Philippine Water Revolving Fund Support Program

Guide to Developing Microfinance Programs for Water Supply and Sanitation

For Microfinance Institutions, Water Service Providers and Other Development Institutions

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Guide to Developing Microfinance Programs for Water Supply and Sanitation

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Guide to Developing Microfinance Programs for Water Supply and Sanitation (WSS) For Microfinance Institutions, Water Service Providers and Other Development Institutions

This guide was published with assistance from the USAID Philippine Water Revolving Fund (PWRF) Support Program.

The views expressed here do not necessarily reflect those of USAID or the United States Government.

The PWRF Support Program is a collaborative undertaking of GOP partners, USAID, Japan International Cooperation Agency (JICA), LGU Guarantee Corporation (LGUGC), and private financing institutions (PFIs) through the Bankers Association of the Philippines. The Program's GOP partners are led by the Department of Finance and include the Development Bank of the Philippines and the Municipal Development Fund Office.

The PWRF Support Program established a co-financing facility that combines ODA/JICA resources with PFI funds for creditworthy water service providers, using a financial structure that allows affordable loan terms without sacrificing the viability of PFIs. PFIs have access to credit risk guarantees provided by LGUGC and USAID's Development Credit Authority.

The PWRF Support Program operates around three main objectives, which are to:

- Establish the co-financing facility and develop a long-term financing strategy and mechanism with broader private sector participation;
- Strengthen water project financing and enable other conditions necessary for optimizing the PWRF Support Program's positive impact on the sector, including corollary regulatory reforms; and
- Assist water districts and local government units in developing a pipeline of bankable water projects.

To complement the PWRF, one of the Program activities of the Support Program is the development of strategies to help address barriers to access of poor communities and vulnerable groups to water supply and sanitation (WSS) services. Main barriers identified are lack of capacity to pay for connection fees and high transactions costs, among others. Among the strategies is the development of partnership schemes between water utilities and microfinance institutions to facilitate access of poor communities to WSS services. PWRFSP has identified model schemes to expand WSS services in poor communities, promoted the schemes to concerned entities, implemented a grant program, and pilot-tested selected schemes to demonstrate their soundness and viability. This Guide was enriched by consultations with key stakeholders, reviews of the experience of other countries in the implementation of similar schemes, and results of the pilot testing of selected schemes in three Philippine municipalities. The overall objective of the Guide is to provide information and a systematic development approach to microfinance institutions and water utilities in the development of a microfinance program for WSS services. With this Guide, the PWRFSP aims to unlock the potential of microfinance to expand poor communities' access to safe water supply and basic sanitation services.

The PWRF Support Program is implemented by Development Alternatives, Inc. in association with The Community Group International LLC, Resource Mobilization Advisors, and CEST, Inc.

Month and year of publication: October 2011

Acknowledgment

The Philippine Water Revolving Fund Support Program sincerely thanks the following for their valuable contributions to the development of this Guide:

- USAID Indonesia Mission for providing valuable information on microfinance and water service provision based on the experience of its Environmental Services Program;
- MCPI for staunchly supporting and advocating for the program to member MFIs;
- PAWD for welcoming and promoting partnerships with MFIs to reach poor communities;
- our technical consultants for their astute guidance and inputs;
- our peer reviewers whose insightful comments and recommendations enriched the Guide significantly

and many others who have made the preparation and publication of this Guide possible.

Finally, we thank USAID/Philippines for their resolute support to improve access of all Filipinos to water and sanitation services.

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TABLE OF CONTENTS

LIST OF FIGURES, BOXES, AND TABLES

LIST OF ACRONYMS AND ABBREVIATIONS

ADB	Asian Development Bank
APPEND	Alliance of Philippine Partners for Enterprise Development
ASKI	Alalay sa Kaunlaran Inc.
AWCP	Associative Water Center Philippines
BACIWA	Bacolod City Water District
BOT	build-operate-transfer
BRI	Bank Rakyat Indonesia
BSP	Bangko Sentral ng Pilipinas
BWSA	barangay water supply associations
CAPS	Center for Advanced Philippine Studies
CBO	community-based organization
CCWD	Cabanatuan City Water District
CDA	Cooperative Development Authority
CREPA	Centre Regional pour l´Eau Potable
CSR	corporate social responsibility
cu. m.	cubic meters
DCA	Development Credit Authority
DOH	Department of Health
EMF	Ecological Management Foundation
ESP	Environmental Services Program
FA	Field Assistant
GBA	Grameen Banking Approach
GFIs	government financial institutions
GNFAs	government non-financial agencies
GOCCs	government-owned and controlled corporations
IPD	Institute for Popular Democracy
KPI	key performance indicators
KRA	key result areas
LGU	local government unit
LWUA	Local Water Utilities Administration
MABS	Microenterprise Access to Banking Services
MCPI	Microfinance Council of the Philippines Inc.
MFI	microfinance institutions
MOA	Memorandum of Agreement
MOU	Memorandum of Understanding
MWCI	Manila Water Company Inc.
MWF	Micro Water Facility
MWSI	Maynilad Water Services Inc.
NCC	National Credit Council
NHA	National Housing Authority
NGO	nongovernment organization

O&M	operation and maintenance
PD	Presidential Decree
PDIC	Philippine Deposit Insurance Corporation
PO	private operator
PCFC	People's Credit and Finance Corporation
PWRF SP	Philippine Water Revolving Fund Support Program
RWSA	rural waterworks and sanitation association
SSIP	small-scale independent provider
TSPI	Tulay sa Pag-unlad Inc.
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
WSP	water service provider
WSS	water supply and sanitation

INTRODUCTION

About 84% of the population of the Philippines - the total estimated at 90 million (comprising of 18 million households) – has access to safe water supply (MDG Watch, 2010, National Statistical Coordination Board). Of those with access to safe water, only about half (44%) are connected to level 3 systems that are deemed as the safest and most convenient source of water. Many of those who do not have access to safe water are from the poor communities. As of 2009, about 3.9 million families in the Philippines were living below the poverty line. Many of these families depend on unreliable sources of water such as standpipes, open water sources (such as rivers and lakes), or vended water. One of the frequently cited reasons that families continue to utilize unreliable sources is the inability to pay the upfront, fixed connection fees to piped water. Further, many water service providers (WSPs) are reluctant to extend connections to poor communities because of financial viability concerns. Specifically, they think serving the poor involves high financial risk due to the latter's perceived inability to pay connection fees and monthly water bills, their lack of clear tenure, right-of-way problems, and high transactions costs involved in billing and collection. One of the approaches expected to improve access of poor households to WSS services is microfinance. Considered a poverty alleviation tool, microfinance has improved the access of the poor to loans for entrepreneurial activities and recently for meeting the costs of education and housing repair. To manage credit risk, MFIs organize clients into groups and provide values formation seminars and capacity building activities. A number of MFIs have developed financial products that cater to specific social needs (including loans for children's education, housing repair, PhilHealth membership loans, and emergency loans to meet contingent events). The felt need for safe and sustainable WSS presents an opportunity to use microcredit to facilitate access to piped water connections of poor households. Microcredit programs for WSS have been successfully implemented in other countries. In particular, the USAID-funded Environmental Services Program (ESP) in Indonesia linked water utilities (Perusahaan Daerah Air Minum or PDAMs) with MFI institutions (primarily Bank Rakyat Indonesia or BRI) to increase the coverage of water supply services. A total of 12,111 households benefited from these arrangements in the form of new water connections (Funding the Flow: Micro Credit Finance for Water Connection, ESP, USAID, 2009). Inspired by the ESP experience, PWRF-SP worked with a few water districts (WDs), MFIs and NGOs to promote and test similar arrangements in the Philippines. The experiences from these collaborative activities informed the preparation of this Guide.

Objectives of the Guide. The Guide aims to inform the development of a microfinance program for water supply and sanitation by interested microfinance practitioners. Specifically, it aims to provide MFIs, WSPs, and government entities a systematic approach to the development of microfinance partnerships and products for WSS to facilitate the extension of these invaluable services to poor households and underserved communities.

Contents of the Guide. The Guide lays out the key processes and requirements for the development of microfinance programs for WSS services provision; describes different partnership schemes among the MFIs, WSPs, household associations and other entities and financing options; identifies possible risks and mitigation measures associated with each of the options; and presents possible strategies to promote and implement partnership arrangements. The Annexes include an overview of the WSS and MF sectors in the Philippines and samples of survey questionnaire for demand assessment and partnership agreement.

1. THE STAKEHOLDERS IN MICROFINANCE PROGRAMS FOR WSS

The Microfinance Program for WSS is a partnership among the service providers of water supply, sanitation and microfinance services, and the clients or customers that can be houseolds or cooperatives and associations including homeowners associations. Either of these stakeholders can initiate the partnership and program implementation. In some cases, a facilitator such as a non-government organization (NGO), government agency or donor program can link the stakeholders to pursue the program.

1.1 Water Service Providers [1]

Water services are provided to urban and rural households nationwide by various sources. There are more than 5,000 water service providers (WSPs) in the Philippines comprised of water districts, local government unit (LGU)-managed systems, barangay water service associations, rural water service associations, cooperatives, and private utilities (which include the two Metro Manila concessionaires). In addition, there are a number of small-scale independent providers (SSIPs) such as those providing piped water in subdivisions or vended water.

The evolution of the various water supply service models is a result of policies issued over the past decades, as well as market coping mechanisms. The Government of the Philippines (GOP), for example, passed and promulgated legislation to create Manila's Metropolitan Waterworks and Sewerage System (Republic Act 6293), water districts (Presidential Decree 198), and LGU-run systems (Local Government Code). Executive policy issuances promoted the organization of community-based water service providers, often a pre-condition for local governments to obtain government or donor financing. The Government's policy regarding private sector participation notably included the two concessionaires in Metro Manila. However, in view of inadequate or poor quality service from formal providers, many households have

[1] Culled from the Philippine Water Revolving Fund Support Program, "Water Supply Project Appraisal Guidebook for Investors and Decision Makers", 2009.

continued to cope through self-provision, often buying vended water or getting piped service from SSIPs. As such, various service providers with different business models, governance structures, and performance levels co-exist today.

In terms of coverage, LGUs serve more than half of the population with access to formal levels of water supply service. Water districts serve 19% and private operators serve 5% (see Figure 1).

Figure 1. Structure of Water Supply Service Access and Provision

<table>
<tr><td colspan="4">Access to formal levels of service: 80%</td><td>No access: 20%</td></tr>
<tr><td colspan="3">Level 3: 44%</td><td>Level 2: 10%
Level 1: 25%</td><td rowspan="2">Self-provision through private wells, tanked or vended water supply or piped supply provided by SSIPs</td></tr>
<tr><td>WDs: 19%</td><td>POs: 5%</td><td>LGUs/ CBOs: 20%</td><td>LGUs and CBOs: 35%</td></tr>
</table>

Source: WB Report, Philippines: Meeting Infrastructure Challenges, 2005
Note: WDs refer to water districts, PO to private operators, LGU to local government units, CBO to community based organizations, and SSIPs to small scale independent providers. Level 3 water supply system refer to individual household connection, level 2 to communal faucets and level 1 to point sources without distribution network.

Water districts (WDs). Presidential Decree 198 or the Provincial Water Utilities Act of 1973 authorizes the creation of water districts. By virtue of the law, WDs are under the supervision of the Local Water Utilities Administration (LWUA). WDs are classified as government-owned and controlled corporations (GOCCs).[2] They operate as autonomous corporate entities which rely on their revenue stream to leverage capital funding and defray operation and maintenance costs.[3] As of December 2010, a total of 831 water districts have been created, but only 526 are operational.[4] The operational WDs serve about 14 million people in 622 cities and municipalities. WDs provide level 3 water services (piped connections to households).

Among the WSPs, WDs have the greatest potential to expand and improve WSS services since they are generally considered to possess a more effective governance structure. The Board provides policy direction, approves major capital projects and their financing, and approves tariffs. The Board also has the authority to hire and fire management within the ambit of Civil Service Rules and Regulations. Although covered by the Salary Standardization Law, the Board can exercise flexibility in providing incentives to management and staff. Most WDs maintain a professional staff, with core knowledge on the technical aspects of the utility's operation, as well as accounting and financial management. The management and staff have secure tenure in that they are not replaced with the introduction of a new political administration.

Local governments units (LGUs). The Local Government Code of 1991 places the responsibility of ensuring water supply and sanitation service provision under the authority of LGUs. These entities have used various service provision models to fulfill this responsibility, including third party providers (such as the creation of water districts or the use of community-based operators and concessions) or through directly managed utilities. The latter are typically treated as part of the overall operation of the city or municipality. Often the municipal engineer is responsible for the utility's operation. The majority of LGUs do not ring-fence their utilities as independent economic enterprises, hence performance and financial solvency is difficult to assess. LGU-run systems have varying sizes (from 100 to 5,000 service connections) and types of services offered (from levels 1, 2 or level 3 systems).

[2] As GOCCs, they are covered by COA audit, Civil Service rules and regulations, the Salary Standardization Law and government procurement guidelines.
[3] Water districts have no national government equity, nor are they entitled to national government transfers from internal revenues.
[4] 2011-2012 Directory of Water Districts, Philippine Association of Water Districts.

Community-based organizations (CBOs). The CBOs include the rural waterworks and sanitation association (RWSAs), barangay water supply associations (BWSAs), and cooperatives. There is ambiguity as to the regulation of these entities. They are mostly designed to provide level 2 systems or communal taps. Typically, the original facilities of these systems are constructed using national government or donor grants, as well as from congressional pork barrel spending, with token counterpart resources from the association. Some continue to receive operating subsidies from LGUs. Most of them are not able to expand the service beyond the typical 100 to 500 service connections.

Private operators (POs) and small-scale independent providers (SSIPs). The two biggest private operators are the Metro Manila concessionaires: Manila Water Company Inc. (MWCI) and Maynilad Water Services Inc. (MWSI), both of which are consortiums of domestic and international corporations. The Metro Manila concessionaires were procured and contracted using the National Water Crisis Act of 1995. Their contract with the government provides them with a long-term franchise and well-defined operating and regulatory guidelines, including how tariffs are adjusted. The concessionaires are performing well in terms of operations and coverage. However, there are still poor urban communities within their respective jurisdictions that are not reached by their services. Most often, these communities do not have clear tenure and there are right-of-way problems for the establishment of water supply connections in their areas.

The other private operators include: a) bulk water suppliers and management contractors, which either have contracts with water districts or LGUs; b) full service providers with individual certificates of public convenience from NWRB; or c) small scale independent providers (SSIPs), which merely get business permits from the LGU where they operate. The latter comprise a diverse group, from real estate developers, homeowners associations, and local entrepreneurs, to mobile water vendors. SSIPs serve anywhere is the range of 100 to 3,000 connections. Other registered private operators have various legal mandates: RA 7718 or the BOT Law for some of the bulk and management contracts, RA 9184 or the Government Procurement Reform Act for the bulk supply contracts, the Local Government Code for the joint venture agreements, and the usual business registration with the Securities and Exchange Commission (SEC) for corporations and the Department of Trade and Industry (DTI) for single proprietorships.

For a more detailed overview of the water supply sector refer to the PWRF-SP Water Supply Project Appraisal Guidebook (2009) and the NEDA Philippine Water Supply Sector Roadmap (2010).

1.2 Microfinance Institutions

Microfinance institutions (MFIs) are entities that offer basically the following key products and services: loans, deposits/savings, remittance/funds transfer and micro insurance. The governing principles of financial intermediation of MFIs and rules for their entry and exit are set by existing financial policies (see Appendix 1 for details). Applicable policies determine and limit their business operations and products and specify the criteria and standards for their sound and sustainable operation.

There are four types of microfinance providers in the Philippines:

1) cooperatives,
2) banks (cooperative, thrift and rural banks),
3) nongovernment organizations (NGOs), and
4) non-bank financial institutions (financing companies, pawnshops, non-stock savings and loans associations).

Cooperatives, banks, and NGOs are the major providers of microfinance services in terms of number, outreach and portfolio.

Cooperatives. Cooperatives are registered with the Cooperative Development Authority (CDA). These entities are mandated to lend to members and mobilize deposits from

members only. As of June 2010, about 14,711 cooperatives had been engaged in microfinance.[5] These include community-based open-type savings and credit cooperatives. Because of their existing network and their ability to mobilize savings, the cooperatives account for almost half (2.5 million clients) of the estimated number of active microfinance clients nationwide.

Banks. Banks, including rural banks, cooperative banks and thrift banks, engaged in microfinance are regulated by the Bangko Sentral ng Pilipinas (BSP). These entities are authorized to lend, mobilize deposits, and engage in remittance/fund transfer services. The microfinance clientele of banks are mostly microenterprises, small businesses, individual or group borrowers. As of June 2010, there were about 200 banks engaged in microfinance accounting for about 900,000 active clients and PHP 7 billion in loans outstanding.

NGOs. Microfinance NGOs are registered with the SEC. They are required to disclose their microfinance activities in the submission of their annual general information sheet. They are also required to provide audited annual financial statements to SEC. Microfinance NGOs can lend out loans to clients but are not allowed to mobilize deposits (MF NGOs are not subject to prudential regulation by the BSP). Most NGOs with sizeable microfinance operations are members of the Microfinance Council of the Philippines Inc. (MCPI),[6] which reports a membership base of around 33 NGOs providing microfinance services. Although few in number, NGOs cater to about 1.8 million clients or 30% of the estimated total number of microfinance clients as of June 2010.

1.3 Clients

Based on data from the National Statistics Office (2008), 20% or 18 million Filipinos still rely on self-provision through private wells, standpipes or communal faucets, point sources or vended water. Of those with access, more than half are still not connected to Level 3 or piped systems, which are deemed the safest and most convenient sources of water supply (WB Report, Philippines: Meeting Infrastructure Challenges, 2005). In terms of sanitation services, about 8 million still have no access to sanitary facilities and one quarter of the population is not served with individual sanitary facilities (Philippines Sustainable Sanitation Roadmap). Open defecation is still practiced by 14% of the rural population and 4% of the urban population.

Many of those not served with reliable WSS services come from the poorest communities. The latest statistics reveal that there are about 3.9 million families living below the poverty line (National Statistical Coordination Board, 2009). The Program targets communities belonging to this population group as clients.

The Program clients include unserved households, cooperatives, and associations including homeowners' groups. Households refer to families in un-served communities, which can be direct recipients of WSS services. Meanwhile, cooperatives (registered groups of member-households) and associations (either legal or informal groups) can also be recipients and conduits of WSS services to members or client households.

[5] Microfinance Council of the Philippines, Inc. Microfinance Industry Report, Philippines, 2010; Basic data from CDA, as of June 30, 2010. The estimate assumes that 80 percent of the members of multi-purpose cooperatives have loans and savings, of which 50% have microfinance loans. It also assumes that 50% of the members of credit cooperatives have microfinance loans.

[6] MCPI is an association of 47 institutions including 39 MFIs and 8 support organizations, whose total number of clients stands at about 2 million or roughly about 60-70% of the total active outreach of the sector. MCPI's mandate and function include the development of innovative approaches to effective and efficient microfinance in order to achieve goals on poverty reduction.

2. WHY USE MICROFINANCE FOR WSS SERVICES PROVISION

Absence of clean water perpetuates poverty. In this context, the United Nations General Assembly has adopted a resolution recognizing the access to safe and clean drinking water and sanitation as a human right essential for the full enjoyment of life.

The lack of access to sustainable WSS services is cited as one of the reasons for the high prevalence of water-borne diseases, now ranked as the third leading cause of morbidity and mortality in the country. The poor are deemed the most affected by lack of access to WSS as they bear greater health costs resulting from unreliable water sources, including economic losses (e.g., productivity lost from time spent fetching water as well as from waterborne diseases) and financial costs (higher costs of vended water on a per cubic meter basis[7]).

The poor will benefit significantly from having piped connections particularly in terms of access to clean water, lower cost of service, and having more time for productive activities.[8] A comparison from various sources showed that the cost per unit of piped water at about 7 centavos per gallon is the cheapest.[9] Providing the poor with safe and sustainable WSS services through piped systems, therefore, constitutes a high net welfare gain. Despite the benefits of piped water, many poor households reportedly could not afford to pay upfront and fixed connection fees and build their own sanitation facilities. In this regard, microfinance can be used to extend WSS services to areas that remain completely unserved. It can also enable poor households to get a connection in areas where there is existing service.

2.1 Constraints in covering poor communities

Many WSPs have to improve the quality of their services. Water districts, for instance, cover only an average of 40-60% of their franchise areas with a significant proportion of poor communities left unserved due to revenue maximizing considerations. The LGUs, which account for more than half of total

[7] "Delivering Piped Water on a Small Scale", Results of ADB's Water Supply Service Market Survey in Manila, October 2007

[8] Piped systems are found to be the most convenient (less time required to access water), reliable (in terms of availability) and safe (mitigates the health risk associated with unsanitary storage of water) medium of delivering water services to the household. These facilities are also found to be the most sustainable because of the relative ease of collecting user fees from the individual household connections.

[9] "Delivering Piped Water on a Small Scale", Results of ADB's Water Supply Service Market Survey in Manila, October 2007.

water supply, reportedly have coverage of less than 50% of their respective service areas. The LGU-managed utilities have to contend with political constraints, inefficient financial management, and lack of access to technical advice on WSS. They must also have the capacity to design new and expand projects especially for unserved communities. Generally speaking, the private utilities (except the Metro Manila concessionaires), cooperatives, and other independent providers tend to concentrate on those sections of their respective service areas deemed to be the most technically and financially viable.

One of the major constraints WSPs face in expanding to poor communities is the perception that the poor cannot afford to pay piped water services. Many WSPs are reluctant to serve poor communities either because they lack knowledge about them or consider expansion in poor communities to be financially unviable because of perceived inability of the households to pay water connection fees, the likelihood of default on payments for monthly consumption, or low consumption rate to the point that they pay lifeline tariffs (A Program to Expand Water Supply and Sanitation Services in Poor Communities, Philippine Water Revolving Fund Support Program, July 2009). These are in addition to issues such as lack of clear land tenure, right-of-way problems, illegal connections, and pilferage associated with these poor communities. Thus, WSPs typically prioritize service connections for more affluent areas. Because of poor regulation, they are also not compelled to expand or improve service especially in poor communities. Basic sanitation, on the other hand, has always been the household's responsibility, with toilets and septic tanks being the norm. However, not many households can afford to finance the construction of their toilets, much more those that meet environmental standards (with properly designed septic tanks).

Majority of the WDs even have amortization schemes equivalent to connection fees to ease the burden for those who cannot readily connect due to financial constraints. However, availment rates of amortization schemes have been below 50%.[10] Usually, customers borrow if they lack funds for upfront fees. In many cases, households do not avail themselves of said schemes because the amount would not be enough to cover the out-of-pocket connection costs (such as documentation expenses, cost of additional pipes connecting their houses from the distribution line, and concrete cutting cost for households located across the road from the distribution line). Another reason is the lack of promotion of these amortization schemes. In the case of LGUs, a number have provided levels 1 and 2 water systems but, being one time grants, these have not been sustainable. It is also common practice for LGUs to provide toilet bowls to communities in their jurisdictions. However, most of these have been left unused since no support has been given to install them and build septic tanks.

2.2 Microfinance: An approach to improve access to WSS services[11]

To improve access of the poor to WSS services and lessen risks perceived by WSPs, one of the innovative schemes explored and tested is the use of microfinance. Asian Development Bank (ADB) has identified provision of microloans as one of the solutions to lack of connection fees.[12] Microfinance to improve access to water supply services has also been tested under Environmental Services Project (ESP), a development program funded by USAID in Indonesia to promote better health through improved and expanded access to clean water and sanitation services. ESP engaged water utilities (Perusahaan Daerah Air Minum, or PDAMs) and local banks, including Bank Rakyat of Indonesia, the biggest MFI bank in Indonesia, to increase the coverage of water supply

[10] Based on key informant interviews with water districts conducted by PWRFSP

[11] Philippine Water Revolving Fund Support Program. Microfinance Program for WSS, June 2011.

[12] McIntosh, Arthur C. Asian Water Supplies: Reaching the Urban Poor. Asian Development Bank, 2003. Aside from microloans, the study also identified other solutions to lack of connection fees as follows: (a) spread out payments over several months; b) labor participation; (c) extend grants where town councils supply materials; (d) welfare connections; (e) pooled investments; and (g) municipal tax compensation.

services through microfinance. Microfinance loans for initial connection fees are provided, enabling low-income households to have water connections. In addition to microfinance, other schemes used were: i) financing master meter service whereby the local water utility is responsible for the installation of a communal water meter (master meter) and the distribution network from master meter and connection to the individual houses will be the responsibility of customers; and ii) output-based aid for water connection whereby the local water utility pre-finances the installation of water connections to poor households. After water services are provided, the water utility will be reimbursed for the installation fee. These schemes have been implemented in several areas of Indonesia. A total of 15,000 households have benefited from these arrangements and were provided water connections as of December 2009.[13]

Similarly, a partnership between Centre Regional pour l´Eau Potable (CREPA), a regional NGO, and SODECI, the public water utility in three neighborhoods of Abidjan, Côte d'Ivoire, was forged to enable 300 poor households to connect to the water utility network by providing microfinance.[14] The United Nations Development Programme (UNDP) provided a grant to CREPA to finance the full amount of the connection fees of the 300 households (USD36 per household). CREPA also provided capacity-building activities intended to mobilize household savings to pay the loan and monthly water bills. The loans extended by the NGO were repaid in 17 months. The successful program has been replicated in other areas in Côte d'Ivoire. There is also an example of how enterprise loans are used to increase access to WSS. In Lomé, the capital of the West African country Togo, microfinance is used to facilitate the implementation of household water points, using shallow boreholes and rainwater harvesting tanks. These cost USD3,000 and USD1,000, respectively. Households with boreholes sell water in bulk or by bucket, generating revenues of USD1 per cubic meter for bulk water, and 20 cents for a 10-liter bucket of water. About 90% of households repay their loans using proceeds from sale of water (Netherlands Water Partnership, 2007).

Along these lines, the Ecological Management Foundation (EMF) established the Micro Water Facility (MWF) to help entrepreneurs and businesses develop and provide affordable and sustainable products (water in particular) to the bottom of the pyramid market. MWF helps Dutch enterprises and project organizations to develop business plans and create partnerships with development organizations, investors, and donors. As an organization, MWF focuses on the following: i) service provision with a focus on the initial stages of the business development process; ii) an independent and not-for-profit business orientation; and iii) professional management deeply rooted in the appropriate technology community.

The microfinance industry in the Philippines is an active player in addressing poverty and health issues. Having the common objective with WSPs to improve the social and economic status of poor communities, the industry envisions microfinance for WSS as a tool to improve the lives of many households in the country. WSPs recognize the need to improve service provision in poor communities within their jurisdictions. MFIs, on the other hand, are familiar with the consumption patterns and financial requirements of the poor. Their operations thrive on addressing not only the financial needs of the poor, but more so, on the values inculcation initiatives they undertake to enhance the dignity of the poor. This is particularly emphasized in the group or center-based values education being adopted by MFI-NGOs.

The MFIs' wide reach, operational flexibility and strong presence in the poor communities are definitely an advantage in designing programs that will cater to the poor. Embarking on WSS programs will enable the MFIs to work for social performance and realize their mission of improving the quality and appropriateness of financial services and creating benefits for clients. Together, the WSPs and the MFIs can jointly harness their respective areas of expertise and competence in providing safe water supply to poor communities.

[13] Funding the Flow: Micro Credit Finance for Water Connection, ESP, USAID, 2009.
[14] Kouassi-Komlan, E. and T. Gnagne, 2005 in Microfinance for Water, Sanitation and Hygiene, 2007.

2.3 Benefits of pursuing microfinance for WSS

Stakeholders stand to benefit from the partnership program for WSS. ESP in Indonesia has summarized the gains as a triple win case for the MFI, water utilities, and their clients (see Box 1).

The apparent benefit for the water utility was the increase in its customer base, which translates into increased revenue and improved service coverage. The program also protected the utility's cash flow. With the MFI taking on the responsibility of providing loans for connections, the utility was able to free up its resources for an amortization scheme for its customers. The program also protected the utility's cash flow by minimizing outlays for connection costs in instances where the customers agreed to finance some or the entire tertiary pipe network through credit from the MFI. This arrangement allowed the community to have access to piped water without requiring the utility to pre-finance the distribution network. The program has also helped the utilities achieve their objective of providing water services to poor communities.

Box 1. Triple Win Case for Microcredit and Water Supply

Source: Environmental Services Program, Indonesia, USAID, December 2009

For the local banks, the benefit is in the form of new customers, which ultimately results in more loans and more interest revenues. As part of the arrangement, customers are required to open a savings account with the MFI, enabling the bank to promote its services and generate more deposits. Some utilities also opted to keep their primary deposits and revenue stream and have placed sizeable deposits with the MFI. Moreover, if the utility and the MFI agreed to channel water bill payments through the MFI as well, this provided yet another source of short-term funds. The customers benefited significantly from getting piped connections particularly in terms of:

a) lower cost of water (they previously paid five to 10 times more per liter than those who have a utility connection);
b) health benefits of improved access to clean water (reducing exposure to diarrhea and improving hygiene and sanitation); and
c) access to formal banking services.

Results of a post-project survey conducted among recipients of a WSS program jointly implemented by the USAID and Rotary International revealed the following tangible benefits for customers from connection to piped water services:

	Before the Project	With the Project	Benefits
Average monthly water consumption (per household)	13 bidons (or jerry can)(7.8 cubic meters)	About 25 bidons (15 cu. m.)	About 12 bidons (7.2 cu.m.) more water consumed
Average monthly expenses for water (per household)	PHP468.00 – 540.00 (PHP5,616 – 6,480 per year)	PHP188	Savings of about PHP 280.00 – 352.00 (PHP 3,360 – 4,224 per year)
Average time used in fetching water	45 minutes per day	Nil	45 minutes per day saved; more study time for school children
Percent of households which treat their water	64% in Lumayang and 94% in Lumbangan	No treatment required	Time saved in treating water; access to better quality water
Hygiene practices	Washing of hands in a basin of water with soap	Washing of hands in running water with soap	Better hygiene practices
	School children have to fetch water to wash their hands and flush toilets	School children have access to water for hand washing and flushing toilets	

Source: Final Grant Project Report, Water Supply Project for Barangays Lumbangan and Lumayang in Zamboanga City, July 2011

2.4 Limitations of Microfinance in Improving Low Coverage

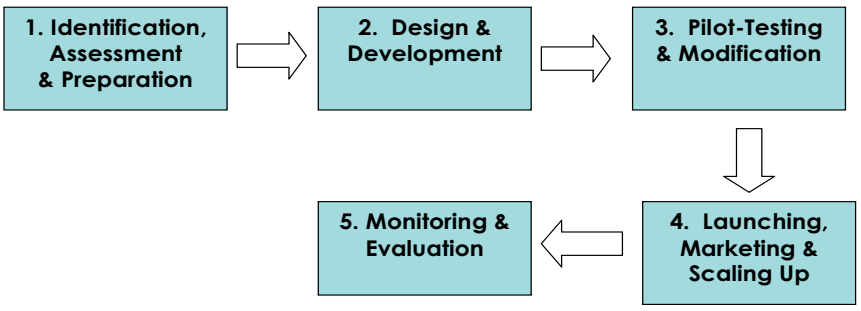
The WSS sector is beset by a number of interrelated challenges. The inefficiencies and the sector's inability to respond to the growing needs of the population are brought about by the weak and fragmented regulatory framework, huge financing gap, inadequate support resulting in low performance levels, low tariffs and cost-recovery level, low LGU awareness and lack of political will to improve WSS services, among others. To address these problems would require substantial resources, changes in policies governing the sector possibly through legislation, and strong political will to compel performance among WSPs. As an innovative scheme, microfinance for WSS can only improve service coverage in low-income communities covered by the partnership arrangements between MFIs and WSPs. Moreover, this is generally not an approach that reaches the poorest of the poor given that, more often than not, they face land tenure issues that restrict the installation of a household water connection. Also, it is important for partnership arrangements to consider the size of the entire market, which is very likely to include even those approaching lower-middle income status.

There are plenty of opportunities for the relevance and promotion of the microfinance program for WSS. For one, there is high consumer surplus. This approach will improve access to clean water, generate savings (cost per unit of piped water has been established to be the cheapest), and save time in fetching or waiting for water, which translates to more time for productive activities. Providing the unserved, especially poor communities, with safe and sustainable WSS services through piped systems, therefore, constitutes a high net welfare gain and will bring about social and economic benefits to the community. There is also willingness to pay for good services. Surveys conducted under PWRFSP's grant projects reveal that clients are willing to pay for or invest in improved services considering the financial and time savings and health benefits from these services. WSS services being offered are within the coverage of microfinance operations, for instance, the lifeline tariffs are still within 5% of the lowest income bracket and required loans for WSS are within their ceilings. There is also a huge upside for service expansion in view of the country's growing population, expanding housing requirements and considering the number of households and communities that have yet to be served. Thus, once rolled out, the Program can make a difference in improving the service coverage of WSPs and uplifting the lives of the unserved population.

3. DEVELOPMENT CYCLE OF A MICROFINANCE PRODUCT FOR WSS

This section focuses on the development of a microfinance product or program for WSS by MFIs. It is highly encouraged that the MFI partner with a WSP in developing and implementing the microfinance program for WSS (see complementing roles and responsibilities of MFI and WSP partners in Table 3 in Section 3.2.3). Before product development, it is a prerequisite that the MFI identify a potential WSP partner in its service area. A preliminary meeting is recommended to assess the potential WSP partner's interest. Some WSPs may have internal amortization programs that are open to unserved households needing financial assistance for connection, thus, may have little interest in engaging in a partnership arrangement with an MFI. When the partnership is secured, both will be able to provide the necessary inputs in developing the appropriate program or product for their clients.

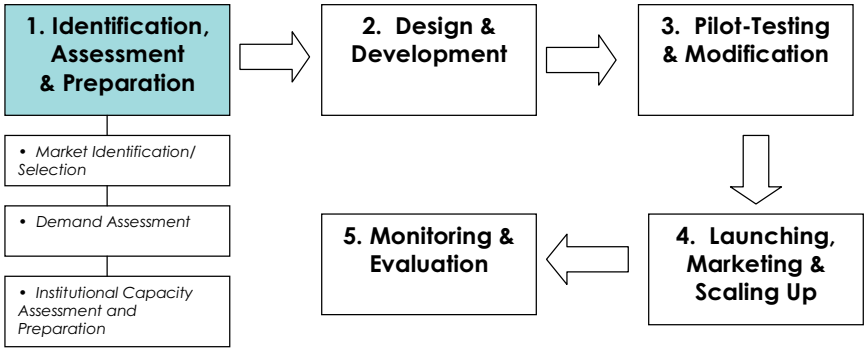
The Guide adopts the product development framework in developing microfinance products for water supply and sanitation services being promoted by the Microfinance Council of the Philippines Inc. (MCPI). [15] This section describes the steps, methodologies, and requirements in developing WSS products targeting poor, unserved communities. The process follows the steps below:



[15] MCPI adopts the product development framework introduced by MicroSave. The Guidebook draws heavily from the processes contained in The MBP Guide to New Product Development developed by the Microenterprise Best Practices Project with ACCION International, Bureau for Global Programs, Center for Economic Growth and Agricultural Development, Office of Microenterprise Development, USAID, August 2001.

3.1 Identification, assessment, and preparation

The first stage in the process involves the identification and evaluation of the target market for the program, assessment of institutional capacity to carry the proposed product and preparation for its development once buy-in has been generated from the management and concerned MFI and WSP units.



3.1.1 Market identification/selection

The program targets unserved households in low-income communities that have no access to reliable sources of potable water supply and sanitation services and where majority of the resident households have incomes below the poverty threshold.[16] In identifying the target sites, the WSPs can provide the MFIs with the list of unserved areas.

Another criteria that can be used in selecting target communities is the incidence of water-borne and sanitation-related diseases (such as diarrhea, amoebiasis, and schistosomiasis). The Department of Health (DOH) reports national data on "Notifiable Diseases and Deaths by Cause," which include data on diarrhea cases. Although data on the number of cases include only those seen in government health centers and do not reflect total incidence, this is a good enough proxy at present (PWRF SP. Rationalization of Public Resource Utilization for the Water Supply and Sanitation Sector: A Concept Paper, October 2010).

The required household density is also considered in the choice of the community to be covered for viability of water supply operations. Depending on the scale and type of investment, a minimum number of potential households or individual customers will be required for economies of scale, cost efficiency, and cost recovery. Table 1 below shows the minimum number of households required to recoup a certain level of capital investment in WS facilities inclusive of a water tank, master meter, distribution lines & household connections. Note that economies of scale are achieved if more households are connected.

Table 1. Estimated Number of Households Per Level of Investment

Minimum Number of Households	Estimated Cost (PHP)
100	1,690,000
200	3,180,000
500	7,650,000
1,000	15,100,000
1,500	22,550,000
2,000	30,000,000

Source: LWUA. Please refer to Appendix 4 for details.

[16] Poverty threshold is the minimum income/expenditure required for a family to meet the basic food and non-food requirements. The annual poverty threshold in 2009 is posted at PhP 16,841 per capita or PhP 84,205 per family (National Statistical Coordination Board (NSCB); Refer to http://nscb.gov.ph/secstat/d_income.asp for updates.

Other selection criteria may include:

- security of tenure of target households,
- right of way,
- topography,
- reliability and safety of current sources of water,
- distance from existing water supply facilities (e.g., source, transmission lines),
- peace-and-order conditions, and
- community leadership.

3.1.2 Demand assessment

Demand for microfinance for WSS services can be in the following areas:

- connection fees of customers,
- distribution system (pipe lines and storage tank),
- establishment of mother or bulk meters,
- establishment of a decentralized water system (with water tank, master meter, distribution lines and household connections), and
- sanitation services (toilet and septic tanks, and bath facilities).

The implementation of a situational and demand assessment of the target community will provide information on the specific customer needs and perceptions and preferences that will inform the design of the WSS product(s). The assessment will help MFIs better understand the potential environment to be covered. The following are among the key information to gather for the assessment:

- demographics,
- literacy levels,
- socio-cultural aspects,
- adaptability to change,
- current hygiene and sanitation practices,
- availability of informal and alternative sources (time, cost, and convenience),
- water consumption pattern,
- incidence of water-related diseases,
- perceptions on clean water and sanitation,
- constraints to connection/ to avail of the service,
- desired level of WSS service, and
- willingness to pay for improved service.

Appendix 2 provides a sample survey questionnaire on WSS services. The questionnaire may be modified based on the information required by the MFI and/or WSP.

The preceding information can be gathered through either one or a combination of the following methodologies:

- focus-group discussions with MFI clients and non-clients (may include dropouts),
- participatory rapid appraisal exercises (in group settings),
- one-on-one interviews and mini-surveys, or
- in-depth quantitative surveys to quantify and verify qualitative research.

Standard norms should be followed in conducting surveys including setting of minimum selection criteria and number of respondents to achieve an acceptable level of significance for the results.

Market information should not be limited to primary data alone. MFIs and WSPs themselves are valuable sources of information about the target community especially if these are part of their respective operational jurisdiction. The best sources of knowledge of the potential clients' opinions and preferences, for instance, are the frontline staff (including community organizers, loan or account officers) that have direct contact with clients. Also, WSPs often know the most about water use patterns in a community, as well as where connection charges are a problem for residents. Research from secondary or external sources like government, private institutions, or water service providers and related available market studies on WSS also provide useful data on the proposed service and the target community.

3.1.3 Institutional capacity assessment and preparation

Assessment of internal resources. The MFI must assess its capacity and the resources required to pursue the WSS product in terms of the following:

Staff skill and time: MFI staff needs to understand the WSS sector and the nature and dynamics of providing WSS services and consider these in the MFI product design and implementation. The account officers must have the necessary capacity within to implement the WSS program and market the WSS product. At the minimum, they should be familiar with the levels of water supply services, major components of a WS or a sanitation system, cost estimates and minimum requirements of WSP such as documentation and billing, among others. (Please refer to Section 3.4.5 for capacity building requirements and references on the WSS sector). Depending on its resources and of the complexity of the product, the MFI must be willing to provide training to existing staff, hire new staff, or engage an expert for the program. The MFI also has to allocate resources for the required social preparation activities of the clients. In addition, the MFI must assign staff to coordinate with the WSP for technical assistance especially during the planning and construction of the WSS facilities to be located in or extended to the target communities.

Delivery channels: The MFI needs to ensure that its existing units and branches are able to carry out the product and its partner WSP is able to provide the service. Additional resources may be needed to promote and deliver the WSS products to the clientele.

Systems: The MFI needs to evaluate its management information system (MIS) requirements to determine whether it has the capacity to implement and track the product. It may need to enhance or expand its internal systems for the WSS product. The WSS product, especially if it has non-standard payment terms or other unique characteristics that differentiate it from existing products, will require a subsidiary ledger for the transactions undertaken to track demand and analyze profitability. WSS should be treated as a regular product offering of the MFI and therefore a subsidiary ledger would be sufficient in monitoring its performance. The MFI's accounting and portfolio monitoring systems also have to be attuned in order to track and manage the WSS product.

Risk management: The risks and returns of the WSS product need to be assessed and managed through financial projections and pricing decisions. The MFI has to determine whether it has sufficient liquidity to meet demand for the WSS product and put in place risk control measures. The MFI faces credit or default risk in case the borrowers fail to pay their WSS loans. The WSP faces default risk (on water bills) and market risk (low returns due to competition) if it puts up investment on WSS facilities. These risks are identified in Table 2 Section 3.2.3.

Identification of program/product team. A cross-functional team needs to be set up to facilitate the financial, technical, and social requirements of a WSS product and move it forward. The composition and commitment of the staff and management that will develop and implement the WSS product is critical to its success. As in any other product, management makes the policy decision regarding its approval and implementation. Thus, management has to be involved throughout the development process and implementation of the WSS program. It is also important to engage the MFI's various units to facilitate coordination of the different product requirements.

The team may consist of members from various units of the microfinance organization involved in the following functional areas as applicable:

a) finance/internal control to provide financial projections, recommend pricing options, and ensure that the institution has sufficient liquidity; and undertake lending and collection;
b) operations to determine the technical requirements of the program and conduct day-to-day activities;
c) community development/social/training department to undertake social preparation, organization, and training of the target households;
d) marketing/public information for program/ product promotion; and
e) business development particularly if WSS service is developed as an enterprise to be operated by the target households.

The MFI needs to identify or designate a product champion who will be responsible for leading the team and managing the WSS program. Ideally, this person understands the product and has a strong commitment and passion to promote the new product. The team members, composed of staff from different functional areas of the organization, are responsible for carrying out the day-to-day tasks involving the product. The specific roles and responsibilities, amount and cost of time of each member of the team should also be defined.

A product team that includes a representative from the concerned WSP will provide a more holistic approach to product development and ensure that the technical aspects and WSP requirements are incorporated in the product design.

Promoting institutional buy-in. The first task of the team is to promote buy-in for the WSS product within the MFI. To generate acceptance and gain internal support, it is important to show how the product supports the MFI's strategic vision. Key messages to generate buy-in may revolve around the following:

- Microfinance, as a poverty reduction tool, is able to support activities that address the health and social issues confronting the low-income sector.
- Improved access to safe and sustainable water and better sanitation facilities will provide clients, particularly women and their families' convenience, safety and dignity and free up their time for more productive activities.
- Microfinance can facilitate access to clean water supply and improved sanitation services and bring about not only health but also financial benefits to clients (including lower cost of water and lower morbidity resulting from poor hygiene and sanitation).
- Increased accessibility to clean water and household sanitation facilities addresses health and economic issues particularly affecting poor women and children.

Approaches for achieving buy-in can include briefings and orientation seminars during formal meetings, planning and monitoring sessions (see Annexes A-D for actual experiences).

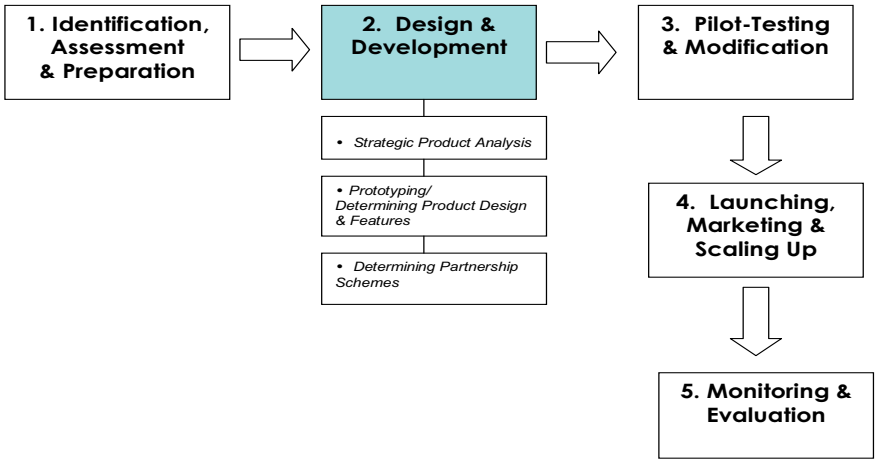
Preparing program/product team. The MFI WSS product team should be ready to undertake their respective roles relative to the implementation of the program. Workshops and training sessions, preferably with water utility staffs, can build an understanding of the technical, financial and operational aspects of the WSS services.

For MFI staff, training sessions can include basic understanding of the WSS sector and program features, cost estimates, roles and responsibilities of parties involved, application and approval process, and credit recipient management. Other capacity building requirements for MFI staff include the following:

- conduct of market study
- WSS product development/ program design and implementation
- social marketing and preparation of clients
- community mobilization for sustained use and management of WSS facilities

For the WSP staff, training sessions should include basic understanding of microfinance, program promotion, technical feasibility survey, and budget and credit estimation.

3.2 WSS program/product design and development



3.2.1 Strategic product analysis

The MFI needs to assess how the proposed product complements and affects them in terms of the following aspects: [17]

a) core competency of the institution
   - Are the clients part of the MFI's existing target market?
   - How will it affect existing methodologies – social preparation, trainings, service provision, loan or bill collection?
   - Will having a WSS program or product require additional or new staff skills?

b) competitive strategy (position in the marketplace)
   - Will it focus on a niche market to serve the needs of a specific client base?
   - Will it be part of a particular portfolio, service or product line, or a special one?
   - How will it affect existing product features, such as interest rates?
   - How will it compete with or complement similar products in the market?

c) financial consideration
   - How will the product affect the MFI's profitability, liquidity, and other financial performance indicators?

d) social results
   - How will a WSS product affect or complement the MFI's or WSP's mission and goal?

The above analysis should help the institution determine whether WSS service is a good fit and complements or enhances the institution's strategic vision. If it does, the MFI and WSP then needs to identify the resources needed to pursue the WSS product. If it strays from its vision, then it can either abandon the idea for the time being or refine or modify it, possibly by incorporating it into an existing product.

[17] Based on guidelines for evaluating product fit from the "The MBP Guide to New Product Development", Microenterprise Best Practices Project, ACCION International, Bureau for Global Programs, Center for Economic Growth and Agricultural Development, Office of Microenterprise Development, USAID, August 2001.

Box 2
Suggested Forms of WSS Products

MFIs indicated that loans for water supply connection and loans for sanitation projects can be part of their existing housing loans or multipurpose or consumption loans for those which have no current housing loans. The sanitation loan of Tulay sa Pag-unlad Inc. (TSPI), for instance, is part of its housing loan program. Others indicated that such loans may be an add-on incorporated in the clients' existing business loan. Many said that it would be easier for them to lend for WSS to clients with a proven track record. However, a number of MFIs surveyed also noted that they could consider lending to new clients for as long as they are organized and risks are shared with the WSP or other relevant entities.

3.2.2 Prototyping/determining product design and features

A prototype will be designed based on the results of the market and demand assessment. The design and features of the WSS product will be tailor-fitted to the needs and preferences of the poor households. Loan sizes, terms and conditions as well as repayment frequency should match the income levels of clients and the requirements of the WSP as well as the process for obtaining the service connection. The MFI's social mission is also a significant factor in the design of the product. As in any other MFI product, the cash flow of the households shall be used in determining the amortization scheme for the WSS loan. In addition, the MFI needs to map out the operating logistics and procedures for the product including the required human resources and information systems and verify policy (legal and regulatory) compliance of the product design. The MFI needs to conduct financial analysis to finalize the prototype design (see Section 3.2.3 and Appendix 4 for the indicative average costs of the various models). [18]

Based on the above, the MFI has to determine the following:

- price (interest and fees); term or maturity;
- size of loan;
- repayment period;
- repayment incentives or penalties;
- guarantees;
- distribution (schemes and channels); and
- other product features.

[18] The indicative costs in Section 3.2.3 pertain to capital requirements only. The financial analysis for each model should also include costing for the following: a) cost of personnel expenses; b) power cost for pumping; c) water treatment cost as applicable; d) maintenance of the facility; and e) administrative and general expenses. Refer to Appendix 4 for details.

Box 3
Loan Features of
TSPI's Toilet Loan Program

TSPI's vision is "to see people live with dignity, sufficiency and responsibility, demonstrating this through love and service in their community." Consistent with this vision, it has provided social development loans for education, healthcare, housing and sanitation, and micro insurance purposes. These loans are afforded lower interest than the livelihood loans, which are charged 3% per month. Features of its toilet loans are as follows:
Terms of the loan:

- focused on the construction or repair of toilets
- worth PHP5,000 to PHP100,000
- with 6-18 months payment term
- 1.5% interest rate with prompt payment discount (half of interest on regular loans)
- extends credit life insurance and micro-insurance benefits
- offered to TSPI clients with at least one-year membership in the livelihood loan program
- mobilizes local manpower for construction works
- implemented in partnership with local foremen and hardware stores

3.2.3 Determining partnership schemes

The product features and design will also be determined by the type of partnership arrangement to be forged between the MFI and the WSP.

This Guide proposes five schemes for MFI and WSP partnership. [19] The selection of the appropriate scheme will depend on the needs of the community and the scope of the water service. In particular, two models are proposed for communities with existing water service facilities: either access to the distribution system or proximity to a transmission line that can feed to a bulk supply meter. Two other models are proposed for communities (such as far-flung rural or island barangays) that do not have any access to the WSP's centralized water supply facilities. A fifth model caters to basic household sanitation facilities.

Discussed below are the typical scenarios and description of the scheme and the partnership arrangement.

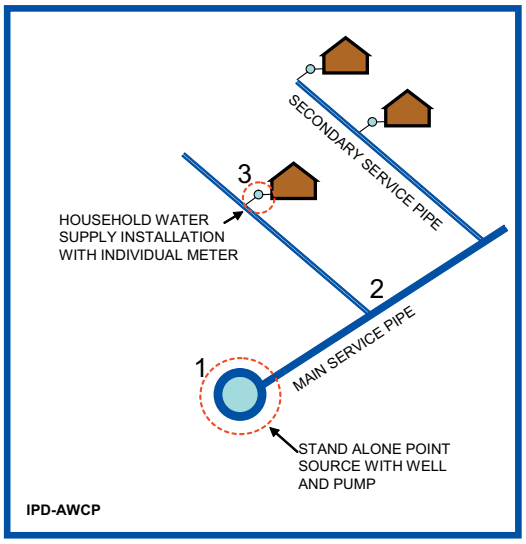
Communities with access to existing water supply facilities

Model 1: Individual connections for piped water supply

Scenario: The water service provider has laid out the distribution network in the community, but not every household has applied for a connection (see Figure 2). The WSP charges an upfront fee for the connection, currently ranging from PHP3,000 to PHP5,000, inclusive of the water meter, piping from distribution main to water meter base, and some deposit that is retained by the water utility for as long as the connection is active. In addition, households need to fork out PHP1,000-2,000 for pipes and laterals from the water meter to household faucets. Hence, the initial cost can be as much as PHP4,000 - 7,000 (see Appendix 4 for the detailed average cost estimates).

[19] Based on surveys and key informant interviews conducted by PWRF-SP to assess the interest of water districts (WDs) to engage in partnership arrangements with MFIs to expand WSS services to low income communities (see Appendix 3 for a summary of the survey and interview results).

Figure 2. Model 1 - Establishment of Individual Connections



Partnership Arrangement: This is relatively the easiest partnership arrangement because the facilities are in place. This partnership will be attractive to WSPs that cannot afford to offer an amortization scheme for service connections. The salient points of the partnership arrangement are described below:

- The WSP provides the MFI with the list of areas with unserved households.
- MFI scopes and conducts marketing assessment. If there is apparent demand, the MFI solicits loan applications through center meetings and marketing collaterals.
- For each application, the WSP will assess the technical requirements and actual cost of applications for connections.
- Based on the results of the technical assessment conducted by the WSO and after evaluating the borrower based on established criteria for determining eligibility of the borrower, MFI finalizes the loan amount with the borrower. Loan is processed and signed between the MFI and the individual borrower.
- Loan proceeds are given directly to the WSP, which then installs the connection.
- The borrower will amortize the loans based on agreed payment options and terms. In case of default, the MFI will advise the WSP.
- In which case, the WSP will cut the service of the borrower and will not reconnect until the payment is up to date.
- In addition to the above security, the MFI may request that the WSP put up a reserve fund to partially guarantee its exposure. The scope of the guarantee is negotiated between the WSP and the MFI. The reserve fund is deposited in a trust account to ensure it is inviolable, and its use defined by the trust agreement.

For further details, refer to Case Study No. 1 in Annex A.

Model 2: Establishment of bulk or master meter for water associations (water tank, master meter, distribution lines and household connections)

Scenario: The WSP does not have distribution lines to the community. It may not be expanding to this community because of financial viability or legal constraints. As regards the latter, some municipal ordinances prohibit water service provision in informal settlements or when land ownership is in question. Because the service expansion of the water utility is unlikely, the community decides to form an association or cooperative that will raise the capital and manage the construction and operation of the distribution network. The community association then enters into a bulk supply agreement with the water utility. Hence, as far as the utility is concerned, its customer is the community association and, as such, the latter is held accountable for

the payment of monthly water consumption and for the maintenance of bulk supply master meter.

The community association is thus responsible for ensuring collection efficiency among its members, the non-revenue water after the bulk meter (e.g., leakage and pilferage within the distribution system), and operation and maintenance of the network (see Figure 3). The estimated capital cost of this model based on 2011 prices is shown below:

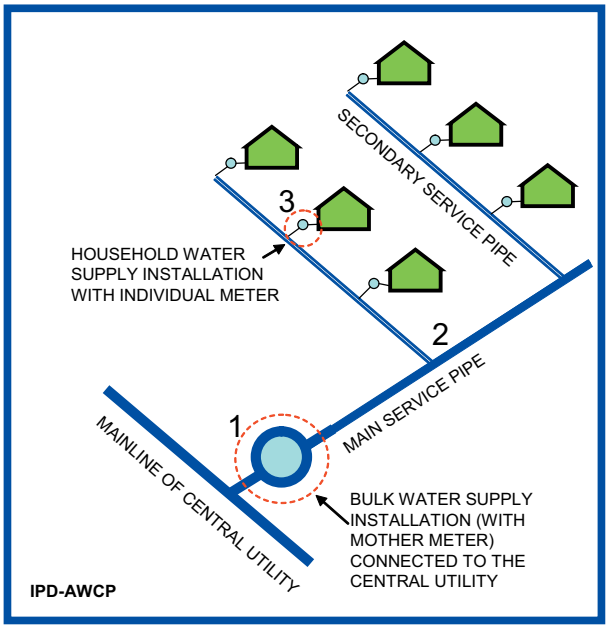
	Cost ranges (in PHP)
Water tank	22,000 to 35,000 per cubic meter (optional depending on pressure)
Master meter	150,000 to 250,000
Distribution lines	1,900 to 4,000 per meter
Household connections	3,000 to 6,000 (comparable to cost of Model 1)
Approximate cost per household (assuming about 100 households)	15,000 to 17,000

The estimated total cost of each system will vary depending on the number of households to be covered as shown below:

Number of Households	Estimated cost (PHP)	Cost per household (PHP)
100 *	1,690,000	16,900
200	3,180,000	15,900
500	7,650,000	15,300
1,000	15,100,000	15,100
1,500	22,550,000	15,033
2,000	30,000,000	15,000

*see Appendix 4 for the detailed average cost for 100 households

Figure 3. Model 2- Establishment of Master Meter for Water Associations



Partnership Arrangement: The organizing efforts may be initiated by community leaders or an NGO that could be the arm of a MFI. A cooperative set-up provides the most advantage to the community. A cooperative that is registered with the Cooperative Development Authority is a legal entity. Its governance rules engage all members in key decision making and its community ownership gives the members equal rights, as well as shares in dividends.

The partnership between the Coop and the MFI can focus on providing community members with funds for the membership fee and connection fee.

The salient points of the partnership arrangement are outlined below:

- The community, with or without the help of an NGO, organizes a water service cooperative.
- The NGO trains the Cooperative on water service operation and management.
- The Cooperative raises the funds through membership fees to fund the distribution network.
- The new members will be charged the same entry fee, which can be used to provide rebates to the old members or re-invested in new facilities, such as expansion of the distribution network.
- The MFI will have loan agreements with individuals but the loan proceeds will be remitted directly to the Cooperative, which then installs the connection. [20]
- The borrower will amortize the loans to the MFI based on agreed terms. In case of default, the MFI will advise the WSP.
- In which case, the WSP will cut the service of the borrower and will not re-connect until the payment is up to date.

For further details, see Case Study No. 2 in Annex B.

Communities without access to existing water supply facilities

Model 3: Establishment of water stations/kiosk

Scenario: The community has no connection with the formal water service provider. This is typical of far-flung areas, or places where physical infrastructure cannot be built because of the high density of housing. However, it has access to point sources such as household shallow wells, which can be used for general cleaning and washing. Nevertheless, the community still needs drinking and cooking water. Under this model, community entrepreneurs establish an agreement with the service provider to supply them regularly with drinking water. They would then set up a water kiosk to sell water to the community. The estimated capital cost of the water kiosk is as follows:

	Costs ranges (PHP)
Stainless water tank	35,000 to 50,000 (5 m3)
Water outlets with valve (3 units)	10,500 X 3 = 31,500
Building structure (2.5m x 2.5m floor area)	75,000
Water meter	3,000
Connecting pipes	38,000
Total cost *	182,500

* See Appendix 4 for the detailed average cost for a water kiosk.

[20] The amount of the loan remitted to the Cooperative by the MFI may not necessarily be equivalent to the total investment requirements of the bulk meter and reticulation system. Some members can upfront their connection fees; others may borrow for both their connection and membership fees which will form part of system's capital investment.

Partnership Arrangement: The community entrepreneurs get an MFI loan for the investments for the water kiosk. It also enters into a purchase agreement for the regular supply of potable water from the water utility. For a detailed example, see Case Study No. 3 in Annex C.

Water Kiosk operated by Isabela City Water District

Model 4: Establishment of a decentralized water system through a water association with partial grant funding

Scenario: The community is far from the central facilities of the water utility. It would be costly to extend the transmission line from the main water source to the community. However, there is a viable water source within the jurisdiction of the community. The community organizes an association or cooperative to establish a water supply system. It requests funding from the Local Government Unit or the Congressman of their district. The grant funding is critical because of the huge and lumpy capital investment for a full water supply system, and especially so for sparsely populated areas.

The estimated cost of a decentralized stand-alone system is given in the table below. The cost of a water supply project is a function of the standards on which the design is based. Elevating the standard (that is, pressure, water quality, materials) inevitably increases the total project cost. Costs of facilities are normally based on in-place costs, which are established using quotations from different suppliers, actual figures from past projects, and bid abstracts from water supply contractors. In-place unit costs for all items include materials, labor and equipment utilization, transportation, contingencies, contractor's overhead and profits, bonds, taxes, and insurance.

Table 2. Estimated Cost of a Decentralized Stand-Alone System

Items	Cost (PHP)	Items	Cost (PHP)
Well drilling	22,500/m of depth	Service Connections (12-20mm)	3,300-3,800/ connection
Pipelines (50-200mm)	Class 150: 410-3,130/m Class 100: 400-1,900/m	Reservoirs: Elevated Tank Ground Tank	 35,000/m^3 22,000/m^3
Fire hydrants (75-150mm)	37,700-48,100/ assembly	Submersible pumps 3-100hp	167,000-1,752,000/ unit
Gate valves (50-200mm)	11,800-30,000/ unit	Generator Sets 25-100 KVA	772,000-1,467,000/ set
Flow meters (75-200mm)	51,000- 155,600/ unit	Chlorinators: Pressure feed gas Vacuum feed gas Hypochlorinator	 277,000/ unit 231,000/ unit 79,000/ unit

The cost per household depends on the number of households sharing the total cost, as shown below:

Number of Households	Estimated Total Cost (PHP)	Estimated Cost per HH (PHP)
500 *	11,187,860	22,300
1,000	18,600,000	18,600
1,500	26,050,000	17,367
2,000	33,500,000	16,750

* See Appendix 4 for the detailed average cost for 500 households

Partnership Arrangement: The community leaders (ideally assisted by a NGO or a similar technical assistance provider) prepare the technical studies and plan for the water system project, as well as the costs and cost recovery estimates. If the project cost is above what the community can pay for, the leaders approach their local chief executive or congressman to request for full or partial grant funding of the facility. In parallel, they organize a community association or cooperative to partially capitalize, manage, and operate the system. The entire project cost or part of it (if grant funding is available) is shouldered by the community. Community members who do not have upfront cash for the contribution/ connection fee can avail of a microfinance loan. The salient points of the partnership arrangement will be the same as Model 2. The main difference is in the availment of grant funding or materials that will add to the asset base of the community association or cooperative.

Sanitation

Model 5: Construction or renovation of toilet facilities and septic tanks for individual borrowers

Scenario: Many households in rural areas or in informal settlements do not have sanitary toilet facilities and septic tanks. Either open defecation is practised or communal toilet facilities are used. However, households aspire to have sanitary toilets of their own to ensure privacy and hygienic conditions. A pour flush toilet and properly constructed septic tank (at least two chambers and sealed bottom) will cost between PHPP7,000 and PHP10,000, depending on desired improvements such as tiling and installation of bathroom appurtenances.

Partnership Arrangement: Some MFIs have actually introduced this product as part of their housing or social loan programs. However, they offer it to existing clients with a proven track record of up-to-date repayment. Existing cases show the viability

of the product line. However, the roll-out is slowed down by targeting existing seasoned clients. The market can be expanded if an MFI partners with a water service provider, especially one with a septage management program. It is to the interest of the WSP to get more households with properly constructed toilets and septic tanks. The WSP, which does a market study of households with de-sludgable septic tanks, can pinpoint to the MFI pockets of communities where households need toilets and septic tanks. The MFI can enter into an agreement with the WSP to tie the toilet loan repayment to the water service, meaning, in case of default on the toilet loan, the water supply service will be cut off. See Case Study No. 4 in Annex D for further information.

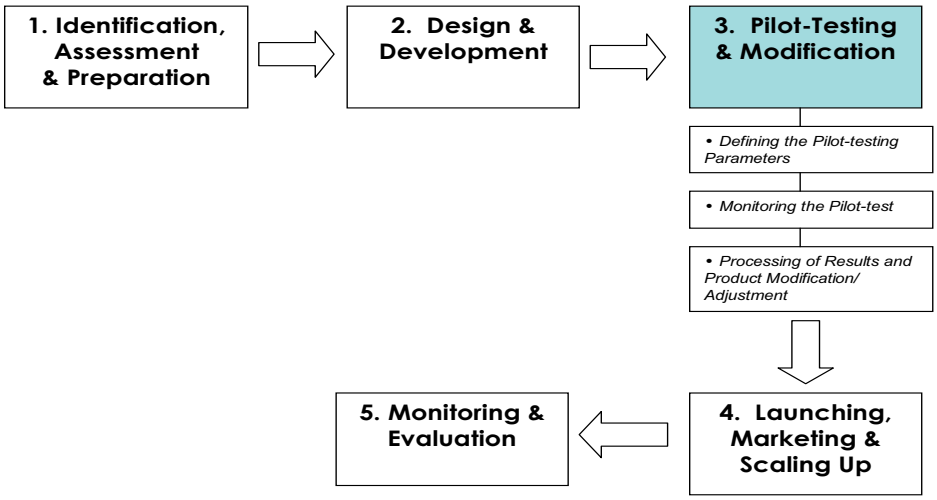
Table 3 shows the summary of responsibilities and risk sharing of all key stakeholders to the partnership arrangements:

Table 3. Summary of Responsibilities, Risk Sharing and Mitigation

	MFI	WU/WD	Water Association (WA)/ Borrower	Client/HH
Roles and Responsibilities	Conducts market survey Designs loan product Screens borrower Approves and releases the loans to the WSP Collects loan payments from borrowers	Model 1: Determines availability of water and adequate pressure Provides to MFIs the estimated cost of water supply system Installs connection Financial Guarantor/Puts up a reserve fund (optional) Model 2: Enters into bulk supply agreement Installs master meter Model 3: Provides TA to MFI on the design and cost of the kiosk Enters into bulk supply agreement and schedule of water delivery Model 4: Provides TA to the community and MFI on the design and cost of the decentralized system	Organizes HH Develops plans Consolidates individual loans and submits to MFI Collects water service payments from HHs Pays water bill to WU/WD	Joins WA (Models 2 and 4) Applies for WSS loan from MFI Pays the loan amortization to MFI Pays water bill to WA
Risks	Default on loan amortization	Call on the reserve fund	Default on water bill payments of HH	
Risk Mitigation on the part of the MFI	Close monitoring of clients Clustering of clients to facilitate loan collection (including appointment of community representative) Enforcement of group liability Deduction from the client's capital build-up and forced savings Offering incentives for on-time repayments Agreement with WSP to disconnect service of defaulting borrower Under Model 1, the WSP may be convinced to set up a Reserve Fund to partially guarantee payment of loan defaults (for example, the Fund can be equivalent to 10% of the loan portfolio)			

3.3 Pilot testing and modification

MFIs normally pilot test a prototype or new product to confirm whether its features are what the target customers prefer and to determine the robustness of demand for the product. It introduces the product prototype to a selected sample of households or clientele in the selected test site. Pilot-testing involves a systematic process and needs to be designed and structured well.



3.3.1 Defining the pilot testing parameters

To set up the pilot-test, the following critical elements should be determined:

- The combination of factors or parameters that should be tested and how they will be measured (the quantifiable goal it wishes to achieve, such as the number of people with access to level 3, level of sales, and repayment rates).
- Sample size or scale, which should be representative of the broader target market (see Section 3.1.1 for market identification). At the same time, it should be manageable so as not to make information gathering expensive or monitoring too difficult.
- The test site for the WSS product should be an unserved community, identified by both MFI and WSP, which is accessible and preferably located near the main or branch office to facilitate visits and information gathering. Pilot testing can be limited to one branch and in one target community.
- The duration of the test period will vary depending on the specific features, terms of the product and market conditions. For example, for short-term products (those with maturities of three to six months such as loans for connection), the pilot test can last from three months to a year in order to give the product development team sufficient time to analyze repayment patterns. Products with longer or more subordinated terms such as water kiosk or housing and toilet loans require longer pilot tests.

Box 4
Pilot Testing of the CCWD-ASKI's Water Kiosk Project

Based on a Memorandum of Agreement between CCWD and ASKI, both agreed to implement a community development program involving the provision of clean drinking water. The agreement stipulated the following arrangements: a) CCWD to provide the water kiosk equipment and deliver bulk treated water to the kiosk; b) community-based entrepreneurs will operate and maintain the kiosk; c) ASKI will undertake the community preparation, training, and capacity building of the kiosk operator; and d) all parties will share the revenues based on a pre-agreed scheme. This service provision model is proposed in an area where piped connection is not financially viable; where the community has point source water supply for cleaning purposes but needs access to potable water for drinking and cooking.

Under the project, CCWD will provide the following:

1. water kiosk (with two tanks and casing). This will comprise the CCWD's equity investment in the project;
2. technical assistance for the establishment of the kiosk and related facilities; and
3. advocacy/branding of the water services.

Water kiosk project is being pilot-tested by ASKI and CCWD with Bagong Sikat Center, an association composed of 100 members located in Barangay Bagong Sikat in Cabanatuan City, a site where ASKI currently operates and has existing clients. The pilot testing will be done for a year from August 2011 to July 2012. The following parameters will be tested/validated:

Success factor	Indicators
a) volume to gauge market penetration and break-even level	- level of sales - number of clients/consumers
b) profitability to determine the financial rate of return or hurdle costs	- variable cost - repayment rates - return on equity; ROI
c) productivity to measure effectiveness of leveraging resources and improving efficiency	- clients per loan officer - costs per staff
d) impact	- percentage of coverage area - time savings - increase in productivity made possible by new livelihood activities catalyzed by available potable water supply, better hygiene and sanitation practices and lower incidence of water-borne diseases

ASKI will offer a group loan of PHP50,000 to the center for site development and kiosk operation as their equity in the project. Further, as part of their equity, the center will also acquire a tricycle/vehicle for delivery, containers, and office supplies. It will also shoulder the business registration fee. The group loan will be guaranteed by the association (center accountability). This means client savings (capital build-up) will be used as payment in case of delayed weekly or monthly amortization. The loan will be charged an interest rate of 3% per month, which is the same rate for the group lending program. In case of delayed payment, 2% per month on the amount to be collected will be charged. No incentives for this specific project have been formulated by ASKI so far.

The water kiosk will be manned by association members selected from among pre-listed members as recommended by the association. Initial operation will require a marketing manager, bookkeeper and utility/delivery men.

On the distribution scheme/ channel, CCWD will deliver bulk water to the association at the standard price of PHP 15 per 5 gallons. The association will comply with this and will project certain mark up for profit. ASKI clients, such as those who manage rolling stores/mini stores can be the sub-dealers.

Results of the pilot-test will determine the final features of the association loan, product pricing, and revenue-sharing arrangements among the partners. The results will also be used as basis for expansion of the kiosk operations in nearby barangays and replication of the project in three other potential areas, identified with CCWD, which have signified interest in having the same water supply scheme.

Monitoring the pilot-test

In monitoring the pilot-test, the following should be taken into consideration:

- Who monitors? What are their specific tasks and responsibilities?
- How will the clients be involved?
- What are the key performance indicators?
- What are the reporting formats to be used?
- What is the frequency of reporting results?
- Who will utilize the reports?

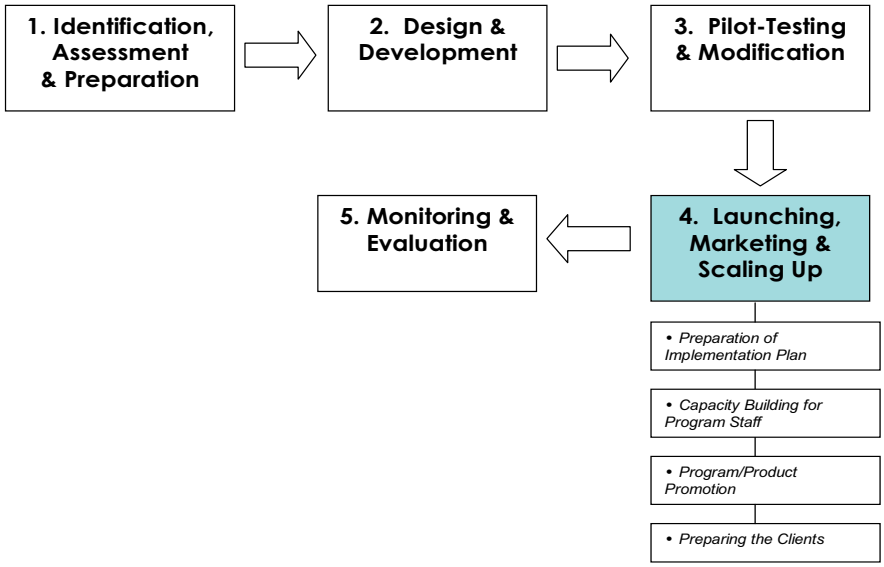
In most cases, pilot testing will require the mobilization of the product team to monitor the factor or combination of factors or parameters established to test the product. It is important that the team members understand their tasks and collect both qualitative and quantitative information at specified period(s) following agreed reporting formats. The participation of the target clients in monitoring results will facilitate data gathering and foster further sense of involvement and ownership of the project.

3.3.3 Processing of results and product modification/adjustment

Results of the pilot testing will be processed based on the success factors identified. The results will gauge the market reaction to the prototype and determine the final features of the WSS product and other concomitant arrangements, such as the payment scheme, risk-sharing arrangements, etc. Modification or adjustments in the terms and conditions of the product will be done based on lessons learned from the pilot-test.

3.4 Launching, marketing, and scaling up

Once the WSS product is established to be viable, it is now ready to be offered to the broader market. Similar with pilot testing, the MFI and its partner WSP must be fully prepared to launch the product to a larger clientele. Aside from beefing up the required staff and systems, the MFI in coordination with its partner WSP have to embark on product promotion to scale up the product.



3.4.1 Preparation of implementation plan

Aside from staff training, other requirements to prepare for the program implementation include:

- determination of the process flow (e.g., from branch equipping, marketing and promotion, loan application, loan deliberation, loan disbursement, loan collection to loan monitoring, and conduct of regular coordination meetings with the partner WSP);
- definition of system requirements and/or modifications (marketing, lending and collection process, tracking, monitoring and reporting); and
- design and creation of product applications/ forms, development of internal controls and monitoring and reporting systems.

3.4.2 Capacity building for the program staff

Enhanced training on the areas mentioned in Section 3.1.3 will be needed to consider adjustments in the program/product design after pilot-testing and to prepare for implementation at a broader scale. The following training areas are recommended:

- program promotion, social marketing and preparation of clients
- community mobilization for sustained use and management of WSS facilities
- development of internal controls
- definition, enhancement and/or modification of tracking and reporting system requirements,
- program monitoring and reporting.

For further information on the WSS sector, MFIs may refer to the following documents:

Department of Health. Philippine Sustainable Sanitation Roadmap, April 2010.

National Economic and Development Authority. Philippine Water Supply Sector Roadmap (second edition), 2010.

Philippine Water Revolving Fund Support Program. A Program to Expand Water Supply and Sanitation Services in Poor Communities, July 2009.

Philippine Water Revolving Fund Support Programme, Water Supply Project Appraisal Guidebook for Investors and Decision Makers, 2009.

3.4.3 Program/product promotion

Promoting the new program or product is important in building customer awareness and interest. The program team must design a marketing plan that describes the product's features and benefits to the target market. Promotion and marketing should be done by the MFI and the water utility.

In developing the marketing plan, the appropriate medium for the target audience must be considered. Advertising the WSS program or product in the newspaper is inappropriate considering that most poor households seldom read or receive the paper. Below are some promotional strategies that may be used to sell the program/product.

- Referrals - Make your existing customers your best promoters. The best way to spread the program is by word of mouth.
- Posters and signs – Posters should be simple with clear messages. Describe the program/product and its benefits and state who needs to be contacted about it.
- Brochures - Simple brochures will give potential clients enough information to decide whether they want to talk to you more about the program/product.
- Presentations and seminars - Let people know about the program/ product via local institutions or through presentations at public gatherings (preferably done by both the MFI and WSP).
- Gather testimonials from customers in the area or other areas through video presentations or flyers. This has been a proven strategy to entice more clients.

Box 5
Sample Marketing Materials

Marketing Clear Book used by Account Officers as standard marketing tool[21] for sanitation loan composed of 7 segments:

1) Introduction – "TSPI KA-PARTNER, May Dignidad!"
2) Para sa Pamilya, Kaya Nyo Po Ito!
3) Para sa Sarili, Kaya Nyo Po Ito!
4) Kayang-kayang Katuparan! (Product features)
5) Kayang-kayang Pagsusumikap! (Qualifications)
6) Kayang-kayang Pagbabayad! Payment Terms)
7) Kayang-kayang Kaunlaran!

[21] Used as presentation materials during one-on-one meetings with potential clients and loan applicants

Brochures provided to clients who expressed interest to apply for sanitation loan during the orientation seminars.

Tarpaulins and banners to promote the toilet loan program.

Source: TSPI

3.4.4 Preparing the clients/customers

Health and productivity gains associated with increased access to potable WS and sustainable sanitation can be best achieved by providing the clients with information and improved capacity to fully harness the services. Among the recommended preparatory activities include:

Social preparation of clients. This includes information, education, and communication (IEC) activities and mobilization. It starts with the mobilization of clients by forming them into groups, clusters or associations to facilitate capacity-building activities, achieve the required scale/density for viability of WSS operations and facilitate actual program implementation (lending, repayment, collection and monitoring, and reporting activities). Part of social preparation is the conduct of orientation and trainings to inform the recipients (starting with household heads and mothers) about WSS services and the available loan products to access the services.

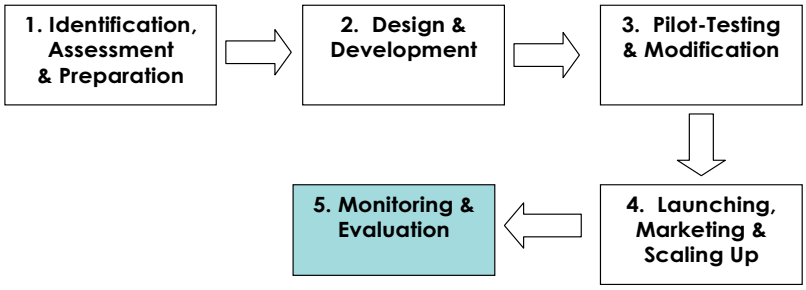
Recommended topics during orientation and trainings include, among others:

- Water, sanitation and hygiene practices and their impact on health, productivity, and environment;
- Features of the MF program/product for WSS;
- Loan application requirements and process; and
- WSS service provision/installation process.

Training on responsible water use. Once the water connection becomes operational, household heads and other customers will be trained in proper handwashing with soap, maintenance of water facilities and rights, and responsibilities as customers of water service as well as in meeting financial requirements and obligations. This will have to be done in collaboration with the water service provider.

Orientation/training on sanitation options. Household investment in sanitary toilets and bathrooms will be promoted. Aside from the available sanitation loan product, the MFI can hold trainings on sanitation to change behavior, orientations on sanitation technologies (including the correct construction of sanitation facilities, particularly of toilets and septic tanks), and proper disposal of wastewater. The MFI can coordinate with service providers of sanitary toilets (such as desludging companies), inviting them to present during the orientation seminars/training. Interested households will be linked with selected service providers.

3.5 Monitoring program implementation and results



Monitoring and feedback mechanisms are established to determine whether client needs and preferences are being met. The MFI and WSP each will have its own monitoring unit. Usually, the program/product team of the MFI and the operations unit of the WSP conduct the monitoring activities.

Depending on the user of the monitoring report, the MFI and WSP have to establish a regular monitoring period for the collaboration, as well as specify the level of detail and reporting format.

Program evaluation can be done, usually by a third party, after an agreed time frame based on applicable social performance indicators. [22]

[22] Refer to *www.themix.org/social-performance/Indicators* for the menu of indicators

For WSS products, the following are examples of what may be monitored:

Area of Performance	Definition	Key Indicators
Functionality of the system	Measures the quantity (and the quality) of water services	- number of connections established - number of communities, population or households serviced - compliance with safe water and environmental standards - availability of water per day - increased system pressure
Efficiency	Measures the extent to which resources are appropriately used and recovered	- number of connections/total cost - non-revenue water - systems losses - production capacity utilized - collection efficiency - operating ratio - clients per loan officer - costs per staff - variable costs per loan, repayment rates, return on equity; ROI
Effectiveness	Measures the degree to which services affect outcomes and impacts	- perrcentage of coverage area - decline in waterborne diseases - decline in morbidity or morality rate - time savings - increase in productivity through new livelihood activities catalyzed by available potable water supply, better hygiene and sanitation practices, and lower incidence of waterborne diseases
Sustainability	Indicates how the services can be maintained and supported by the project's operations	- increased reliability of services (days of continuous service and decrease in number of breakdowns) - customer satisfaction

4. PROMOTING PARTNERSHIPS FOR WSS PROVISION

4.1 Entering into partnerships

Partnerships among MFIs and WSPs can facilitate the provision of sustainable WSS services. These partnerships can complement the areas of competence of each service provider: MFIs for social preparation, capacity building and credit to establish connection to WSS, and WSPs for the technical expertise in the design and provision of WSS services.

Before entering into partnerships, both the MFI and WSP should conduct an assessment of its potential partner and determine its interest in engaging in the program. A preliminary planning meeting with potential partners will serve as a starting point for the assessment process.

The conduct of due diligence is a must in partnership arrangements. Partners must be assessed based on the following:

Areas to Assess	Water Utility/WSP	MFI
Status of the Entity	- licensed WS operator	- registered MFI with either BSP, SEC or CDA
Management	- understands the basic concept and role of micro credit in reaching unserved areas	- understands the rationale for venturing into WSS program and agrees to implement the microcredit program for WSS
Experience/ Performance	- track record in providing WS - service performance based on industry KPIs - Is there idle production capacity?	- track record in providing microfinance services (preferably has existing lending program with social objectives) - credit management performance, such as low Non-Performance Loan (NPL) indicator
Target Customers/ Area	- within coverage area/jurisdiction - status of existing infrastructure within those areas - Does the utility have a waiting list of potential customers?	- existing or potential clientele
Resources for Service Provision	- availability/capacity of staff in terms of number and competence/ skills to cover target area - delivery channels - systems and procedures in place - risk management - training capacity and procedures - financial resources	- availability/capacity of staff in terms of number and competence/skills to cover target clientele - delivery channels - systems and procedures in place - risk management - training capacity and procedures - financial resources

4.2 Defining roles of partners

The MFI and the water utility have to agree on their specific undertakings. The roles may vary depending on the type of partnership arrangement chosen by both parties. Among the general roles and responsibilities are as follows:

MFI:

- Provide counterpart staff to plan and manage the conduct of activities under this collaboration;
- Organize/cluster recipient households;
- Conduct the required social preparation and training activities for the community and/or recipients;[23]
- Organize and manage the conduct of seminars and other capacity-building activities for clients and its counterpart staff who will be involved in the program as needed;
- Extend financial services to potential clients applying for funds for WSS services according to the cost assessment of the water service/sanitation provider and based on its existing loan terms and conditions; and
- Monitor and evaluate program performance.

WSP:

- Assign staff to undertake the activities under the program to collaborate with the MFI partner;
- Assess, recommend, and provide details on the financing requirements of prospective recipients as basis for their loans from the partner MFI;
- Provide technical assistance and direct cost (as agreed) in the installation of the required water supply facility;
- Ensure the delivery of water supply as per volume required or requested by the community or associations (for bulk meter/water kiosks);
- Provide a guarantee by imposing sanctions, such as the temporary discontinuation of water services to recipients (both individuals and associations) with overdue installment payments, and the disconnection of official pipes for any customer with unpaid installment payments as may be agreed with the MFI partner; and
- Collaborate with the MFI in program monitoring and evaluation.

4.3 Formalizing partnership agreements

When both MFI and WSP agree to embark on a partnership, the next step is to formalize the partnership arrangement. Both parties must agree on the scheme or model to be implemented based on each scheme or model's requirements. The conditions of the partnership should be embodied either in the form of a memorandum of agreement or a memorandum of understanding or a more legally binding contract duly notarized by a legal entity. The agreement should contain the following information:

- Description of the Project/Scheme (refer to the models in Section 3.2.3)
- Contracting Parties (MFI, WSP with the association or cooperative as applicable)
- Purpose/Objectives – what the project intends to undertake and achieve
- Definitions – what key words mean
- Scope – area covered and services rendered; general description of the types of products to be provided
- Timeframe – duration and effectivity
- Terms and Conditions – spells out requirements from each partner (for example, equity contributions, opening of accounts, etc.)
- Roles and Responsibilities – who does what (refer to Table 3)
- Key Performance Indicators/Performance Measures and Targets – how they are calculated, when the project will be completed, etc.

[23] MFI-NGOs, in particular, are recognized to have the advantage in community organizing and capacity building. However, not all MFIs have funds which can be allocated for these activities. Some MFI-banks and NGOs can tap their social development funds for capacity building of existing clients for the program. MFIs may link with development NGOs, donors or LGUs for social preparation activities.

- Performance Monitoring, Review and Reporting –who, how, when
- Dispute Resolution –who, how, when
- Modification – causes, how, when
- Termination – causes, how, what happens

It can also be useful for Standard Operation Procedures (SOPs) to be attached to the agreement and amended as needed.

Appendix 5 shows an example of a partnership agreement.

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ANNEXES

A. Case Study No. 1: Environmental Services Program (ESP)
B. Case Study No. 2: IPD's Last Mile Water Infrastructure Program
C. Case Study No. 3: ASKI-CCWD Water Kiosk Project
D. Case Study No. 4: TSPI's Sanitation Loan Program for the Poor

A. Case Study No. 1: Environmental Services Program (ESP) [24]

Introduction

The USAID-funded Environmental Services Program (ESP) in Indonesia spearheaded the Micro Credit for Water Connection program. ESP ran from 2005 to 2010. During that period, it developed a partnership arrangement between water utilities and domestic microfinance institutions to fund household water connection charges. The objective is to provide poor households, which generally cannot pay in cash, access to micro credit that allowed them to amortize the fees over a period of time, thus ensuring affordability.

What was the situation before the project?

About one-third of Indonesia's population does not have access to safe water supply, and in urban areas less than 40% have piped connections. Most of the water utilities in the country (referred to as PDAMs) have service coverage that varies widely, that is, anywhere from 10% to 80%. Connections are not maximized even in areas with water supply facilities, mainly because of the required upfront charges. Several utilities have in fact offered installment payment for new customers, but because they rely on their internal finances and it is not acceptable to charge interest, such programs tend to weigh down a utility's cash flow. Further, when such programs are offered, their duration is generally limited to 6 to 12 months, with a 50% payment due upon signing. Meanwhile, the customers pay more for alternative sources, either in terms of financial cost, productivity losses due to hours fetching water, or both. Thus, ESP sought alternative financing strategies to fill the gap in the form of microfinance institutions (MFI). However, the market for household water connection financing was relatively unknown to MFIs, and unlikely to develop on its own. In the same vein, PDAMs are not knowledgeable about MFI services. Hence, there was a need to establish the connection and facilitate the partnership between them. Only when a partnership is formed between the PDAMs and MFIs can the approach of utilizing microcredit for household water connections be realized. Without such partnerships, MFIs cannot offer microcredit to potential customers of water utilities. And without the MFIs, water utilities cannot provide loans to potential customers.

Market/demand assessment and institutional preparation

The demand analysis for the program involved talking to PDAMs, MFIs, and pilot communities. ESP worked with a selected list of PDAMs that were receptive to innovative financing schemes and with four local commercial banks that were interested in developing a new product. In the case of Bank Rakyat Indonesia, one of the four banks, an existing product was actually adapted. ESP first conducted an assessment study of a previous partnership between a water utility in West Sumatra and the local BRI office. Based on this assessment, it concluded that the scheme was replicable in other areas with some degree of adaptation. It then replicated the approach in new cities between a water utility and BRI. Discussions included designing the partnership arrangement, identifying risks and how these can be mitigated.

The preparation for the partnership of PDAMs and MFIs included orientation on each one's area of service to foster familiarity with the business and operating standards. In the process it was also important to establish mutual trust in the work and expertise of the other. The partnership must be documented and legally protected by an agreement that sets the scope of the cooperation, rights and obligations of both parties. The agreement must also contain procedures to resolve future conflicts.

[24] The case study was lifted from 2 reports of the USAID's Environment Services Program, namely: Guideline on Micro-Credit for Water Connections and Micro Credit Finance for Water Connections, 2009.

The development of the microcredit for water connection scheme followed the process below:

Step 1: Assessing Potential of Prospective Partners	Step 2: Formalizing Cooperation Between the Water Utility and the MFI	Step 3: Preparing Human Resources and Logistics Startup	Step 4: Promoting the Micro Credit Scheme	Step 5: Monitoring and Evaluation
The water utility should familiarize itself with the capacity of the prospective MFI partner and vice-versa. Knowing the potential partners can help minimize obstacles at a later date.	Partnership between the utility and the MFI for the microcredit program should be laid out in legally-binding cooperative agreement	Preparing staff in the water utility through various methods, including intensive awareness and training programs.	The water utility and the bank promote the micro credit scheme to potential customers based on an appropriate promotion strategy.	The parties will monitor implementation issues. Continued troubleshooting as new issues arise is done to ensure success. Lessons learned are culled to improve next programs.

Product design and development/prototyping

The model for the partnership agreement is described below:

Step One:
Submission of customer's application

The potential customer submits a request to the water utility for a new household connection. There is no difference here from the normal connection process, except that PDAMs with microcredit programs would generally provide this option in the application forms they issue.

Step Two:
Technical survey and recommendation letter

A technician from the water utility visits the customer's house, surveys the existing infrastructure, and calculates the total cost of the connection. For a standard installation, the applicant would normally visit the water utility's main office and directly pay for the cost in cash. For a connection using credit, however, the technician provides a letter of recommendation on behalf of the utility stating the cost of the connection and certifying that the individual is a utility customer. The applicant then uses the letter to apply for the loan.

Step Three:
Loan application

The potential customer completes an application from the water utility's partner microfinance, which includes the letter of recommendation from the water utility itself. The application is usually completed in one of three places: (1) at the closest bank branch, (2) at the water utility, or (3) during a promotional visit to their neighborhood. Regarding the second and third options, there have been numerous cases where the MFI regularly sends one of its staff to the water utility to process applications on the spot or joins the utility staff on a promotional visit to a specific neighborhood. Both options greatly ease the administration process.

Step Four:
Loan review and approval

The local bank reviews and approves or denies the loan. This process generally includes a visit to the applicant's home to verify the address and conduct a brief assessment of the applicant's capacity to repay the loan.

Notably, all lending to date has been non-collateralized, meaning that applicants themselves are not required to agree to hand

over any assets in case of a loan default. This is a reflection of the relatively low size and risk of the loans as well as the guarantee from the water utility. Also, one key question that is often included in the bank's survey is: "What are the alternative sources of water for the household?" Those that have been purchasing water from local vendors are particularly low-risk given that they are generally paying greater amounts to these vendors, which often charge 10 times the amount of the utility per cubic meter.

Step Five:
Transfer of loan proceeds to utility

If the loan is approved, the applicant will sign the finalized loan agreement and the money will be transferred directly to the utility's current account (referencing the applicant). It is important to emphasize that the customer never receives the cash directly. This reduces the level of risk for both the bank and utility, ensuring that the money will be used for its intended purpose.

The customer is also generally required to open a savings account at this time with the respective banking partner, with the minimum balance and any administrative fees frequently capitalized as part of the loan. An indirect benefit of obtaining microcredit for a new connection, then, is the introduction of many customers to the formal banking sector. While ESP was unable to collect data for every new customer, anecdotal evidence showed that the loan for a water supply connection represented many customers' first interaction with a local bank. Importantly, numerous new borrowers also shared that they had started to put some money away little by little into their savings accounts.

Step Six:
Installation of connection

Once the utility receives the transfer of funds, it can purchase the materials and install the home's new connection. The installation can usually be completed within 2-3 days of receiving the payment from the bank. It is critical that the connection be made as soon as possible after the customer signs the loan agreement so that they can directly benefit from improved access to clean water. The leading cause of a customer missing the first installment is not their relative ability to pay but their degree of satisfaction with the service received (or, the lack thereof).

Step Seven:
Monthly payments

While the installation of the connection represents a major turning point — indeed, it is the entire purpose of the process — it is important to remember that, in many ways, it only represents the beginning of a long-term relationship between the customer, the bank, and the water utility. From the utility's standpoint, quality service and management of the billing process are essential. From the bank's standpoint, what is important is close monitoring of the customer's monthly installments to repay the loan. From the customer's standpoint, it is important to budget their household finances and time to ensure regular bill payments.

A key element to ensuring a successful microcredit program is arranging the logistics of the loan repayment process and water bill payment process. The formula is no secret: the simpler the better. No customer enjoys long trips and long lines to pay bills. ESP has encouraged banks and utilities to consider options whereby customers can pay their loan installment and water bill at the same time, whether via the local bank branch, the water utility's office, or a community collector.

Step Eight:
Loan monitoring

The final step is the regular monitoring of loans by the implementing bank unit and reporting to the central office, with particular attention paid to non-performing loans (NPLs), which are generally defined as loans in arrears for more than three months. This line of reporting must also extend from the central bank office to the utility to ensure that any accounts in arrears are addressed appropriately, including the cessation of water supply service if necessary.

Pilot-testing and modification

To facilitate a smooth program start-up, ESP employed local Field Assistants (FAs) to directly engage the MFI, the water utility, and communities on a daily basis. Initially, FAs were embedded within villages or local NGOs. In the context of microcredit for water supply, FAs proved invaluable in obtaining the momentum needed to ensure that a program could run independently. Broadly speaking, FAs had four major functions:

- Communication medium. The program requires a new level of communication between two frequently bureaucratic institutions. FAs helped bridge the communication gap by proactively engaging the utility, the bank and, as needed, the customer.

- Data, data, data. Solving problems is impossible when decision makers lack the data to make informed decisions. Particularly in achieving the first 100 connections, FAs were invaluable in tracking the progress of applications and identifying where the bottlenecks were located.

- Community organization. As with so many activities in Indonesia, installing new water connections frequently became a community activity. Particularly in areas not yet served by the water utility, it was important to conduct community meetings to socialize the availability of piped water supply and the various means of payment. These meetings are typically held in the evening at the home of the community head or in a meeting hall. The FAs played an important role in helping to organize such meetings and assisting the community members in gathering their documentation.

- Follow-up and more follow-up. Once again, when new processes and procedures are introduced to generally static organizations, delays happen, papers get misplaced, and phone calls go unmade (or unanswered). ESP's FAs played an important role in following-up such instances, providing gentle reminders to ensure that clean water could start flowing sooner rather than later.

As organizations and people adapted to the changes required by a microcredit program, ESP staff could become increasingly invisible in the processing of loan applications, gradually withdrawing from the daily involvement. To quicken the internalization of procedures and address obstacles head-on, ESP also encouraged both the water utility and bank to set up an internal microcredit team with representation from across departments. The respective teams could then meet once a month to collectively monitor progress and resolve outstanding issues.

Monitoring and evaluation

Monitoring is done by the water utility and the MFI. The concern of each after installation of the service is the payment of monthly water bills and the MFI loan. Communication and coordination with community leaders is maintained to help with peer encouragement to be up-to-date with payments. Just as important, the monthly monitoring and evaluation meetings also focused on communication between the utility and the bank in terms of getting applications processed more efficiently, new locations for expansion, promotional strategies, data sharing, and troubleshooting.

Results of the program

Through the end of January 2010, a total of 12,111 households — or about 60,555 people — were able to turn on the tap, thanks to ESP-facilitated microcredit programs. Over the course of the program, a total of 14 water utilities, including 12 public utilities and two privately operated utilities, established microcredit programs.

Lessons learned

The principal reason for the microcredit program's success in installing new connections is that each stakeholder — bank, water utility, and customer — receives tangible benefits. The implementation of the program results in a "triple win" for the parties involved.

- Benefits to the utility. The most obvious direct benefit to the utility is the attraction of new customers, which increases its service base and revenue flow. Further, the offering of the microcredit option allows the utility to fulfill its public service obligations to provide service to all citizens, including those of lower income.

- Benefits to the bank. Similar to the water utility, the first and most obvious benefit of the partnership is the addition of new customers, thereby resulting in more loans and more interest revenues. And while the size of the initial loans may be small, it is important to see them as just that: initial loans. In other words, once a new customer joins a banking institution and opens an account, there is ample opportunity for cross selling other financial services to them, be it another loan, insurance, time deposits, or similar products. Informal conservations with financial partners indicates that many banks are indeed successful at maintaining a relationship with a customer after their loan is paid off through the introduction of a new loan or another type of service. Moreover, many customers that are new to formal banking are more than happy to apply for additional credit once they have established a decent credit history with a bank given the significantly lower rates that they will pay in comparison to the informal financial services sector.

- Benefits to the customer. Volumes have been written in development circles about the importance of access to clean water. The benefits related to improved standard of living, improved health and hygiene practices, and the substantial time and financial savings are well documented. Diarrhea remains the second leading killer of young children in Indonesia, with a primary cause being unsafe water and poor hygiene and sanitation. Further, ESP's own research shows that poor households without access to tap water often pay five to 10 times more per liter than wealthier households with a utility connection. Not only is water purchased off the street more expensive, it is also of dubious quality given the various unsanitary sources used by informal vendors. And if statistics and documentation are not sufficiently convincing of the benefits of a household tap, one needs only see the smiles on the faces of those that have just received a new connection.

B. Case Study No. 2: IPD's Cooperative Model for Last Mile Water Services

The project aims to support community efforts in three urban poor sites in northern Caloocan City and one in Bacolod City towards making Level 3 water services accessible and affordable to poorer households. This is in the context of stimulating and strengthening community self-help, solidarity, and participation in local governance.

The project covers community-designed systems development and capital expenditures programs for bringing water to Recomville II (900 households), Northville 2B Phase 1 (415 households), Sitio Manggahan (350 households), and Purok Masinadyahon (225). These sites are home to mostly underemployed and poor families.

The project seeks to develop, demonstrate, and document new solution concepts in delivering quality water services in commercially unviable urban poor communities, specifically in terms of (i) community risk-taking, mobilization of capital, and self-management through a community water service cooperative entering into sub-distribution business partnership with the central water utility; (ii) regulatory support and performance-based capital grants by local governments to community water service cooperatives, and (iii) co-financing schemes and building-up of water revolving funds for capital expansion and technical support funds for community capacity-building.

Situation before the project

About 12% half of the Philippine population is served by the private concessionaires of the Metropolitan Waterworks and Sewerage System (MWSS) in the National Capital Region and its environs. Despite the concession agreements, many residents, especially the urban poor, still have no access to safe and sustainable water supply. Without regular water supply (level 3, individual metered connections to households), poor families face inordinately high costs procuring water (PHP35 or more per drum or 1/5 cubic meter compared to the minimum charge of PHP280 per 10 cubic meter for level 3 connection), and longer queue time and distance in fetching water from vendors (commercial taps and water lorries).

The failure or inability of central utilities to connect outlying areas and poor communities within their service areas brought about the existence of community water providers run by associations and cooperatives. Central water utilities (water districts, LGU-operated water systems, and the two large private companies) are not always willing to spend on service coverage in poor communities due to risks (theft, pilferage, payment defaults) that they cannot handle but have been assumed and managed by communities organized as waters service cooperatives and associations ("associative water systems").

Profile of the project area

The project covered community-designed systems development and capital expenditures programs for bringing water to Recomville Phases 1 and 2 (total of 450 households), Northville (300 households), and Sitio Manggahan which are housing project sites in Barangay 171, Caloocan City and administered by the Urban Poor Affairs Office (UPAO) of the city government. Located on the outskirts of the concession area of Maynilad, Caloocan City is one of the last and least to enjoy regular access to safe and potable water supply in Metro Manila. In the absence of piped-in water supply from the state-agent Maynilad, residents of Recomville rely on a private water provider supplying non-potable water from a deep well source. Residents of Northville, on the other hand, rely on expensive water sold by private truckers. Trucked-in water supply is sold at P30 per drum, 10 times the price of water if acquired from a regular individual connection with Maynilad. According to Maynilad, the residential communities of Recomville and Northville could not be covered by the company's capital expenditure program for individual connections due to limited funds and possibly, due to risks they associate with urban poor communities (pilferage, payment delinquency). On this basis, the local community organizations with technical assistance from the Institute for Popular Democracy, are negotiating for bulk water supply with Maynilad. Sub-distribution of water will be undertaken by water service cooperatives composed of households in the three communities.

Purok Masinadyahon, Barangay Pahanocoy, Bacolod City is located more or less 3 kilometers south of the city proper. There are 205 households occupying an area of about three hectares. Around 60 meters away from the community's entrance is the mainline of Bacolod City Water District (BACIWA) serving subdivisions adjacent to Purok Masinadyahon. Residents of Masinadyahon rely on water sold by households in the adjacent subdivision, priced at PHP2-PHP2.50 per 16-liter container or 30 per drum (1/5 cubic meter).

Initial capacity-building for the local community groups in Northville and in Masinadyahon are already underway through the Associative Water Center Philippines (AWCP), a service unit organized by Institute for Popular Democracy (IPD) to provide technical and financing service packages to waterless communities. The Recomville Phases 1 and 2 will be covered by the existing water service cooperative already operating in Recomville Phases 3 and 4.

The main objective of this project is to capacitate the community organizations in the three identified sites and provide the initial seed funding so they can take the first step towards universal water access. The realization of these objectives is expected to translate into general improvements in living conditions and a higher level of welfare for the residents along the indicators specified in the Millennium Development Goals.

Market/demand assessment and institutional preparation

The AWCP is a service unit organized by IPD to provide technical and financing service packages to waterless communities. IPD recruits into AWCP local community leaders and activists that can be trained as consultants and trainers in organizing and strengthening community water service associations and cooperatives. Assessments of the community water situation, initial planning activities, and seminars on cooperation for water access are being conducted.

To begin operations, each of the communities will need start-up capital for the (i) down payment for the mother meter and bulk service line to be installed by the central utility (Mayniladand (ii) main service pipelines to be installed by the cooperatives inside their respective service areas. The grant will cover these costs, which are the absolute minimum needed to start the water flowing and attract community members to mobilize their own resources and co-finance the initiative.

Project development

Initial assessments conducted in Northville and Bacolod before the grant period already indicated a demand for organizing a water service cooperative. In the case of Northville, Maynilad sought IPD's help in exploring ways to deliver service to the area, possibly the formation of a water service cooperative. In Bacolod, community members have agreed to put up a water service cooperative to partner with the Bacolod City Water District. They have also attended cooperative orientation meetings. Agreement with the Bacolod City water district was covered by a MOA while that of Maynilad was arranged through a bulk selling contract.

TSPI as a microfinance institution was tapped to provide loans for connection fees to a number of eligible poor families within the co-op service area. Arrangements between IPD and TSPI were formalized in the form of a Memorandum of Agreement (MOA). The MOA stipulated that IPD should provide TSPI at least 25 potential clients for the Waterline Connection Loan based on Credit Water Service Cooperative pre-qualification criteria for Cooperative membership and deposit a guarantee fund of PHP324,000 with TSPI for 12 months allowing TSPI to draw from this fund for any defaults on the loan.

TSPI, on the other hand, was obligated to develop a waterline connection loan program, conduct orientation on said program for potential clients and process loan applications, make available a corresponding amount of PHP324,000 to match IPD's guarantee fund so that the maximum loan portfolio will be PHP648,000 at any given time, and pay IPD an interest of 2.5% per year for the guarantee fund net of guarantee obligations, among other things.

Social preparation of target clients

This project is implemented in four areas: three in Caloocan City and one in Bacolod. The three pilot areas (Northville and Sitio Manggahan, Caloocan and Purok Masindayahon, Bacolod) each required the organization of a water service cooperative

in partnership with the concerned water service providers (e.g., Maynilad and Bacolod City Water District). The third pilot activity will focus on assisting an existing water service cooperative in Barangay 171 to achieve universal coverage in its service area, with Maynilad as the bulk water provider.

Following the successful experiences of water provision by urban poor water associations and cooperatives in the Philippines, the general strategy for this project include the following key steps:

For Northville, Sitio Manggahan, and Purok Masinadyahon – formation of new water systems

- Validation of the need and demand for organizing a water service cooperative through the conduct of social and water situation assessment, and consensus building activities

- Formation of water service cooperative/ association through compliance of registration documentary requirements i.e. CDA registration

- Formalization of the partnership between IPD and the cooperative in the form of a memorandum of agreement that will articulate the commitment of both parties: (IPD) to provide financial support through a quasi-equity, conduct of technical, financial and organizational trainings, (co-op) to subscribe and participate in the series of capacity-building activities that will be agreed upon

- Demonstration of a new mode of financing through the mobilization of investments from the community members in the form of initial share capital payments and membership fees to the cooperative in line with the systems and procedures of the cooperative financial system and complimenting this with start-up capital (in the form of a quasi-equity)

- Securing partnership agreement with the bulk water provider (Maynilad or Bacolod City Water District); discussions with the respective central water utility related to reduction bulk sale prices, payment systems for common facilities (service lines, mother meters, storage), infrastructure standards, conditions of asset transfer, compensation contract pre-termination, access to concessionaires' or water district supply inventories and performance-based grants, etc.

- Conduct of key capacity-building trainings on business planning, bookkeeping, financial management, and cooperative governance and management to equip the cooperative with the necessary capacity to assume the role of a service provider working with central utilities and LGUs

- Active engagement with the local government to advocate for support to community-based water service systems through performance-based financing programs for water service cooperatives. The program entails local government support to water service cooperatives in order to encourage community self-help, investment, and risk-taking to build community-level water service infrastructures in hard-to-serve areas or areas that are not yet directly covered or served by Maynilad

- Development of the water revolving fund with the cooperatives

For Recomville – expansion of water service coverage

- Evaluation of the performance of the co-op, submission of minimum financial and other documents including recent Financial Statements;

- Preparation of a capital expenditure and membership expansion plan (projected FS, reticulation plan and costing, and household survey);

- Formalization of the partnership between IPD and the cooperative in the form of a memorandum of agreement that will articulate the commitment of both parties: IPD will provide financial support through a quasi-equity, and will conduct technical,

financial and organizational trainings, while the co-op will subscribe and participate in the series of capacity-building activities that will be agreed upon;

- Conduct of key capacity building trainings on business planning, bookkeeping, financial management and cooperative governance and management to equip the cooperative with the necessary capacity to assume the role of a service provider working with central utilities and LGUs;

- Active engagement with the local government to advocate for support to community-based water service systems through performance-based financing programs for water service cooperatives.

Monitoring and evaluation

The main subjects of monitoring are the performance standards laid down by the communities themselves and are reflective of their aspirations. These are indicated in the business plan of their cooperative as reflected in the expected results corresponding to the first specific objective.

Project monitoring shall be undertaken as a process embedded in the governance and organizational processes of the community water service cooperative. Reviews of business plan implementation are undertaken by the respective co-op Boards and reporting to IPD will be included as part of the terms of reference of the project cooperation agreement with them.
Review of financial transactions will be performed by the respective Audit and Inventory Committees of the water service co-ops, with coaching assistance by Auditors provided by the Associative Water Center Philippines (as service arm of IPD).

Results of the program

As of May 2011, the project had assisted the target communities in organizing themselves into water service cooperatives. Two of these cooperatives are already operational, providing water to 25% of the households in their respective service areas. These are the Community Water Service Cooperative of Recomville II (in Brgy. Bagumbong, Caloocan City) which has connected 300 households and expanded its service area from the 450 households in Phase 3 and Phase 4 to 900 to include Phase 1 and Phase 2 of the social housing project.

The Community Water Service Cooperative of Sitio Manggahan has covered 100 households out of the total of 350 households in the informal settlement, which is awaiting the implementation of the Community Mortgage Program.

The Community Water Service Cooperative of Northville 2B Phase has already completed in organizational preparation and is now undergoing business planning, training in management and financial systems installation, finalization of its registration documents with CDA, and negotiations with the National Housing Authority on the reticulation design. Northville 2B is a resettlement site built by the National Housing Authority (NHA) for 2,400 informal settler families affected by the North Rail Project. NHA will make available a total of PHP2 million for the construction of the water system, with the project taking care of capability building and technical requirements of the community. NHA has yet to approve the reticulation design prepared by IPD.

The Community Water Service Cooperative of Purok Masinadyahon has completed its organizational preparation and is in the process of business planning, training in management and financial systems installation, finalization of its registration documents with CDA, and negotiations with the BACIWA on the bulk water supply contract, which will be the first such contract to be made by BACIWA with a community association (existing bulk contracts are with commercial and industrial users). Project implementation has been stalled by right-of-way issues with private landowners.

Lessons learned

Communities are generally receptive to the cooperative model. Organizing the water system as a water service cooperative can benefit the community in terms of (i) the trust and solidarity-building that inhere in cooperative formation, (ii) the governance and management standards that are stipulated in Republic Act No. 9520 (Philippine Cooperative Code of 2008) and CDA rules and regulations such that there is "no need to reinvent the wheel," and (iii) peer monitoring of the water system when residents actually own the water

system in a real, concrete way as capital share holders voting members;

Poor households have a high willingness to pay for water, as evidenced by the extraordinary prices they pay to private vendors compared with the water tariffs charged per household connection by the central utility. This is the "invisible" cash flow that can be converted into community financing for level 3 piped-in water systems to reduce water tariffs to one-fifth of the prevailing prices from private vendors. Poor residents generally recognize easily the value of parting with a substantial amount (of PHP5,000 to PHP6,000) for the connection charges in order to enjoy lower water tariffs.

Community management of water distribution through cooperatives is feasible, provided the community members have sufficient skills and knowledge in operational and financial management and control. However, the financial cost of building these skills has not been included in the cost that households face in acquiring a water connection. The aim of the project, however, is to help develop the learning platforms through which waterless communities and their supporters can easily acquire the needed skills.

C. Case Study No. 3: ASKI-CCWD Water Kiosk Project

ASKI was linked with the CCWD by the PWRFSP in July 2010 to test the partnership arrangements developed by the latter. Initially, the model being explored was the establishment of individual connections in Amihan, a district in the city. CCWD and ASKI also agreed to explore the feasibility of establishing water kiosks in other barangays where piped connections are not financially viable (these are areas which are far from existing main lines and sources). From the list of 15 un-served barangays given by CCWD, ASKI identified those where they currently operate. The list was narrowed to six barangays where ASKI had existing client centers/ associations.

In November 2010, ASKI conducted FGDs in the seven sites (Amihan and six barangays) to assess demand for water connections and the feasibility of establishing water kiosks, respectively. Based on a focus group discussion (FGD) with leaders and residents in Amihan, pursuit of the project was deemed not feasible given right of way and political constraints. Thus, the household connection model was abandoned. For the water kiosk model, FGDs with sample households established demand for drinking water and interest in operating the water kiosks by the associations. ASKI and CCWD agreed to first pilot test a kiosk in Barangay Bagong Sikat, which has the most organized microfinance center among the selected sites and is comprised of 100 members.

Based on a Memorandum of Agreement between CCWD and ASKI, both agreed to implement a community development program involving the provision of clean drinking water. The agreement stipulated the following arrangements: a) CCWD to provide the water kiosk equipment and deliver bulk treated water to the kiosk; b) community-based entrepreneurs will operate and maintain the kiosk; c) ASKI will undertake the community preparation, training and capacity building of the kiosk operator; and d) all parties will share the revenues based on a pre-agreed scheme (see copy of agreement in Appendix 5).

Situation before the project

Bagong Sikat is one of the barangays located outside the city of Cabanatuan where the communities have point source water supplies (pump and spring sources) adequate for cleaning purposes. However, the communities need access to potable water for drinking and cooking. The majority of the residents in the barangay do not buy water, with 80% of respondents obtaining their drinking water from deep/shallow wells and about 20% purchasing mineral water for the consumption of infants. Those who buy water pay PHP30-PHP45 per five gallons of delivered water, or PHP25-PHP35 for pick up. Over the past two years, residents have suffered from waterborne diseases like diarrhea, gastroenteritis, and amoebiasis.

3. Market/demand assessment and institutional preparation

Establishing demand for the product/ program

ASKI conducted a survey and follow up FGDs to determine demand for drinking water and the feasibility of operating a water kiosk in the area. The survey indicated that residents are willing to pay about P 20-25 per 5 gallons of clean drinking water, which is odorless and free from impurities. Taste and affordability are cited as the main factors that will affect the buyer's decision in purchasing drinking water. Respondents also prefer promotions like "Buy 1, take 1" and free delivery.

Assessment of institutional capacity

Venturing into water supply projects is in line with ASKI's vision for holistic transformation and mission "to promote socio-economic development through client-focused financial and non-financial services anchored on Christian principles". It has previously engaged in small-scale independent water supply projects in three of ASKI's operational areas: Barangay Punglo, Ma. Aurora, Aurora Province; Palale, General Tinio, Nueva Ecija; and Laur, Nueva Ecija. In these projects, NGO donors provided grant funding with a counterpart contribution from the target communities in the form of labor. ASKI conducted the social preparation and installed sustainability mechanisms for the clients. With the successful implementation of these projects, ASKI has identified other barangays needing clean water for possible

replication. The collaboration with CCWD afforded an opportunity to test another scheme – establishment of water kiosk – and also apply their community and business development approach. The community development (Com Dev) unit was tasked to conduct the market assessment and social preparation activities for the residents of Bagong Sikat. ASKI mobilized the existing association, which it had established as part of its community development activities.

Generating buy-in

The ASKI Com Dev unit prepared a report on the counterpart requirements of ASKI in pilot-testing the water kiosk project for presentation to the ASKI Management. The partnership forged with CCWD and PWRFSP facilitated the buy-in of the project by the ASKI management. In a Board meeting in August 2010, the Board approved the partnership with CCWD and committed to provide resources for the social preparation and community development activities for the water kiosk project. The ASKI Foundation will allocate funds for these activities from internal funds carved from its lending operations (ASKI allocates 2% of its revenues for community and business development activities).

4. Product design and development

The model was first brought up by CCWD, which had planned to provide water kiosks in areas needing clean drinking water as part of its corporate social responsibility (CSR) activities. When PWRFSP linked up CCWD with ASKI, the former appreciated the fact that ASKI will be able to provide information about the target barangays. Thus, both agreed on the following scheme: a) CCWD to design options for the water kiosk including the facility and the housing/enclosure/stand, provide the water kiosk equipment and deliver bulk treated water to the kiosk operator (community-based entrepreneur); b) community-based entrepreneur (Bagong Sikat center association which has 100 members) will operate and maintain the kiosk; and c) ASKI will undertake the community preparation, training and capacity building of the kiosk operator. Both also agreed to pilot-test the scheme for one year to test the viability of the kiosk operation and thereafter agree on revenue sharing.

For the counterpart share of the operator, three possible financing options were identified as follows by order of priority: a) use of a portion of the association's capital build up to be supplemented by a loan from ASKI; b) loan from ASKI; or c) buy-out scheme where CCWD will capitalize the kiosk facility. Based on follow up meetings by ASKI, center officials decided to acquire a PHP50,000 group loan from ASKI for site development and kiosk operation as their equity investment in the project. Further, as part of their equity investment, the center will also acquire a second hand tricycle for delivery; containers; sealers; and office supplies and shoulder the business registration fee. The group loan will be guaranteed by the association (center accountability). This means client savings (capital build -up) will be used as payment in case of delayed weekly or monthly amortization. The loan will be charged an interest rate of 3% per month, which is the same rate for the group lending program, payable in six months. In case of delayed payment, 2% per month on the amount to be collected will be charged. No incentives for this specific project have been formulated by ASKI.

The water kiosk will be registered as a business enterprise with "Aguador sa Nayon" as the business name. It will be manned by members and recommended and selected by existing members of the association. Initial operation will require a project/marketing manager, bookkeeper, and utility/delivery men.

On the distribution scheme/channel, CCWD will deliver bulk water to the association at the standard price of PHP15 per 5 gallons (as compared to the current cost of PHP25-45 per 5 gallons). The association will comply with this and will project certain mark up for profit. ASKI clients, such as those who manage rolling stores/mini stores, can also act as sub-dealers.

ASKI, aside from the social preparation and community development activities and the loan, will initiate the cash flow projection based on targets (volume; numbers of consumers based on existing family/ household users/population; appropriate price, among others).

5. Pilot-testing and modification

The water kiosk project is being pilot-tested by ASKI and CCWD with an association (Bagong Sikat Center) in Brgy. Bagong Sikat in Cabanatuan City, a site where ASKI currently operates. The pilot-testing will be done for a year from August 2011-July 2012. The following parameters will be tested/validated:

Success factor	Indicators
a) volume to gauge market penetration and break-even level	- level of sales - number of clients/consumers
b) profitability to determine the financial rate of return or hurdle costs	- variable cost - repayment rates - return on equity; ROI
c) productivity to measure effectiveness of leveraging resources and improving efficiency	- clients per loan officer - costs per staff
d) results	% coverage area - time savings - increase in productivity e.g. new livelihood activities catalyzed by available potable water supply, better hygiene and sanitation practices and lower incidence of water borne diseases

Results of the pilot-test will determine the final features of the association loan, product pricing, and revenue-sharing arrangements among the partners. The results will also be used as basis for expansion of the kiosk operations in nearby barangays and replication of the project in three other potential areas, which have signified interest in having the same water supply scheme in coordination with CCWD.

D. Case Study No. 4: TSPI's Sanitation Loan Program for the Poor

TSPI's holistic approach to poverty eradication has led to the conceptualization of social development loan products that address poor households' basic needs such as health, education, housing, and sanitation. These loan products are provided to existing clients of TSPI who have demonstrated the discipline as a borrower for at least one year at an interest rate 40% to 50% lower than the loans extended for livelihood. Social development loans, while non-revenue generating, contribute to productivity and address the vulnerability of poor households.

Before the project

The idea for Sanitation Loan Program was born out of a meeting between Ruben de Lara, TSPI's former Executive Director and Jack Sims, founder of World Toilet Organization in Singapore during the World Toilet Summit held in November 2008. Mr. de Lara invited Mr. Sims to come to the Philippines and meet TSPI's existing clients in Candelaria, Quezon. In this meeting, clients discussed how much they longed to have a toilet in their own houses. Mr. de Lara then asked his team to conduct a needs assessment in 2008 among existing clients in Candelaria to gauge the extent of the demand for toilet loans. The results of the assessment demonstrated sufficient interest to initiate the design of a new product.

De**mand assessment and institutional prepar**ation

The implementation of the sanitation loan program since 2008 showed the growing interest of more branches and clients. However, TSPI recognized that the number of those who have actually availed of the loan is still far below the number of potential clients considering the great need for sanitation facilities coupled with the number of qualified borrowers. In 2009, 65 out of 126 branches of TSPI were implementing the program but it was discovered that the program was not taking off as expected. In December 2009, only 317 toilet loans were released by the 65 branches. TSPI knew it had the client base and the manpower to sell the program.

Promoting the value of proper human waste disposal more than the loan program is identified as a major challenge for TSPI to reach a significant number of households among its existing clients.

Even before the need for a focused marketing strategy was identified, TSPI had already ensured that its branch infrastructure for the management of the sanitation loan program was in place. The branch structure, headed by a branch manager, is composed of the following departments: human resources, information technology, training, research and development, accounting, finance and administration. The branch structure, system, and expertise support the platform on which the sanitation loan program is managed. Furthermore, each branch has a Project Officer dedicated solely to deliver housing and sanitation loans to existing TSPI clients.

Product design and development

The TSPI Sanitation Loan Program under the PWRFSP grant program had two components. The first component involved augmenting TSPI's loan funds for the sanitation loan program and the development of an appropriate marketing strategy including marketing collaterals to boost the utilization rate of the same loan program within TSPI's existing client base in Quezon province. The second component uses 50% of the PWRF grant as a reserve fund to guarantee the loans to borrowers with no track record with TSPI. In this component, TSPI planned on working with the Center for Advanced Philippine Studies (CAPS) who will provide social marketing support, recommendation of qualified borrowers, and additional funding for the loan portfolio to new clients in La Union.

Specifically, the project is expected to generate the following outputs:

For existing clients in Candelaria and Lucena, Quezon branches:

- Increased awareness of TSPI clients on the value of proper human waste disposal through effective marketing tools
- 150 TSPI clients from two pilot branches provided with improved sanitation facilities
- 100% repayment rate on sanitation loans

For new clients in Tarlac, Paniqui, Camiling, Cabanatuan and Talavera branches

- 200 new TSPI clients from five pilot branches provided with improved sanitation facilities (toilets) through the TSPI sanitation loan program
- 100% repayment rate on sanitation loans

Total budget requirement is PHP6,536,960, Out of this, 37% or PHP 2,400,000 was covered by the grant, and the balance (56% or PHP4,136, 960) covered by TSPI.

Given the many spending priorities of poor households, such as food, education, electricity, clothing and medicines among others, sanitation while considered basic, is always set aside. The TSPI Sanitation Loan Program encouraged poor households to improve or construct their toilet facilities by providing soft loans to its existing clients. This loan was delivered to them at an interest rate of 1.5% per month with 20% discount on interest for prompt payment, that is, less than half of the charge for regular livelihood loan (3% per month), at a maximum loan term of 18 months.

Each TSPI branch maintained a minimum of 3,000 microfinance clients beginning the second year of operation. This client base served as the captive market to which the sanitation loan program can be marketed. Most importantly, this market was exposed to the community spirit and discipline of microfinance approaches, thereby reducing repayment risk. The availability of livelihood loans along with the sanitation loan likewise ensured that the poor households could generate income.

Development of marketing tools

IEC materials were developed for effective marketing of the sanitation loan product. An effective marketing strategy appropriate for a microfinance operation had to be developed as putting sanitary facilities, like toilets into poor households' priority is quite a challenge. TSPI identified the following components of the marketing strategy:

(a) Selection and identification of technical assistance provider on marketing strategy
(b) Needs assessment
(c) Development of marketing tools and pre-testing
(d) Development of marketing guidelines
(e) Reproduction of marketing tools

The following activities were conducted in each of TSPI pilot branches offering sanitation loan:

- Marketing: Existing client orientation on health and sanitation and the features of the sanitation loan offered by TSPI. Marketing materials will be developed for more effective education of households on the value of proper human waste disposal

- Loan application/evaluation: This involves cash flow analysis and capacity to pay assessment to ensure that the loan to be extended will not be a burden to the clients

- Loan deliberation: This ensures that the agreement among the client, TSPI and foreman on the amount of loan, scope of work, specifications of materials, supplier and timetable for the toilet construction/ repair project.

- Project construction: Loan is delivered during construction period, which should not be longer than five (5) days in the form of construction materials from the agreed supplier, direct payment for labor through the foreman, and direct payment of Mortgage Redemption Insurance (MRI)

- Loan collection and monitoring: TSPI Branch Structure and System takes care of the weekly loan collection and monitoring through its Account Officer.

Pilot-testing and modification

Seven out of 60 TSPI branches offering sanitation loans were covered by the grant program: two branches for existing clients and five branches for new clients. The goal was to roll out the best practices in the rest of the branches to achieve the same target results from an improved marketing strategy and also to encourage greater partnership to serve more clients.

The implementation was a joint effort of the TSPI Branches with support from the Head Office and CAPS as a partner in the La Union area.

Unfortunately, midway through the program, a new LGU program in La Union that gave out free toilets to the poor communities in TSPI forced the agency to move to another area. In the new areas, CAPS decided not to work with TSPI anymore as it elected to start a different program on its own. The move from La Union was also precipitated by the fact that TSPI was also experiencing a high incidence of delinquent payments in its branches in La Union. TSPI replaced La Union with five branches in Tarlac and Nueva Ecija.

Earlier, in Candelaria, Quezon, the project officer resigned making the branch unable to market the sanitation loan program. And while many were interested in the sanitation loan in the branches in Quezon, few actually applied because many people already had multiple loans with TSPI, and preferred to repair their houses rather than construct toilets. Some also did not yet have the necessary length of membership with TSPI. TSPI requested for site replacements for the branches that were not viable and asked for an extension of the duration of the grant program until June 30, 2011 to deliver targets. It also intensified its marketing campaign to attract more borrowers of the sanitation loan.

Launching, marketing, and scaling up

The marketing consultant hired by TSPI designed marketing tools and developed a strategy for TSPI's Sanitation Loan Program that zeroed in on having toilets as basic sanitation best practice. The marketing strategy was based on three principles:

- a smart approach, which involves creating the need for a toilet through a discussion of its health and social benefits and transforming that need to a want —using flyers and brochures with simple language and colorful pictures;
- systematic timing, which means pinpointing the exact time when a potential client is in-between payment cycles or is able to accommodate an additional loan;
- and service-oriented relationship, which requires that all toilet constructions requested by clients should be deemed urgent, thus prioritized.

A set of marketing tools consisting of a clear book containing flyers, brochures and pamphlets, tarpaulins, a marketing timeline guide, a three-minute marketing video, and a training guide were all designed to abide by the proper marketing principles.

Training in sanitation and hygiene

A series of trainings in Marketing Tools and Techniques were conducted. The Project Officers, Branch Managers, and Area Managers of all TSPI branches (totaling 117) implementing Sanitation Loan Program participated in the training. It was conducted by a marketing consultant who also developed the tools. The training's objective was to help raise the Branch and Project Officer's (PO) productivity in generating toilet loans among interested and qualified clients. Specifically, the training aimed to enhance Branch/POs' capacity and skills in conducting client orientations to deliver sanitation loan program, raise the level of appreciation of the Branch/PO on the value of the program, and to take note of related concerns in delivering toilet loan for proper coordination with concerned units. The expected outputs were:

- Clear understanding of the effective use of marketing collaterals in attracting target clients to avail of the toilet loan;
- Enhanced marketing skills;
- Better appreciation of the value of the sanitation loan program in promoting dignity among the poor; and
- Articulation of related concerns in the delivery of toilet loans.

Implementation plan

Seven major activities are involved in the implementation of Sanitation Loan Program through existing TSPI microfinance branches to ensure control and standard implementation of policies and procedures (see Figure below).

Figure 1. Sanitation Loan Process

Housing and Sanitation loans are released per batch of clients, preferably 10 loans per batch to maximize the cost of administrative, management and technical support provided by a local foreman. For this project, target sanitation loans were released along with clients availing of loans for housing repairs. The assessment of interested clients' capacity to pay was conducted before the preparation of the scope of work, materials and cost estimates by the foreman. Local suppliers are identified for the construction materials required for every batch of clients. Clients have the option to look for their own supplier provided they can provide a canvass of cheaper materials.

Monitoring and evaluation

As the program covered more branches and an increasing number of clients, TSPI enhanced the program and integrated its implementation in the Branch structure by hiring a Project Officer for each branch. Project Officers were solely dedicated to the implementation of the housing and sanitation loan program. Below are the key performance areas and key performance indicators by which each Project Officer is evaluated.

Key Result Areas (KRA)	Key Performance Indicators (KPI) Targets
Increased awareness of clients aboutproper human waste disposal	six out of 10 clients actually applied for loans (60% of the total number of clients who attended the orientation should have availed of it)
Access of clients to basic sanitation facility (toilet)	75 clients availed themselves of loans amounting to a total of PHP1,125,000
Satisfaction rate	100% (full acceptance of the clients of the constructed facility upon project turnover)
Repayment rate	100%

The Program Officer monitors the performance of each Project Officer. The Project Officer submits a report in the first week of every month. The report contains:

- a list of clients he has talked to,
- potential loan borrowers,
- those who attended the loan program orientation,
- those who are interested in the loan,
- list of clients whose loan applications were approved, and
- list of borrowers whose toilets were constructed.

The Program Officer then consolidates the report. Should the Project Officer be unable to achieve targets within the period, the Program Officer meets with the Project Officer to discuss concerns. Every second week of the month, the Program Officer conducts a monitoring visit to the branch to see the site and inspect toilets. Every month, the Program Officer meets with the Area Manager, Branch Manager, Account Officer, and Project Officer to discuss the program, any problems on management and collection. The Program Officer also uses this time to conduct random inspection of the toilets constructed for the clients.

Results of the program

Of the targeted 150 existing TSPI clients from two pilot branches provided with improved sanitation facility, TSPI has exceeded its target. It was able to lend to 155 clients by the end of the grant program.

For new clients, TSPI achieved its target of 200 targeted loan releases. The loan amount availed of by these borrowers averaged between PHP12,500 – PHP15,000.

Given the huge amounts of loans that were released, it was obvious that TSPI did not need the reserve fund from the grant that was supposed to guarantee TSPI's funds for the component on new clients. The reserve fund simply became a symbol of a safety net for loan defaults towards the end of the program.

With the intensive and regular orientations of TSPI on the proper disposal of human waste among its clients as part of its marketing pitch for the toilet loan, more households are getting educated on proper sanitation.

With the TSPI branch infrastructure support, marketing roll out, almost four years of conceptualizing, designing, and fine-tuning of the product, and with 72 branches currently offering the sanitation loan both as independent product and in combination with other loans, TSPI is convinced it has established a market for the sanitation loan, one it intends to maximize in the next few years. In 2012, TSPI plans to bring the number of its total branches from 126 to 160. Each branch targets 1,000 clients to have access to a combination of housing and toilet loans, or a total of 160,000 clients. TSPI's more realistic goal is reaching about 50% of the projected number of clients. At PHP15,000 per loan, TSPI is looking to work with financing partners to raise the additional loan portfolio of PHP1.2 billion with or without a reserve fund to serve as guarantee.

Lessons learned

Even with a product that is as established and pro-poor as the sanitation loan, it still pays off to invest in a sustained and targeted marketing campaign in the long run. Even better, making the marketing collaterals simple and straightforward such that each potential borrower understands what he needs to do will engender demand. Furthermore, bundling the sanitation loan with the housing renovation/repair loan makes the program more attractive to customers and keeps operation costs at a minimum. The low interest rate (compared to the interest rate on livelihood loans) and the long supervised process of the sanitation loan make the toilet loan program unviable if it is an independent microfinance product.

As regards project partners, it is best to avoid working with LGUs during election time due to implementation delays. Close monitoring of the project and regular meetings are recommended and roles and responsibilities must be clarified and understood by all parties involved.

APPENDICES

Appendix 1 – Overview of the microfinance sector
Appendix 2 – Sample survey questionnaire for demand assessment
Appendix 3 – Demand assessment for partnerships: Summary of results
Appendix 4 – Detailed average cost estimates of various models
Appendix 5 – Example of a partnership agreement for establishing an independent water supply system

Appendix 1 – Overview of the microfinance sector

1. The Philippine microfinance framework

1.1 Policy framework

The government's microfinance policy is guided by the National Strategy for Microfinance issued by the National Credit Council (NCC)[25] in 1997. The national strategy aims to have a viable and sustainable private microfinance market catering to low-income households and microenterprises. It adopts the following principles:

a) greater role of private microfinance institutions (MFIs) in the provision of financial services;
b) an enabling policy environment that will facilitate the increased participation of the private sector in microfinance;
c) market-oriented financial and credit policies, such as market-oriented interest rates on loan and deposits; and
d) non-participation of government line agencies in the implementation of credit and guarantee programs.

Several laws and policies support the implementation of the strategy and further promote the access of the low-income households and microenterprises to more sustainable microfinance services. These include:

RA 8425 (Social Reform and Poverty Alleviation Act of 1997)	• promotes microfinance as part of the government's flagship program for poverty alleviation • promotes the expansion of microfinance services and capacity building in support of sector-specific flagship programs • established the People's Development Trust Fund (PDTF) which shall be used to fund capability building programs for the development of viable and sustainable MFIs and microenterprise development service groups that are able to deliver effective and efficient microfinance services to the poor and help them develop enterprises
EO 138 Series of 1999	• directs government entities involved in the implementation of credit programs to adopt the credit policy guidelines formulated by the National Credit Council (NCC) • called for the implementation of a rationalization program for directed credit programs and defined the roles of government non-financial agencies (GNFAs), government financial institutions (GFIs), government-owned and controlled corporations (GOCCs) and private sector in the delivery of credit services
RA 8791 (General Banking Law of 2000)	• puts in place a favorable environment for banks to engage in microfinance • recognizes the special features and peculiarities of microfinance such as cash-flow based lending to the basic sectors that are not covered by traditional collateral (Section 40) • provides for the issuance of regulations covering unsecured loans (Section 41) • recognizes that the schedule of loan amortization shall take into consideration the projected cash flow of the borrower and adopt this into the terms and conditions formulated by banks (Section 44)

[25] NCC was created by AO 86 in 1993 and amended by AO 250 in 1996 to rationalize and optimize the delivery of government credit programs. It currently serves as the national policy body for credit and microfinance.

EO 110 Series of 2002	• designates the People's Credit and Finance Corporation (PCFC) to directly administer and manage the utilization of the PDTF established under RA 8425 • directs NAPC to perform an oversight function, mobilize funds and recommend organizations to be accredited as resource partners. NAPC will be involved in research and development promotion, publication of microfinance/micro-entrepreneurial technologies and monitoring of overall utilization of the PDTF
RA 9178 (Barangay Micro Business Enterprise Act of 2002)	• encourages the establishment of microenterprises and provides incentives (including income tax exemption, exemption from coverage of the minimum wage law, priority to a special window set up, technology transfer, production and management training, and marketing assistance programs) to micro-entrepreneurs • directs the LBP, DBP, SBC and PCFC to set up special credit windows that serve the financing needs of barangay micro business enterprises
EO 558 and EO 558-A Series of 2006	• limit government microfinance services (to include social preparation and capacity-building) only in "unserved areas" identified by the PCFC as municipalities and barangays not covered or served by MFIs. In these unserved areas, the PCFC will continuously identify and provide support to MFIs that have indicated interest and willing to provide microfinancial services in the "unserved areas."
RA 9510 (Credit Information System Act)	• signed into law on 1 September 2008 • for microfinance, the law aims to increase the access to credit by micro, small and medium enterprises as well as answer problems of credit pollution and multiple borrowings

1.2 Regulatory framework

A regulatory framework for microfinance was also developed to ensure an efficient and effective microfinance sector anchored on a viable and sustainable private (micro) financial market (see Box A). The framework uses existing regulatory structures and emphasizes portfolio quality, transparency in operations, efficiency and outreach.

Box A
Regulatory Framework for Microfinance in the Philippines

Objectives

- To protect the financial system from unsound (i.e. excessively risky) practices by deposit-taking institutions (either from the public or its members) and thereby, protect the country's payments system;
- To protect small clients; and
- To promote the establishment of an accurate, reliable and transparent set of financial information for all types of MFIs.

Basic Premises

- Banks, including GFIs that provide wholesale funds for microfinance, will continue to be regulated by the BSP.
- Credit cooperatives are under the regulatory authority of the CDA.
- Microfinance NGOs are considered non-deposit taking institutions and therefore, will not be subject to prudential regulation and supervision provided that the total savings should not exceed their total loan portfolio at any point in time. Those that collect savings beyond the compensating balance will be required to transform into a formal financial institution.
- The establishment of credit information system shall be pursued by the private sector. A core set of performance standards for microfinance operations for all types of financial institutions shall be promoted consistent with international best practices.

Institutional Set-up for Microfinance Regulation

- BSP will act as the regulatory and supervisory authority for banks engaged in microfinance operations; provide the necessary technical assistance on regulation of credit cooperatives; and establish a credit information bureau for all loans, including microfinance loans, by all types of banks supervised by BSP.
- CDA will act as the regulatory agency for credit cooperatives; In the interim that CDA is not yet institutionally ready to directly conduct regulatory activities for credit cooperatives, accredited federations/unions of credit cooperatives and other types of cooperatives with credit services whose membership is voluntary may be authorized to perform quasi self-regulation on a fee-basis using rules and regulations issued by the CDA.
- Microfinance Council of the Philippines Inc. (MCPI) will serve as the repository of information of microfinance NGOs, inform concerned regulatory authorities when a microfinance NGO collects savings from members beyond the compensatory balance, collaborate with the SEC and the Philippine Council for NGO Certification[26] on the establishment of incentive mechanisms to enjoin all MFIs to submit a uniform and consistent set of information regarding their operational and financial performance and initiate the establishment of a private risk-rating agency for all financial institutions involved in the delivery of microfinance services.

Existing financial policies, in the form of laws, executive and department orders and circulars, set the governing principles of financial intermediation of MFIs and rules for their entry and exit; determine and limit their business operations and products; and specify the criteria and standards for their sound and sustainable operation (see Table 1 below and Annex A for details). The government is involved in implementing these policies and regulations to protect the financial soundness of the regulated institutions.

[26] Philippine Council for NGO Certification or PCNC is a private voluntary, non-stock, non-profit corporation that serves as the country's accrediting body for non-government organizations. The Council certifies organizations (NGOs and nonstock, nonprofit corporations) for 'donee' status after a stringent assessment of their requirements and qualifications. The PCNC certificate will become BIR's basis for granting 'donee' status to the organization. Local donors are given tax incentives when they provide assistance to donee institutions.

Table 1. Policy, Regulatory and Institutional Framework for MFIs

Type of MFI	Policy/Legal Basis	Target Market	Authorized Key Services/Products	Regulatory Agency
Thrift Banks	General Banking Law; Thrift Banks Act; Corporation Code; Manual of Regulations for Banks	Microenterprises; small businesses; individuals or groups	- lending - deposit mobilization - remittance/ funds transfer	BSP; PDIC
Rural Banks	General Banking Law; Rural Banks Act; Corporation Code; Manual of Regulations for Banks	Microenterprises; small businesses; individuals or groups	- lending - deposit mobilization - remittance/ funds transfer	BSP; PDIC
Cooperative Banks	General Banking Law; Rural Banks Act; Cooperative Code; Manual of Regulations for Banks	Microenterprises; small businesses; cooperatives; individuals or groups	- lending - deposit mobilization - remittance/ funds transfer	BSP; PDIC
Credit Unions or Savings & Credit Cooperatives/ Associations	Cooperative Code	Individual members	- lending to members - deposit mobilization from members	CDA
NGO	Corporation Code	Individuals or groups	- lending - capacity building	SEC
Non-bank Financial Intermediaries * with quasi-banking functions	General Banking Law; Corporation Code; Financing Company Act; ; Manual of Regulations for Non-Bank Financial Institutions	Microenterprises; small businesses; individuals	- lending	BSP
Non-bank Finance Intermediaries * without quasi-banking functions	Corporation Code; Financing Company Act	Microenterprises; small businesses; individuals	- lending	SEC

* financing companies; pawnshops; non-stock SLAs

MFIs also conform with regulations or prescriptions on specific products and services that they offer:

Type of Product	Prescriptions/Limits
Loans	· Up to P150,000 to be exempted from BSP bank rules and regulations on unsecured loans; · No required collateral/financial statements; however, MFIs can impose collateral substitutes to safeguard their own interests · Terms and conditions are based on client's cash flow · For microfinance loans for housing, limit is up to PHP300,000; longer terms with a maximum of five years for home improvement/repairs and 15 years for house construction and house/lot acquisition; and secure tenure instruments are required as collateral for loans above PHP150,000
Deposits/savings	· Imposition of withholding tax of 20% on interest on deposits · Entitlement to deposit insurance in case of bank closure; payment of the insured deposits shall be made by the PDIC in an amount equal to insured deposit of such depositor up to a maximum of P 250,000

The NCC established, in consultation with the stakeholders in the microfinance sector, a uniform set of performance standards for all types of retail MFIs. Called the PESO (Portfolio Quality, Efficiency, Sustainability and Outreach), the following standards serve as benchmarks to allow performance comparison of all institutions engaged in the delivery of microfinance services, protect the integrity of the financial sector and the microfinance borrowers from unsound practices:

1. Portfolio quality
   - Portfolio at Risk (PAR) Ratio: < 5
   - Loan Loss Reserve: 100%
2. Efficiency
   - Administrative Efficiency: < 10 %
   - Operational Self-Sufficiency: > 120 %
   - Loan Officer Productivity:
     Group - ≥ to 300
     Individual - ≥ to 150
3. Sustainability
   - Financial Self-Sufficiency: > 100 %
   - Loan Portfolio Profitability: ≥ 100%
4. Outreach
   - Growth in No. of Active MF Clients: increasing
   - Growth in Microfinance Loan Portfolio: increasing
   - Depth of Outreach: < 20%

Microfinance banks, aside from the PESO, also have to comply with the CAMELS[27] rating of the BSP. Co-ops engaged in microfinance also have to comply with COOP-PESOS. [28]

2. MFI operations

2.1 Lending methodology

The popular methodology used by MFIs in their lending operations is the Grameen Banking Approach (GBA), whose main feature is group accountability for loans. GBA adopts the solidarity group lending scheme whereby non-collateralized loans are provided to individual members under organized groups called "samahan" or associations. While initial results were very promising, there were repeated feedbacks from clients that one of the major causes of their repayment problems is "imbunahan" (patching) or the policy of requiring clients to contribute whenever one of their co-members default on his or her loan obligations. This was reportedly the cause of much stress and tension within associations, and usually resulted in client resignations. This necessitated the shift in loan policy from group liability to individual liability or the ASA technology, where groups are also formed, but group members are solely accountable for the payment of their respective loans. Meanwhile, NGOs belonging to the Alliance of Philippine Partners for Enterprise Development (APPEND) network use the APPEND Scale UP Branch Model, a trust group lending methodology whereby 10 to 30 entrepreneurs comprise a group who elect leaders, receive training and pledge to guarantee each other's loans. Since the group guarantee replaces the need for collateral, credit becomes available to those previously locked out from formal financial services. These group-based modalities target the poor, especially women with either existing microenterprises or start-ups. Some MFIs use individual lending methodology. The Microenterprise Access to Banking Services (MABs) approach being used by most rural banks involves the provision of individual loans ranging from 10 to 15,000 pesos. These loans are non-collateralized and are paid on a weekly basis. [29]

[27] CAMELS is a globally accepted bank rating system based on capital adequacy, asset quality, management quality, earnings, liquidity and sensitivity to market risk. The BSP ranks banks based on CAMELS on a scale of one to five -- with five as the highest -- to identify banks in need of prompt corrective action.

[28] COOP-PESOS (C-Compliance with administrative and legal requirements; O-Organization; O - Operation and management; P- Plans, programs and performance; P -Portfolio quality; E – Efficiency; S – Stability; O – Operations; S - Structure of Assets; COOP-PESOS is used to evaluate and assess the operations of coops engaged in savings and credit opertions. PESO on the other hand, is used in evaluating only the MF operations of coops.

[29] http://www.rbapmabs.org/home

Lending terms and conditions

BSP Circular 272 (Series of 2001) sets the guidelines in implementing the provisions of Sections 40, 43 and 44 of the General Banking Law of 2000 with respect to the terms and conditions of microfinance loans of banks.

Microfinance loans are granted on the basis of the borrowers' cash flow and are typically unsecured (no collateral required from their borrowers). The maximum principal amount of microfinance loans shall not exceed PHP150,000 (ceiling set based on the maximum capitalization of a microenterprise under RA 8425 and limit set by BSP Circular 272).

Interest rates on microfinance loans are determined by the MFI's management. The rate should be reasonable, consistent with the MFI's credit policies and not lower than the prevailing market rates to enable the lending institution to recover the financial and operational costs incidental to microfinance lending. Typically, lending rates are based on the cost of fund plus a desired spread. The cost includes financial intermediation (interest expense plus transaction costs), administrative expenses and default risks (bad debts and collection cost). The desired spread ranges around ≥ 4%. Generally, microfinance banks currently lend at a range of 24-36 % per annum, including upfront service fees of 1.75 to 4%. Microfinance NGOs, meanwhile, charge interest on loans at rates ranging from 24-40%per annum, inclusive of upfront service fees of 2-5%. Cooperatives charge interest rates on loans to members ranging from 18-24% per annum. Some cooperatives charge an additional upfront service fee of around 2-5% on loans.

The schedule of loan amortization takes into consideration the projected cash flow of the borrowers, which is adopted into the terms and conditions formulated. Hence, microfinance loans may be amortized on a daily, weekly, bi-monthly or monthly basis, depending on the cash flow conditions of the borrowers. Majority of the loans are collected on a weekly basis giving MFIs enough liquidity to revolve funds to more borrowers.

Clients of MFIs must be established residents of the area and must have been engaged in a livelihood or business activity for at least six months. MFIs usually lend up to PHP3,000 to first time borrowers. The amount of loan increases based on the track record of borrowers. The track record of clients also determines their eligibility for other program offered such as housing and educational loans and microinsurance.

2.3 Key activities and programs

Microfinance banks are authorized by law to collect savings from the public. Microfinance NGOs, however, are not authorized by law to receive deposits from the public. However, they collect compulsory savings from member-borrowers as compensating balance for members' outstanding loans. The compulsory savings is usually taken as a proportion of the total loan payments of a borrower and retained with the MFI as capital build-up. This amount serves as a hold-out deposit on the loan of the client and can be used by the MFI to offset the client's outstanding loan balance in case of default. On the other hand, co-ops are authorized by law to collect savings from their members. They also issue dividends to members in proportion to the earnings of the co-ops from their lending and other business operations.

Credit programs of MFIs vary in features. The following are the more common lending programs they offer:

Type of Credit Program	Amount	Interest Rate	Term of Loan
Business/ entrepreneurial programs: 1. Livelihood/business loans for short-term capital/working capital and expansion of present business activities of borrowers	Up to PHP150,000 Beyond PHP150,000 up to PHP 300,000 (secured loans)	From 1-3.5% per month or 12-42% per annum	6 months to one year (12 months)
2. Agricultural loans - innovative program designed to expand or diversify agricultural activities	Up to PHP150,000 Beyond PHP150,000 to PHP300,000 (secured loans for purchase of equipment, as well as processing, marketing, and distribution of products)	From 1-3.5% per month or 12-42% per annum	From 6 months up depending on cropping/livestock cycle; or agreed term for fixed assets
Social programs: 3. Housing loans - for home improvement/repairs; construction and house/lot acquisition	Up to PHP300,000 Need for secure tenure instruments for loans above PHP150,000	½ of interest rates on livelihood/ business loans	From 1-5 years for home improvement/repairs and up to 15 years for house construction and house/lot acquisition
4. Educational assistance - for tuition and other educational expenses	Up to PHP10,000	1-2%	Up to 6 months
5. Medical/healthcare loans - for medical purposes including premium payment for health insurance or PhilHealth of PHP1,200	Up to PHP10,000		Up to 6 months

Aside from lending, MFIs particularly microfinance NGOs also provide other services such as:
a) community-based organizing/capacity building – services include values formation and other transformational programs;

b) business development services – a wide array of non-financial services that are vital to the development of sustainable microenterprises. While the primary role of MFIs remains to be the provision of financial services, complementing these services with BDS has become an important strategy to ensure the efficacy of their operations. Services include staff capability training; trainings for clients on technology, design, labeling and packaging; advisory and business consultancy; product development; and market facilitation;

c) microinsurance – a risk management tool providing protection to low- income households and workers in the informal sector against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of risk involved. MFIs may apply for a license to become microinsurance (MI) agents, which allows them to distribute and sell MI products to their clients. Only entities licensed by the Insurance Commission are allowed to provide microinsurance products. These include life and non-life insurance companies, mutual benefit associations and cooperative insurance societies.

Appendix 2 - Sample survey questionnaire for demand assessment

Survey on Water Supply, Sanitation, and Hygiene

Bgy: _____ Purok: _____ Date accomplished: _____
Interviewer's Name:_____ Contact No. _____

Introduction: Good morning/afternoon. I am _____from _____ .We are conducting a survey on water supply and sanitation in the area. We would like to talk to the household head to answer some questions. The survey will be used for our study on how best to provide clean water supply and sanitation services to the community.
Talk to household head (either father or mother).

<table>
<tr><td colspan="2">1. Household Profile</td></tr>
<tr><td colspan="2">1.1 Name of Respondent:</td></tr>
<tr><td colspan="2">Address:</td></tr>
<tr><td>1.2 Highest level of educational attainment:
1- none
2- some elementary
3- elementary graduate
4- some high school
5- high school graduate
6- some college
7- vocational
8- college graduate
9- others (specify) _____</td><td>1.3 Main source of income: (Multiple answers acceptable)
1- farming
2- fishing
3- sari-sari store
4- vending
5- remittances from abroad
6- remittances from local sources (e.g. manila, other provinces)
7- others (specify) _____</td></tr>
<tr><td>1.4 Estimated average total monthly income:</td><td>1.5 No. of household members: _____</td></tr>
<tr><td>1.6 No. of children in school:
1- none
2- daycare:_____
3- pre-school:_____
4- elementary : _____
5- high school : _____
6- college: _____
7- others (specify) _____</td><td>1.7 Household type:
1- concrete
2- wooded/light materials
3- mixed</td></tr>
</table>

2.0 Water Supply
Refer to the choices below in answering Q2.1 to Q2.2 below. Write the number corresponding to the answer. *Main source of water used by household:* *1- piped water into dwelling* *6- piped water to yard* *11- public tap/standpipe* *2- tubewell/borehole* *7- protected dugwell* *12- unprotected dugwell* *3- protected spring* *8- unprotected spring* *13- bottled water* *4- rainwater collection* *9- cart with small tank/drum* *5- tanker truck* *10- surface water (river/lake, etc.)* *Who usually goes to this source to fetch the water for the household:* *1- adult woman* *4- male child (under 15 years)* *2- adult man* *5- delivered by others* *3- female child (under 15 years)* *6- don't know*

2.1 What is the MAIN source of water used by your household for the following purposes:	2.2 Who usually goes to this source to fetch the water for your household?	2.3 How long does it take to go there, get water, and come back?	2.4 Volume of water used per day. (Indicate volume/number of units used per day, e.g. "bidon")
A. Drinking and Food Preparation/Cooking: _____	_____ _____	___mins 2- water in premises 3-Don't Know	_____ /day
B. Personal Hygiene: _____ (bathing,handwashing, cleaning)	_____ _____	___mins 2- water in premises 3- Don't Know	_____ /day (____times/week)
C. Laundry: _____			_____ /day
D. Sanitation: _____ (toilet needs/flushing)		___mins 2- water in premises 3- Don't Know ___mins 2- water in premises 3- Don't Know	

2.5 How much do you pay for water in pesos per day?
Indicate amount paid: P _____ per day for drinking/cooking water
P_____ per day for other purposes

2.6A Do you treat your water to make it safer to drink? 1- yes 2- no – GO TO Section 3.0

2.6B If yes, how? (Multiple answers acceptable)
1- boil
2- strain it through a cloth
3- solar disinfection
4- add bleach/chlorine
5- use a water filter (ceramic, sand, composite, etc.)
6- let it stand and settle
7- others (specify) _____

3.0 Sanitation and Sewerage Facility

3.1 What kind of toilet facility do you use?

1- flush/pour flush
  1- With Septic Tank
  2- Without Septic Tank
3- ventilated improved pit latrine (VIP)
4- pit latrine with slab
5- pit latrine without slab/open pit
6- composting toilet
7- bucket
8- hanging toilet/hanging latrine
9- no facilities/bush or field/dug and buried
10- wrap and throw
11- others (specify):_____

ASK ONLY IF WITH SEPTIC TANK, OTHERWISE GO TO 3.3A
3.2A What type of septic tank do you have?
1- single chamber open bottom
2- single chamber sealed bottom
3- double chamber open bottom
4- double chamber sealed bottom

3.2B How many times have you desludged your septic tank in the last 10 years?
1- once 2- twice 3- never 4- don't know

3.3A Do you share this toilet facility with other households? 1- yes 2- no – GO TO 3.4

3.3B If yes, how many households (including your household) use this toilet facility? _____

3.4 How do you dispose of your waste water from the toilet facility and other usage (bathing, cooking, washing, laundry)? (Multiple answers acceptable)
1- piped sewer system
2- septic tank
3- open/pit latrine
4- elsewhere
5- common drainage of the community
6- others, specify_____

ASK HOUSEHOLDS WITH TOILET:
(Answers 1-6 in Q3.1)

3.5A Do you have problems with your present toilet facility?
1-yes 2-no – GO TO 3.5C

3.5B If yes, what is the problem?
1 - no problem
2 - too many users
3- foul odor
4- frequent clogging
5- pests (flies, roaches, etc.)
6- others, specify_____

3.5C Do you want to improve your present toilet facility?
1-yes 2-no - GO TO SECTION 4.0

3.5D If yes, type of improvement desired:
please specify
1- flush/pour flush
1- With Septic Tank
2- Without Septic Tank
3- ventilated improved pit latrine (VIP)
4- installation of drainage/sewerage
5- others, please specify _____

3.5E How much are you willing to spend for the improvement? _____ pesos

ASK HOUSEHOLDS WITHOUT TOILET:
(Answers 7 and above in Q3.1)

3.6 Why have you not installed a toilet facility?
1- not enough money
2- not a priority
3- landowner does not allow
4- others, specify:_____

3.7 Do you want to have a toilet facility?
1-Yes 2-No – GOTO 3.10

3.8 What type of toilet facility would you like to install?
1- flush/pour flush
1- With Septic Tank
2- Without Septic Tank
3- ventilated improved pit latrine (VIP)
4- pit latrine with slab
5- pit latrine without slab/open pit
6- composting toilet

3.9 How much are you willing to spend for a new facility? _____pesos - GO TO SECTION 4.0

3.10 If No, why don't you want to have one?
1- not enough money
2- not a priority
3- landowner does not allow
4- others, specify_____

4.0 Hand Washing and Health

4.1 On what occasions do the members of the family wash their hands?

	Unaided	Aided
Before eating	1	1
Before cooking	2	2
After going to the toilet	3	3
After disposing of stools of a child < 3 years	4	4
Others, specify_____	5	

4.2 How do you wash your hands?
1- washing without running water/in basin
2- washing without running water/in basin with soap
3- washing with running water only
4- washing with running water and soap 5- others(specify) _____

4.3A Has any household member been sick from waterborne diseases in the last 6 months?
1- yes 2- no

4.3B If yes, what kind of disease? (Multiple answers acceptable)
1- diarrhea/watery stool 2- stomach ache/cramps 3- amoebiasis
4- nausea and vomiting 5- bloody stool 6- schistosomiasis 7- typhoid

4.4A Has any household member been sick from waterborne diseases in the last two weeks? 1- yes
2- no

4.4B If yes, what kind of disease? (Multiple answers acceptable)
1- diarrhea/watery stool 2- stomach ache/cramps 3- amoebiasis
4- nausea and vomiting 5- bloody stool 6- schistosomiasis 7- typhoid

4.5 Common remedies applied during the experience of the above illness: (Multiple answers acceptable)
1- hospital treatment 2- health center consultation
3- herbal (leaves, plants, roots) 4- self-medication 5- hilot/arbularyo
6- others, please specify _____

5. Garbage Disposal

5.1 How do you dispose of your garbage? (Multiple answers acceptable)
1- dug and buried 2- burning 3- disposed in vacant lot
4- collected by garbage truck/collector 5- disposed in river/other bodies of water
6- sold to junk shop 7- others (specify) _____

5.2 Do you practice any garbage segregation method? 1- yes 2- no

5.3A Do you practice any recycling method? 1- yes 2- no;
5.3B If yes, in what way? (Multiple answers acceptable)
1- Collect and sell papers 4- Sell old clothes, other things
2- Wash and reuse glass and plastic containers 5- Composting of biodegradables (leaves, farm wates)
3- Sell metal scraps 6- Others, specify _____

End of survey. Thank you.

Appendix 3 - Demand assessment for partnerships: Summary of results

A demand assessment among MFIs and WSPs (focusing on water districts) indicated that both are interested to engage in partnership arrangements to improve the access of unserved communities to WSS services. [30]

Results of MFI survey. The MFIs indicated their interest in testing possible collaborative arrangements with WSPs and providing financing for any of the following, provided the borrower pass the MFI's credit screening tests: a) payment for connection fees, construction and repair of toilet facilities for individual borrowers; b) financing of kiosks/stations for entrepreneurial single or group borrower; c) financing of bulk meters, distribution system (pipe lines and storage tank) for group borrowers; d) financing of counterpart share of a group for capital investment for a decentralized water system.

A number indicated that WSS loans can either be part of their existing housing, multipurpose or consumption loans or incorporated into the clients' existing business loan. Several MFIs indicated their preference to lend for WSS to clients with proven track record. However, a number of MFIs also indicated their willingness to consider lending to new clients provided the perceived risks are shared with the WSP or other relevant entities.

All the MFIs interviewed also indicated that they have sufficient unencumbered funds to provide loans for water connection. Most of the MFIs are very liquid and are more than willing to develop products that will enable them to provide appropriate financing for water connection of households in poor communities.

MFIs that do not yet have any experience in providing some form of loans for basic social services (e.g., health, education, water connection) are willing to develop and introduce a loan product for water connection. They, however, indicated the need for assistance in the following areas: i) conduct of market research; ii) demand survey/conduct of consultations among potential clients; iii) pilot-testing of scheme in one or two areas near head office or areas covered by branches for at least one loan cycle; iv) documentation of systems and procedures for implementing the scheme; and v) presentation to the MFI Board for approval and roll out.

Results of WSP survey. The WSPs (mainly WDs) indicated that while unserved communities are part of their target expansion areas, many of them do not have existing facilities such as transmission and distribution lines in these areas. Financial viability is seen as the major constraint in expanding coverage especially to the poor communities. The WDs cited the lumpy investments needed as a constraint in expanding to these areas. Residents' ability to pay, their lack of clear tenure, and right-of-way problems have also been cited as major risks in serving these communities. In view of these, only a few WDs had definite targets (number of households and time frame) for expansion into the areas where the poor communities are located. Several WDs indicated the need to still conduct a survey or study to determine the extent and cost of service coverage in these areas. Some WDs view the provision of safe water supply to poor communities as part of their CSR.

Recognizing the existing business relationship of MFIs with the low-income sector, most WDs indicated their interest in partnering with MFIs. They recognize the experience and expertise of MFIs in dealing with clients in poor communities. Aside from this, WDs also believe that partnering with MFIs will a) enable them to increase their coverage and clients in poor communities; b) free up their investment funds for other purposes since MFIs can finance the connection fees and possibly other financing requirements of households in poor communities; and c) lessen their risks since these will be shared with the MFIs. The WDs indicated that microfinance loans can best be used to finance the establishment of reticulation lines and storage tanks and connection fees. Some indicated that financing will be most needed for the establishment of decentralized water systems especially in areas far from their existing water sources where extension of transmission or distribution lines will be more costly.

[30] The survey conducted by the PWRF-SP in July 2010 covered 17 MFIs and 29 water districts.

Almost all WDs have amortization schemes for new connections. More than half indicated that their amortization schemes are open to all clients and only about 5% has limited the scheme to poor customers. The maximum amount of connection loan offered by WDs ranges from PHP3,000 to PHP6,000 depending on the location of the WD (connection fees are more expensive in more urbanized areas compared to less urbanized and relatively rural areas and where source of water is also abundant). The amortization scheme usually involves an upfront fee (also called downpayment or earnest money) of either a fixed amount ranging from PHP500-PHP2,000 or a percentage of the connection fee. The rest of the amount is paid on monthly installment within 1 to 2 years. The amortizations are incorporated in the monthly bills of the customers. Almost all WDs do not charge an interest rate on connection loans. However, availment rates of amortization schemes of most WDs have been below 50%. Usually, customers borrow if they lack funds for upfront fees. In a lot of cases, many households do not avail of said schemes because the amount would still not be enough to cover the out-of-pocket connection costs (e. g., documentation expenses, cost of additional pipes connecting their houses from the distribution line and concrete cutting cost for households located across the road from the distribution line). On the other hand, the amortization scheme becomes irrelevant if the customers have funds and if there are other sources of water.

The WDs recognize the following as crucial factors in implementing such schemes:

- need for social preparation of the customers including values formation;
- counterpart contribution or shared financing of the customers to instil sense of ownership;
- manpower requirements;
- technical factors (capacity of existing system, proximity to source);
- involvement/ role of local government or concerned national government agency (NHA, HULRB); and
- guarantee for defaults.

Appendix 4 - Detailed average cost estimates of various models

(Capital requirements and O&M costs based on 2011 prices)

Model 1 - Household Connections

Capital Investments (In-Place Costs)

Item	Qty	Unit	Unit Cost	Cost
Tee/Saddle Clamp	1	set	361	361
1/2" PE Pipe	20	m	124	2,480
1/2" water meter	1	set	1,236	1,236
1/2" GI elbow	3	pc	25	74
1/2" GI plug	1	pc	12	12
1/2" x 3" GI niple	2	pc	10	21
1/2" x12" GI niple	2	pc	31	62
teflon tape	1	roll	10	10
Total Capital Investment				**4,256**

Model 2 - Bulk Water / Master Meter (say 100 HH)

Item	Qty	Unit	Unit Cost	Cost
A. Capital Investments (In-Place Costs)				
Mother meter	1	set	150,000	150,000
2" GI Pipe	350	m	1,590	556,500
1" GI Pipe	700	m	670	468,650
Appurtenances (valves, etc)	1	lot	90,000	90,000
Water meter	100	set	4,256	425,572
Total Capital Investment				**1,690,722**
Water tank (optional)	*10*	*m3*	*35,000*	***35,000***
B. Annual O & M Costs				
Annual Operating Costs				
1. Salaries and Benefits:				
Number of Household Users			*100*	
Equivalent Number of Full-time Mgt and Ops Staff			*1*	
Average annual salary / benefits			*90,000*	90,000
2. Trainings and Seminars				
3 % of employee salaries				2,700
3. Office Supplies				
1 % of employee salaries				900
4. If co-op: GA meeting expenses per year				25,000
5. Meetings and Conferences expenses per year				2,500
6. Social Service Expenses per year				2,147

7. Promotional Expenses	2,147
8. Miscellaneous Expenses	2,147
Total Annual Operating Costs	127,541
Add: Annual Maintenance Costs = 2% of CAPEX	34,514
Total Annual O & M Costs	**162,055**

Notes:

a) Staff requirement:

For up to 1000 HH: 1 equivalent fulltime staff per 500 hh

For up to 2000 HH: 0.5 equivalent fulltime staff per 500 hh

More than 2000 HH: 0.3 equivalent fulltime staff per 500 hh

b) If with pump, miscellaneous expenses = 5% of CAPEX

Model 3 - Kiosk / Water Station

Item	Qty	Unit	Unit Cost	Cost
A. Capital Investments (In-Place Costs)				
Water tank	1	pc	35,000	35,000
Water outlets with gate valve	3	pc	10,500	31,500
Building structure	1	lot	75,000	75,000
Water meter	1	pc	3,000	3,000
Connecting pipelines	20	m	1,900	38,000
Total Capital Investment				**182,500**
Treatment facility (optional)	*1*	*lot*	*30,000*	***30,000***
Delivery truck (optional)	*1*	*lot*	*250,000*	***250,000***
B. Annual O & M Costs				
Annual Operating Costs				
1. Salaries and Benefits:				
Number of Household Users			*1,000*	
Equivalent Number of Full-time Mgt and Ops Staff			*2*	
Average annual salary / benefits			*60,000*	120,000
2. Trainings and Seminars				
3 % of employee salaries				3,600
3. Office Supplies				
1 % of employee salaries				1,200
Total Annual Operating Costs				124,800
Add: Annual Maintenance Costs = 1% of CAPEX				4,625
Total Annual O & M Costs				**129,425**

Model 4 - Decentralized Water System (say 500 HH)

Item	Qty	Unit	Unit Cost	Cost
A. Capital Investments (In-Place Costs)				
Source	1	LS	2,000,000	2,000,000
Transmission Line	1	LS	1500000	1,500,000
Distribution Line	1	LS	2,760,000	2,760,000
Pump	1	unit	800000	800,000
Appurtenances	1	LS	250000	250,000
Reservoir	1	unit	1750000	1,750,000
HH Connection	500	set	4,256	2,127,860
Total Capital Investment				**11,187,860**
B. Annual O & M Costs				
Annual Operating Costs				
1. Salaries and Benefits:				
Number of Household Users			*500*	
Equivalent Number of Full-time Mgt and Ops Staff			*1*	
Average annual salary / benefits			*210,000*	210,000
2. Trainings and Seminars				
3 % of employee salaries				6,300
3. Office Supplies				
1 % of employee salaries				21,000
4. Power				
electricity (pumping)				192,720
5. Other Utilities				
office electricity				2,400
office water supply				300
office phone				24,000
cell phones				7,200
6. Travel and Transportation	*6 % of employee salaries*			12,600
7. Fuel	*2 % of employee salaries*			4,200
8. Chemicals:				
Chlorination				1,920
Total Annual Operating Costs				482,640
Add: Annual Maintenance Costs = 5% of CAPEX				559,393
Total Annual O & M Costs				**1,042,033**

Appendix 5 - Example of a partnership agreement for establishing an independent water supply system

MEMORANDUM OF UNDERSTANDING

This Memorandum of Understanding on the **Development Program for Water Supply Services in Un-served Communities** is made and executed this 23rd day of February 2011 in Mandaluyong City, Metro Manila, Philippines, by and among:

The **Alalay sa Kaunlaran, Inc.,** a non-stock, non-profit microfinance institution formed in 1987 with principal office at 105 Maharlika Road, Cabanatuan City, Nueva Ecija, represented in this act by its Executive Director, Rolando B. Victoria, hereinafter referred to as **"ASKI"**;

The **Cabanatuan City Water District,** a quasi-public corporation established in 1974 pursuant to PD 198 through a resolution enacted by the Cabanatuan City Council with its office at 229 CVR, Dicarma District, Cabanatuan City, Nueva Ecija, represented by its General Manager, Mario G. Villasan, hereinafter referred to as **"CCWD";**

and

The **Philippine Water Revolving Fund Support Program (PWRF-SP),** an USAID funded program with principal office at 24th Floor, The Prestige Tower, Unit 2401 F. Ortigas Jr. Road, Ortigas Center, Pasig City, herein represented by its Chief of Party, Alma D. Porciuncula, hereinafter referred to as **"PWRF-SP";**

WHEREAS, ASKI provides microfinance loans and is committed to promote and develop micro and small-to-medium enterprises and deliver social services to the poor households in its areas of operation;

WHEREAS, one of ASKI's products and services includes Community Development which promotes partnerships with other service providers and development institutions to address community issues and find means to improve the lives of their clientele;

WHEREAS, CCWD is mandated to provide water supply services to the people of Cabanatuan City including its poor constituents;

WHEREAS, CCWD's mission is to ensure that each home has potable water supply 24 hours a day whole year round at affordable prices;

WHEREAS, ASKI and CCWD operate in the same area and offer services that meet a common goal of improving the economic, social and health status of poor households;

WHEREAS, the PWRF-SP supports financial, economic and regulatory reforms that will help the Philippine Government achieve its Millennium Development Goal of increasing access to water and sanitation services;

WHEREAS, one of the core activities of the PWRF-SP is the provision of technical assistance to enhance capacities of water utilities to enable them to access funds to improve water service delivery and performance;

WHEREAS, PWRF-SP has implemented a program to develop various financing options and possible partnership arrangements among water utilities and microfinance institutions to facilitate the access of poor communities to potable water and sanitation services.

WHEREAS, ASKI, CCWD and the PWRF-SP have agreed to provide assistance and complement resources to improve the access of poor households in identified areas in the city to potable water using community development approach.

NOW THEREFORE, each party hereby agrees as follows:

Purpose

The Parties seek to collaborate to implement a community development program to give poor households access to potable drinking water, as well as explore other schemes to expand service to poor households.

Objectives

- The primary objectives of the collaboration are: To implement a community development program, described as follows: CCWD will provide equipment for water kiosks and deliver bulk treated water to kiosks; community-based entrepreneurs will operate and maintain the kiosks; ASKI will undertake the community preparation, training and capacity building of the kiosk operators; all parties will share the revenues based on a pre-agreed scheme. This service provision model is proposed in areas where piped connection is not financially viable; where community has point source water supply, adequate for cleaning and ablution purposes but needing access to potable water for drinking and cooking; and

- To explore other service provision and financing schemes that use microfinance to enable poor households to access piped water connections.

3. Program Scope and Design

Scope of Collaboration

The scope of the collaboration covers:

- the establishment of water kiosks/stations that can provide income- generating opportunities to organized ASKI community groups/associations in selected communities in Cabanatuan City; and

- conduct of demand assessment and social preparation activities to explore other financing schemes or options for piped connection of poor households.

Community Development Program Design

a) Social Preparation and Community Organizing

ASKI will adopt its social preparation and community organizing activities to cluster households and organize associations resulting to strategic identification of appropriate organizational structure, cash flow management, support and training, partnership principles, marketing strategy, monitoring and evaluation systems.

A Community Development worker/Project Officer will be assigned to target unserved communities and will be responsible in identifying manpower/operators from the community; facilitating a cash-flow management scheme/tool so that water kiosk project will earn a sufficient amount of revenue that will allow income to flow back to their group.

Further, ASKI will build strong relationships with the community so that the water supply service is seen as pro-community, accessible, and valued. A continuing market analysis will be provided to help achieve sales targets and branding objectives.

b) Establishment of Water Kiosks

CCWD will provide the required investment and technical assistance for the establishment of water kiosks. It will ensure regular delivery of treated water to the kiosks. CCWD will be paid a share of the revenues of the water kiosks based on an agreed schedule with the operator and ASKI.

c) Provision of Microfinance Services

ASKI will monitor the water kiosk business operation over six months to one year and if found financially viable will recommend buy-out of the water kiosks by the community operator. ASKI will also offer its microfinance services to raise the capital for the buy-out. The loan amount shall not exceed the buy-out price agreed with CCWD. Loan proceeds will accrue directly to CCWD.

d) Monitoring and Evaluation

Participatory monitoring and evaluation methods will be designed and conducted every quarter and/or six months to track progress, achievement and outcomes of both social and financial targets.

4. Roles and Responsibilities of the Parties/Signatories:

ASKI shall:

- Provide counterpart staff to plan and manage the conduct of activities under this collaboration;
- Provide appropriate non-financial assistance to existing target organized groups/associations to address related issues on water supply;
- Extend financial services to potential clients applying for funds for water facility according to the cost assessment of CCWD and based on its existing loan terms and conditions;
- Organize/Cluster recipient households;
- Conduct the required social preparation and training activities for the operators from the community and/or recipients;
- Organize and manage the conduct of seminars and other capacity building activities for operators/ recipients and its counterpart staff who will be involved in the program as needed;
- Defray the transportation expenses and per diems of its counterpart staff in the conduct of the activities under the program;
- Participate in consultations, workshops and meetings related to the collaboration;
- Liaise with the PWRF-SP and CCWD in the conduct of the activities under this collaboration; and
- Document the process and related activities undertaken in this collaboration.

CCWD shall: Assign staff to undertake the activities under the program;

- Provide direct cost and technical assistance in the installation of water kiosks or stations;
- Ensure the delivery of water supply as per volume required/requested by the community/ associations;
- Assess and recommend for the loan application of prospective recipients
- (applies to potential and new areas) for their financing requirements for water connection and/or establishment of water kiosks;
- Assess, recommend and provide details on the financing requirements of prospective recipients as basis for their loans from ASKI;
- Provide a guarantee by imposing sanctions in the form of the temporary discontinuation of water services to recipients in the case of individual connections or to water associations or operators with overdue installment payments for 1 (one) month and the disconnection of official pipes for any customer with unpaid installment payments;
- Defray the transportation expenses and per diems of its counterpart staff in the conduct of the activities under the program;
- Participate in consultations, workshops and meetings related to the collaboration; and
- Liaise with the PWRF-SP and ASKI in the conduct of the activities under this collaboration.

PWRF-SP shall:

- Organize a team composed of the PWRF-SP Chief of Party, Policy and Institutional Development Specialist and Technical Associate to undertake the tasks and activities pursued under this program;
- Assist ASKI and CCWD organize and conduct a training and advocacy seminar on water supply and sanitation services;

- Develop advocacy and training materials on water supply and sanitation services; and
- Share documents and materials related to water supply and sanitation services.

Joint Undertaking of ASKI, CCWD, and PWRFSP

- Prepare an implementation plan;
- Regularly convene a meeting composed of duly designated representatives from the concerned parties to this MOU to monitor the conduct of the activities under the implementation plan;
- Extend mutual cooperation to each other to ensure timely performance and successful conclusion of various activities agreed upon under this collaboration;
- Exchange information and/or views with each other with respect to any matters necessary for successful completion of various activities under this collaboration;
- Consult each other at any time on any matters of common interest to all parties to this collaboration;
- Discuss any matter in an appropriate period in order to facilitate the coordination and accomplish the objectives of this agreement.

5. Binding Effect and Termination

The Parties are entering into this Memorandum of Understanding while wishing to maintain their own separate and unique missions and mandates, and their own accountabilities. Unless specifically provided otherwise, the cooperation among the Parties as outlined in this MOU shall not be considered or construed as a partnership or other type of legal entity or personality. Nothing in this MOU shall be construed as superseding or interfering in any way with other agreements or contracts entered into between the Parties, whether prior to or subsequent to the signing of this MOU. Notwithstanding anything contained herein to the contrary, the Parties further specifically acknowledge that this MOU shall not be an obligation of funds nor shall it constitute a legally binding commitment by any Party.

The signing of this MOU shall not bind any Party to fund any activity. It is understood that any definitive agreements in this respect shall undergo prior clearance or consultation with other parties' respective institutions' approving authorities before any financial responsibility is undertaken.

This MOU shall take effect upon the date of its signing by the Parties respective, duly authorized representatives, and shall remain in force until terminated as agreed upon in writing by all Parties, or in the case of PWRFSP until the conclusion of the project, expected on September 30, 2011.

IN WITNESS THEREOF, the Parties have hereunto affixed their signatures this 23rd day of February 2011, in Mandaluyong City, Metro Manila, Philippines.

Alalay sa Kaunlaran Inc.	Cabanatuan City Water District	PWRF Support Program
ROLANDO B. VICTORIA Executive Director	**MARIO G. VILLASAN** General Manager	**ALMA D. PORCIUNCULA** Chief of Party