MOBILIZING PRIVATE FUNDS TO THE WATER SECTOR

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Outline of Presentation

1. USAID-JBIC Water Collaboration: Background and Challenges


3. Philippine Water Revolving Fund (PWRF): First Full-Scale WRF in Developing Countries (DCs)
1. USAID-JBIC Water Collaboration: Background and Challenges
In September 2002, the United States and Japan launched the “Clean Water For People Initiative” at the World Summit on Sustainable Development (WSSD) in Johannesburg.

Objectives:

- Provide safe water supply and sanitation to the world’s poor
- Accelerate and expand cooperation to achieve the United Nations Millennium Development Goal of reducing half the proportion of people without access to safe drinking water and sanitation by year 2015
US-JAPAN Clean Water for People Initiative

Grant Assistance

ODA Loan

Technical Assistance

USAID-JBIC Water Collaboration
USAID-JBIC Water Collaboration

4 Pilot Countries: 🇮🇩 🇮🇳 🇵🇷 🇯🇲

To realize the Initiative, Indonesia, India, Jamaica and the Philippines (with active JBIC and USAID Programs) were selected

Challenges:

To mobilize private funds to the water sector by establishing a Water Revolving Fund (WRF), the idea of which was endorsed in G8 Water Action Plan in Evian Summit

To channel private sector funds for water and sanitation projects through JBIC ODA loan and USAID/DCA Guarantee
USAID-JBIC Collaboration in the Philippines

The Initiative was very timely with the enactment of water/sanitation policies and consistent with overall policy of the Philippine Government

- Instituting reforms in the water/sanitation financing policies
- Encouraging Private Sector Participation
- Water as a priority sector in President’s 10 point Economic Agenda

Huge financial Gap

To meet the MDG Goal:

Needs Php 145.6 Billion (US$ 2.8 Billion)

Estimated Financial Gap:

Php 92.2 Billion (US$ 1.8 Billion)
Existing Water Financing Schemes

Donors

- WB
- JBIC
- ADB

GOP Agencies

- DBP
- LBP
- LWUA
- GFI
- DILG

WSPs

- Creditworthy WSPs
- Semi Creditworthy WSPs
- Pre Creditworthy WSPs
- Non Creditworthy WSPs

(Acronyms)

DBP: Development Bank of the Philippines
LBP: Land Bank of the Philippines
LWUA: Local Water Utilities Administration
GFI: Government Financial Institution
GOP: Government of the Philippines
DILG: Department of the Interior and Local Government
WSP: Water Service Provider
However, the experience in existing water financing schemes show the PROBLEMS

- Rural-based water financing system is highly dependent upon GFIs that are supported by foreign aid agencies.
- GFIs prefer more creditworthy WSPs: hence, less creditworthy WSPs receive less foreign aid.
- Private Sector funds is not an active player in the Sector: most WSPs hope to continue to utilize GFI credit windows.
- Funds from GFIs/ODA is not enough to meet the demands of WSPs: Private funds is needed!!!
Future Water Financing Scheme

Private Funds

Catalytic Assistance Role

ODA/GOP

GFIs
- DBP
- LBP
- LWUA

GOP Agency
- DILG

PWRF

Creditworthy WSPs

Semi Creditworthy WSPs

Pre Creditworthy WSPs

Non Creditworthy WSPs

T/A facilities must be incorporated
Creditworthy WSPs

Local Government Units (LGUs)

- Total LGUs: 1,602
- LGU-UWSP Target: 364

Water Districts (WDs)

- Total: 438
- Creditworthy: 119
USAID-JBIC Collaboration

**Philippine Cases:**

Two schemes have been proposed to facilitate USAID-JBIC collaboration in the Philippines

**Municipal Water Loan financing Initiative (MWLFI)**
Pilot scheme combining ongoing projects of USAID and JBIC

**Philippine Water Revolving Fund (PWRF)**
Long Term Financing Scheme to be established in the near future
2. Municipal Water Loan Financing Initiative: Pilot Project In the Philippines
Municipal Water Loan Finance Initiative (MWLFI)

Basic Features of MWLFI

- Will utilize ongoing guarantee scheme of USAID with LGU Guarantee Corporation (LGUGC, *private sector financing*) and two-step loan of JBIC with Government Financial Institutions (GFIs), in this case, Development Bank of the Philippines (DBP, *public sector financing*) through its Environmental Infrastructure Support Credit Program II (EISCP II)

- Will be the springboard for PWRF

Memorandum of Understanding among the concerned parties was concluded in October 2004
**MWLFI Basic Structure**

**Funding from both Public and Private Sources**

**BORROWER:** Creditworthy Local Government Units (LGUs) and Water Districts (WDs)

**LENDERS:** DBP and Private Financial Institutions (with LGUGC guarantee)

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**LGUs and WDs**

**Participating Private Financial Institution**

**LGUGC**

85% Guarantee

30% counter-guarantee

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End-user rate: 9-11% (private loan is floating, depending on market rate)

Term: 7-15 years (max. 2-yr grace period)
On March 13, 2006, DBP, LGUGC, Philippine National Bank (PNB) and Metro Iloilo Water District have concluded loan and guarantee agreements simultaneously.

With this project, blended private and public funds will be utilized for the extension as well as rehabilitation of water-related facilities to provide safe and clean water to the people in the 7th biggest city in the Philippines.

This is the first project materialized under MWLFI resulted from the on-going coordination between USAID and JBIC, in close cooperation with the Philippine partners, to ensure the long-term availability of public-private financing to support the various water supply and sanitation projects in the Philippines.
3. Philippine Water Revolving Fund: First Full Scale WRF in Developing Countries
Philippine Water Revolving Fund (PWRF)

**Background:**

- **USAID and JBIC completed Feasibility Study (F/S) of WRF in the Philippines last year in preparation for the establishment of a full-scale revolving fund that will mobilize private sector funds**

- **USAID and JBIC play catalytic roles in WRF process**

- **Involvement of government and the private sector from the conceptual stage**

- **WRF is envisioned to finance creditworthy water service providers**
Philippine Water Revolving Fund (PWRF)

**Loan Origination & Repayment**

- **IBIC ODA Loan to DBP**
- **GOP's Sovereign Guarantee**
- **DBP Loan 75%**
- **PFI Loan 25%**
- **WRF**
  - **Creditworthy WDs & LGUs**
  - **Blended Rate**
  - **Maturity of up to seven (7) years for PFI Loan and up to twenty (20) years for DBP Loan**

**PFI Credit Risk Enhancement**

- **USAID/DCA Counter Guarantee (50% for WDs and 30% for LGUs)**
- **LGUGC 3rd Party Guarantor of Payment (Up to 85% of PFI Loan)**

**Acronyms**

- **PFI**: Private Financial Institution
- **DCA**: Development Credit Authority
- **LGUGC**: Local Gov’t. Unit Guarantee Corporation
- **WD**: Water District
- **LGU**: Local Government Unit
Philippine Water Revolving Fund (PWRF)

Loan Origination & Repayment

- JBIC extends highly concessional loan to DBP with maturity of up to 30-40 years with at least 10 years grace
- JBIC loan is guaranteed and covered for FX Risk by the Government of the Philippines
- DBP lends up to 75% loan requirement of LGU or WD which percentage can decrease to 50% as the private banks gain confidence in lending to LGUs and WDs
- PFIs lends up to 25% loan requirement of LGU or WD, at the start which could increase to 50% as appetite for water projects increase
- Lending rate to water projects is blended rate
- Maturity is up to 20 years for loan coming from DBP and 7 years for loan coming from PFI.
In order to build-up confidence of PFIs to lend to LGUs and water districts, the PWRF scheme will provide a credit or default risk guarantee. Specifically, the LGU Guarantee Corporation (LGUGC) will provide up to 85% of the PFI loan.

- The USAID Development Credit Authority (DCA), in turn, will provide counter guarantee to the LGUGC up to 50% for Water District loans and 30% for LGU loans.

- Under this guarantee scheme, the PFI, in case of loan default, is assured of continuity of payment of scheduled amortizations due, up to maturity of loan. No acceleration.
Challenges Facing the PWRF

1. To generate and increase interest among PFIIs to put resources in LGUs and WDs.
   Presently, PFIIs are generally averse to lending to government owned or affiliated water projects because of the perceived credit risks inherent in government-sponsored projects. (e.g. mismanagement of cash flows)

   **Mitigants**

   - Credit/Default Risk Guarantee
   - Technical Assistance/Capacity Building for the WSPs (e.g. enhance financial/ technical management capacities)

2. To convince the government decision makers to promulgate lending policies among GFIIs, consistent with the objectives of the PWRF (i.e. focusing on leveraging private funds using scarce government funds.

3. To implement to the fullest the intent of Executive Order 279
   wherein LWUA, supervising the WDs, will “let go” of creditworthy WDs and focus its attention in nurturing pre-creditworthy WDs.

4. To Sustain and enhance the life of the PWRF
   with other equally concessional funds. Initial capitalization to be generated from income of reflows may not be adequate especially when demand becomes established.
We’ll keep our Trilateral Cooperation in the Philippines!

Gracias!

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