGUs) that operate them. Some of those LGU-operated water utilities are able to access financing from GFIs and MDFO. The LGUs also have the option to provide water supply service through a local water district in which case upon request by the LGU, the LWUA comes to assist in the formation of a water district.

The last group of water utilities serving the population outside Metro Manila is an assortment of water utilities, mostly small, comprised of private operators, rural water systems, and community-based organizations like the Barangay Water and Sanitation Association (BWSAs), Rural Water and Sanitation Association (RWSAs) and cooperatives operate water systems. As of 2010, there are 476 water utilities registered with the National Water Resources Board (NWRB). PPIAF (2008) also identified a total of 9 privately operated utilities under various private sector participation (PSP) schemes composed of the following: (a) Manila Water Company, (b) Maynilad Water Services, and (c) seven other water utilities, including three public-private joint ventures in Tagbilaran City, Subic, and Clark area in Pampanga.

There are just too many small and weak water service providers which are unable to provide quality water service to a growing population and do not have the financial resources and technical expertise to expand and improve water service delivery. The problem is that the government has allowed this to happen. Inefficient regulation and a fragmented regulatory framework for the water supply sector contribute to this situation. This is a foremost concern in the sector together with many others³⁴. Thus, households without access to any of these formal service providers rely on private wells, artesian wells, rivers, springs, and on the services of informal providers such as small-scale independent providers (SSIPs), that is, entrepreneurs with water tankers or neighborhood water vendors. The latter are most often found in urban areas. As earlier stated some 15.73 million Filipinos are without access to safe drinking water and they come from both urban and rural areas.

Available data on population served by different water service providers are rather dated/old (**Table 4 and Figure 1**). They were compiled by the Department of the Interior and Local Government. The table excludes the National Capital Region, which is served by two

³⁴Table 5 below lists the other issues and concerns.

large private water concessionaires. The local water districts are the principal water service provider followed by the local governments.

Figure1.

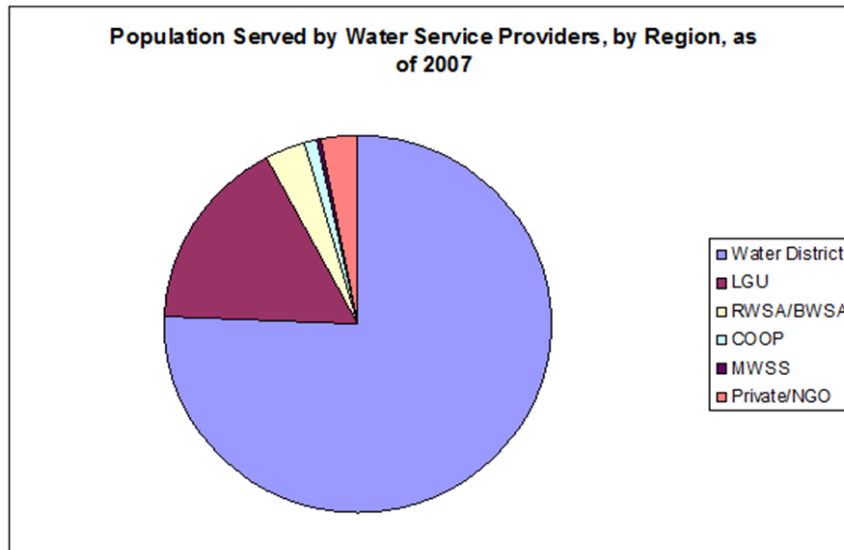


Table 4. Population Served by Water Service Providers, by Region, as of 2007

	Population Served						Total Population Served
	Water District	LGU	RWSA/ BWSA	COOP	MWSS	Private/ NGO	
ARMM	123,455	35,740	0	0	0	0	159,195
CAR	18,607	2,914	9,900	0	0	6,024	37,445
CARAGA	166,076	40,368	1,671	0	0	0	208,115
Region I	556,479	36,169	24,165	4,794	0	644	622,251
Region II	140,180	51,908	2,334	0	0	0	194,422
Region III	635,905	1,458	923	0	0	0	638,286
Region IV-A	2,286,823	215,957	101,339	2,836	15,818	239,807	2,862,580
Region IV-B	78,501	14,330	24,820	0	0	35,649	153,300
Region V	756,738	83,166	35,551	0	0	2,770	878,225
Region VI	463,161	75,385	4,875	696	0	0	544,117
Region VII	433,489	520,664	15,368	64,229	0	1,113	1,034,863

Region VIII	432,040	113,327	0	0	0	0	545,367
Region IX	135,000	109,590	7,208	510	0	0	252,308
Region X	190,435	157,930	40,146	0	0	0	388,511
Region XI	285,596	47,932	28,586	27,151	0	0	389,265
Region XII	149,002	4,842	0	0	0	0	153,844
Total	6,851,487	1,511,680	296,886	100,216	15,818	286,007	9,062,094

Sources: Figure and Table 1 in Johnson (2009), quoting the Department of the Interior and Local Government (DILG)³⁵

Category of water service in the country

NEDA Board Resolution No. 12, Series of 1995, categorized the level of water service in the Philippines as follows:

1. Level I (point source)– A protected well or a developed spring with an outlet but without a distribution system as it is generally adaptable for rural areas where the houses are thinly scattered serving an average of 15 households with people having to fetch water from up to 250 meters distance.
2. Level II (communal faucet system or stand post) – A piped system with communal or public faucets usually serving 4-6 households within 25 meters distance.
3. Level III (waterworks system) –A fully reticulated system with individual house connections based on a daily water demand of more than 100 liters per person.

Government institutions involved in the water supply sector

There are ten government agencies directly involved in the water supply sector which should coordinate and work together in solving problems in the water supply sector (**Table 5**). Unfortunately, no one single agency is in charge of the water supply sector and thus, without effective leadership the problems remain in that sector. Typical of the bureaucracy, the

³⁵ Johnson, Brad (2009), “National Rationalization Policy for Water Supply and Sanitation Investments in the Philippines,” unpublished paper. Figure 1 and Table 4 are from Johnson’s paper.

delineation of roles and responsibilities look neat, at least on paper but ownership, and actual and consistent implementation of those roles and responsibilities are very critical in the water supply sector, which has not really been given serious attention by the authorities. Monitoring and tracking the progress of implementation of a realistic plan for the sector is indispensable. Hopefully, some government agency that could prod stakeholders to action should be doing this.

Table 5. Key Water Supply Institutions and Agencies, Respective Roles and Responsibilities

Agency	Roles and Responsibilities
1. Local Government Units (LGUs)	<ul style="list-style-type: none"> • Planning and implementation of water supply and sanitation (WSS) programs <ul style="list-style-type: none"> - preparation of WSS master plan - monitoring of local WSS coverage and update of sector coverage - provision of support to water service providers (WSPs) such as RWSAs, BWSAs and cooperatives • Financing, regulation and operation of water systems • Based on the LGC, LGUs bear multiple mandates in the sector such as resource regulation, water supply provision and economic regulation of their utilities
2. Department of Interior and Local Government (DILG)-WSS (a project office designated to manage foreign-assisted water and sanitation projects)	<ul style="list-style-type: none"> • Capacity building support to LGUs <ul style="list-style-type: none"> - provision of capacity building training to LGUs - coordination of LGU master plan preparation - provision of information to LGUs on sector programs and financing • Assists LGUs in implementing water and sanitation projects, especially in monitoring, performance targeting and promotion of integrated water resource management (IWRM) framework.

3. Department of Public Works and Highways (DPWH)	<ul style="list-style-type: none"> • Provision of technical support to LGUs upon request including implementation of Level I and Level II projects • Implementing agency for Level I and II systems
4. Local Water Utilities Administration (LWUA)	<ul style="list-style-type: none"> • Capacity building support to WSPs <ul style="list-style-type: none"> - provision of technical advisory services and financial assistance to water district - provision of technical and institutional support to LGUs and WSPs - setting design standards for water supplies operated by water districts and other WSPs • Executive Order 279 extends the role of LWUA in providing technical assistance to also cover all other water service providers, e.g. LGU-run utilities.
5. National Water Resources Board (NWRB)	<ul style="list-style-type: none"> • Regulation of WSPs including some consenting LGU-run utilities <ul style="list-style-type: none"> - tariff regulation - coverage and service regulation - management of sector database including WSP performance data • Water resource allocation and economic regulation of WSPs
6. National Economic Development Authority (NEDA)	<ul style="list-style-type: none"> • Coordinates the preparation of national development plans and investment programs <ul style="list-style-type: none"> - formulation of sector policies and strategies - monitoring implementation of policies, programs

	<p>and projects</p> <ul style="list-style-type: none"> • Sector macro-planning; approval of major sector projects
7. Department of Finance (DOF)/ Government Financing Institutions (GFI)	<ul style="list-style-type: none"> • Financing support for the water supply sector <ul style="list-style-type: none"> - DOF oversees performance of GFIs - GFIs provide funding for the water supply sector
8. National Anti-Poverty Commission (NAPC) – Water Supply Coordination Office (WASCO)	<ul style="list-style-type: none"> • Coordinates the President’s Priority Program on Water (P3W) water supply projects for 432 waterless municipalities outside Metro Manila, 210 communities within MMA and 201 municipalities in conflict zones
9. Dept. of Environment and Natural Resources (DENR)	<ul style="list-style-type: none"> • Based on EO 192, DENR serves as the lead agency in promulgating rules and regulations for the control of water, air and land pollution, and ambient and effluent standards for water and air quality • Watershed management programs and oversight body for wastewater effluents
10. Department of Health (DOH)	<ul style="list-style-type: none"> • Develops /updates drinking water quality standards; formulates policies on drinking water quality and sewage disposal; formulates drinking water and sanitation programs to prevent environmental related diseases

Source: TA No. 7122-PHI: Water District Development Sector Project PPTA – Final Report – Vol. 9

At present, LWUA is the principal government agency in charge of providing support to the water supply service sector. LWUA specifically assists in the formation of local water

districts and it works mainly with urban water districts. The LWUA, GFIs and MDFO provide water financing to local water districts, which are government-owned and controlled corporations. LGU-operated water utilities get assistance from GFIs and the MDFO. In the rural areas, DPWH, DOH and DILG are mainly involved in the government's program for waterless municipalities. Private water utilities, especially the small water utilities receive neither financial nor technical assistance from the government and on their own raise resources to sustain their relatively small-scale operation. They can, however, try borrowing from GFIs and private banks for their water supply investment requirements.

Assistance programs supported by ODA

Various government agencies and members of the donor community have initiated a number of programs and projects to address the issues affecting the water supply sector and to strengthen it so that it may be able to attain its development goals. Almost all provinces have provincial water supply and sanitation master plans but many of these need updating. The preparation of those plans was funded by some members of the donor community, that is, the Danish International Development Assistance (DANIDA), the World Bank, Japan International Cooperation Agency (JICA) and the German Technical Cooperation Agency (GTZ). The GIZ was instrumental in the preparation of the Water Supply Sector Roadmap³⁶. The situation differs in many cities and municipalities since many of them seem not to have not yet prepared their respective water supply and sanitation plans, much less specified their investment requirements.

It is noted that official development assistance (ODA) has been very instrumental in sustaining efforts to improve the sector, which has generally not attracted commercial financing (**Table 6**). Unlike other infrastructure such as roads, airport and other big ticket infrastructure items, water supply and sanitation have not attracted much political and bureaucratic support and funding through the budget. To their lasting credit donors have at least kept alive the mundane issue of lack of potable water especially in the rural areas and have provided assistance to the sector.

³⁶Philippine Water Supply Sector Roadmap

Table 6. Donor and Type of Assistance Extended to the Water Supply Sector.

ODA Source	Assistance Program	Description
<p>Asian Development Bank (ADB)</p>	<ol style="list-style-type: none"> <li data-bbox="612 359 1064 447">1. Mindanao Basic Urban Service Sector Project <li data-bbox="612 961 963 1050">2. Japan Fund for Poverty Reduction (JFPR) <li data-bbox="612 1623 973 1759">3. Rural Water Supply and Sanitation Program for Visayas and Mindanao 	<p>This project will contribute physical infrastructure investment for water supply, roads, traffic management, drainage, solid waste management, markets, bus terminals, sewerage and sanitation, in cities and municipalities in Mindanao. It aims to support urban development and upgrade of basic infrastructures in Mindanao. This project also provides support to LGUs through institutional development.</p> <p>This program supports projects that are directly linked to the poverty-reduction goal of ADB-financed loans. It prioritizes projects that help address water sector's problem on infrastructure investment and capacity</p>

	<p>4. Water District Development Sector Project (WDDSP)</p>	<p>building. The areas of assistance are on basic economic and social services such as community-level water supply and sanitation, small clinics, local product market facilities, skills training centers, and microfinance.</p> <p>This project aims to strengthen the commitment of LGUs to integrate water and sanitation in local development and investment plans. Its goal is to foster community participation in planning, implementation, management and operation of completed water systems. Its long-run objective is to upgrade the existing facilities to Level I, which will be based on technical feasibility and people's willingness to pay.</p>
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		<p>The WDDSP is a sector loan from ADB that supports water supply and sanitation infrastructure in urban areas outside Metro Manila.</p>
<p>German ODA</p> <ul style="list-style-type: none"> • Agency for Technical Cooperation (GTZ) • KfW Loan Facility (KfW) 	<ol style="list-style-type: none"> 1. Philippine Water Supply Sector Roadmap 2. Program on Water Supply and Sanitation in Rural Areas (Phase IV) 1. LGU Investment Programme 	<p>This project provided the government with technical assistance leading to the preparation of the Philippine Water Supply Sector Roadmap.</p> <p>This program is for the overall reform agenda of the water supply sector. Its target participants are the DILG, NWRB, NAPC-WASCO and the local residents of Bohol and Negros Oriental. It aims to improve the capacities of national government agencies, empower the personnel of selected local government units and develop a conducive</p>

	<p>2. Provincial Towns Water Supply System Program Phase III</p>	<p>institutional framework for water resources and wastewater management.</p> <p>This financing facility caters to the needs of LGUs in the Visayas and Mindanao areas. It supports projects that deals with sanitation, drainage and flood control, water supply and other projects agreed upon by LBP, KfW and concerned LGUs. This program is conducted with support of the German Development Cooperation Program.</p> <p>This project seeks the development of province-wide registrations of water utilities. It was undertaken to provide information to policy-makers that will help in improving economic regulation in the water supply sector</p>

<p>Japanese ODA</p> <ul style="list-style-type: none"> • Japan International Cooperation Agency (JICA) 	<ol style="list-style-type: none"> 1. Philippine Water Revolving Fund (PWRF) 2. Local Governance And Rural Empowerment Project for Davao Region 1. Grant Assistance for 	<p>This funding mechanism aims to establish a sustainable financing program through the participation of private commercial banks. The DBP will on-lend funds sourced from JBIC (now JICA) to water utilities and the water investments to be made by the utilities will be co-financed by private commercial banks, with standby support from the Municipal Development Fund Office and the LGU Guaranty Corporation.</p> <p>This program is borne out of the need for infrastructure development in the water supply sector. It seeks to improve the capacity of LGUs in Davao in delivering potable supply of water. Through this project, JICA will be providing support</p>
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<ul style="list-style-type: none"> • Government of Japan 	<p>Grassroots Human Security Projects</p>	<p>in terms of dispatching Japanese experts, provision of equipment, training for counterpart personnel in DIDPO PMO, NGAs and NGOs community empowerment activities, and funds for cost sharing pilot project sites. The national government on the other hand, will be providing the office space for the JICA expert and staff detailed for the project, office equipment and facilities used for the project, and labor and materials equity.</p> <p>This program supports socio-economic development projects. It focuses on projects that have particular emphasis on poverty alleviation and livelihood improvement, like the provision of access to potable water.</p>
<p>Spanish ODA</p>	<p>1. Cooperacion Española and</p>	<p>This project supports</p>

	<p>NGOs in the Philippines Program</p>	<p>activities that contribute to the attainment of the MDGs, sustainable human development, strengthening of democracy and addressing concerns of various vulnerable sectors in the Philippines.</p>
<p>ODA from the United States</p> <ul style="list-style-type: none"> • United States Agency for International Development (USAID) 	<ol style="list-style-type: none"> 1. Philippine Water Revolving Fund Support Program 2. Philippine Sanitation Alliance 	<p>The PWRF-support program of the USAID, which facilitates the capacity building and strengthening of the water and finance sector, complements this program.</p> <p>This program promotes the protection of biodiversity and reduction of health risks by means of improved sanitation. Its target participants are LGUs, water districts and the private sector. Through this, cities, water</p>

		<p>districts and private companies can build low-cost and low-maintenance treatment facilities. This program is also extended to public markets, slaughterhouses, hospitals and low-cost housing, to promoting septage management.</p>
<p>World Bank (WB)</p>	<ol style="list-style-type: none"> 1. Strategic Local Development and Investment Project 2. LGU Urban Water and Sanitation Project (APL2) 3. Manila Third Sewerage Project (WB GEF) 	<p>This lending facility gives investment support to infrastructure, utilities and improvement of LGU financing.</p> <p>This is another World Bank lending facility whose target participants are LGUs and water districts.</p> <p>This project complements the WB-assisted Manila Third Sewerage Project of the LBP. It aims to: 1) identify areas for improvement to be able to attract private investments</p>

	<p>4. National Sewerage and Septage Management Program</p>	<p>in DENR's wastewater sector; 2) improve the coordination and effectiveness of agencies tasked to control water pollution; and 3) advocate for simple, effective and innovative wastewater treatment techniques. Agencies involved in this project are the DENR's Environmental Management Bureau with the assistance of MWSS, LLDA, DOH, DPWH and PRRC.</p> <p>This program provides funding for sewerage and septage development projects at the local level. Target participants are the LGUs.</p>
<p>Czech Republic ODA</p>	<p>1. Measures Ensuring Reliable and Sustainable Drinking Water Supply for Metro Manila After Damages Caused by Catastrophic Typhoon Project</p>	<p>This project supports the rehabilitation of 1.5 MW (Turbine Generator Units 1 and 2 or TG1 and TG2) Macua Mini-Hydro Power Plant (MHPP) of the</p>

		<p>Umiray-AngatTransbasin (UAT) Tunnel to provide additional source of power to the MWSS. Target areas are Quezon and Bulacan.</p>
<p>Multi-Donor Sources</p>	<ol style="list-style-type: none"> 1. Millennium Development Goal Fund 1919 for Water: Enhancing Access to and Provision of Water Services with the Active Participation of the Poor 2. Municipal Development Fund (Various ODA sources) 	<p>This program is a collaboration among the UNDP, UNICEF and the Spanish Government. It aims to improve efficiency, access, affordability and quality of potable water services through institutional strengthening and capacity building of 36 selected waterless municipalities.</p> <p>This fund with ODA as source provides loans and grants to LGUs in support of various infrastructure projects and other LGU development activities.</p> <p>Sustainable Sanitation in East Asia (SuSEA)</p>

	<p>3. SuSEA</p> <p>4. SuSEA/SusSEP</p>	<p>Philippines was developed to address key water demand and supply problems. At the same time, it aims to improve the access of poor Filipinos to sustainable sanitation services. Technical assistance will be provided at the central and local levels, as well as small research grants for government and nongovernment academic and research institutions.</p> <p>The main goal of the Sustainable Sanitation Education Program in the Philippines (SuSEP) is to develop a formal curriculum and non-formal training program on sustainable sanitation that will be incorporated into the existing college curricula. The target group for this project is sanitation practitioners involved in local government programs, to</p>
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	<p>5. Technical Assistance to LWUA and NWRB</p>	<p>improve sanitation and hygiene conditions of the poor. Some of them are: the Regional Sanitary Engineers of the DOH, the Provincial Health Officers, the Provincial Sanitary Engineers, and the Municipal or City Health Officers and Sanitary Inspectors of selected LGUs.</p> <p>This program will enhance the technical capability of small-scale water providers (SSWPs) by means of trainings. The WSP-WB provides support and technical assistance to LWUA and NWRB, in the desire to improve the tariff setting and regulation among small-scale water providers.</p>
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Source: Roadmap

Water Supply Sector Roadmap and outstanding issues

In 2007, the GTZ (now GIZ) and NEDA initiated the preparation of the Water Supply Sector Roadmap in recognition of the gaps and challenges in the water supply sector. This document is intended to serve as guide in achieving the MDG target of halving the proportion of population without access to safe drinking water and basic sanitation by 2015. It envisions that by 2010 at least fifty percent of the 432 identified waterless municipalities (212 waterless areas in Metro Manila, 220 areas outside the Metro) will have access to safe drinking water. Likewise, the Roadmap will help to extend the coverage of regulation of water service providers to 60% from its starting point of 40%, and eventually to 100%. An additional objective of the Water Supply Sector Roadmap is universal access coverage and sustained utility operations by 2025. The major strategy to achieve these goals is to let the existing formal water utilities to continue to expand as population grows.

The Water Supply Sector Roadmap focuses on development interventions such as institutional strengthening, capacity development and strategic alliance building. These three interventions are expected to compliment the provision of water infrastructure. The Roadmap is an important step toward the rational development of the water supply sector and it needs a vigorous support from policymakers. It enumerates a number of critical reforms that must be pursued but sadly there seems to be lack of action on those recommendations. **Table 7** summarizes the issues in the water supply sector that have been identified by the government agencies as requiring immediate action.

Table 7. Summary of Issues in the Philippine Water Supply Sector

Water Supply Sector Summary of Issues	Defining the Issue
Institutional fragmentation	
Weak, fragmented institutional framework and policies on universal access to WATSAN services and cost recovery	Major sector agencies have not changed their paradigm of direct planning and implementation of projects to that of providing support to and developing the capabilities of LGUs to plan and implement water supply

	projects
Uncoordinated sector planning and lack of monitoring	Absence of a national government department that is responsible for translating government's policies, strategies and goals into a comprehensive water supply program
	After the LGC, not enough changes in government agencies programs to specifically develop the capabilities of the LGUs to perform devolved functions (e.g. establishing and operating water utilities, financing capital and O&M costs, tariff setting, regulation)
	Outdated WATSAN master plans
	Lack of reliable data and absence of a systematic and regular monitoring of sector activities (all levels)
	Little coordination in planning for the urban and rural areas of each municipality or city
Inadequate Support to Rural Water Supplies	
Inadequate support to water utilities in technical design criteria, project financing, management, operation and maintenance	Separate planning for urban and rural areas instead of whole LGU as planning unit
Limited sector capacity and mandate (e.g. LWUA, DILG-WSSPMO) to provide support services to WSPs.	Lack of comprehensive program guiding the development of the rural water supply sector
Low Tariff and Cost-Recovery Level	
Water utilities are not able to sustain operations and expand coverage.	Tariff levels are not sufficient for the majority of the WSPs to recover recurrent costs and accumulate sufficient reserves to fund new capital developments.

Tariff levels, tariff structures and tariff setting methodologies differ across individual service providers.	Lack of detailed guidelines, guidance and assistance in tariff setting and problems with collection efficiency
	Lack of political will to set and implement tariffs at appropriate levels
Low Performance of Water Utilities	
Water service providers do not perform satisfactorily.	Slow service expansion and low coverage, high NRW levels, and requirements for subsidies by the majority of service providers
	RWSAs, BWSAs and cooperatives suffer from lack of technical and managerial capacity, unable to retain skilled staff and absorb the technical assistance given
	LGU utilities lack technical, financial and management capabilities, and autonomy with regard to political interference in management decisions
Weak and Fragmented Regulatory Framework	
Lack of transparency as to sector performance and benchmarking information for individual providers make it difficult to hold service providers accountable for service improvement	The need to make water service providers accountable to consumers with expanded access, efficient use of revenues and improved service quality
The lack of sector information at the service provider level impedes effective regulation	

Sector Investment and Financing	
Low public and private sector investment in the water supply sector	Small utilities have limited revenue base and find it difficult to access financing for expansion
Limited access to financing for service expansion of small utilities	
Lack of WSS Sector Information	
General lack of sector information and continuous updating of existing information base	The need to continuously update existing provincial water supply and sanitation master plans
Lack of reliable data and the absence of a systematic and regular monitoring of sector activities in the municipalities by the local government units. Source: Table 2.7 Roadmap	

III. WATER FINANCING POLICY AND PROGRAMS

Loans to the water sector

There has been some progress made in the water supply sector in terms of the amount of investments and financing, the formation of hundreds of local water districts, and the amount of loans provided to water service providers. **Table 8** is a snap shot of loans so far given to different water service providers.

Table 8. Loans to water providers, by lending institution

Lender	Amount of approved loans (in millions of pesos)	Number of Water Districts	Number of LGUs	Customer base (number of households)	Population in borrower WD/LGUs	Period
LWUA	7,898	397	400	1,882,883	9,414,415	As of Dec. 2012
MDFO	702	-	30 provinces, 52 municipalities	-	1,538,920	As of:
Breakdown:						
a. MDFO	a. 25.7					a. Not specified
b. InfRESP	b. 79.1					b. Not specified
c. MDF-SGF	c. 542					c. Jan. 13, 2013
d. MRDP 2	d. 54.3					d. Feb. 28, 2013
LBP	969.4	Number of borrower WDs, not specified	Number of borrower LGUs, not specified	-	-	As of March 2013
DBP	1,330	-	Number of borrower	-	-	As of Dec. 2012

			LGUs, not specified			
PVB	5.0	-	Number of borrower LGUs, not specified	-	-	As of Oct. 2012
PNB	122	Number of borrower WDs, not specified	-	-	-	As of March 2013

Source of basic data: Local Water Utilities Administration (LWUA) Loans Department; Municipal Development Fund Office (MDFO); Land Bank of the Philippines (LBP); Philippine Veterans Bank (PVB); Development Bank of the Philippines (DBP); Philippine National Bank (PNB)

Notes: (1) For LWUA: Number of LGUs <=> Number of Cities/Towns/Barangays covered; (2) For MDFO: Population figures were based on Population Data of NSCB, as of May 1, 2010.

Table 8 shows that loans for water supply systems have been given mostly by government financial institutions. Except for PVB and PNB, private financial institutions have generally avoided this sector, and thus, the continuing dominance by government financial institutions in water sector loans. Market failure arguments have been used to justify government intervention. In the case of the water sector, the government created a specialized lending institution that has acted as lender, regulator and technical assistance provider to the preferred mode of water service delivery, that is, local water districts. It is high time for government to examine whether this approach is the most beneficially useful way of developing the water supply sector. Alternatively, the government, which is currently enamored with various PPP or PSP arrangements, should force the government water institutions/agencies to think out of the box and work with the private sector for more innovative and sustainable solutions to the problem at hand.

LWUA, local water districts

In 1973 Presidential Decree (PD) 198, otherwise known as the Provincial Water Utilities Act of 1973, was issued. It created the LWUA³⁷ as a specialized lending institution for local water utility financing and tasked it to promote, develop, and finance local water districts. Letter of Instructions Number 683 subsequently established the basic policies for the water supply sector³⁸. It stated that the “attainment of complete coverage of water supply services for the whole country is a declared policy of the State and shall be effected primarily through (a) the rationalization of the organizational structure of the water supply sector, (b) the formation of water districts, associations, cooperatives or corporations for the construction, operation and maintenance of the water supply systems in preference to systems directly operated and managed by local governments, and (c) the encouragement of self-help and self-reliant water supply projects.”

The creation and use of water districts to supply potable water to a growing population was an innovation introduced by the government in the early 1970s to address the problem of water provision. Jamora (2008) called it “a totally new concept in water supply development and management . . . and revolutionary” because consumers have to account and pay the water

³⁷The following is interesting information on the creation of LWUA. This is from Jamora, Lorenzo (2008), “Development and Regulation of Water Utilities: The Philippine LWUA Experience.” The creation of the LWUA was an offshoot of a comprehensive study on the provincial water supply sector conducted in 1968-72 by the James M. Montgomery consultancy group with funding assistance from the United States Agency for International Development (USAID). The study revealed that practically all the then existing provincial water supply systems were antiquated, dilapidated and poorly managed. It pointed to the lack of adequate financing, technical know-how and proper institutional setup as the main causes of the widespread problems in the sector. Soon after, the national government declared the establishment of reliable and viable water supply systems in the country as a high national priority. And in 1973, Presidential Decree No. 198 otherwise known as the Provincial Water Utilities Act of 1973, was promulgated authorizing the establishment on local option basis of locally-controlled independent water districts to own, manage and operate provincial water supply systems. The decree likewise provided for the creation of a national government agency, LWUA, to minister to the financial, technical and institutional development needs of these water districts and to regulate their operations.

http://www.lwua.gov.ph/tech_mattr_08/development_regulation.htm

³⁸ Issued on March 30, 1978

districts for the water that they have consumed. It seems that years of government subsidies and political favors in this sector have developed a dole-out mentality among the people³⁹.

The main governmental body designated to spearhead efforts to attain the objectives of PD 198 was the Local Water Utilities Administration, a corporate body that was vested with the proper authority and budget. For a very long period, LWUA has been the only veritable source of financial and technical assistance. PD 198 authorized LWUA to borrow from domestic and foreign sources and it has exercised this authority to finance the expansion of local water districts in many provinces. Thus, LWUA has occupied a pre-eminent place in water supply sector development in the country by forming and funding hundreds of water districts, which have become the major mechanism for delivering potable water outside Metro Manila.

Reforms toward market-based financing

The investment framework for the water supply sector has changed with the issuance of Executive Order (EO) 279 on February 2, 2004. Executive Order 279⁴⁰ called for the reorganization of the LWUA structure⁴¹ and operations, and instituted policy reforms in financing the water supply and sanitation sector. **Box 4** presents the salient provisions of EO 279.

Box 4. Salient Provisions of Executive Order 279

Rationale :

- Constraints in the availability of national government funding for water
- Need to mobilize resources from international grants, GFIs, PFIs and LGUs
- Need to rationalize current financing policies to ensure more efficient flow of resources

Reform Objectives:

- Improve investor confidence in the sector

³⁹Jamora, Lorenzo (2008), "Development and Regulation of Water Utilities: The Philippine LWUA Experience." http://www.lwua.gov.ph/tech_matters_08/development_regulation.htm

⁴⁰EO 279 s. 2004 "Instituting Reforms in the Financing Policies for the Water Supply and Sewerage Sector and Water Service Providers and Providing for the Rationalization of LWUA's Organizational Structure and Operations in Support Thereof"

⁴¹A court injunction successfully sought by LWUA employees effectively stopped the process of reorganization.

- Rationalize allocation of scarce resources through market segmentation
- Allow freedom of choice in sourcing financing
- Increase participation of LGUs, GFIs and PFIs in financing the sector investments
- Improve performance and overall financial viability of utilities
- Grant incentives to encourage utilities to graduate to creditworthy status
- Establish an independent economic regulator for the sector

Guidelines on Financial Reforms:

- Classification of water service providers (WSPs) into creditworthy, semi-pre-and non-creditworthy
- Lending to creditworthy WSPs by GFIs and PFIs at commercial lending rates
- Concessional debt financing from LWUA and GFIs for the semi-creditworthy WSPs
- Grants from donors and concessional debt from LWUA for pre-creditworthy WSPs
- Concessional debt from LWUA for non-creditworthy WSPs

EO 279 mandates a graduation policy, which asks creditworthy local water districts to shift from LWUA financing to government financial institutions and private commercial banks to improve and expand water supply delivery. This is a step toward more market-based financing for creditworthy local water districts.

The classification of water districts is used to determine the source of financing for creditworthy, semi-creditworthy, pre-creditworthy and non-creditworthy water districts. The creditworthy water districts will be graduated to commercial financing while the semi-creditworthy are expected to source financing from LWUA, GFIs or even the private financial institutions (PFIs) whenever possible. The pre- and non-creditworthy water districts remain under the LWUA financing package but will be required to work toward attaining a creditworthy classification.

Table 9 shows the classification criteria followed by LWUA. Water districts are required to maintain their score/ classification for three consecutive years to be declared under a creditworthy to non-creditworthy category.

Table 9. Classification Criteria for Water Districts

CRITERIA	CREDIT- WORTH Y	SEMI- CW	PRE- CW	NON- CW	WEIGHT
	8.5- 10 pts.	5.5-8.4 pts.	3.0-5.4 pts	0- 2.9 pts.	100%
Financial:					50%
Current Ratio (CR)	Current assets/ current liabilities - measures liquidity				20%
Debt Service Ratio (DSR)	Net income before interest/ Debt service (interest+ principal) – measures solvency; shows how many times debt service for a given period is covered by operating revenues				20%
Net Profit Ratio (NPR)	Net income/ Total Revenues – measures profitability				5%
Debt Equity Ratio (DER)	Long term debt/ Total Equity – shows how much of the capital structure comes from debt and equity				5%
Operational:					50%
Collection Ratio (CR)	(Collection of current year water sales+ Collection accounts receivables)/ (Total billings, water sales+ average accounts receivable for the year)				20%
Non-revenue water (NRW)	1- (Volume sold/ Volume produced)				20%
Service connection per staff (SR)	Total active service connections/ total employees				10%

Source: LWUA

Although this EO has modified the singular role of LWUA in water financing and development, LWUA still plays a major role in the water supply and sanitation sector. LWUA

has the financial autonomy, technical expertise and vast experience in water supply development and operation. It is an important institution in the sector that should use its expertise, experience and resources to work with other government lending institutions and private banks in crafting innovative approaches to water supply development.

In the past it was the government through LWUA that has made substantial investments and financing to the local water districts. That approach has been modified by EO 279 with the introduction of market-based financing for the creditworthy local water districts and the reorganization of LWUA to focus its assistance to the weaker local water districts. It is not that easy to force LWUA to implement the graduation policy in view of the requirement under Section 35 of Presidential Decree 198 for a written waiver from LWUA before a water district can borrow from other sources. Section 35 of PD 198 states that “where a water district has borrowed money from the Administration (*that is, LWUA*), the district shall not borrow money or incur further obligations from other sources without the prior written consent of the Administration.”

There is a need for an appropriate incentive mechanism for LWUA to faithfully implement the graduation policy. Letting go of good clients to the competition is somewhat akin to financial suicide for a lending institution. In this case, the profitability and sustainability of LWUA, a government-owned and controlled corporation will be at stake, which may require the provision of huge subsidies from a cash-strapped government.

At present, the government is pushing for the greater participation of the private sector in water supply investments and financing due to the inability of government to provide sufficient resources to the sector. A few private water utilities have started to make investments in the sector, mindful of the profitability of providing a growing population with this service. Private sector participation (PSP) arrangements, e.g., those in Tagbilaran City, Subic, and Clark promise a feasible approach to the provision of water services and the lack of investments in the water supply and sanitation sector. Enthused by a proper business environment, competitively priced water financing, and efficient water regulatory framework coupled with financing innovations, e.g., OBA subsidy discussed above, the private sector can potentially play a more substantial role

in providing water services to waterless LGUs. This needs policy coordination and cooperation among the different government agencies in the water sector in order to fruitfully collaborate with the private sector.

Rationalization of the sector

On another point, the government seems to have always followed a fragmented approach to water provision and development of water systems with a major role given to local water districts. Jamora (2008) describes this phenomenon:

“In the Philippines, the development, operation and delivery of potable water in the country's three major areas, is the responsibility of various government agencies and water utilities. Metro Manila is being served primarily by the Metropolitan Waterworks and Sewerage System (MWSS) through its two private concessionaires, the Maynilad Water Services Inc. and the Manila Water Company, and by some private companies serving subdivisions. The provincial urban areas are served by the a) water districts with the development assistance of the Local Water Utilities Administration (LWUA), b) local government units (LGUs), and c) some private companies. And the provincial rural areas are being served primarily by the local government units and cooperative water associations, with government assistance from the Department of Interior and Local Government (DILG), Department of Public Works and Highways (DPWH), and LWUA”.

The fragmented approach to water service provision and the inability of water service providers to expand their coverage and services have led to gaps in the availability and quality of water services, most especially in rural areas. Although many households in the urban areas are served with water service level III, a considerable percentage of the population in the lower 40% income bracket still depend on water service levels I and II⁴²

It is submitted that cutting up the country into several services areas with an assigned water service provider has resulted in inefficiency and lack of viable water service delivery especially outside Metro Manila and the larger urban areas. There should be no barrier to an efficient water provider such as the Manila Water Company to serve areas outside Metro Manila. At the same time, there is a good reason to consolidate many small and unviable water districts,

⁴² Gilberto M. Llanto (2005), *Infrastructure Development: Experience and Policy Options for the Future*. Makati City: Philippine Institute for Development Studies.

including local government-operated water utilities in order to develop economies of scale and scope. Rationalization of the water sector and the introduction of competition among water service providers will improve the dreary situation in the water supply sector. Hopefully, the government can be persuaded to discard the fragmented approach to water service delivery.

The “business as usual” (government agencies dominating water financing and fragmented institutional framework, among others) cannot address present challenges in the sector that are summarized in **Box 5**. The traditional approach of using LWUA and GFIs, including MDFO to provide financing to the water supply sector has been somewhat moderately successful in developing the water supply sector. The challenges enumerated in **Box 5** will require more innovative financing mechanisms or schemes, and reform in the institutional framework for water service delivery, among others.

Box 5. Present situation and challenges in the water supply and sanitation sector

- ✓ There is a need to improve service coverage and its quality.
- ✓ Water districts cover less than 40 % of the population under their jurisdiction.
- ✓ Majority of water districts (76%) are small with 5,000 or less connections. While they cover a significant proportion of the population, their service coverage has been below 20%.
- ✓ There are more than 5,000 water providers composed of 3,100 BSWAs, 1,000 LGUs, 580 WDs, 500 RWSA, 200 coops, and 9 private firms. Vast majority of providers are very small. 80 WDs and 5 private providers outside MM serve more than 5,000 HHs.
- ✓ A large % of households rely on self-provision or on small scale independent providers.
- ✓ There is fragmented regulatory framework in the water sector.
- ✓ Water supply investments have been significantly low relative to overall public infrastructure spending showing bias in favor of Metro Manila and other urban areas
- ✓ From 2001 up to the first semester of 2007 about 22% of Pesos 442.3 billion of total national government expenditure for infrastructure was allocated to water-related infrastructure. Of the allocation to the water sector only Pesos 3.7 billion (3.8%) was allocated for water supply. The rest went to irrigation and flood control.
- ✓ About Pesos 17.52 billion annual investments in the water sector will be needed from 2011 to 2015.
- ✓ In the sanitation sector, in 2010-2016 investments of around Pesos 87 billion will be needed.

An innovative model of financing: PWRF⁴³

The government has recognized the potential of public-private partnership (PPP) or PSP arrangements addressing the inadequacy of infrastructure in the country. This approach can apply as well to water supply development and provision. A basic principle is to recognize that all stakeholders, that is, the national government agencies, local government units, government financial institutions, private investors, banks, water service providers, communities, civil societies and others, play an important role in the sector. A general rule is for government to establish a policy and regulatory environment and incentives for private sector participation.

The government and donors (USAID and JBIC) have recently established a Philippine Water Revolving Fund (PWRF) designed and established as a mechanism to manage the transition to market-based lending. Its main objectives are to: i) use limited public resources to leverage private sector financing in the water sector; ii) bring private sector financing to the water sector on terms and conditions that are affordable to local users and acceptable to private financing institutions; and iii) establish a fund with revolving capacity.

In a sector that has been used to subsidized lending by government, mainly through LWUA, the PWRF represents a radical shift in financing strategy. It has been described as a decisive step toward market-based lending for water utilities in contrast to the ODA-dependent financing for the water sector that has been implemented by GFIs, MDFO and LWUA.

Since its creation LWUA, which has access to official development assistance (ODA) and financing from government financial institutions (GFIs) has enjoyed a near monopoly in financing water districts. Thus, the water sector has been mostly dependent on ODA for

⁴³The discussion of PWRF was drawn from Development Alternatives, Inc. (2005), "Philippine Water Revolving Fund: Assessment of Feasibility (Final Report)", August; and Development Alternatives, Inc. (2006), "Philippine Water Revolving Fund: Design and Implementation Framework (Final Report)," July; and Llanto, Gilberto (2007), "On the Rationalization of Credit Programs from the Water Sector," Inception Report to the Philippine Water Revolving Fund Program, Development Alternatives, Inc. and U.S. Agency for International Development (Manila).

financing investments and on LWUA as a funding source. Government financial institutions, including MDFO also have access to ODA financing and have used it to provide loans to various borrowers, e.g., local government units, water districts. On the other hand, private financial institutions, which cannot offer the same loan terms and conditions that a specialized government lending institution could provide, and which has very little knowledge of the intricacies of the sector, have largely ignored it.

The PWRF attempts to engage the private sector in providing financing to the water supply sector. **Box 6** provides a summary of the PWRF financing structure, where government, donor and private resources have been creatively combined to reduce borrowing costs and provide longer-tenor loans to water service providers.

Box 6. PWRF Financing Structure

- The loan to the water service providers will consist of JBIC funds lent to the Development Bank of the Philippines (DBP) and funds from private financial institutions (PFIs). The loan to water service providers (WSPs) will have a blended rate based on fixed interest rate from DBP and the PFI's floating rate; and up to a 20-year tenor inclusive of 2 years grace.
- The financing ratio will be up to 75% JBIC/DBP funds and at least 25% PFI funds. The LGU Guarantee Corporation will provide PFIs a credit risk guarantee of up to 85% of the loan. USAID-DCA will issue a co-guarantee to the LGUGC guarantee of the PFI loan.
- The PFI loan will have a 7-year tenor. The loan will be retired in seven years if the cash flow can support the repayment schedule. If not, whilst the seven-year tenor is maintained, the principal will be amortized over 20 years.
- The PFIs will have an option to extend the maturity beyond 7 years but if they opt not to, they will be assured of a balloon payment for the outstanding balance at the end of the 7 years. The source of the balloon payment will be a take-out loan from the Municipal Development Fund Office (MDFO) for LGU loans and from DBP for water district loans, executed under the same terms as the PFI loan.

The PWRF is still implemented as a special project of the stakeholders involved. There is a good case for institutionalizing it once it has been shown to be capable of involving the private sector (private banks and the LGU Credit Guarantee Corporation) in extending loans to the water supply sector. This lending model shows how government agencies, donors, and the private sector can use their respective expertise and resources, and collaborate to produce innovative financing schemes for the sector. Such schemes will be necessary because after all public funds cannot meet the huge investment requirements of the sector and thus, it makes sense to tap the private sector for this endeavor.

Demand side issues

The Roadmap listed several factors that constrain the water sector's weak ability to respond to the water and sanitation needs of the population. This paper does not discuss these challenges because they have been clearly explained in the Roadmap, which took off from several workshops and presentations on the problems besetting the sector. Presumably, policymakers are aware of these challenges because these have been recently pointed out in several forums. Those challenges await the policymakers' determined response. They are the following:

- (i) the fragmented institutional environment;
- (ii) weak regulatory framework;
- (iii) inadequate support for service providers and utilities resulting in low performance levels;
- (iv) weak access to financing and investments;
- (v) low levels of tariffs and cost recovery;
- (vi) inadequate support for rural water supplies; and
- (vii) lack of reliable and updated sector information needed for sector planning.

What the paper does at this juncture is to point out that the above-mentioned challenges are factors that constrain access to financing by water service providers. If left unaddressed by policy makers and concerned institutions, those challenges can significantly constrain investments in the water supply sector. Prospective water service providers take into account the above-mentioned challenges in making a decision to invest in the sector as they affect the technical design of a planned water supply system, the level of investment, and the amount of financing required, the institutional arrangement to make the water utility work, among others.

Financial institutions that are seeking to include water financing in their loan portfolios would typically assess the viability of water projects in a proposed water service area, the prevailing levels of tariffs and cost recovery, (which impact on viability), the efficiency of regulations especially with respect to tariff setting, and the competence of the regulatory body that oversees the performance of the water service provider which has applied for loan financing.

Tariff setting is a critical problem area. According to the Roadmap, tariff levels in a majority of water service providers, including many local water districts are not “sufficient. . . to recover recurrent costs and accumulate sufficient reserves to fund new capital developments” and that “tariff levels, tariff structures, and tariff setting methodologies [widely] differ across individual service providers” (Roadmap, page 49). The difficulty in setting cost-recovering water tariffs because of political interference or weak regulatory frameworks for tariff setting and adherence to performance standards, and lack of reliable information and data on the sector weaken the incentive to invest on the part of investors or to lend on the part of financial institutions. Lenders are also interested to know if applicant LGUs have realistic water supply and sanitation plans, what public investments will be made or are being made by the LGUs or water districts in the water and sanitation sector, the timing of such investments, investments in other local infrastructure, e.g., roads, either by the national government or the local government concerned, and how these will complement and strengthen the water investments to be made by their prospective borrowers.

The problem of lack of access to safe water is more serious outside Metro Manila and in areas outside the cities and bigger towns. In the rural areas several factors constrain investments

in water supply and sanitation, namely, the wide dispersion of the population, poorer infrastructure, inadequate information on the potential customer base, lower affordability. Water supply systems in rural areas require a more demanding and expensive assessment of the investment opportunities from the point of view of water investors and lenders in view of lower incomes in those areas. Other concerns are the unsatisfactory services, slow expansion and low coverage areas of water utilities that adversely impact on their viability and profitability.

IV. CONCLUSION AND POLICY RECOMMENDATIONS

This paper argues the case for developing more innovative financing schemes for the water supply sector. The use of traditional ODA-dependent financing channeled through government lending institutions has a somewhat moderate success record in developing and improving the water supply sector. There are limitations to the use of public funds and public institutions in financing water delivery systems and it will be helpful to think of PPP or PSP arrangements or schemes that can come up with innovative solutions to address the issues in this sector. The Philippine Water Revolving Fund (PWRF) is one such innovative financing model and there could be others but developing and establishing such models will require the collaborative effort of the concerned stakeholders. Government lending institutions must be forced by policy makers to collaborate with the private sector in solving the long-standing water supply problem for a very large segment of the population. Those government lending institutions have the advantage of ODA funds, which they traditionally use to lend to target borrowers. The ODA funds can be blended with private sector resources, including credit guarantees that have been demonstrated as good credit enhancements, to lower the cost of financing water supply projects.

In the light of the discussion above, the following are recommended:

- Improve and maintain the database on the water sector and make it accessible to analysts and the public.
- Rationalize the credit programs being implemented by government lending institutions. Ask government lending institutions to develop more innovative solutions to the water financing problem.
- Involve the private sector in a greater capacity to provide financing to the water supply sector through the use of innovative financing models.
- Consider using output-based aid schemes to complement innovative financing models developed under PPP or PSP arrangements.
- Improve the policy and regulatory framework for the water sector.

- Consolidate small and unviable water districts/utilities to take advantage of scale and scope economies and strengthen their management and technical capacities through LWUA and private technical assistance.

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ANNEX 1

Table 1. Complete List of Waterless Municipalities as of April 2011

Region	Province	Municipality	No.
First batch			
ARMM [Autonomous Region in Muslim Mindanao]	SULU	PANGUTARAN	1
ARMM [Autonomous Region in Muslim Mindanao]	SULU	PARANG	2
ARMM [Autonomous Region in Muslim Mindanao]	SULU	SIASI	3
CAR [Cordillera Administrative Region]	ABRA	TINEG	4
CAR [Cordillera Administrative	APAYAO	CALANASAN	5

Region]		(BAYAG)	
CAR [Cordillera Administrative Region]	APAYAO	CONNER	6
CAR [Cordillera Administrative Region]	APAYAO	FLORA	7
CAR [Cordillera Administrative Region]	APAYAO	KABUGAO (Capital)	8
CAR [Cordillera Administrative Region]	APAYAO	PUDTOL	9
CAR [Cordillera Administrative Region]	APAYAO	SANTA MARCELA	10
REGION I [Ilocos Region]	PANGASINAN	AGUILAR	11
REGION I [Ilocos Region]	PANGASINAN	BOLINAO	12
REGION I [Ilocos Region]	PANGASINAN	URBIZTONDO	13
REGION II [Cagayan Valley]	CAGAYAN	ABULUG	14
REGION II [Cagayan Valley]	CAGAYAN	ALLACAPAN	15
REGION II [Cagayan Valley]	CAGAYAN	BALLESTEROS	16
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REGION VII [Central Visayas]	NEGROS ORIENTAL	JIMALALUD	392
REGION VII [Central Visayas]	NEGROS ORIENTAL	PAMPLONA	393
REGION VII [Central Visayas]	NEGROS ORIENTAL	VALLEHERMOSO	394
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REGION VIII [Eastern Visayas]	LEYTE	ALANGALANG	397
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REGION VIII [Eastern Visayas]	LEYTE	DAGAMI	401
REGION VIII [Eastern Visayas]	LEYTE	SANTA FE	402
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REGION X [Northern Mindanao]	BUKIDNON	CABANGLASAN	413
REGION X [Northern Mindanao]	BUKIDNON	KALILANGAN	414
REGION X [Northern Mindanao]	BUKIDNON	PANGANTUCAN	415
REGION X [Northern Mindanao]	LANAO DEL NORTE	BALOI	416
REGION X [Northern Mindanao]	LANAO DEL NORTE	KAPATAGAN	417
REGION X [Northern Mindanao]	LANAO DEL NORTE	MAGSAYSAY	418

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REGION X [Northern Mindanao]	LANAO DEL NORTE	MUNAI	420
REGION X [Northern Mindanao]	LANAO DEL NORTE	NUNUNGAN	421
REGION X [Northern Mindanao]	LANAO DEL NORTE	PANTAO RAGAT	422
REGION X [Northern Mindanao]	LANAO DEL NORTE	POONA PIAGAPO	423
REGION X [Northern Mindanao]	LANAO DEL NORTE	SALVADOR	424
REGION X [Northern Mindanao]	LANAO DEL NORTE	SAPAD	425
REGION X [Northern Mindanao]	LANAO DEL NORTE	TAGOLOAN	426
REGION X [Northern Mindanao]	LANAO DEL NORTE	TANGCAL	427
REGION X [Northern Mindanao]	MISAMIS OCCIDENTAL	CALAMBA	428
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REGION XI [Davao Region]	DAVAO DEL NORTE	ASUNCION (SAUG)	433
REGION XI [Davao Region]	DAVAO DEL NORTE	BRAULIO E. DUJALI	434
REGION XI [Davao Region]	DAVAO DEL NORTE	CARMEN	435
REGION XI [Davao Region]	DAVAO DEL NORTE	NEW CORELLA	436
REGION XI [Davao Region]	DAVAO DEL NORTE	SAN ISIDRO	437
REGION XI [Davao Region]	DAVAO DEL NORTE	TALAINGOD	438
REGION XI [Davao Region]	DAVAO DEL SUR	DON MARCELINO	439
REGION XI [Davao Region]	DAVAO DEL SUR	SARANGANI	440
REGION XI [Davao Region]	DAVAO ORIENTAL	BOSTON	441
REGION XI [Davao Region]	DAVAO ORIENTAL	CARAGA	442
REGION XI [Davao Region]	DAVAO ORIENTAL	MANAY	443
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REGION XII [Soccsksargen]	COTABATO (NORTH COTABATO)	ARAKAN	446
REGION XII [Soccsksargen]	COTABATO (NORTH COTABATO)	BANISILAN	447
REGION XII [Soccsksargen]	COTABATO (NORTH COTABATO)	PRESIDENT ROXAS	448
REGION XII [Soccsksargen]	SOUTH COTABATO	LAKE SEBU	449
REGION XIII [Caraga]	AGUSAN DEL NORTE	MAGALLANES	450
REGION XIII [Caraga]	AGUSAN DEL SUR	BUNAWAN	451

REGION XIII [Caraga]	AGUSAN DEL SUR	TALACOGON	452
REGION XIII [Caraga]	AGUSAN DEL SUR	TRENTO	453
REGION XIII [Caraga]	AGUSAN DEL SUR	VERUELA	454
REGION XIII [Caraga]	DINAGAT ISLANDS	DINAGAT	455

ANNEX 2

Salintubig Project Accomplishment Report as of April 30, 2013 (DILG)

1. 2011 Salintubig Implementation

1.1 Infrastructure Investment – Summary of Status of Project Implementation

Targets	Detailed Engineering Design (DED) Preparation	Procurement/ Bidding Process	On-going construction	Completed Water Supply Systems	TOTAL
Waterless Municipalities	6	13	65	31	115
Waterless Barangays	9	6	29	13	57
Resettlement Sites	5	4	8	7	24
TOTAL	20	23	102	51	196

1.2 Capacity Development – Summary Status of Project Implementation

Capacity Development Activities	No. of Target LGUs/ BWSAs (2011)	Status/ Accomplishments (2011)
<i>Pre-implementation Phase</i>		
1. Program Orientation & Enhancement Training for Simplified FS Preparation	195 LGUs	Conducted/Completed
<i>Implementation Phase</i>		
2. Procurement & Construction Supervision	195 LGUs	Conducted/Completed
3. Local Water Governance & Strategic Communication for WATSAN Councils/Teams	114 LGUs	114 LGUs trained
4. Community Organizing and Skills Training	48 BWSAs	48 BWSAs trained & organized
<i>Sustainability Phase</i>		
5. Operation and Maintenance	114 LGUs; 48 BWSAs	114 LGUs 48 BWSAs
6. Ring-Fencing and Business Planning for LGU-Run Water Utilities	47 LGUs	47 LGUs

1.3 Financial Performance – Details of the amount disbursed for 2011 from the Php 30 M

Trust Fund from DOH are shown below

Components	Allocation	Expenditures	Balance	Utilization Rate
Project Management				

DILG	2.912 M	2.240 M	0.672 M	76.34%
NAPC	10.000 M	6.245 M	3.755 M	62.45%
Capacity Development	17.088 M	15.051 M	2.037 M	88.08%
TOTAL	30.000 M	23.536 M	6.464 M	78.45%

2. 2012 Salintubig Implementation

2.1 Infrastructure Investment – Summary of Status of Project Implementation

	Targets	Feasibility Study		Detailed		Procurement/ Tendering	Construction Phase	Completed WSS
		Phase		Engineering Design Phase				
		On- going	Submitted to RO for Review	On- going	Submitted to RO for Review			
Waterless Municipalities	80			11	1	16	52	
Waterless Barangays	62*		1	1	4	16	39	1
Resettlement Sites	5**						5	
RHUs	24***				3	10	9	1
TOTAL	171		1	12	8	42	105	2

**Project implementation of Iloilo City has been deferred*

***One (1) resettlement in Region X, not included in the SFS of the LGU*

****Allocation for San Antonio Rural Health Unit was reprogrammed for the construction of Level 1 water supply facilities in 2 barangays in San Antonio, Nueva Vizcaya*

2.2 Capacity Development – Summary Status of Project Implementation

Capacity Development Activities	No. of Target LGUs/ BWSAs (2011)	Status/ Accomplishments (2011)
<i>Pre-implementation Phase</i>		
1. Program Orientation & Enhancement Training for Simplified FS Preparation	142 LGUs	Conducted/Completed
<i>Implementation Phase</i>		
2. Procurement & Construction Supervision	94 LGUs 48 LGUs	Conducted/Completed
3. Local Water Governance & Strategic Communication for WATSAN Councils/Teams	142 LGUs	To be conducted on 3 rd quarter of 2013
4. Community Organizing and Skills Training	68 BWSAs	To be conducted on 3 rd quarter of 2013
<i>Sustainability Phase</i>		
5. Operation and Maintenance	74 LGUs 68 BWSAs	To be conducted on 4 th quarter of 2013

2.3 Financial Performance

2.3.1 Project Management/Capacity Development Component (DILG-CO)

Components	Allocation	Expenditures	Balance	Utilization Rate
Project Management/ Operations	1.577 M	0.412 M	1.165 M	26.13%
Capacity Development	6.840 M	5.548 M	1.291 M	97.20%

TOTAL	8.417 M	5.960 M	2.456 M	70.81%
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2.3.2 Total Infrastructure Investment Component (DILG-Regions)

DILG Regions	Total Allocation (in millions)	Amount Released to LGUs (in millions)	Delivery Rate
Region I	42	31	74%
Region II	43	29	67%
Region III	21	11	52%
Region IV-A	116	97.75	84%
Region IV-B	50	40.50	81%
Region V	52	26	50%
Region VI	88	36	41%
Region VII	83	64	77%
Region VIII	99	55	56%
Region IX	5	1.5	30%
Region X	26	21	81%
Region XI	35	17.5	50%
Region XII	45	36	80%
Region XIII	44	39.75	90%
CAR	21	15	71%
TOTAL	770	521	68%

Source: DILG Salintubig Project Accomplishment Report as of April 201

3. 2013 Salintubig Implementation – Waterless Municipalities and Bottom Up

Budgeting (BUB) Areas:

3.1 Infrastructure Investment – Summary Status of Project Implementation for BUB priority areas:

Targets	No. of Targets	Feasibility Study		Detailed Engineering		Procurement/ Tendering of Civil Works
		Phase		Design Phase		
		On-going preparation	Submitted to RO for Review	On-going preparation	Submitted to RO for Review	
BUB Cities and Municipalities	347	114	205	24	3	1

3.2 Capacity Development – Summary Status of Project Implementation

Capacity Development Activities	No. of Target LGUs/ BWSAs (2011)	Status/ Accomplishments (2011)
<i>Pre-Implementation Phase</i>		
1. Program Orientation & Feasibility Study (FS) Preparation Workshop	285 BUB cities and municipalities	Conducted/Completed
	For Waterless municipalities & Barangays	To be conducted on July 2013
<i>Implementation Phase</i>		
2. Detailed Engineering Design Preparation and Procurement	285 BUB cities and municipalities	To be conducted on 2 nd quarter of 2013
	For Waterless municipalities & Barangays	To be conducted in August-September 2013

3. Local Water Governance & Strategic Communication for WATSAN Councils/Teams	285 BUB cities and municipalities For Waterless municipalities & Barangays	To be conducted in August-September 2013 November-December 2013
4. Community Organizing and Skills Training	57 BWASAs (BUB)	September-October 2013
<i>Sustainability Phase</i>		
5. Operation and Maintenance	57 BWASAs (BUB)	November-December 2013

3.3 Financial Performance

3.3.1 Project Management/Capacity Development Component (DILG-CO)

Components	Allocation	Expenditures	Balance	Utilization Rate
Project Management/ Operations	27.214 M	2.708 M	24.505 M	10 %
Capacity Development	63.080 M	0.426 M	63.037 M	0.67 %
TOTAL	90.294 M	2.751 M	87.542 M	3.05 %

3.3.2 Total Infrastructure Investment Component (DILG-Regions), As of April 30

DILG REGIONS	TOTAL ALLOCATION	NCA RELEASES/CHECK PREPARED BY RO's	STATUS OF RELEASES (as of April 25, 2013)	
			CLAIMED	UNCLAIMED
TOTAL	1060.653	282.1	25.649	480.49

ANNEX 3

MDG-F 1919 SEMI-ANNUAL REPORT on MDGF 1919 JP (as of December 2012):

Beneficiary Type	Targeted	Reached	Category of beneficiary	Type of service/goods delivered
Direct	36	43	Municipalities	Capacity Building
Direct	36	36	Municipalities	Establishment of Local Councils/Organizations
Direct	36	65	Communities (number of communities, not persons)	Establishment of Local Councils/Organizations
Direct	36	36	Water Supply Companies	(Support to) Creation of Model Contracts
Direct	4	3	National Institutions (number of institutions, not persons)	Capacity Building
Direct	6	15	Civil Society Organizations (number of organizations, not persons)	Capacity Building
Direct	36	36	Water Supply Companies	Capacity Building
Direct	17	22	Local Institutions (number of institutions, not persons)	Capacity Building