

**Water Financing Partnership Facility  
PILOT AND DEMONSTRATION ACTIVITY  
Application Form**

<b>Activity Title: Assessing and Developing Models for Financing Small Scale Water Service Providers (SSWSPs)</b>	
<b>Proponent: Streams of Knowledge Foundation and UNDP-PPPSD</b>	
<b>Request Date:</b>	
<b>Country: Philippines</b>	<b>Region: SEA</b>
<b>Activity Proposed Start Date: Oct, 2008</b>	<b>Activity Proposed Duration: 10 months</b>
<b>Cost Estimates: US\$ 50,000</b>	
<b>Implementing Organization Contract: Rosario Villaluna, Executive Secretary Stream of Knowledge Foundation P1 Minnesota Mansion No. 267 E. Garcia St., Cubao Q.C. RE No: 4219470 /Fa:4219471</b>	
<b>Activity Officer: Rudolf Frauendorfer, Senior Urban Development Specialist, SERD</b>	

**1. Background and Rationale:**

The MDG commitment to reduce the number of people without sustainable access to water and basic sanitation highlights the role of governments to provide such services to its population. However, the reality is that the limited funds and capacity of government makes it impossible to provide water and sanitation to those who have no access to these basic services. Surveys indicate that from city to city, 20–50% of residents are customers in informal markets, that is, they rely on *small scale water service providers (SSWSPs)* .

The SSWSPs bridge the gap by providing water to rural and urban population currently not being served yet by the formal providers, including informal settlers who are not formally connected to piped water system. While SSWSP plays a vital role in meeting the water and sanitation needs of the country, current situation is not conducive for SSWSPs due to a number of issues, foremost of which are the lack of institutional or legal framework regarding their formal participation in WATSAN provision and the lack of access to financing.

Despite the huge number of SSWSPs, they were not formally recognized by government until very recently. They are unable to access financing assistance from the government nor from commercial banks and other formal lending institutions. Such lack of access to financing has limited the operations and expansion of SSWSPs in helping government provide water service connection, especially among the urban poor and rural areas not reached by the formal utilities.

Very recent developments in the Philippine water sector have shown encouraging signs. SSWSPs are now regarded differently. Regulators (specifically the National Water Resources Board and the MWSS Regulatory Office) and financing institutions such as rural banks and other commercial banks have started to recognize the important role they fill and are now seeking better ways to sustain their participation in WATSAN service delivery. Even the SSWSPs have organized themselves into an association called the National Water and Sanitation Association of the Philippines (NAWASA, Inc) for mutual support and to have a common voice in policy advocacy.

It is against this scenario that a Pilot and Demonstration Activity (PDA) is being proposed. This PDA will be a combination of: (i) action research to compile and analyze existing financing models as well as facilitate dialogues with NWRB, financing institutions and the SSWSPs, and (ii) developing financing models and/or arrangements more responsive to the needs of SSWSPs.

Action research in the context of this PDA refers to a problem-focused, context-specific and future-oriented study. It involves change interventions in which those involved are participants in the change process. It aims at improvement and involvement and is developmental and educative. (adopted from Hart E and Bond M - 1995)

## **2. Objectives:**

The general objective of the study is to facilitate the development of financing models/arrangements dedicated to meet the financing needs of SSWSPs and to develop a financing package to improve their operations financially and economically.

Specifically, the study aims to:

- a. Understand the current status of small water service providers vis a vis the Philippine water sector;
- b. Address regulatory issues relating to formal engagement of SSWSPs;
- c. Address the financing needs of SSWSPs to allow them to expand and improve their services;
- d. Explore the current competence of financial institutions (i.e. banks) re: the water supply sector and SSWSPs and establish how to assist these financial institutions to better understand, and get comfortable with the credit risk of SSWSPs;
- e. Establish a broad framework for a suitable financing solution which facilitates partnership building between the government, SSWSPs, donors and funding institutions.

## **3. Scope and location of Work/Description of Activities**

The study will generally cover SSWSPs providing piped water network systems all over the Philippines. This would include representative samples of water cooperatives, associations and privately owned water systems in Luzon, Visayas and Mindanao.

Broadly, the project activities include;

- A. Desk research and review of related literature; in depth analysis of current situations including
  - i) the analysis of six (6) SSWSPs as case studies in terms of institutional, financial, operational, etc. issues – cost recovery, tariff setting; billing and collection; access to financial market; A selection of SSWSPs to assess funding gaps and their funding requirements and preferences;
  - ii) Banks interested to provide credit to SSWSPs, to identify the financing schemes available for SSWSPs, how they assess credit risks, typical terms and conditions are;
  - iii) Assess available resources that may be harnessed from donors, etc.
- B. Development of the proposed financing models and schemes/arrangements – this activity aims to come up with feasible models of financing that would be beneficial to both the funding institutions and the SSWSPs including.
  - iv) An assessment of the advantages and disadvantages of a program approach versus individual SSWSP loan implementation;

- v) An assessment of the key factors to establish over the medium-term better access to financing for the SSWSPs.

C. Outline separate awareness and assessment workshops banks, SSWSPs and donors [to be further prepared in detail in a separate project] conduct of a series of meetings, workshops and roundtable discussions to assess and refine the financing models developed – this involves coordination with concerned parties to socially market the models developed and to generate interests that would eventually lead towards the creation of a pool of resources available to SSWSPs.

Activity	Deliverables
Desk research/ review of related literature	<ul style="list-style-type: none"> <li>• Rapid appraisal of the Philippine Water Sector</li> <li>• Criteria for selection of SSWSP case studies</li> <li>• Review of 6 SSWSP case studies</li> <li>• Review of financial packages offered by commercial banks and similar funding institutions and its applicability for SSWSPs</li> </ul>
Conduct of Workshop 1 on Financing available for SSWSPs ( objective is to identify the facilitating and constraining factors)	1) Needs Assessment of banks/FIs to better understand SSWSPs
Conduct of Workshop 2 focusing on SSWSPs on meeting the requirements of banks/FIs	2) Needs Assessment of SSWSPs to better understand bank loan requirements
Development of the proposed financing models and schemes/arrangements	Financing models for SSWSPs including primers and related (knowledge) products
Conduct of Workshop 3 – Presentation and social marketing of SSWSPs draft financing models	Final version of the Financing Models

Specifically the scope of work would include the following:

- a. An assessment of the current institutional, technical and financing support available for small scale water service providers;
- b. An estimate of the potential market for a new financing solution for small water providers;
- c. A rapid survey of interested banks and donors that may be made a conduit of financing for water providers;
- d. Coordination with the Philippine Water Revolving Fund and the relevant government agencies for possible arrangements that will be favorable to small scale water providers (Department of Finance, Local Water Utilities Administration, National Water Resources Board , Municipal Development Financing Office ( MDFO) and others);
- e. Defining the institutional, technical and financing arrangements that will be suitable and accessible to SSWSPs;
- f. Coordination and representation to interested banks and other potential funding conduits;
- g. Coordination and representation to bilateral and multilateral donor agencies that may be interested to contribute to a possible SSWSP water pool of funds
- h. Preparation of proposal for a financing framework for SSWSPs;
- i. Preparation of draft and final reports.

#### 4. Implementation Schedule, Institutional Management Arrangements and Proponent:

The PDA will be implemented over a period of six (6) months. The milestone activities and the estimated timetable for each are shown in the detailed implementation schedule below:

Activity	Deliverable	Time	Responsible	Remarks
Desk research/ review of related literature	<ul style="list-style-type: none"> <li>Rapid appraisal of the Philippine Water Sector</li> <li>Criteria for selection of SWSP case studies</li> <li>Review of 6 SSWSP case studies</li> <li>Review of financial packages offered by commercial banks and similar funding institutions and its applicability for SSWSPs</li> </ul>	M1-3	Study Team Leader + PRA + Financing Expert+Water Expert	Skills required: Lead researcher/Study Team Leader  Project Research Asst. (PRA)  Financing Expert
Conduct of Workshop 1 on Financing available for SSWSPs ( objective is to identify the facilitating and constraining factors)	<ul style="list-style-type: none"> <li>Needs Assessment on: 3) TNA of banks/FIs to better understand SSWSPs</li> </ul>	M4	Project Staff + Consultant	Institutional Expert/Financing Expert/WS Expert
Conduct of Workshop 2 focusing on SSWSPs on meeting the requirements of banks/FIs	<ul style="list-style-type: none"> <li>4) TNA of SSWSPs to better understand bank loan requirements</li> </ul>	M5	Project Staff + Consultant	Institutional Expert
Development of the proposed financing models and schemes/arrangements	Financing models for SSWSPs including primers and related (knowledge) products	M6	Project Staff + Consultant	Financing Expert/WS Expert, Institutional Expert/Legal Expert
Conduct of Workshop 3 – Presentation and social marketing of SSWSPs draft financing models	Final version of the Financing Models	M7	Project Staff	
Coordination with interested parties and Social marketing of the financing models	Final Reports	M6	Project Staff	

Streams of Knowledge Foundation will act as the implementing agency with whom ADB will enter into a Letter of Agreement (LOA). STREAMS will be working in collaboration with UNDP-PPPSD who will provide advice based on its experiences in public private partnership arrangements. Furthermore, PPPSD is proposing to organize an electronic-based discussion to identify innovations in financing arrangements favoring pro-poor partnerships. It will be led by the PPPSD and will be supported by STREAMS and the ADB through this project. *It is understood that no part of the PDA funds will be paid for UNDP inputs to this project.*

Streams will be working closely with relevant government and non-government agencies who have significant stake in the results of this PDA, foremost of which are the National Water Resources Board (NWRB) and National Economic and Development Authority (NEDA). This will be done by creating a Technical Working Group (TWG) to provide the necessary inputs to the study. The TWG can include representatives of the banking sector, and the NAWASA.

Coordination with the Steering Committee and Working Group for the Philippine Water Sector Roadmap will be sustained to ensure consistency of this PDA with the strategies and actions put forward in the Philippine Roadmap for Water Supply and Sanitation process.

## **5. Expected Results (outputs/outcomes/effects/impacts):**

The major final output of the study is a report on proposed models of financing arrangement/scheme between government, financing institutions such as the rural banks that will favor small scale water service providers. The report will also include the results of the needs assessments and an indication of the possible way forward to put in place the models proposed.

It is expected that some banks will actually be motivated to facilitate increased access of SSWSPs to more financing with capacity development support. These will translate to improvements in SSWSP operations in terms of increase in coverage, efficiency and effectiveness.

This in turn contributes to increased access to water by Filipinos, especially urban and peri urban poor communities as well as rural areas as these are the usual service areas of SWSP. This will also contribute to the national efforts of meeting the country water target for the MDGs.

The results of the study is also expected to contribute towards the implementation of improved regulation of SSWSPs as they will be encouraged and assisted to apply for the necessary permits and licenses to operate as a regulated legal entity. This shall be one of the conditionalities for them to access the financing package and assistance.

## **6. Measurable Performance Indicators:**

Measurable performance indicators include: case study including mapping out of SSWSPs; Workshop/RTDs/consultations conducted; financing institutions and packages mapped and reviewed; financing model developed; position paper prepared.

## **7. Proponent Qualification**

STREAMS is a global coalition of resource centres engaged in capacity development in water supply, sanitation and hygiene. With assistance from UNDP, it is currently implementing a project on Piloting a Pro Poor Public-Private Partnership in Water Service Delivery for the Urban Poor. Part of the project is focus on the development of an enabling environment for the engagement of water small and medium enterprise (SME) through political, legal, institutional and financial reforms that encourage SWSPs.

As part of its advocacy agenda, STREAMS has been actively working with the small scale water providers by facilitating the conduct of several roundtable discussions (RTDs) on issues affecting the SSWSPs that led to the 1<sup>st</sup> National Conference on Small Water Service Providers last August 9-10, 2007. Furthermore, STREAMS has helped in the formation of the National Water and Sanitation Association of the Philippines (NAWASA) and is continuously providing NAWASA technical support and advises. Cognizant of the foregoing, STREAMS is in a very strategic position to carry out the PDA.

For this project, STREAMS will engage the services of an international investments/finance/banking expert, an institutional development expert, a study team leader and a project research assistant. Please refer to Annex A for the composition of the team and the terms of reference.

## **8. Stakeholder Participation:**

For this particular study, the following stakeholders will be actively involved : SSWSP, rural banks, commercial banks, government agencies such as the National Economic Development Authority (NEDA,) Department of Finance (DOF), Local Water Utilities

Administration (LWUA), Cooperatives Development Authority (CDA), National Water Resources Board (NWRB), LGU Guarantee Corporation; Rural Bank Association of the Philippines, NGOs such as the National Water and Sanitation Association of the Philippines (NAWASA).

### 9. Scope for Replication/Use in Other Countries:

Considering situations in neighboring countries in Asia and the Pacific where there are informal water service providers, the results of this study has a large potential of being replicated and adopted in other countries.

### 10. Cost Estimates:

<b>1. Specialist/Consultants' Services</b> <ul style="list-style-type: none"> <li>• <i>Legal Expert</i> 2000</li> <li>• <i>Finance Expert</i> 10000</li> <li>• <i>Water Sector Expert</i> 4000</li> <li>• <i>Project Study Leader</i> 9000</li> <li>• <i>Project Asst.</i> 4000</li> </ul>	
<b>2. Training, workshops, conferences, meetings</b> <ul style="list-style-type: none"> <li>• <i>3 Workshop costs with 20 pax, (venue, rentals of equipment, meals)</i> 7500</li> <li>• <i>Office Consumables (i.e supplies)</i> 3000</li> <li>• <i>Travel expenses</i> 4000</li> <li>• <i>Meeting expenses</i> 5000</li> <li>• <i>Communication expenses</i> 1500</li> </ul>	
<i>total</i>	50,000

## **Annex A: Terms of References**

### **A. Team Leader**

#### **Scope of Work:**

- Over-all project supervision and coordination with all other project consultants and stakeholders.
- Lead consultant responsible for the preparation of case studies for the project.
- Organize and facilitate the workshops among the different stakeholders
- Preparation of draft and final reports
- Initiate coordination meetings with the project team and relevant stakeholders
- Organize the technical working group for the project

### **B. Financing Expert**

#### **Scope of work:**

- Review and analysis of the current financial packages offered by commercial banks and similar funding institutions with special emphasis of its feasibility and applicability for small scale water service providers (SSWSPs)
- Develop appropriate financing models for SSWSPs that have strong potentials for support based on results of review and assessment of current financing schemes
- Coordinate with the Institutional Expert/Water Supply in identifying the training gaps both of the financing institutions and the SSWPS in order to develop a training program for the two major stakeholders
- Provide estimated financing costs for the recommended solution
- Coordinate with GFIs, Financing Institutions, donor agencies, NAWASA, government agencies and other relevant stakeholders to explore partnership arrangement based on proposed financing models.
- Provide inputs to the all workshops to be conducted
- Develop social marketing scheme for the financing models including primers and other related knowledge products

### **C. Water Supply Expert**

#### **Scope of Work:**

- Provide advice on understanding the cases of SSWSPs as it relates to credit financing
- Identify the capacity needs of the Financing Institutions to better understand SSWPS.
- Formulate recommendations on addressing the needs of Financing Institutions in close collaboration with the Project team.

### **D. Legal Expert**

#### **Scope of Work:**

- Review of the legal environment that will impact on the proposed financing model/s.
- Assist in the preparation of the financing framework for SSWSPs.