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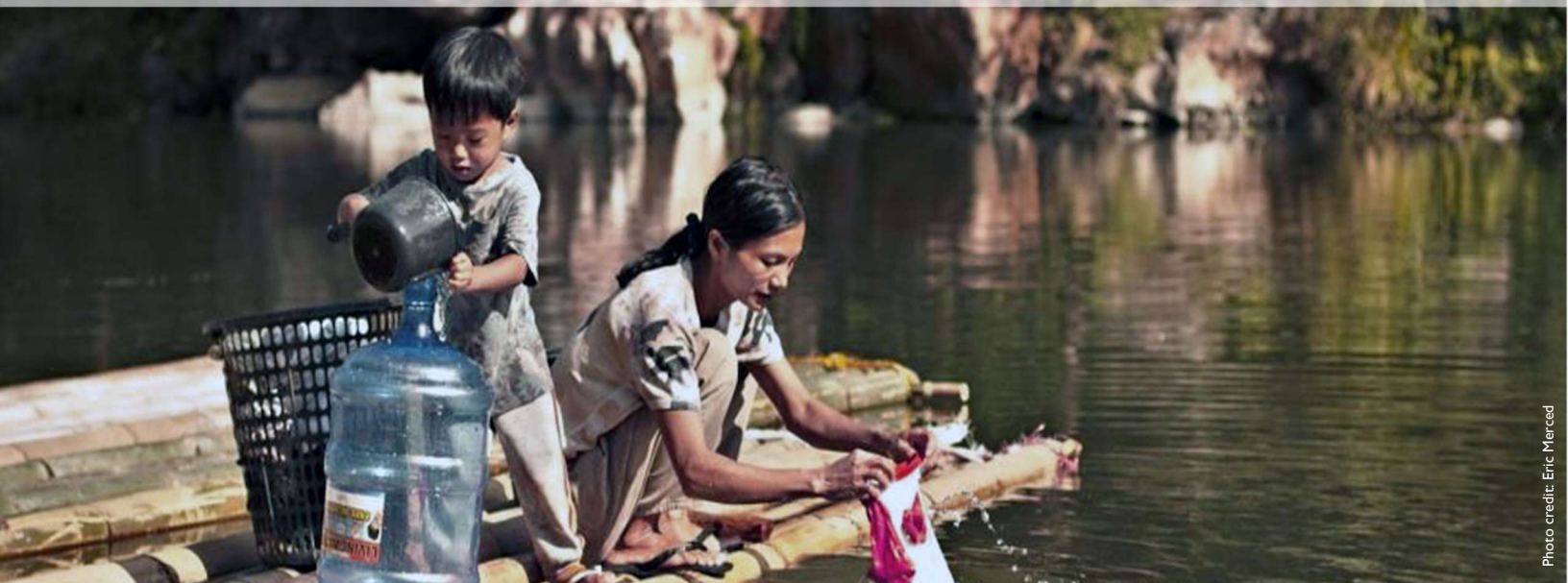


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A Financing Framework for Water Supply and Sanitation in the Philippines

USAID's Water, Sanitation and Hygiene Finance (WASH-FIN) Program Country Brief Series

INTRODUCTION. In the Philippines, Government focus on resource mobilization for water and sanitation access and reduced institutional fragmentation of national WASH agencies catalyzed development of a strategic policy framework for the sector known as the Unified Resource Allocation Framework (URAF) for Water Supply and Sanitation. USAID's Water, Sanitation and Hygiene Finance (WASH-FIN) Philippines program, which ran from November 2018 – September 2020, supported the National Economic Development Authority (NEDA), the oversight agency for economic and development planning in the country, as well as other national implementing agencies, to operationalize the URAF.

Key Takeaways

- Institutional Buy-in is Critical to Move Policy Frameworks Forward
- Policy Reforms are Often Based on Available Opportunities and Therefore Not Always Linear
- Segmentation of Borrowers Based on Performance Criteria Can Optimize Scarce Financial Resources
- Sector Institutions Should Consider Transitioning to More Market-Oriented Lending Practices
- Partner Forums are Effective Mechanisms for Donor Coordination and Cooperation

CONTEXT. The Philippine Water Supply and Sanitation (WSS) sector has no apex body, and more than 30 national and local government institutions are involved in one or more aspects of WASH governance, service regulation, resource management, or economic regulation. As such, there are multiple agencies with potentially overlapping mandates involved with policy formulation, planning and investment programming, resource and economic regulation, and standard setting—yet, there is no national framework nor single accountable entity for the provision of sustainable service.

At the immediate service delivery level, WSS provision is *de jure* the responsibility of Water Districts (WDs), Local Government Units (LGUs), and the Metropolitan Waterworks and Sewerage System (MWSS) for Metropolitan Manila. As these entities are unable to serve fully their respective franchise areas, several water service providers, mostly community-based or privately owned, have emerged to fill the gap. The proliferation of widely dispersed, small Barangay Water Service Associations (BWSAs), Rural Water Service Associations (RWSAs), and cooperatives has made it difficult for government to monitor, regulate, and coordinate water utility operations in order to achieve economies of scale. The small size of BWSAs, RWSAs, and some LGU-run utilities allow them limited revenue base, which in turn gives them limited access to resources, including technical and managerial staff, and financial options.¹ Meanwhile, households are responsible for basic sanitation investments, while the LGUs and WDs are responsible for community-wide septage and wastewater management. An overview of types of WASH service providers is included in Table 1.

Table 1: Overview of WASH Service Providers by Type²

WASH Service Provider Type	Management Type	No. Providers	Level 1	Level 2	Level 3
Cooperatives	Small cooperatives also provide water supply, mostly in rural areas. The cooperatives are registered under the Cooperative Development Authority as a juridical entity and are required to obtain a license to operate as a water utility from the National Water Resources Board (NWRB).	409	47	88	274
Local Government Unit (LGUs) Operated Utilities	LGU-run utilities are operated by a unit in the LGU or through decentralized service providers (BWSAs or RWSAs; see below); a limited number of LGUs have signed Joint Venture (JV) agreements with the private sector to provide WASH services.	4,324 (1,000 directly run by LGUs and rest by other service providers).	1,190	1,665	1,468

¹ PWSSR. (2010).

² Source: Listahang Tubig. A National Water Survey. Accessed April 7, 2021. Retrieved from <http://listahangtubig.cloudapp.net/Home.aspx>

WASH Service Provider Type	Management Type	No. Providers	Level 1	Level 2	Level 3
Water Districts (WDs)	WDs are autonomous government-owned and controlled corporations, authorized to provide water and sanitation services under Presidential Decree 198. Through a resolution from its local legislative body, an LGU can opt to convert its water utility into a WD. A WD may cover one or more LGU jurisdictions and thus the creation of a WD can be initiated by one or more LGU.	698	21	5	671
Barangay Water Service Associations (BWSAs)	BWSAs are loosely formed community associations that operate the facilities usually provided by the LGU. These utilities are typically small and are self-regulated.	7,766	3,193	2,620	1,229
Rural Water Service Associations (RWSAs)	RWSAs are loosely formed community associations that operate the facilities usually provided by the LGU. These utilities are typically small and are self-regulated.	1,508	66	638	804
Unnamed Water Service Providers	An unnamed water service provider is one that serves at least 15 households and is not registered formally with any government agency.	8,655	7,946	501	201
Other Service Providers	Homeowners Associations, real estate developers, industrial locator, peddler, ship chandler, other private operators, and refilling stations.	3,991	2,214	501	1,275
Public-Private Partnerships (PPPs)	Two private companies—Manila Water Supply Company Inc. and Maynilad Water Services Inc.—are providing water and wastewater management services to Metro Manila under a concession contract. These contracts will run until 2036. Together the two concessions are estimated to service approximately 13 percent of the population. ³	2			2

Note: Water systems are classified as follows:

Level 1 (point source): A protected well or a developed spring with an outlet but without a distribution system

Level 2 (communal faucet system or stand post): A piped system with communal or public faucets

Level 3 (waterworks system): A fully reticulated system with individual house connections

The Philippines made significant progress on the Millennium Development Goals (MDGs) for water supply and sanitation, with 87.2 percent of the population accessing an improved water source and 94

³ Asian Development Bank. (2013). Philippines: Water Supply and Sanitation Sector Assessment, Strategy, and Road Map.

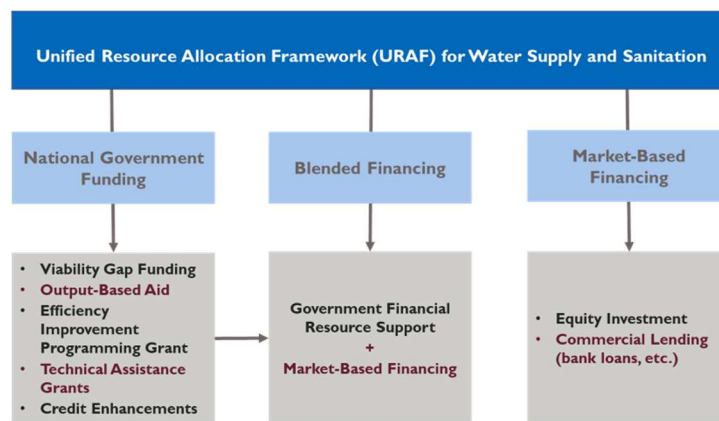
percent accessing basic sanitation services.⁴ As the country seeks to achieve universal WSS access by 2030 under the Sustainable Development Goals, it has codified a new set of strategies in the recent Philippine Water Supply and Sanitation Master Plan (PWSSMP). The PWSSMP estimates that achieving universal WSS coverage by 2030 and eliminating open defecation by 2022 will require an investment of about 1.3 trillion Philippine pesos (approximately US\$ 27.3 billion⁵).

DEVELOPMENT CHALLENGE. The public sector faces multiple fundamental challenges in the development, rehabilitation, and management of the infrastructure required to deliver sustainable WASH services. These challenges include mobilizing the required financial resources; rationalizing the complex governance and regulatory context; and providing incentives and leadership to effectively coordinate planning, policy formulation, and investment programming.

Recognizing these challenges, NEDA, in coordination with other national institutions and with support from the World Bank, formulated the Unified Resource Allocation Framework (URAF)⁶—formerly called the Unified Financing Framework (UFF)—for water supply and sanitation. The URAF followed the guiding principles that were first introduced by USAID’s Philippine Water Revolving Fund Support Program. The URAF is a strategy involving integrated and coherent financing and institutional and regulatory reform, intended to help reconcile the fragmented nature of the sector. The URAF directs all government agencies concerned with WASH investments, financing, and regulation to pursue universal access to WSS facilities through improved level of service and operational performance of service providers. The Government of the Philippines (GOP) envisions the creation of a new Department of Water Resources to function as the lead policy-making body for the sector and a Water Regulatory Commission to regulate all service providers, thereby helping to address the fragmentation issues, while accelerating the expansion of WSS services. Approval for the bills proposing to create these two agencies are pending in Congress.

Box 1: URAF Approach

The URAF defines the public investment policy for the WSS sector as one which pledges additional public resources for sector investments, and where appropriate, leverages these funds with private finance for greater development impact (See Box 1). The URAF rationalizes and prioritizes the distribution of public resources for municipal projects according to the municipality’s level of access, poverty level, and incidence of waterborne diseases. It not only mobilizes public and private resources but also encourages efficiency by tailoring financial support to the service provider based on need, as well as creditworthiness to ensure sustainability. In addition, it allocates resources to



⁴ National Economic and Development Authority (NEDA). 2019. Volume 2: Philippine Water Supply and Sanitation Master Plan: National Water Supply and Sanitation Databook and Regional Roadmaps. NEDA: Pasig City, Philippines. www.neda.gov.ph

⁵ 1 US\$ = 48.57 PhP as of August 27, 2020.

⁶ URAF was originally called the Unified Financing Framework (UFF). However, the decision was taken to change the name in 2020 in order to better represent the purpose of the framework.

strengthen national and local institutions' resource management, regulatory, and monitoring and evaluation capabilities, improve utility governance and efficiency, increase capacity for viable operations, and prepare projects. It reaches to balance the financing imperative by strengthening and enforcing appropriate economic regulations for WSS to drive reforms at the utility level.

To help streamline and expand the amount of WASH financing for improved provision and quality of WSS in the Philippines, USAID mobilized its Water, Sanitation and Hygiene Finance (WASH-FIN) program in 2018. The program focused on assisting the GOP to operationalize the URAF for the WSS sector.⁷ Technical assistance was provided to the URAF's lead implementing body, NEDA. As the interim lead water agency, NEDA has been championing the implementation of URAF. Enabling URAF requires the issuance of a NEDA Board Resolution adopting the URAF as the financing policy for WSS. In addition, support has been extended to the key URAF implementing partners, the Department of Interior and Local Government (DILG), the Department of Health (DOH), and the Local Water Utility Administration (LWUA) to clarify institutional roles under URAF and advocate for higher WASH budgets needed for expanding WASH services (described in Box 2). WASH-FIN's work builds on and complements the GOP's earlier efforts to raise commercial finance through past work with USAID, JICA, and the World Bank, among others.

Box 2: Key WSS Implementing Agencies

Department of Interior and Local Government (DILG): The DILG is the lead national government agency that provides general supervision over LGUs. In line with this mandate, DILG provides grant funding and technical assistance to LGUs.

Department of Health (DOH): DOH is the lead national government agency responsible for household sanitation services and the development of wastewater management services in LGUs without WDs.

Local Water Utility Administration (LWUA): LWUA is the national agency that provides overall supervision of all WDs, including economic regulations and the provision of relevant financing and lending programs.

The WASH-FIN program and NEDA co-developed two categories of activities: 1) Assist with approval, adoption, and preparatory activities for the URAF; and 2) Support TrackFin implementation.^{8,9} Under the first category, WASH-FIN prioritized support to NEDA to facilitate the official approval and adoption of the URAF through the issuance of relevant policy measures. NEDA focused on facilitating approval of the operationalization plan from NEDA's Infrastructure Committee, drafting implementation

⁷ Support to financial reforms for WSS in the Philippines has long been an important activity for USAID, starting with its support for the national PPP program in the 1990s and continuing with the development of the Philippine Water Revolving Fund (PWRF) in 2008 in partnership with JICA.

⁸ TrackFin (Tracking Financing to WASH) is a methodology that targets and tracks financing to the WASH sector. It was developed by the World Health Organization as part of the United Nations-Water Global Analysis and Assessment of Sanitation and Drinking Water (GLAAS).

⁹ After early TrackFin introductory efforts, NEDA determined that investment tracking was not yet a priority. NEDA opined that the system is best institutionalized once the Department of Water is approved and constituted. In lieu of this component, NEDA requested assistance for other work, including JV guidelines and PVSSMP support. The WASH-FIN program's efforts ended up spanning beyond the immediate two categories outlined above, as NEDA capitalized on backstopping support on other efforts related to the UFF.

guidelines, identifying institutional and structural challenges, preparing the URAF investment program, and addressing capacity and institutional questions.

Under the first category, the WASH-FIN program undertook the following activities:

I. Operationalizing the URAF

I.1 Enabling Policy Instrument for URAF Operationalization

Implementing the URAF would require the passing of an executive order (EO) by the President of the Philippines. However, getting an EO passed can be a protracted process depending on administration priorities. Taking this into account, the WASH-FIN program supported NEDA draft the NEDA Board Resolution, which would authorize URAF implementation, including the corollary institutional, regulatory, and utility reforms.

The NEDA Board is chaired by the President of the Philippines and consists of Cabinet members involved in economic policy formulation. It has standing committees focused on key economic development matters, including the Infrastructure Committee (InfraCom), which go through a two-stage decision-making process. The WASH-FIN program assisted the NEDA Infrastructure Staff—the secretariat to the InfraCom—in conducting key stakeholder consultations to gather inputs as well as recommending additional technical inputs to inform the NEDA Board Resolution. The Technical Board recommended approval of the implementation plan to the Cabinet Committee for approval, including institutional arrangements and a draft NEDA Board Resolution in February 2019. According to NEDA, the Technical Board recommendation was sufficient to establish the URAF’s mandate to move ahead with a budget request and the preparation of implementation guidelines. However, endorsement of the NEDA Board Resolution remained outstanding by the Cabinet Committee to the NEDA Board through project close.

Another critical part of URAF operationalization is the need for protocols or guidelines for implementation. The program supported NEDA in the development of the initial URAF grants protocol, which defined the prioritization criteria for URAF applicants, eligibility requirements, and the scope of the grant/subsidy program. The working draft of the grant protocols was approved in principle, with the caveat that NEDA will review it again once the draft is completed. At the time of WASH-FIN’s project close, the draft guidelines were passed on to another USAID Philippines bilateral project—Philippines Safe Water Project¹⁰—to ensure continued support.

I.2 2020 Investment Program for URAF

To demonstrate the URAF concept and purpose, the WASH-FIN program helped NEDA develop a project pipeline for the URAF. With the program’s support, NEDA convened several consultation meetings and workshops with the key WASH implementing agencies (DILG, DOH, and LWUA) and service providers (WDs and LGUs) to create a pipeline of project proposals for the URAF.¹¹ Based on

¹⁰ The Philippines Safe Water Project provides local government units and water service providers, in specific provinces, support to identify and address barriers to a water-secure future.

¹¹ The NEDA Infrastructure Staff used specific criteria to refine its 2020 Investment Program: i) include investments for the priority projects of the Salintubig program; ii) identify projects ready for implementation, as demonstrated in existing NEDA-funded feasibility studies; iii) estimate the required investment to pilot an OBA mechanism for last-mile service connections to water supply and access to basic sanitation facilities at the household level; and iv) include estimates for the technical assistance program, covering project preparation, institutional strengthening, capacity-building, and utility reform.

recommendations from the PWSSMP, the implementing agencies identified the priority projects and determined funding requirements. This exercise helped NEDA demonstrate the URAF purpose and potential to stakeholders and also supported the implementing agencies' budget request as the basis for a viable URAF Investment Program for Fiscal Year 2020.

The WASH-FIN program reviewed and helped finalize the list of projects for the 2020 budget proposal, presented to the Infrastructure and Investment Coordination committees of the NEDA Board and approved in February 2019. The proposed investment program for LWUA, DILG, and DOH amounted to PhP9 billion (US\$176.5 million), about triple the 2019 budget. The proposal included subsidies for water supply and septage management projects, household grants for toilets, and technical assistance for utility reform, project preparation, and capacity-building of executing agencies and service providers. The WASH-FIN program then supported NEDA in advocating for the investment program to the Department of Budget and Management (DBM). The pitch contributed to DBM initially approving the higher budget allocation at the technical level.

Prior to submission of the budget to Congress in July 2019, DBM—acting on the advice of the Cabinet—decided not to approve the PhP4.5 billion (approximately US\$89 million) proposal from DILG. This sudden turn of events was attributed to an unrelated Supreme Court ruling that resulted in LGUs receiving an unrestricted share of national government revenues in the form of an intergovernmental transfer, which will increase LGU internal revenue allotments (IRAs) by 50 percent. DBM felt it should not increase the amount of national government grants to LGUs, considering the additional transfers that LGUs will get. This resulted in the 2019 DILG appropriation for ongoing programs being maintained at PhP1.5 billion (approximately US\$30 million) for the Salintubig program. This is a setback for the URAF, especially since the GOP can neither earmark funds nor dictate how the LGUs spend the additional IRA funds; hence there is no assurance these additional funds will be allocated for WASH investments. In addition, DBM did not approve the DOH budget for a new sanitation program, which included a pilot OBA program for low-income households, discussed in section 1.3 below.

LWUA did receive a PhP345 million (US\$6.4 million) allocation earmarked for sewage and septage projects in municipalities discharging wastewater into Manila Bay. The allocation was motivated by separate Supreme Court rulings directing LGUs and LWUA, among others, to stop the pollution of Manila Bay. LWUA's initial idea was to lend out the allocation directly, which would have resulted in only about six projects being financed. To leverage additional financing, NEDA and the WASH-FIN program worked with the LWUA Administrator to enable more projects to be implemented through blending LWUA funds with financing from the Development Bank of the Philippines (DBP). The program facilitated talks that led to LWUA and DBP agreeing to a co-financing arrangement for septage management projects of WDs. Under this arrangement, the PhP345 million (US\$6.4 million) funds from LWUA would be combined with a DBP commitment of PhP450 million (approximately US\$9 million). DBP agreed to a longer tenor and competitive fixed rate—the fixed rate being preferred by WDs. Because this finance is coming from domestic sources, there is no foreign exchange risk, making the projects more viable and contributing to financial sector deepening and increased self-reliance.

On January 6, 2020, the President of the Philippines signed the 2020 budget, which included PhP345 million (US\$6.4 million) for LWUA's septage management projects under the URAF Investment Program. However, the LWUA allocation was subsequently realigned for COVID-19 response activities putting on hold the co-financing agreement with DBP. The draft Memorandum of Agreement for the co-financing arrangement between DBP and LWUA had not yet been signed at the time of activity close.

There will remain a need and opportunity for future budget allocation of this sort to LWUA under the URAF. COVID-19 impeded URAF operationalization in the short-run but in the long-run the impact may result in an increased urgency for funding WASH under a fully operationalized URAF. The increase in water demand due to the rise in individual hygiene practices and disinfection of public spaces, among others pressures, may affect areas that were already suffering from water scarcity. The effects of the pandemic on targets for the improved access to safe water supply and sanitation and proper hygiene will be increasingly visible and require additional support.

I.3 Development and Refinement of URAF Financial Modeling Tools and Programs

The URAF design includes the following sub-programs: 1) technical assistance to implementing agencies and water service; 2) efficiency improvement projects for service providers; 3) expansion projects or capital infrastructure investment for service providers; and 4) results-based aid for household sanitation services or water supply connections. To support the refinement and implementation of these sub-programs, the WASH-FIN program revised the URAF excel-based model for financial analysis of water service providers (WSPs) and developed an accompanying manual.

The Grants Protocols (*i.e.*, Implementing Guidelines) include NEDA's prescription for a Viability Gap Funding (VGF) model and similar capital allocation strategies to be used by all executing agencies in the appraisal of applications for grants or subsidies for expansion projects that are economically justified but financially unviable. For example, the VGF model seeks to target any shortfall between investment costs, related operations and maintenance expenses, and anticipated revenues supported by a justified and affordable tariff. The difference (gap) will be assessed under a discount rate (determined by the GOP by approximating the opportunity cost of capital).

Building off an earlier model developed with the support of the World Bank, the WASH-FIN program refined the URAF Excel-based financial model and its accompanying user guide. This model will be used by all implementing agencies in the analysis of proposed investments under the URAF for WDs, LGUs, and other water service providers. Financial analysts of key URAF implementing agencies will use the model to objectively determine the appropriate grant assistance and other financial arrangements under the URAF. The user guide will help financial analysts by defining the assessment methodologies that need to be undertaken for each of the URAF programs and providing a step-by-step approach for carrying out the evaluations.

To ensure there is sufficient capacity to use the model within the URAF implementing agencies, the WASH-FIN program piloted the model and manual during a multi-day training for technical staff of LWUA and NEDA using feasibility studies submitted to both agencies. Participants acknowledged the usefulness of the model in the appraisal of WSP project proposals. As the URAF is still in a nascent phase, the trainings helped to further strengthen the buy-in of key agencies and maintain momentum. Stakeholder support and direct engagement such as this is critical for moving the URAF forward.

I.4 Supporting the Output-Based Aid (OBA) Blended Finance Arrangement for Household Sanitation Program Under the URAF

In addition to supporting and working directly with NEDA, the program also collaborated with other development partners to achieve URAF objectives, including Water.org and UNICEF, who were involved in the output-based aid (OBA) for household sanitation program design.

Under the URAF, OBA—a type of results-based financing tied to the achievement of specific results—has been identified as a modality for financing household sanitation. The sanitation budget shall be used to provide grants using an OBA mechanism and disbursed as subsidies to low-income households without sanitary toilet facilities. Disbursement will take place after verification that the facilities comply with DOH standards. The cost of toilet construction not covered by the subsidy shall be financed through a WASH loan to the household beneficiary from the partner microfinance institution (MFI). The households will then repay the loan minus the subsidy amount. Under the scheme, MFIs will not be paid if construction falls short of standards. Households that are not eligible for an MFI loan have the option to source funds on their own.

Blending a grant (subsidy) and a microfinance loan, minimizes the required cash outlay for households compared to a lump-sum upfront investment. Furthermore, the participation of domestic MFIs solves the problem of sourcing the required capital investment in an OBA mechanism.

The WASH-FIN program collaborated with DOH, UNICEF, and Water.org in formulating the initial OBA program, including the design proposal, implementing guidelines, and arrangements for a program that could potentially leverage microfinance under a blended finance¹² structure. Building off the benefits of a development partner forum initiated by an earlier USAID Philippine Water Revolving Fund (PWRP) technical assistance program, the WASH-FIN program led a series of Development Partner Roundtables at the request of NEDA to discuss collaborative efforts.

The proposed OBA program under the URAF is expected to be piloted with funding from UNICEF. DOH will work closely with UNICEF in the pilot implementation of the program and the results will be used to improve and enhance the program before it is rolled out nationwide under the URAF.

I.5 Capacity and Institutional Development Strengthening

The WASH-FIN program helped set the groundwork for a conducive enabling environment for the URAF reforms through the formulation of an institutional development and capacity-building plan for implementing agencies and the development of governance and delivery structures at the local level.

Capacity and Institutional Development. As several agencies with varying and overlapping roles are involved in URAF implementation, the program conducted an assessment to gauge the agencies' needs for institutional strengthening and human resource competency development relevant for URAF implementation. The assessment included NEDA and the three key implementing agencies (DILG, DOH, and LWUA) and focused on determining whether the agencies: have a common understanding of the URAF and public sector resource use in the WASH sector; are institutionally supported by relevant sector policies; align with the URAF policy and procedural arrangements; and have ample staff support with necessary skillsets for URAF implementation.

Based on the assessment results, the program developed a capacity development plan (CDP) that outlines and identifies specific measures and activities to improve and enhance capacities of relevant staff of agencies involved in URAF implementation, including technical training resources. An accompanying compendium of technical training resources was also developed. The plan includes: 1) general courses of action to be undertaken by all key implementing partner agencies; 2) specific courses of action for each

¹² The public concessional funding in the form of an OBA subsidy will help crowd-in additional private finance through MFIs, as the OBA will make the cost more feasible for households and lower their risk of default.

of the agencies; and 3) proposed learning and development modules for relevant tasks under each URAF program. The final version of the CDP was submitted to NEDA in September 2020. Going forward, the CDP will be used to help guide development of individual executing agency plans for operational support on the URAF.

Municipal Central Management System. In the Philippines, LGU-run utilities and community-based associations are considered the least successful management models; they also operate the largest number of individual household and communal faucet systems. The large number of these widely dispersed utilities has made it difficult for the GOP to oversee performance and coordinate operations to achieve economies of scale. Furthermore, they often lack technical, financial, and managerial capacity, which, especially considering the high number of providers, contributes to significant inefficiencies, subpar performance, and wasted financial resources. To support the GOP's effort to compel LGUs to improve utility governance and performance, the WASH-FIN program helped develop a model Municipal Central Management System (MCMS) that will allow LGUs to supervise decentralized providers, rationalize tariffs, and adopt sound operating management systems with key performance indicators and efficiency measures. LGU support and buy-in is a critical requirement for the successful implementation of the MCMS under the URAF. To ensure LGU buy-in and move the MCMS forward, USAID will continue to support this work through its ongoing Philippines Safe Water Project, which will pilot the model in the partner LGU areas.

I.6 Communication Around the URAF and Its Implementation Plan

Communication is critical for the URAF, as its operationalization and success will depend on key agencies owning and implementing the reforms. NEDA has served as a key institutional champion, but as URAF is a new framework, additional champions were needed across the key implementing agencies. The WASH-FIN program supported communications and backstopped NEDA in disseminating the URAF to facilitate wider support and buy-in for the new financing policy. The program hosted and facilitated the following communications-related events, which created opportunities for discussions around URAF themes and mechanisms: i) the Interagency Meeting on Economic Regulatory Reforms; ii) a High-level Roundtable Discussion on the URAF and International Best Practices on Financing Water Supply and Sanitation Services; and iii) Orientation of NEDA Regional Offices to the Master Plan, URAF, and Utility Reform Pathway; and iv) an internal NEDA workshop that involved formulation of the PWSSMP action plan, among others. The program also assisted NEDA in reconvening development partner roundtables and served as technical secretariat. The roundtables provided a venue to discuss development issues, policies, plans, and programs of both the GOP and its development partners. This allowed for additional resource support on the URAF.

Partly as a result of the communications-related events, the URAF structure and concept evolved, broadening opportunities for focused discussion around the URAF and roles of different agencies. The program's highly participatory approach was well-received by the GOP.

LESSONS LEARNED

The WASH-FIN program's Philippines activity offers critical lessons both for the Philippines and for other WASH financing reform efforts around the globe.

1. Segmentation of Borrowers Based on Performance Criteria Can Optimize Scarce Financial Resources

Segmentation of service providers according to performance and creditworthiness offers an opportunity to more efficiently and effectively allocate limited financial resources. The URAF proposes to provide financial resources based on multiple levels of criteria associated with the utility's level of maturity and performance. First, providers will be prioritized according to the characteristics of the population in terms of poverty and health risks. Then, the type of support will be determined by how the service provider is performing and what, if any, resources they can access on their own. For example, some service providers may be able to access the market directly and don't require concessional government financing, while others may need significant subsidy support, or require grant funding for efficiency improvements prior to taking on additional debts.

2. Sector Institutions Should Consider Transitioning to More Market-Oriented Lending Practices

A key recommendation for incorporation into the URAF is that public financing institutions for the sector, LWUA in particular, should rationalize lending rates to ensure all costs of public lending windows, including guarantees and foreign exchange currency risks and other implicit subsidies are fully included in the lending rate to WSPs, and to tailor lending programs based on WD need and performance, e.g., efficiency improvement and expansion programs. Right now, LWUA is lending at a lower rate than that at which it is borrowing capital. This practice is unsustainable and requires constant injection of capital for LWUA to stay afloat, which is an implicit subsidy. At the same time, in some cases it is lending to creditworthy WDs that could access finance on commercial terms and therefore would eliminate the need for this type of highly concessional finance. Allowing these creditworthy WDs to access the market directly, frees up funding for other WDs that don't have that option. The grant funding under the URAF would be allocated in accordance with National Government financial support objectives for service providers that need support through a tailored and financially sustainable mix of grants and loans that do not risk the financial health of the borrower or lender.

3. Institutional Buy-in is Critical to Move Policy Frameworks Forward

Earlier efforts to develop and operationalize the URAF ran into challenges resulting from a lack of definition and clarity on roles across relevant agencies. In addition, the key implementing agencies (DILG, DOH, and LWUA) already had a busy workload and limited resources to commit to charting forward a direction. These factors contributed to limited buy-in from implementing agencies at the onset of the activity. NEDA, which was the exception, stepped up to the role as URAF coordinator in the absence of a lead body for the WASH sector, dedicated staff resources to the URAF over the life of the activity, and helped with outreach and communications efforts. While there was progress in agency engagement, increased agency buy-in is needed to move the URAF forward. The limited buy-in of agencies also stems from the pending approval of the NEDA Board Resolution adopting the URAF as the financing policy for the water and sanitation sector. WASH-FIN supported outreach and knowledge sharing on the URAF, backstopping NEDA in dissemination of information to facilitate wider support and buy-in. Communications-related events, including workshops, roundtables and other participatory activities, created opportunities for discussions around URAF themes and mechanisms and enhanced institutional knowledge of and commitment to the URAF.

To pursue sector reforms, the GOP needs to identify and incentivize URAF champions within the key implementing agencies to develop their agencies' capacities to fulfill their mandates, roles, and

responsibilities under the URAF. This will remain important even with the eventual Department of Water Resources (pending approval in Congress), which would take on the primary responsibility of moving the URAF forward.

4. Policy Reforms are Often Based on Available Opportunities and Therefore Not Always Linear

In the URAF operationalization process, certain steps occur in parallel rather than a sequential fashion. For instance, the long pending approval of the NEDA Board Resolution—adopting the URAF—in many cases, would have been granted prior to development of capacity plans, VGF and related strategies, trainings, etc. Because donor-funded projects are often time-constrained, Government counterparts cannot wait for everything to line up to implement a policy reform but should try to take advantage of potential “windows of opportunity.” Hence, there is a need for a critical mass of movers and advocates to tailor sector reforms to address sector specific needs as well as to facilitate adoption and implementation. At the same time, development partners need to plan support in the long-term, and this is possible even through short term projects, as can be seen through USAID’s actions with the PWRF support program, WASH-FIN program, and now the new Philippines Safe Water Project.

5. Close Coordination and Communication between Government and Development Partners is Crucial to Ensure Continuity of WASH Finance Initiatives

Major WASH finance and reform initiatives take time and often go beyond project cycles requiring close and sustained collaboration and communication between Government and development partners to achieve progress. For example, the Philippines Water Revolving Fund (PWRF) was developed in the early 2000’s through a collaboration between USAID, Japan Bank for International Cooperation (JBIC) and GoP. Launched in 2008 with seed funding from JBIC, long-term technical program support and a Development Credit Authority Guarantee from USAID, PWRF included a Development Partners Forum to broaden collaboration. PWRF went on to mobilize domestic commercial finance for WASH and the experience helped inform the development of the URAF with advisory support from the World Bank. When World Bank assistance ended, NEDA facilitated a transition to USAID support to operationalize the URAF via the WASH-FIN program. Under NEDA leadership, the Development Partners Forum was revived, and it proved an effective URAF venue to discuss respective programs, identify complementary or collaborative activities, and thereby avoid duplication and strengthen synergies. Examples of coordination that resulted from the forum revival include the joint OBA planning efforts with UNICEF and Water.org, and UNDP support to NEDA on URAF communication. With WASH-FIN closure, support for the Development Partners Forum transitioned to the USAID Philippines Safe Water Project which continues to foster cooperation towards pandemic resilience and the URAF process.

ABOUT THE WASH-FIN PROGRAM. USAID’s WASH-FIN program works in collaboration with national governments, development partners, financial institutions, service providers, and local stakeholders in eight countries. The program’s Country Briefs summarize the development challenges, activity design, and results to date for each country of operation. The briefs focus on the lessons learned and their applicability in each country as well as for USAID and the broader water and sanitation sector.