



Technical Assistance Report

Project Number: 41665
September 2008

Republic of the Philippines: Preparing the Water District Development Sector Project (Financed by the Multi-Donor Trust Fund under the Water Financing Partnership Facility)

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 September 2008)

Currency Unit	–	peso (₱)
₱1.00	=	\$0.02173
\$1.00	=	₱46.0125

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
EO	–	executive order
LWUA	–	Local Water Utilities Administration
MDG	–	Millennium Development Goal
PMU	–	project management unit
PPTA	–	project preparatory technical assistance
SPAR	–	subproject appraisal report
WDDSP	–	Water District Development Sector Project

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Water supply, sanitation, and waste management
Subsector	–	Water supply and sanitation
Themes	–	Sustainable economic growth, inclusive social development, capacity development
Subthemes	–	Fostering physical infrastructure development, human development, organizational development

NOTE

In this report, "\$" refers to US dollars.

Vice-President	C. Lawrence Greenwood, Jr., Operations 2
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I. INTRODUCTION

1. The Asian Development Bank (ADB) fielded a Fact-Finding Mission in March and April 2008 upon the request of the Government of the Philippines (Government) for a project preparatory technical assistance (PPTA)¹ for the proposed Water District Development Sector Project (WDDSP). The WDDSP will assist the Government in its continued effort to improve water supply and sanitation services for the urban population outside Metro Manila, and to achieve the related Millennium Development Goal (MDG) targets.² The objectives, scope, cost, financing plan, implementation arrangements, and terms of reference for the PPTA are based on the understanding reached with the Government during the Fact-Finding Mission. The design and monitoring framework is in Appendix 1.

II. ISSUES

2. The urban water supply outside Metro Manila is provided by more than 1,000 local-government-owned water utilities and about 500 water districts. Water districts are local corporate entities that provide water supply and sanitation services³ within their areas of responsibility, which may include one or more cities and municipalities. As of 2005, there were 585 water districts, of which 463 were operational, serving about 14 million people (about 21% of the total population of 67 million people living outside Metro Manila). The majority of the water districts (about 67%) are classified as “small,” while only about 3% are categorized as “large,” and about 1% as “very large.”⁴

3. Water districts were created through Presidential Decree 198—also known as the Provincial Water Utilities Act of 1973—to be independently operated, managed, and controlled entities. The act established the Local Water Utilities Administration (LWUA)—a national level, government-owned and controlled corporation—to provide water districts with financial and technical assistance, and to serve as their regulator. LWUA has established itself as the dominant lender to the sector, focusing primarily on the larger and more viable water districts. As a result, smaller water districts serving poorer areas of the country have had much less access to LWUA funding and have not been able to enhance service coverage and quality. While LWUA has been generally successful in carrying out its mandated responsibilities as a financial and technical provider, the Government has recognized a need for major reforms in the sector, primarily with regard to financing.

4. In 2004, Executive Order (EO) 279 was approved to provide for comprehensive reform of the financing policies of the water supply sector and to streamline LWUA’s organizational structure. EO 279 mandates that LWUA focus its lending operations and assistance on less creditworthy water districts, with the aim of graduating them to creditworthy status. Creditworthy water districts are expected to access the commercial financial market (e.g., government-owned financial institutions such as Development Bank of the Philippines, Land Bank of the Philippines, and private banks) for funding. Implementation of EO 279, including reorganization of LWUA and classification of water districts, is ongoing.

¹ The TA first appeared in the business opportunities section of ADB’s website on 4 June 2008.

² Goal 7—Ensure environmental sustainability; Target 7.C—Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation.

³ Sanitation in the context of water districts refers to the provision of wastewater collection and treatment services; it does not include solid waste management and drainage.

⁴ The classification is based on parameters including, for example, revenues, fixed assets, number of service connections, and net income.

5. The main issues for water districts include: (i) the high number of small utilities with low efficiency, (ii) lack of capacity for project development and implementation, (iii) low service quality (e.g., interrupted supply, uncertain water quality, high level of nonrevenue water, low pressure, low coverage), (iv) need to enhance financial performance, and (v) major investment needed for infrastructure expansion and rehabilitation. While water districts are also mandated to provide sanitation in their service areas, there are only a few examples where this is practiced. This is mainly because of (i) lack of cost recovery for sanitation, (ii) institutional fragmentation, and (iii) lack of public awareness and willingness to pay for sanitation.

6. The main challenges for LWUA and the water districts to effect major reforms and improvements in the water and sanitation sector include:

- (i) Following approval of EO 279 in 2004, LWUA remains in a transition phase and needs support to focus effectively on the critical elements of its new mandate. These include a full review and classification of the water districts by creditworthiness, adoption of a graduation plan for the less creditworthy water districts, establishment of guidelines on the amalgamation of smaller water districts, and institution of new lending facilities and products primarily aimed at less creditworthy water districts.
- (ii) While a number of water districts are well-managed, there are issues that many water districts need to address to reach self-sufficiency and attain viable growth. These include inadequate financing for system expansion; insufficient skills and technical expertise necessary for the efficient management of water supply systems; marketing problems, including limited service areas and slow growth of service connections; and situations where households have easy access to groundwater sources, which reduces demand for the water districts' services. Nonrevenue water levels are typically in the range of 30%–40%, and sometimes even higher.⁵
- (iii) The majority of the water districts (about 67%) are categorized as small water districts, limited mainly by the geography and economic conditions of the city or municipality that they serve. This lack of economies of scale contributes to the operational inefficiency of most water districts.
- (iv) In 2002, basic sanitation services were accessible by about 81% of the urban population and about 61% of the rural population. Public awareness of the need for improved sanitation and willingness to pay for services is generally low. Nationwide, more than 80% of households have septic tanks, while only about 2% of the population is connected to a sewer system.⁶ Septic tanks, however, are mostly inadequately maintained, if at all, and not regularly desludged. Sludge from septic tanks requires further treatment in septage treatment plants, but is often disposed of in an uncontrolled manner to the detriment of public health and the environment. Under the provisions of the Provincial Water Utilities Act, 1973, water districts are mandated to provide both water supply and sanitation services within their area of responsibility. The WDDSP will provide assistance to LWUA to implement pilot projects for sanitation and support capacity building for LWUA and the water districts.

⁵ Nonrevenue water is water that has been treated and distributed, but does not produce any revenues. It includes (i) physical losses caused by leakages; and (ii) commercial losses resulting from illegal connections, meter under registration, and billing inefficiencies.

⁶ Partial sewer systems are available in a few cities only, including in some areas of Metro Manila, Zamboanga, Vigan, and Baguio.

7. **Role of ADB.** Since 1975, ADB has supported the sector by approving five loan projects for LWUA for a total amount of \$178 million.⁷ The proposed WDDSP, which is planned as a sector loan for a tentative loan amount of \$50 million, (i) will continue ADB's long-term cooperation with LWUA; (ii) is in line with the 2005–2007 country strategy and program, and ADB's Water Financing Program;⁸ (iii) will contribute to the Government's objective to provide improved water supply to the country; and (iv) will support achievement of related MDG targets.⁹ It will finance much needed investment and capacity building for a number of water districts, and will support the reorganization of LWUA. The WDDSP will address lessons learned from previous ADB-financed projects, including (i) lack of timely provision of counterpart funds by the Government; (ii) limited capacity of small water districts to develop and implement projects; and (iii) the need to establish and integrate the project performance monitoring system with LWUA's management information system in a timely manner.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The PPTA will prepare the WDDSP as a project suitable for ADB financing. The project will help improve living conditions of the urban population outside Metro Manila, enhance competitiveness by developing water supply infrastructure, and build the capacity of water utilities. It will also support the institutional development of LWUA and contribute to much needed sector reform. The initial poverty and social analysis is in Appendix 2.

9. The outcome of the PPTA will be the design of the WDDSP agreed upon by the Department of Finance, LWUA, the participating water districts, the Government, and ADB. The PPTA will prepare (i) components for urban water supply and sanitation services improvement and performance enhancement; and (ii) implementation support and institutional development programs for LWUA and water districts to address sector reform, governance, and public awareness. Subject to the outcome of the PPTA, the WDDSP will be processed for approval in 2009.

B. Methodology and Key Activities

10. The proposed PPTA for preparing the WDDSP will be implemented following a consultative process. The project will be prepared in accordance with relevant national legal requirements and standards; and ADB policies, strategies, and guidelines. The PPTA will be carried out in two phases, which may partly overlap.

11. **Phase 1.** Phase 1 will (i) review the water supply and sanitation sector in urban areas outside of Metro Manila; (ii) assess the status of legal and regulatory reform; (iii) assess water districts' demand for financing water supply and sanitation infrastructure through LWUA and other funding sources; (iv) select suitable water districts for pilot activities to promote reform in the sector, taking into account their financial status, and priority investment and institutional development requirements; (v) prepare a financial and institutional analysis of LWUA; and (vi)

⁷ Of the past three loan projects, two were rated successful, and one was rated partly successful. Two earlier projects approved in 1975 and 1981 were not rated, as this was not practice at that time.

⁸ Under the Water Financing Program announced in 2006, ADB intends to double financing for the water sector. The Philippines is one of six priority countries targeted under the program.

⁹ Lack of investment compounded by rapid growth of population have resulted in a decrease of access to safe drinking water in urban areas from 93% in 1990 to 90% in 2002, and in rural areas from 82% in 1990 to 77% in 2002.

prepare an initial assessment of potential issues, hindrances, and risks. Activities will be complemented by workshops and seminars.

12. Criteria for water district selection will be based primarily on (i) demand for improved water supply and sanitation; (ii) fiscal capacity, financial management, commitment to reform, and governance; (iii) focus on serving low-income communities; (iv) well-defined investment needs; and (v) project preparedness. Performance and governance criteria will be emphasized. Phase 1 will be completed within 3 months.

13. **Phase 2.** Phase 2 will last about 5 months and will include (i) preparation of subproject appraisal reports (SPARs) for up to five water districts; (ii) preparing the WDDSP to a level of detail suitable for ADB financing; (iii) development of implementation and funds-channeling arrangements; (iv) preparation of institutional development and capacity building programs; and (v) workshops and seminars, as applicable.

14. In designing water supply system improvements, the PPTA will consider, among other components, (i) nonrevenue water reduction; (ii) network extension; (iii) mobilizing idle system capacity; (iv) measures, particularly financial, to facilitate installation of connections for poor households; (v) cash flow enhancement; (vi) energy efficiency; (vii) water quality monitoring and improvement; and (viii) water sources development. In designing sanitation system improvements, the PPTA will address low-cost solutions (e.g., septic tanks and septage management, package treatment plants), and wastewater quality monitoring. The PPTA will analyze the role of water districts in providing sanitation services; and recommend options for increased involvement, including related institutional, organizational, and financial improvements.

15. An assessment of innovative financing schemes for improving urban water supply and sanitation will be carried out, including local currency financing, municipal bonds, refinancing and restructuring, and public-private partnerships. The PPTA will consider ongoing technical assistance from the Philippine Water Revolving Fund, as appropriate, including securitization of receivables, and matters relating to the Agri-Agra Law compliance.¹⁰ The PPTA will review and assess options for (revolving) funds for financing water supply and sanitation connection charges, and related investment components (e.g., household sanitation improvement).¹¹ It will develop capacity building components, including programs for improving water districts' financial and operational performance, and enhancing their creditworthiness.

C. Cost and Financing

16. The total cost of the PPTA is estimated at \$1.5 million equivalent. The PPTA will be financed on a grant basis by the Multi-Donor Trust Fund under the Water Financing Partnership Facility¹² for \$1.2 million, and administered by ADB. The Government will finance the remaining cost amounting to \$300,000 through in-kind contributions, which cover office and support facilities, counterpart staff, administrative support, and local transportation for counterpart staff. The Government has been informed that approval of the PPTA does not commit ADB to finance any ensuing project.

¹⁰ The Philippine Water Revolving Fund aims to provide financing for creditworthy water districts and local governments for improving water supply services. PD 717 (Agri-Agra Law) of 1975 aims to enhance access to financing for agriculture.

¹¹ The PPTA will include lessons learned from ADB. 2005. *Technical Assistance for Implementing Pilot Projects for Small Piped Water Networks*. Manila (RETA 6265).

¹² Contributors: the governments of Australia, Austria, and Norway.

D. Implementation Arrangements

17. The executing agency (EA) for the PPTA will be LWUA, which will establish a project management unit (PMU) that will be responsible for organizing the technical and administrative aspects of the PPTA, and day-to-day decisions affecting its implementation. The PMU will include suitably qualified and experienced counterpart staff to work alongside the PPTA consultants. PMU staff will include a director and 4–5 counterpart personnel for engineering, institutional, and financial matters. The PPTA consultant will provide full support to the head of the PMU and will work in close collaboration with the counterpart team. A steering committee—chaired by a representative of the Department of Finance and comprising senior officials from LWUA, the National Economic and Development Authority, the Department of Finance, the Department of Public Works and Highways, the National Water Resources Board, the Department of Health, and the Department of Environment and Natural Resources—will be established to provide guidance and oversee the PPTA implementation. The steering committee will meet at least every 2 months.

18. The PPTA will require a total of 92 person-months of consulting services, including 22 person-months international and 70 person-months national.¹³ ADB will engage the consultants through a firm in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time), using the quality- and cost-based selection method, with a quality–cost ratio of 90:10, and requiring preparation of a full technical proposal.¹⁴ LWUA will be responsible for providing the agreed-upon counterpart resources. The proposed outline terms of reference for the consultants are in Appendix 4.

19. The PPTA is expected to be implemented over 8 months, commencing in October 2008 and ending in May 2009. The consultants will prepare (i) an inception report by the end of month 1; (ii) an interim report by the end of month 3; (iii) a report on LWUA financial and institutional analysis, and on lending arrangements by the end of month 3; (iv) a draft final report by the end of month 6; (v) a final report 1 month after receiving comments; (vi) monthly progress reports (2–3 pages); and (vii) other reports as may reasonably be required. Tripartite review meetings will be held after inception, at the interim report stage, and at the draft final report stage. All documents produced will be in English—in paper and electronic format—for the Government and ADB. Equipment will be procured in accordance with ADB's *Procurement Guidelines* (2007, as amended from time to time) and handed over to LWUA upon completion of the PPTA. The EA will provide the consultant with suitable office space, office furniture (including a sufficient number of standard desks, chairs, shelves, and closets), lighting, electricity, air conditioning, and access to phone lines.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$1,200,000 to the Government of the Philippines to be financed on a grant basis by the Multi-Donor Trust Fund under the Water Financing Partnership Facility for preparing the Water District Development Sector Project, and hereby reports this action to the Board.

¹³ The consultant team will provide expertise, both international and national, in (i) water supply, (ii) sanitation, (iii) water utility management, (iv) financial analysis, (v) economic analysis, and (vi) institutional development; as well as national expertise in (i) social development, (ii) resettlement, (iii) environment, (iv) legal, and (v) public health.

¹⁴ The quality–cost ratio of 90:10 is based on the complexity of the assignment.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Access to safe water supply and sanitation services is improved for the population of cities served by the participating water districts.</p>	<p>Water supply service is continuous, of drinking water quality, meets demand, and is financially sustainable.</p> <p>Wastewater collection and treatment services provided by water districts are improved and financially sustainable.</p>	<p>Primary data received from Local Water Utilities Administration (LWUA) and water districts</p> <p>Government statistics on water and sanitation</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Project is implemented as designed. • General political and socioeconomic conditions are stable and favorable. • LWUA implements organizational changes. • Water districts sustain best practices in water supply and sanitation services delivery. <p>Risks</p> <ul style="list-style-type: none"> • Depletion of freshwater resources • Political interference prevents successful implementation and financial sustainability.
<p>Outcome Design of the ensuing loan project agreed upon by the Government of the Philippines, and the Asian Development Bank (ADB).</p>	<p>Endorsement of Project Preparatory Technical Assistance (PPTA) reports by LWUA, water districts, government agencies, and ADB (end of month 8)</p>	<p>Memorandum of understanding</p> <p>Reports and feedback from LWUA, water districts, and related government agencies</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • LWUA, water districts, and government agencies committed to timely and successful Technical Assistance completion. <p>Risks</p> <ul style="list-style-type: none"> • External events delay completion and approval of the PPTA.
<p>Outputs</p> <p>1. Bankable sector investment program prepared.</p> <p>2. Capacity development and implementation support for LWUA and water districts prepared.</p> <p>3. Workshops and seminars conducted.</p> <p>4. Implementation and funds-channeling arrangements established.</p>	<p>Feasibility study including subproject appraisal reports for water supply and sanitation (end of month 8)</p> <p>Outline of capacity development and implementation support (end of month 8)</p>	<p>Technical Assistance reports and working papers</p> <p>ADB mission reports</p> <p>Workshop and stakeholder consultation reports</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Effective participation of all project stakeholders <p>Risks</p> <ul style="list-style-type: none"> • Availability of sector data • Continued commitment of project stakeholders

Activities with Milestones	Inputs
<p>1.1 Financial analysis of LWUA (end of month 3) 1.2 Longlist and shortlist of water districts (end of month 3) 1.3 City sanitation strategies (end of month 6) 1.4 Draft subproject appraisal reports (end of month 6)</p> <p>2.1 LWUA and water districts' capacity development needs identified (end of month 3). 2.2 Capacity development program agreed and prepared (end of month 8).</p> <p>3.1 Workshops and seminars conducted (intermittent).</p> <p>4.1 Implementation, procurement, and funds-channeling arrangements (end of month 8).</p>	<p>Total PPTA cost: \$1.50 million</p> <p>Multi-Donor Trust Fund under the Water Financing Partnership Facility administered by ADB: \$1.20 million</p> <ul style="list-style-type: none"> • Consulting services (22 person-months of international and 70 person-months of national consultant services): \$0.82 million • Travel, reports and communication, equipment, training, surveys, administrative, and other costs: \$0.38 million <p>Government of the Philippines: \$0.30 million</p> <ul style="list-style-type: none"> • Counterpart staff: \$0.17 million • Office space, and other costs: \$0.13 million

ADB = Asian Development Bank, LWUA = Local Water Utilities Administration, PPTA = project preparatory technical assistance.

Source: Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country/Project Title:	Philippines: Water District Development Sector Project		
Lending/Financing Modality:	Sector	Department/ Division:	Southeast Asia Department Infrastructure Division

I. POVERTY ISSUES

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

The Project aims to increase access to adequate water supply and sanitation for the urban population, particularly benefiting the urban poor, in accordance with the Asian Development Bank's (ADB) strategy in the Philippines, which supports poverty reduction through macroeconomic assistance for fiscal consolidation and an improved investment climate, as well as through direct support for Millennium Development Goal initiatives. The water supply and sanitation sector is in a state of transition because of sector reforms introduced as a result of devolution and decentralization of sector responsibilities. ADB has encouraged a shift from a traditional top-down centralized planning approach to the concept of bottom-up planning and extensive local consultation, including training and capacity building of sector agencies in project management and community development.

B. Targeting Classification

1. Select the targeting classification of the project:
 - General Intervention Individual or Household (TI-H); Geographic (TI-G); Non-Income MDGs (TI-M1, M2, etc.)
2. Explain the basis for the targeting classification:

The project will look at improving service delivery and expanding water supply and sanitation services provided by water districts in urban areas outside Metro Manila.

C. Poverty Analysis

1. If the project is classified as TI-H, or if it is policy-based, what type of poverty impact analysis is needed? N/A
2. What resources are allocated in the project preparatory technical assistance (PPTA)/due diligence?

A total of 10 person-months of national consultant services and a provisional sum of \$20,000 for the social and environmental assessment surveys have been allocated.

3. If GI, is there any opportunity for pro-poor design (e.g., social inclusion subcomponents, cross-subsidy, pro-poor governance, and pro-poor growth)?

The project will assess the water tariff structure and its impact on connecting the urban poor to an adequate water supply. The design of the ensuing investment program will be based on affordable and cost recovery water tariffs.

II. SOCIAL DEVELOPMENT ISSUES

A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project?

The project will particularly benefit people without access to an adequate water supply in urban areas outside Metro Manila, and improve the level of service to all users.

2. What are the potential needs of beneficiaries in relation to the proposed project?

The project will provide affordable and clean water and sanitation to prospective and existing users.

3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them?

High connection charges often restrict access to piped water supply for the urban poor. The project team will work with the Local Water Utilities Administration and the water districts to overcome hurdles and to ensure an affordable tariff structure.

B. Consultation and Participation

1. Indicate the potential initial stakeholders.

The main stakeholders are the water users, water districts, local governments, and the Local Water Utilities Administration.

2. What type of consultation and participation (C&P) is required during the PPTA or project processing (e.g., workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)?

There will be several public consultation meetings over the course of the project preparation (e.g., workshops, seminars). The project will include household surveys, focus group discussions, and hearings on resettlement and environmental issues, as required.

3. What level of participation is envisaged for project design?

- Information sharing Consultation Collaborative decision making Empowerment

4. Will a consultation and participation (C&P) plan be prepared? Yes No Please explain.

A C&P will be prepared by the PPTA consultant during the social assessment survey and focus groups discussion to seek the views from the population on the project. The C&P plan will inform communications between the water companies and users.

C. Gender and Development

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project/program?

A detailed gender assessment for households affected by resettlements will be prepared if required. A gender plan for addressing gender concerns in the project related to resettlement, HIV/AIDS, safety measures, and capacity building of the Executing Agency and relevant stakeholders will be prepared for the proposed project.

2. Does the proposed project/program have the potential to promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No Please explain.

The project will not directly lead to women's empowerment. However, the improved services and the expansion of the distribution network will particularly benefit women through easy access to safe water supply and sanitation services.

3. Could the proposed project have an adverse impact on women and/or girls or to widen gender inequality?

- Yes No Please explain: N/A

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Nature of Social Issue	Significant/Limited/ No Impact/Not Known	Plan or Other Action Required
Involuntary Resettlement	Resettlement may be required in cases of water source development, including construction of treatment plants and reservoirs. Construction of pipe networks may require temporary resettlement.	Not known at this stage. Will be determined during project preparation.	<input type="checkbox"/> Full Plan <input type="checkbox"/> Short Plan <input checked="" type="checkbox"/> Resettlement Framework <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain
Indigenous Peoples	The social assessment survey will confirm if there are affected indigenous peoples in the project area.	Not known at this stage, but presence of indigenous peoples in urban areas very unlikely. Will be assessed during project preparation.	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input type="checkbox"/> No Action <input checked="" type="checkbox"/> Uncertain

Issue	Nature of Social Issue	Significant/Limited/ No Impact/Not Known	Plan or Other Action Required
Labor <input checked="" type="checkbox"/> Employment Opportunities <input type="checkbox"/> Labor Retrenchment <input checked="" type="checkbox"/> Core Labor Standards	Employment opportunities will result from construction activities financed by the project and from economic growth facilitated by improved water supply. Clauses on core labor standards will be included into all the bidding documents.	Significant (indirectly) Limited	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action ¹⁸ <input type="checkbox"/> No Action <input type="checkbox"/> Uncertain
Affordability	Project design will be based on affordable water tariffs and connection charges.	Limited	<input checked="" type="checkbox"/> Action <input type="checkbox"/> No Action <input type="checkbox"/> Uncertain
Other Risks and/or Vulnerabilities <input checked="" type="checkbox"/> HIV/AIDS <input checked="" type="checkbox"/> Human Trafficking <input type="checkbox"/> Others (conflict, political instability, etc.), please specify	Construction activities could potentially increase influx of workers to urban areas; and increase the risk of HIV/AIDS, and trafficking of girls and women. An awareness campaign on related issues will be included in project design, if required.	Limited	<input type="checkbox"/> Plan <input checked="" type="checkbox"/> Other Action <input type="checkbox"/> No Action <input type="checkbox"/> Uncertain

IV. PPTA/DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the Terms of Reference for the PPTA (or other due diligence) include poverty, social and gender analysis and the relevant specialist/s?
 Yes No If no, please explain why.

2. Are resources (consultants, survey budget, and workshop) allocated for conducting poverty, social and/or gender analysis, and C&P during the PPTA/due diligence? Yes No If no, please explain why.

ADB = Asian Development Bank, C&P = consultation and participation, PPTA = project preparatory technical assistance.
 Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Multi-Donor Trust Fund under the Water	
Financing Partnership Facility^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	500.0
ii. National Consultants	320.0
b. International and Local Travel	90.0
c. Reports and Communications	30.0
2. Equipment ^b	10.0
3. Training, Seminars, and Conferences	
a. Facilitators	50.0
b. Training Program	0.0
4. Surveys ^c	60.0
5. Miscellaneous Administration and Support Costs	20.0
6. Contingencies	120.0
Subtotal (A)	1,200.0
B. Government Financing	
1. Office Accommodation	80.0
2. Remuneration and Per Diem of Counterpart Staff	170.0
3. Others	50.0
Subtotal (B)	300.0
Total	1,500.0

^a Contributors: the governments of Australia, Austria, and Norway. Administered by the Asian Development Bank.

^b Provisional sum for the purchase and/or rent of information technology equipment, such as photocopier, computers, printer, scanner, and plotter.

^c Provisional sum for surveys, including \$20,000 for social and environmental surveys.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Background and Objectives

1. The objective of the project preparatory technical assistance (PPTA) is to design the Water District Development Sector Project (WDDSP), which comprises a sector loan project agreed upon by the Local Water Utilities Administration (LWUA), participating water districts, the Government of the Philippines (Government), and the Asian Development Bank (ADB). The PPTA will (i) develop the WDDSP to a level of detail suitable for consideration by ADB for funding; and (ii) prepare implementation support and institutional development programs addressing sector reform, governance, and public awareness.

B. Scope of Work

2. The consultant will develop the WDDSP following a consultative process. The project will be prepared in accordance with relevant national legal requirements and standards; and ADB policies and guidelines. It is estimated that a team of international and national consultants will be engaged for a total of 92 person-months (22 person-months international and 70 person-months national consultant services). The PPTA will be carried out in two phases, which may partly overlap.

3. Phase 1 will last about 3 months and will (i) review the water supply and sanitation sector in urban areas outside of Metro Manila; (ii) assess the status of legal and regulatory reform; (iii) assess water districts' demand for financing water supply and sanitation infrastructure through LWUA and other funding sources; (iv) select suitable water districts for pilot activities to promote reform in the sector, taking into account their financial status, and priority investment and institutional development requirements; (v) prepare a financial and institutional analysis of LWUA; and (vi) prepare an initial assessment of potential issues, hindrances, and risks. Activities will be complemented by workshops and seminars. Phase 2 will last about 5 months and will include (i) preparation of subproject appraisal reports (SPARs) for up to five water districts, (ii) preparing the WDDSP to a level of detail suitable for consideration by ADB for funding, (iii) development of implementation and funds-channeling arrangements, (iv) preparation of institutional development and capacity building programs, and (v) workshops and seminars as applicable.

4. **Phase 1.** The consultant will carry out the following tasks:

- (i) Assess the water supply and sanitation sector in urban areas outside Metro Manila, including the status of legal and regulatory reform for water supply and sanitation. Assess the role and regulation of small-scale private water networks and service providers. Compile and review available sector data, studies, programs, and existing policies and strategies. Assess the legal and regulatory framework, sector financing, and funding sources available (e.g., central and local governments water districts, LWUA, commercial banks, and multilateral and bilateral donors). Assess demand of water districts for financing water supply and sanitation infrastructure through LWUA and other funding sources. Review external assistance to the sector and lessons learned from previous interventions by bilateral and multilateral funding agencies. Review the legal and regulatory framework and sector financing in order to assess current legal and regulatory structures and identify and develop appropriate reforms; and assess sector development constraints and potential mitigating measures.

- (ii) Prepare (a) a description of the sector policy and assessment, (b) an outline of the sector plan and assessment, (c) an assessment of sector institutions and agencies, and (d) an assessment to consider whether a time slice or an area slice of the sector plan is the best approach for ADB intervention.
- (iii) Assist LWUA to select suitable water districts for participation in the WDDSP, including (a) an initial longlist for inclusion in the ensuing sector loan, and (b) a shortlist of five water districts for preparation of SPARs. Criteria for water district selection will be based primarily on (a) demand for improved water supply and sanitation; (b) fiscal capacity, financial management, commitment to reform, and governance; (c) focus on serving low-income communities; (d) well-defined investment needs; and (e) project preparedness.
- (iv) Assess current health and hygiene practices connected with water supply and sanitation management, and review relevant awareness and education programs. Assess health impacts resulting from waterborne diseases, and practices and standards for monitoring water quality.
- (v) Assist LWUA in preparing, carrying out, and disseminating information to water districts, local governments, government agencies, consumers, and other stakeholders; and conduct workshops and seminars.
- (vi) Review the involvement of the private sector in providing water supply and sanitation services; and recommend the most suitable options for private sector participation (e.g., management contracts, performance-based service contracts), as applicable.
- (vii) Assess in detail LWUA's (a) financial management capacity; and (b) financial state, including income statements, balance sheet and cash flow statements, and existing loan repayments. Analyze major constraints to its financial sustainability, including financial obligations; and suggest measures for restructuring and refinancing, as applicable. Review and analyze LWUA's onlending arrangements to water districts (i.e., financing terms); and recommend options for improved competitiveness, cost recovery, and financial sustainability. The consultant will prepare a separate report on this task by the end of month 3.
- (viii) Design a fund-flow mechanism and identify the appropriate ADB disbursement procedure, based on project needs and Executing Agency (EA) capacity.
- (ix) Prepare an institutional analysis of LWUA and recommend options for organizational development.

5. **Phase 2.** Subject to the findings of phase 1, and in agreement with the Government and ADB, the consultant will carry out the following tasks:

- (i) Prepare SPARs, including preliminary design for five water districts. Carry out water supply and sanitation audits—including household surveys to determine water supply access—for information on water source, access, availability, quality, quantity, and price; and on sanitation management. Assess the current status of water supply and sanitation services, identify issues, and assess the demand for improved water supply and sanitation. Collect and analyze relevant data; and undertake measurements, surveys, and water quality analysis, as required.
- (ii) Advise the water districts and local governments on sanitation policy development; and assist in reviewing and revising sanitation policies, as necessary. Prepare city sanitation strategies for the five water districts and local governments selected for SPAR preparation, which will allow communities to choose a sanitation system from an informed menu of suitable systems, subject

- to feasibility. For wastewater collection and treatment, the choices should include low-cost solutions. Review and prepare a program for wastewater quality monitoring.
- (iii) Assess and analyze the role of the water districts in providing sanitation services; and recommend options for increased involvement including related institutional, organizational, and financial improvements.
 - (iv) Review and analyze the legal and regulatory framework. Provide recommendations for ensuring improved connection coverage for water supply and sanitation; and assist local governments, water districts, and other agencies in drafting related ordinances.
 - (v) For each of the SPARs, assess the technical, financial, social, and economic feasibility, sustainability and priority of each subproject component, including the phasing of investments. In designing water supply system improvements, consider, among other components, (a) nonrevenue water reduction, (b) network extension, (c) idle system capacity mobilization, (d) measures to facilitate installation of house connections, (e) cash flow enhancement, (f) energy efficiency, (g) water quality monitoring, and (h) water sources development. Review existing studies and project proposals for related investments, including level of preparedness and need for updating. If required, the consultant will update the project proposals to a level suitable for ADB financing. In designing sanitation system improvements, consider low-cost solutions (e.g., septic tanks and septage management, package treatment plants). Prepare a pilot investment program for sanitation improvement.
 - (vi) In preparing SPARs, assess in detail for each water district: (a) financial management capacity; and (b) financial state, including income statements, balance sheet and cash flow statements, and existing loan repayments. Analyze major constraints to financial sustainability and the degree of operational subsidies from the local government. Prepare measures for restructuring or rescheduling loan arrears, if any.
 - (vii) Review existing water supply and sanitation tariffs (if any); identify any deficiencies; and suggest improvements in line with ADB's position on tariffs, as summarized in ERD Technical Note No. 9.¹ Analyze the effective collection rates for various consumer types, including collection in-cash and in-kind (if any), as well as their existing collection rates; and ways to improve collection of current bills and arrears. Assess the costs of wastewater collection and treatment, and level of cost recovery; and determine tariffs needed to ensure sustainable operations. Discuss with cities a phased, politically acceptable way of introducing cost recovery tariffs. Assess options and the feasibility of transferring responsibility for wastewater services to the water districts.
 - (viii) Review the impact and affordability of introducing full- and partial-cost recovery in wastewater and solid waste management services in the participating cities. Assess demand on the basis of price, income, and access to alternative supplies. Analyze the affordability of sanitation services and assess willingness to pay for them. Review the impact of connection charges for water supply and sanitation, and recommend options for improved affordability (e.g., payment in installments).
 - (ix) Conduct comprehensive economic and financial analyses for each subproject and the overall Project, using relevant ADB guidelines and handbooks. Prepare financial projections including revenues, operating and capital expenditures, and

¹ Dole, David. 2003. Setting User Charges for Public Services: Policies and Practice at the Asian Development Bank. *ERD Technical Note Series 9*. Manila: ADB. http://www.adb.org/Documents/ERD/Technical_Notes/tn009.pdf

debt repayment. Based on past and projected financial statements, compute relevant financial indicators, including, but not limited to, debt service coverage ratios and operating ratios. Compute for each subproject and the overall Project financial internal rates of return, weighted average cost of capital, and economic internal rates of return. Analyze the impact of the Project on poverty reduction. Review in detail the distribution of project benefits, net economic benefits, and poverty impact ratio.

- (x) Investigate innovative financing schemes for improving urban water supply and sanitation, including local currency financing, municipal bonds, and public–private partnerships. Review and assess options for (revolving) funds for financing water supply and sanitation connection charges, and related investment components (e.g., household sanitation improvement).
- (xi) Identify key stakeholders (poor and vulnerable groups in particular) and their project-related interests, likely barriers to their participation in and benefiting from the Project; and suggest possible strategies for addressing their concerns. Identify factors affecting project risk and viability. Prepare an initial stakeholder analysis and a draft participation plan in accordance with Appendix 4.4 of ADB's *Handbook on Poverty and Social Analysis* (2001).
- (xii) Undertake focus group discussions with beneficiaries and affected people in the subproject areas to identify constraints to the poor accessing sanitation services. Assess the role of nongovernment organizations (NGOs) and other groups of civil society, and how to involve them in project design and implementation.
- (xiii) Using ADB's *Handbook on Poverty and Social Analysis*, conduct household surveys and prepare a socioeconomic profile of the target population including an assessment of requirements and preferences in sanitation services, relevant social customs and practices, and ability and willingness to pay for services. Identify and mitigate any adverse impacts of the subprojects and the overall Project on specific communities or groups, particularly the poor.
- (xiv) Prepare a gender analysis of the Project according to the guidelines in Appendix 5.1 of ADB's *Handbook on Poverty and Social Analysis*. Identify project design elements (policy, investment, or implementation) that could potentially (a) enable women to participate in and benefit from the Project, or (b) exclude women from participating in or benefiting from the Project.
- (xv) Develop and recommend mechanisms for public consultation and community participation in project planning; operation and maintenance; project implementation and management, particularly in relation to levels of service performance; tariffs; and environmental protection. Assess whether there is a role for NGOs in project activities. Carry out public consultations that include NGOs. Justify the Project from the point of view of social dimensions (social impact, impact on poverty, and gender and development).
- (xvi) Prepare a resettlement plan, if warranted, for a selected subproject in accordance with ADB's policy on resettlement guided by the *Operations Manual* section on involuntary resettlement;² and other relevant policies and guidelines of ADB (e.g., *Policy on Gender and Development* [1998], *Accountability Mechanism* [2003], and *Public Communications Policy* [2005]). Prepare a resettlement framework for the Project in accordance with ADB policies and requirements. Address right-of-way issues as needed.
- (xvii) Assess the need for preparing an indigenous peoples' development framework, development plan, or specific action in accordance with ADB's *Policy on*

² ADB. 2006. *Operations Manual*. Section F2: Involuntary Resettlement. Manila (25 September).

- Indigenous Peoples* (1998). Prepare the necessary framework, plan, and specific action in accordance with ADB's requirements.
- (xviii) Prepare an initial environmental examination or environmental impact assessment, if warranted, for each individual subproject; a summary initial environmental examination or a summary environmental impact assessment for the whole Project; and an environmental assessment and review framework in accordance with ADB's *Environment Policy* (2002) and *Environmental Assessment Guidelines* (2003). The environmental assessments should conform to applicable national requirements.
 - (xix) Hold discussions with LWUA, water districts, related government agencies, consumer groups, and other stakeholders to identify key issues and obtain their views on capacity building needs; and develop concepts for the design of the capacity building components. Develop a capacity building program, outline training programs and recommended interventions, and estimate related costs.
 - (xx) Outline information programs that will communicate the importance of clean water and sanitation, especially for the health of children and women. Prepare one information program for families and communities, and one for decision makers within the local governments.
 - (xxi) Outline a financial and operational performance improvement plan for water districts, including terms of reference for consultant support and cost estimates.
 - (xxii) Include at least three workshops to increase stakeholders' participation in the project design and selection of investment proposals, and to ensure appropriate dissemination of project results.
 - (xxiii) Prepare detailed project implementation and phasing schedules for each component; and investigate options for integrated design–procure–construct packages to improve implementation efficiency, preferably with only one contract per city, where applicable. Prepare recommendations for overall project implementation, administration, auditing, and monitoring and evaluation. Investigate options for an outsourced project management unit.
 - (xxiv) Prepare an effective project performance monitoring system that includes monitoring of the Project's performance, benefits, and impact on poverty reduction. Identify the training needed to strengthen capacity for project performance monitoring.

C. Staffing

6. The consulting firm will provide a total of 92 person-months of consulting services—22 person-months international and 70 person-months national. One consultant can cover more than one field of expertise. All international consultants should have relevant regional experience, preferably in the Philippines. One of the international consultants, besides providing technical expertise, will also act as team leader. The consultant team will provide expertise, both international and national, in (i) water supply and sanitation (international 13 person-months, national 30 person-months); (ii) water utility management (international 2 person-months, national 4 person-months); (iii) financial analysis (international 3 person-months, national 3 person-months); (iv) economic analysis (international 2 person-months, national 3 person-months); and (v) institutional development (international 2 person-months, national 4 person-months); as well as national expertise in (i) social development (5 person-months); (ii) resettlement (5 person-months); (iii) environment (8 person-months); (iv) legal (4 person-months); and (v) public health (4 person-months).