Philippine Water Revolving Fund Design Framework

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Objectives of the PWRF

- Use limited public resources to leverage private sector financing in the water sector
- Limit the use of sovereign guaranteed loans from multilateral banks to fund local water projects
- Combine JBIC funding and private sector financing for local water projects on terms and conditions that are affordable to local users
- Implement EO 279 in the most effective manner and at the lowest possible costs to local water providers.

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Design Criteria for PWRF

- **Leveraging capabilities - Capacity to bring in private sector financing for every peso of government funds. Mobilize as much private financing as possible with limited government resources.**

- **Affordability - Financing local water projects exclusively with private sector financing is not currently practical or affordable in the Philippines. Must extend private sector lending maturities to make financing affordable.**

Design Criteria for PWRF

- **Sustainability – PWRF should be a revolving program.Use government resources wisely. Rather than deploy government funds in the form of grants, the PWRF model seeks to utilize government funds in a sustainable manner.**

- **Acceptable to private lenders – Design a financial structure that does not require lenders to compromise on lending criteria or terms.**

- **Acceptable to water providers – Provides private sector financing at the lowest possible costs to local water project borrowers.**

Policy Framework - EO 279

- Classify water services providers (WSP) into creditworthy, semi–creditworthy, pre- and non – creditworthy
- Shift lending for creditworthy WSP to GFIs and PFIs at commercial lending rates
- Source concessional debt financing for semi-creditworthy WSPs
- Source grants and deep concessional financing for pre-creditworthy
- Source financing from LWUA, LGUs and MDFO for non-creditworthy WSPs.

Current PFI lending terms

- The lending maturity for Philippine banks is currently 7 years at the maximum, while the average useful life of a water project can be 15-25 years
- The mismatch between lending maturities and a project's useful life creates a serious barrier to private sector financing of local infrastructure projects
- This situation places annual debt service payments for local projects at unacceptable levels
- The extension of maturities is essential to providing private capital to the local projects on affordable terms

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TABLE I
Comparative Debt Service Table on a PhP 100 Million Loan

TERM	INTEREST	ANNUAL PAYMENT	TOTAL PAYMENT
7 YRS.	13%	21.8 M	152.8 M
7 YRS.	8%	18.7 M	130.9 M
7 YRS.	6%	17.5 M	122.7 M
15 YRS.	13%	15.2 M	227.7 M
15 YRS.	8%	11.5 M	172.0 M
15 YRS.	6%	10.1 M	151.9 M

TABLE II
Impact of Interest Rates & Terms on LGU Borrowing Capacity

Comparisons of total borrowing capacity of local water providers with an annual debt service capacity of 56 million pesos

Scenario	Term (Years)	Interest Rate	Annual Debt Service Cap. (PhP M)	Total Borrowing Cap.(PhP M)
A	7	15%	56	159
B	15	13%	56	268
C	15	8%	56	354

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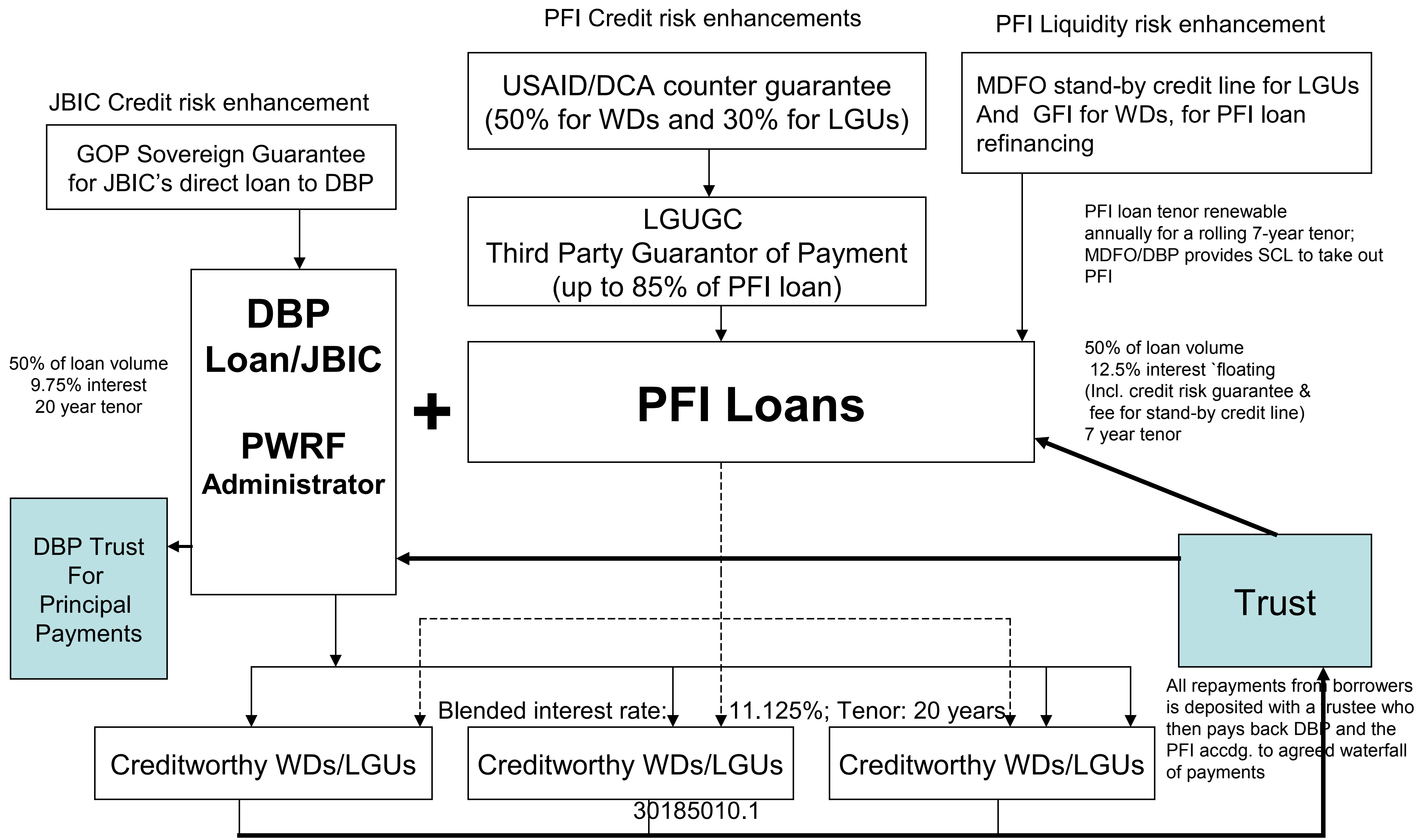
Extension of PFI Lending Maturity

- PFIs lend to WSP for a 7 year period, amortization debt service over 20 years
- A balloon payment will be due in year 8 if PFIs decide not to extend the loan beyond 7 years
- Balloon payment, or liquidity risk, is covered by a stand-by credit line from the MDFO and DBP equal to balloon payment
- If PFIs elect not to renew loan, MDFO or DBP pays off balance to PFIs and assumes loan
- All future WSP payments are made to MDFO or DBP directly

PWRF Structure



3 Billion Peso

Local Water Loan Program

Comparative Annual Amortization of Debt Calculations

	YEARS																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
PFI 100%	428	428	428	428	428	428	428	0	0	0	0	0	0	0	0	0	0	0	0	0
TOTAL	428	428	428	428	428	428	428	0	0	0	0	0	0	0	0	0	0	0	0	0

- This level of debt burden would be unacceptable in the wealthiest of countries
- Local water provider in the Philippines would be unable and unwilling to sustain this debt burden
- It is unwise and financially difficult to finance water projects with useful lifes of 20-30 years with 7 year loans

<u>PFI/JBIC Financing without liquidity credit enhancement and without extension of JBIC grace period to local borrowers</u>(*)

	YEARS																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
PFI 50%	214	214	214	214	214	214	214	0	0	0	0	0	0	0	0	0	0	0	0	0
JBIC 50%	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
TOTAL	289	289	289	289	289	289	289	75	75	75	75	75	75	75	75	75	75	75	75	75

- While this structure provides substantial debt burden relief in year 8, the debt burden in years 1-7 remains high and is unaffordable
- Lenders will evaluate a borrower's capacity to repay based on the highest annual debt burden for any given year under the terms of the loan
- A borrower would need to have sufficient revenue flows to meet the 289 million peso annual debt amortization requirements in year 1 even though the debt burden drops in year 8

(*) Assumes repayment of JBIC loan over 30 years with 10 year grace period. First 10 years of JBIC repayment would capitalize PWRF.

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PFI/JBIC Financing with liquidity risk enhancement without JBIC grace period extended to borrowers(*)

	YEARS																			
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
PFI 50%	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
JBIC 50%	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75	75
TOTAL	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150	150

- Provides a consistent debt amortization burden throughout the life of the PWRE loan to the borrower
- PWRF does not pass that benefit of JBIC grace period to WSP
- Repayment of principal by the borrowers to the PWRF during the first 10 years would be used to capitalized the PWRF
- Under this structure, the PWRF would generate an additional 750 million pesos in years 1-10 that could be used to support other PWRF loans

(*)Assumes repayment of JBIC loan over 30 years with 10 year grace period. First 10 years of JBIC repayment would capitalize PWRF.

JBIC/USAID/GOP Contributions

- **Combined contributions mobilize private funding at the lowest possible cost to rate payers**

- **JBIC**
  - Reduces interest rates
  - Allows for the capitalization of the PWRF

- **USAID**
  - Additional Credit Support
  - Technical Assistance

- **DBP/MDFO**
  - Extends loan tenors
  - Administers the PWRF

Advantages of PWRF Program

- Mobilizes PFI financing for WSP
- Reduces amortization of debt burden for a 3 billion peso loan program from 428 million annual payment to 150 million annual payment. Reduction of more than 65%
- Provides financing at 10.5% compared to 12% PFI interest rates
- Every MDFO peso leverages 25 peso of ODA and PFI financing
- JBIC grace period allows PWRF to mobilizes 750 million pesos to capitalize the PWRF