

SAFE AND CLEAN WATER FOR THE POOR AND BY THE POOR



**MDG**  **F** 

MDG ACHIEVEMENT FUND IN THE PHILIPPINES

# Strengthening Economic Regulation to Enhance Water Service Delivery Performance



*Sandayong Vengie Ravelo*

SEPTEMBER 2011

## ABOUT THE MDGF ACHIEVEMENT FUND

The United Nations (UN) MDG Achievement Fund was created in December 2006 with a generous donation from the government of Spain in fulfillment of its aid commitments in relation to MDG 8 (developing global partnership for development). With almost \$700 million invested in 128 programmes in 49 countries around the world, the MDG Achievement Fund is currently the largest global fund dedicated to achieving the MDGs. The MDG Fund represents a unique initiative of the United Nations that brings together more than 22 UN agencies and programmes, building on the strength of each to deliver effective multisectoral interventions that improve the lives of poor and marginalized citizens

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SAFE AND CLEAN WATER FOR THE POOR AND BY THE POOR



MDG ACHIEVEMENT FUND IN THE PHILIPPINES

**MDG-F 1919:**

**Enhancing Access to and Provision of Water Services  
with the Active Participation of the Poor**

# **Strengthening Economic Regulation To Enhance Water Service Delivery Performance**

**SEPTEMBER 2011**



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## ABOUT THE MDG-F 1919

### Joint Programme on Enhancing Access to and Provision of Water Services with the Active Participation of the Poor

The MDG-F 1919 Joint Programme on Enhancing Access to and Provision of Water Services with the Active Participation of the Poor is jointly implemented by the Philippine Government and United Nations partners to enhance provision of and access to water services by filling the “soft” component gaps of existing national government programs that focus only on infrastructure (“hard” components) provision.

Bringing together the NEDA, DILG, and the NWRB, with UNDP and UNICEF as UN Partners over a three-year period (starting May 2009), the Joint Programme specifically aims to contribute in partially addressing issues in low investments and low capacities by 1) establishing investment support mechanisms to improve efficiency, access, affordability and quality of water; and 2) enhancing capacities at the local level to develop, operate and manage water utilities, to benefit 122,000 households in 36 municipalities in Regions 2, 5, 9, 10, and 13.

OUTPUT	
Outcome 1:	Investment support mechanisms established for poor communities/municipalities to improve efficiency, access, affordability and quality of potable water
Output 1.1	Incentive mechanisms and partnership modalities developed and enhanced for public and private investments in “waterless” and poor communities
Output 1.2:	Financing and programming policies in the sector reviewed and amended as necessary to rationalize assistance and increase ownership and accountability
	<ul style="list-style-type: none"> <li>• Output 1.2.1: NG-LGU cost-sharing policy reviewed and amended, as necessary</li> <li>• Output 1.2.2: P3W programming policies reviewed and amended, as necessary</li> </ul>
Output 1.3:	Local WATSAN councils and water user associations organized to effect participative provision of water supply services
Output 1.4:	Adjustment of NWRB’s tariff-setting guidelines for small water service providers
Outcome 2:	Enhanced local capacities to develop, operate and manage water utilities
Output 2.1:	Capacities at the local level strengthened, with participation of marginalized groups especially women.
	<ul style="list-style-type: none"> <li>• Output 2.1.1: Skills and knowledge transferred/shared through institutionalization of local mentoring mechanisms</li> <li>• Output 2.1.2: WATSAN Toolbox rolled out and implemented</li> </ul>
Output 2.2:	Improved sector plans formulated and monitoring mechanisms established
Output 2.3:	Localized customer service code developed and adopted
Output 2.4:	Information, education and communication programs

## LIST OF ACRONYMS AND ABBREVIATIONS

<b>BLGF</b>	Bureau of Local Government Finance
<b>BOT</b>	Build Operate Transfer
<b>BWSA</b>	Barangay Waterworks and Sanitation Association
<b>CG</b>	Capital Grant
<b>DAR</b>	Department of Agrarian Reform
<b>DBCC</b>	Development Budget Coordination Committee
<b>DBP</b>	Development Bank of the Philippines
<b>DBM</b>	Department of Budget and Management
<b>DILG</b>	Department of Interior and Local Government
<b>DOF</b>	Department of Finance
<b>DOH</b>	Department of Health
<b>DPWH</b>	Department of Public Works and Highways
<b>DSWD</b>	Department of Social Welfare and Development
<b>FGD</b>	Focus Group Discussion
<b>GFI</b>	Government Financing Institution
<b>HH</b>	Household
<b>ICC</b>	Investment Coordinating Committee
<b>IRA</b>	Internal Revenue Allotment
<b>JBIC</b>	Japan Bank for International Cooperation
<b>KALAHI-CIDSS</b>	Kapit-Bisig Laban sa Kahirapan - Comprehensive and Integrated Delivery of Social Services
<b>LGC</b>	Local Government Code
<b>LGU</b>	Local Government Unit
<b>LOGOFIND</b>	Local Government Finance and Development Project
<b>LWUA</b>	Local Water Utilities Administration
<b>LWUA-WDF</b>	Local water Utilities Administration – Water District Finance
<b>MDF</b>	Municipal Development Fund
<b>MDG-F1919</b>	Millennium Development Goal Achievement Fund
<b>NEDA</b>	National Economic and Development Authority
<b>NEDA-ICC</b>	National Economic and Development Authority-Investment Coordinating Committee
<b>NGA</b>	National Government Agency
<b>NG-LGU</b>	National Government-Local Government Unit
<b>NLIF</b>	Non-LWUA Initiated Funds
<b>NSO</b>	National Statistics Office
<b>NWRB</b>	National Water Resources Board
<b>O&amp;M</b>	Operation and Maintenance



<b>ODA</b>	Official Development Assistance
<b>P3W</b>	President's Priority Program for Water
<b>PAP</b>	Program, Activity, Project
<b>PBGS</b>	Performance Based Grant System
<b>PBIP</b>	Performance Based Incentive Policy
<b>PDAF</b>	Priority Development Assistance Fund
<b>PDO</b>	Provincial Development Office
<b>PFI</b>	Private Financing Institution
<b>PhP</b>	Philippine Peso
<b>PED</b>	Planning, Engineering and Design
<b>PMO</b>	Project Management Office
<b>PWRF</b>	Philippine Water Revolving Fund
<b>RWSA</b>	Rural Waterworks and Sanitation Association
<b>RWSSP</b>	JBIC-assisted Rural Water Supply and Sanitation Project
<b>STF</b>	sanitary toilet facilities
<b>SPD</b>	Subproject description
<b>TA</b>	Technical Assistance
<b>TWG</b>	Technical Working Group
<b>UNDP</b>	United Nations Development Program
<b>UNICEF</b>	United Nations Children's Fund
<b>WD</b>	Water District
<b>WSP</b>	Water Service Provider
<b>WSS</b>	Water Supply System



Water source in Ilugao Ramel Castañeda

## Definition of Terms

<b>Certificate of Public Convenience</b>	The license to operate a water utility granted by the National Water Resources Board upon fulfillment of a number of application requirements.
<b>Cost Recovery</b>	<p>Recoupment of the purchase price of a capital or asset through depreciation over a prescribed period.</p> <p>Cost recovery for water services may be defined as the following: to recover all the costs associated with a water system, programme or service to ensure long-term sustainability.</p>
<b>Informal WSPs</b>	Refers to water supply providers who extract surface or groundwater without a water permit and supply the resource without a Certificate of Public Convenience (CPC). Though they may be officially registered or legal entities with local business permits or SEC certification, they operate outside of the formal water regulatory system.
<b>Non-Revenue Water</b>	Volume of water produced by the WSP but does not earn revenues. There are several sources of NRW, such as: 1) illegal consumption; 2) unbilled/ uncollected consumption; and 3) leakages
<b>Waterless</b>	Water supply coverage is less than 50% of the population



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## Executive Summary

**Output 1.4 “Strengthening Economic Regulation to Enhance Water Service Delivery Performance”** is one of the policy research outputs under the Joint Programme MDG-F 1919. Based on a comprehensive review of the country’s current regulatory framework and practices that have an impact on investment flows and the performance of water service providers (WSPs), this research was designed to facilitate the development of a framework for light-handed regulation (LHR) and the adjustment of the existing tariff-setting methodology of the National Water Resources Board (NWRB) to cater to the unregulated WSPs.

The study classified WSPs based on management models, legal status, size, geographical locations, population coverage and their actual or potential service provision to the poor. In relation to development of the light handed regulatory framework, the study proposed to categorize all the WSPs into three: a. formal and regulated; b) informal (referring to legal entities but unlicensed and unregulated) and c) illegal (referring to unregistered, unlicensed and unregulated entities).

Based on this categorization, the study proposed the elements for a light handed regulatory system that essentially covers the second type but limiting its scope to unregistered WSPs serving the poor rural areas. The study put forward some policy recommendations and implementation guidelines for consideration of the National Water Resources Board.

In simplifying the tariff methodology of the NWRB, the study team proposes to simplify the process by a two-fold approach: a) adjusting the business plan objectives and time frame and b) simplifying computations using a proposed manual for tariff-setting that the study team prepared. The features of the simplified tariff methodology include use of lesser spreadsheets, use of simpler formulas and the provision of pro-formal statements and data, in cases where data is not available.

Moving forward, the study proposes that the NWRB take the lead role in establishing the overall enabling environment for LHR. It also proposes the need for a national agency that will effectively regulate WSPs especially LGU utilities, as well as track and nurture their development. The overall purpose of a regulatory-developmental agency is therefore to promote the sustainability of existing LGU utilities (including the P3W and Kalahi projects) and thereby ensure the continued and greater access of the poor to water services.



## 1.0 Introduction

The study on “Strengthening Economic Regulation to enhance Water Service Delivery Performance” is one of the research outputs of the MDG-F 1919 Enhancing Access to and Provision of Water Services with Active Participation of the Poor. It aims to enhance the access and provision of water services to poor communities by filling in the “soft” component gap of existing national government programs, in particular, the President’s Priority Program on Water (P3W).

Based on a comprehensive review of the country’s current regulatory framework and practices that have an impact on investment flows and the performance of WSPs, this research was designed to facilitate the development of a framework for light-handed regulation (LHR) and the adjustment of the existing tariff-setting methodology of the National Water Resources Board (NWRB) to cater to the unregulated WSPs. In general, the study aims to help strengthen the economic regulation of the water supply delivery system in the country, and together with the other outputs of JP, facilitate the sustainable and efficient delivery of adequate and quality water services to poor waterless communities.

In line with the objective of the study, the following were the focus of the research:

1. Categorize the WSPs nationwide according to their management model, type or legal status, size, and other relevant criteria, like geographical location, population coverage and potential service provision to the poor;
2. Formulate a framework for LHR, with the accompanying guidelines; and
3. Review the existing NWRB 5-year tariff-setting methodology and recommend a methodology that caters to small WSPs and would assist them in the improvement of their cost recovery performance

The study operated with the following assumptions and expected outcomes:

Facilitating the entry of all unregulated WSPs into formal regulation through LHR (which addresses the constraints to entry) is a necessary condition to improve utility operations.

Subjecting all unregulated WSPs to business planning and a uniform, less complicated tariff methodology is expected not only to promote efficiency but also equity in access and sustainability of the system.

Implementing LHR would require capacity building in the development of a business plan, accomplishment of strategic goals, and the use of a simplified tariff-setting methodology.

While low levels of public and private investment and limited access to financing constrain the expansion of small utilities, it is assumed that improved performance and



cost-recovery of WSPs will enable them to sustain and expand to un-served areas.

The proper setting of tariffs under LHR will encourage investment flows as WSPs acquire a self-financing capacity or are able to attract external investors. Proper tariff-setting may also increase the opportunities for cost-sharing arrangements.

## 2.0 Categorization of WSPs nationwide

Based on secondary data, WSPs were categorized based on management model, legal status, size, geographical locations, population coverage, and their actual or potential service provision to the poor. The categorization provided one of the bases for the scope and application of light handed regulation.

The study proposed to classify WSPs by management model and regulation status. Table 1 provides a general classification and number of WSPs, by management model and regulation status. Apparently, a greater number of informal, unlicensed, or autonomous WSPs operate in the system. Currently there is no estimate of illegal WSPs.

**Table 1. Classification and Number of Water Service Providers by Status and Management Model**

	Management Models	Number
Formal: licensed, regulated	a) Corporations w/CPC	2
	b) Quasi-Government Corporations (WDs)	594
	c) Cooperatives w/CPC	56
	d) Associations w/CPC	21
	e) LGUs w/CPC	5
	f) Other Private Utilities/ Subdivisions, HOA w/CPC	298
	g) Peddlers w/CPC	40
		<b>sub-total: 1016</b>
Informal: Legal but unlicensed, unregulated, and autonomous	a) Cooperatives w/o CPC	96
	b) Associations w/o CPC	138
	c) LGUs w/o CPC	800
	d) P3W and Kalahi	3395
	e) Other Private Utilities/ Subdivisions, HOA w/o CPC	27
	f) Registered peddlers	1
	<b>Subtotal:4457</b>	
Illegal: unregistered, unlicensed, and unregulated	includes Individual/ personal; Peddler-deep well owner without a water permit; Peddler sourcing water from illegal well owner, Deep well owner without water permit supplying water peddlers	Unknown

source: see Annex 1 of the full report of this study.

Based on available data, the study says that if the number of formal and informal WSPs is broken down by location, there are no water districts operating in two thirds of all municipalities. Water from Level III system in most towns and rural areas is provided by an LGU utility or a mixed set of informal providers – cooperatives, RWSAs, BWSAs, and more recently from the Level II-III system of P3W and Kalahi projects at the barangay (village) level.

Region	WD	LGU	Coop	RWSA	Private	Peddler	MWSS
CAR	61.95		0.98		0.96		
Region I	82.07			0.55	0.7	0.29	
Region II	79.48					0	
Region III	85.85		1.61	0.19	5.83	1.03	
Region IV-A	58.92	0.04	1	0.18	9.77	1.81	5.06
Region IV-B	26.7		0.75	2.92	3.01	0.58	
Region V	55.24		0.58		6.73	0.44	
Region VI	71.13	1.06	2.54	0.38	1.25	0.08	
Region VII	52.11	1.04	3.85	0.22	2.31	1.2	
Region VIII	40.26		0.05	0.05	0.78	0.09	
ARMM	62.72						
Region IX	61.51						
Region X	67.75			1.23			
Region XI	68.95		1.49	1.61	0.75	8.89	
Region XII	67.00		0.14	0.93			
Region XIII	65.34			0.27	0.48		
Subtotal without							
NCR	64.19	0.18	1.19	0.43	4.02	1.28	1.08
NCR					4.37	2.83	91.58
Nationwide Total	44.57	0.12	0.83	0.3	4.14	1.75	28.60

Source: see Annex I of the full study report



Many unregulated RWSAs, cooperatives and LGU utilities have not heard of the CPC, its requirements and benefits. For other WSPs, they find it difficult to comply with NWRB requirements, including concerns about high transactions costs. Many of the rural based WSPs have no experience in planning and tariff-setting. Capacities are very limited to operate an efficient and sustainable water service delivery operation.

% Population with Access to Water Served									
	LGU	Coop	RWSA	Private	Peddler	LGU-P3W	BAWASA	Kalahi	
	15.21	6	1.84	0.09		2.96	1.28	8.73	39.12
	8.98	0.37	1.95	0.89		2.96	1.24		22.98
	10.36	0.4	1.86			6.41	1.5		17.01
	2.27	0.5		2.08		0.64			43.00
	14.74	2.47	2.49	0.58		1.98		0.97	47.95
	33.67	0.12	18.25			10.65		3.36	32.75
	17.31	0.78	1.79			4.44	1.07	11.63	36.24
	8.20	0.29	0.67	0.01		9.40		4.99	24.08
	24.83	2.17	1.64	0.97		2.82	4.3	2.54	41.17
	30.63	0.12				6.25	0.91	20.95	32.24
	0	0				37.28			9.90
	15.32	0.40				12.20		10.57	35.05
	16.4	4.69				6.39		3.54	36.14
	6.85	1.99	0.97			3.19		5.32	39.18
	2.87	0.12				16.88		12.07	20.30
	12.49					13.04		8.38	37.39
	13.58	1.46	1.66	0.59		5.21	0.65	4.49	34.34
					1.18	0.03			100.00
	9.49	1.01	1.15	0.41	0.36	3.61	0.45	3.12	42.90



With only about 43 percent of the national population being serviced by identified WSPs, more than half of the country's population must be dependent on other water supply sources, such as: 1) unaccounted informal providers, like unlicensed private peddlers, 2) Level I or II water systems, own hand pumps and community artesian wells, and 3) natural sources, springs, streams, or harvested rain. Table 3 shows how portions of the population are served by type of WSP and level of service. While these sources may not be mutually exclusive, they are significant sources for the poor, especially in regions where water coverage by identified WSPs is less than 43%. For instance, the population served in ARRM is only 9.9 percent.

Because it is only in the NCR, Region 4A, and Region 3 where Level III water coverage is greater than the national average, the poor in most regions must solely be dependent on the unaccounted informal, household and community-based and natural sources. This condition suggests that the security and availability of the poor's access to water depends on both the protection of these existing sources, the expansion of the informal WSPs, and the access that formal WSPs would provide.

**Table 3. Proportion of the Population Served by WSP Type and Water Source**

Water Source WSP Type	% of the Population
Level III, Formal WSPs	34.2 (80%)
Level II-III, Informal or Autonomous WSPs	8.6 (20%)
Level I, II Own Pumps, Artesian Wells, Natural Sources	57.2

To realize greater water access for the poor, measures are required to enable the existing informal, unregulated or autonomous WSPs to improve and sustain their operations, as well as expand their service coverage to include poor households.

Two issues must be addressed in order to attain the water sector roadmap goal to place the informal or autonomous WSPs under formal regulation, and make their operations sustainable and capable of expanding service coverage. One, the constraints, which hinder their formalization, or the conditions that maintain their status must be addressed. Two, the conditions that would facilitate their formalization (i.e. through LHRs and simplified tariff guidelines) and at the same time strengthen their capacities must be put in place.

### 3. Recommendations for a Light-Handed Regulation System

The LHR framework and guidelines is essentially a simplified approach towards constructive regulation, expansion of service, and sustainable income generation of WSPs. Given the concerns regarding application requirements and processes, LHR will include, among others, capacity building interventions, lower filing and renewal fees, expanded and strengthened institutional arrangements with deputized agencies, simplified documentation requirements (particularly those requiring technical information), a simplified business planning approach, and a simplified tariff-setting methodology.

The study points out that a LHR policy framework must have the following elements:

- It addresses the implementation problems and particular regulatory requirements that constrain the formalization of unregulated SWPs.
- Given the scope of LHRs and the constraining operational conditions and limited capacities of informal SWPs that hinder their formalization, it provides the necessary capacity-building measures that would help facilitate SWP formalization.
- It provides guidelines on how business planning and tariff-setting methodology can be simplified and aligned with each other, in such a way that it would be responsive to the given capacity, operational conditions, and priority goals of the informal SWPs.
- The guidelines apply to both the older and the newly established unregulated (level II-III) utilities who will operate sustainably and eventually expand their coverage area and reach the poor waterless households.

#### 3.1 Scope of LHR: Who are to be covered?

LHR should cover the unregistered WSPs that are located in poor rural areas; those that serve a clientele which include poor households; and those WSPs that earn very little or hardly any net income. In contrast, LHR should not cover the unregistered WSPs that are located in urban or developing areas and who are servicing middle class or relatively well-off households and earning sufficient incomes.

Informal or Autonomous WSP	Number w/o CPC	Number with at most 500 connections	Population Coverage (%)
LGU	800	623	9.5
Coop	96	83	1.02
RWSA	87	75	1.15
LGU-P3W	2475	2475	3.61
BWSA	51	51	0.46
Kalahi	941	941	3.12
<b>Subtotal</b>	<b>4450</b>	<b>4248</b>	<b>18.86</b>

### 3.2 Light-Handed Regulations Policy Recommendations

Following are the recommended LHR policies:

1. Informal WSPs covered by LHR will first go through a simple registration process. Registration will be valid for one year during which time they will be trained and mentored to draft their business plans and set their tariffs under the LHR regime. The NWRB, CDA and DILG will complete the registration process until they are able to cover all informal WSPs that fall within their mandate.
2. Registration fees will be discounted by 50% from their current levels.
3. Informal WSPs will be assisted in the drafting of their business plans. The coverage period of the business plan may not necessarily be for a period of five years. The WSP will determine the appropriate planning horizon that is applicable to them, e.g. one year, two years, etc. Furthermore, business plans under LHR will not necessarily have all of the expected strategic goals, but must have at least any of the following objectives:
  - a) Improve the operational efficiency of utility, in general and raise collection efficiency, in particular;
  - b) Reduce NRW and the high cost-revenue ratio; and



*Ligo Mamre Tiu Lim*





*Fetching a Pail of Water* Ma. Krizia H. Ledesma

- c) Prioritize investment for the rehabilitation of the existing system and provide access to the poor.
4. Tariffs will be set using the tariff-setting methodology presented in a simplified manner. Computations of tariff rates will make use of simpler spreadsheets and formulas. The above three Business Plan objectives will entail the use of particular formulas for computing the appropriate tariff rates. The WSP will apply the set of formulas that are applicable to the business plan objective it has set out for itself. Annex 3a contains the Manual for Tariff-Setting under LHR. Spreadsheets will be provided to the WSP, for inputting of the required data and automatic computations of tariff rates for each Business Plan objective.
5. Pro forma income statements and other recording forms will be made available for the documentation and assessment of the utility's baseline condition. Also, technical information and data not readily available will also be provided to enable applicants to draft their business plan and compute the various tariff options. Other basic data requirements that are needed to apply a simplified version of the NWRB tariff-setting methodology must first be identified and made available.

6. The informal WSP will be covered by LHR for a maximum period of five years, after which the WSP is expected to be able to go through NRW's regular process of applying for a CPC.

### 3.3 Proposed LHR Implementation Guidelines

1. An IEC program on the application requirements for the informal WSPs must be launched.
  2. The receiving and transmission functions of the partner agencies of NRW (CDA and DILG) and its potential deputized agency (DENR) may be extended to include initial processing of documents and advising of applicants.
  3. The backlog problem of NRW may be alleviated by improvements in the roles of its partner and/or deputized agencies and the institution of computerization and online application, if not the establishment of NRW regional or field offices
  4. DENR-NWRB should mediate in the provision of a public land lease or an alternative public land tenure instrument for water access, like a special land use permit in protected areas. This mediation may include settling the competing water permit application between the informal WSP and a public land-holding party.
  5. In response to conflicting water permit applications, the NRW should initially review the available groundwater supply and its allocation among current water permit holders.
  6. Capacity building and training on business planning and tariff-setting are necessary. Technical expertise from the consultancy community, NRW, local university and LGU may be tapped to directly train and mentor them. For instance, hands-on training or direct mentoring may be provided in the conceptualization and formulation of the business plan and the accompanying computation requirements.
  7. Because the Local Government Code does not explicitly provide an explicit provision/ directive on economic regulation and proper resource pricing, such a policy must be formulated and implemented for the LGU utilities, together with the prescribed tariff guidelines and performance standards for LGU utilities or community-based water projects, like P3W and Kalahi.
  8. Technical assistance and capacity building in tariff-setting must be provided, and must proceed alongside the preparation of business plans by the WSP applicants.
  9. The formulation of the business plan must consider the particular conditions and capacities of prospective WSP and LGU applicants,
- 



and it must reflect the tariff implications for attaining the strategic goals. Not all the goals would necessarily require a tariff proposal, while a particular goal may have more than one tariff option. Tariff-setting is thus subsumed to the prioritization of particular strategic goals in the business plan.

10. The various tariff options must be deliberated and evaluated in the planning, capacity building and consultation process, including the first consumption block rate. It must be assessed in terms of their affordability to poor households.

**Table 4: Matrix Problems Confronted in Each Stage and the Proposed Light-Handed Regulations and Implementation Guidelines**

Stage	Problems encountered	Recommended new set up under the LHR arrangement
Pre-Stage 1 (entry point stage)	Lack of information on the number and profile/ characteristics of unregistered, informal WSPs	Registration as a service provider and filling up an information sheet
Stage 1: Water Permit Application	Lack of information on application requirements and procedures for a conditional water permit	Information and education campaign
	Deputized agency's failure to transmit documents; need to involve agency in providing feedback, status report or guidance to applicant	<ol style="list-style-type: none"> <li>1. Continue MOA with CDA and DILG</li> <li>2. Deputize other agencies (e.g. DENR) and define and improve their function.</li> <li>3. Establish NWRB field offices (possibly through the establishment of the Water Regulatory Commission)</li> </ol>
	Lack of land document or tenure instrument.	<ol style="list-style-type: none"> <li>1. Mediation of DENR-NWRB in the provision of public land lease or alternative public land tenure instrument.</li> <li>2. Facilitate agreement or resolution of conflict between informal WSP and public land holding party</li> <li>3. Facilitate agreement or resolution of conflict between informal WSP and public land holding party</li> </ol>
	Resistance of existing water permit holder to the application of the informal WSP.	Review of available groundwater supply and its allocation;
Stage 2: Payment of Assessed Filing Fee	Fees are considered too high	Reduce fees by 50% of their current levels



Stage 3: Formulation of Business Plan and Tariff-setting	Lack of experience with planning, knowledge of the tariff-setting methodology and its key concepts, and limited or no technical capacity (e.g. to compute depreciation expenses, project demand and investment requirements)	<ol style="list-style-type: none"> <li>1. Provide technical assistance and capacity</li> <li>2. Conduct hands-on training in formulating the business plan and doing the computational requirements</li> </ol>
	Lack of critical data and information for business plan and tariff-setting by WSPs and LGUs (e.g. water production, leakages, system losses, depreciation, projected water demand, investment requirements)	<ol style="list-style-type: none"> <li>1. Provide a pro-forma income statement, other recording forms, and business plan;</li> <li>2. Provide technical information and data that are not readily available;</li> <li>3. Identify the basic data requirements for planning and tariff-setting</li> </ol>
	The expectations/ assumptions of the prescribed 5-year planning and tariff methodology do not reflect the operational conditions and capacities of the unregulated WSPs and LGU utilities.	<ol style="list-style-type: none"> <li>1. Further simplify the tariff-setting methodology to allow computation for tariff even with limited information, by using less number of spreadsheets and simplifying the formulas for tariff-setting.</li> <li>2. Orient the planning and tariff-setting to the concrete problems and strategic goals of the newly registered WSPs and LGUs.</li> <li>3. Formulate and implement a plan for performance improvement (e.g. improved collections, NRW reduction) and for the rehabilitation of the utility system.</li> <li>4. Determine and present the tariff options for covering priority rehabilitation investments and attaining lower cost-revenue ratios (less than 1, i.e. 0.9, 0.8, 0.7, or 0.6).</li> </ol>
	No economic regulation directive on proper resource pricing for LGUs; present tariff is not based on cost recovery, but on short-term priorities and political considerations.	<ol style="list-style-type: none"> <li>1. Draft prescribed tariff guidelines and performance standards for LGUs;</li> <li>2. Provide mechanism for protecting business planning process from political interference</li> </ol>
Stage 4: Commitment to Approved Tariff Schedule, Performance Indicators		<ol style="list-style-type: none"> <li>1. Formulate the appropriate performance indicators for the given business plan objectives;</li> <li>2. Provide training on operations management</li> <li>3. Need for a regulatory-developmental agency that would shepherd the transformation of the WSP and LGU utilities</li> <li>4. Sustained provision of technical assistance to LGUs</li> <li>5. Establish NWRB field offices (possibly through the establishment of the Water Regulatory Commission)</li> </ol>
Trajectory Options of WSPs Under LHR		<ol style="list-style-type: none"> <li>1. Expansion of coverage within barangay or municipality;</li> <li>2. Integration of coops with other water coops</li> <li>3. Integration of R/BWSA with other R/BWSA in the area</li> <li>4. MOA or Integration with main utility (Manila Water, Maynilad, or Water District) through a buy-out scheme or concessionaire-community utility arrangement</li> <li>5. Privatization of LGU utility</li> </ol>

## 4.0 Simplified Tariff-Setting Methodology

The study indicated that it is not proposing any new methodology but rather simplifying the existing methodology in order to facilitate the entry of the small informal and unregulated WSPs into the existing formal system.

The study showed that NWRB's current tariff-setting assumptions on the nature of the applicant and its implicit baseline utility conditions and operational levels, pose stringent requirements on some WSPs' application process. Informal WSPs differ markedly with regards to size, market or consumer profile, technology, capital requirements, growth capacity, and rationale for operation. Data shows that informal WSPs have limited capacities and operational conditions and may thus not be able to immediately fulfill the case utility's operational objectives and perform as expected within the 5-year time frame. Unless these requirements are lightened, the applicants may fail to qualify for a Certificate of Public Convenience (CPC).

### 4.1 Developing a Business Plan

NWRB's current policy of a five-year tariff-setting methodology is hinged on a five-year business plan. The study suggests that the applicant WSP be allowed to set its own planning horizon for a period that is realistic for them (i.e. planning period can be less than 5 years.)

Given the limited technical and organizational capacity of the targeted WSPs, the provision of technical assistance and capacity building must proceed alongside the preparation of the business plans of the unregulated and autonomous WSP and LGU applicants.

In order to ensure that the planning process is grounded on their given realities and concrete conditions, the formulation of the plan (with guidance from mentors) must be directed towards their immediate problems, which in turn would define their strategic goals. In anticipation, these pressing problems may consist of the following: inefficient operations, high NRW, low if not zero or negative net incomes or cost-revenue ratios greater than one, and almost fully depreciated facilities. Hence, the business plan would have the following three strategic goals:

- Improve the operational efficiency of utility, in general and raise collection efficiency, in particular;
- Reduce NRW and the high cost-revenue ratio; and
- Prioritize investment for the rehabilitation of the existing system and provide access to the poor.

In drawing up a business plan under a simplified methodology, a few basic variables would be needed, namely: collection efficiency, volume of production, NRW (leakages, illegal consumption, and unbilled or uncollected authorized consumption), depreciation, book value of assets, extent of cost recovery,

the additional current and capital costs for reducing NRW, priority investment options, and the household income of the poor.

## 4.2 Simplified Computations

The study came up with a manual for tariff-setting with accompanying worksheets for use of WSPs who may not have the capacity to understand and use the NWRB tariff-setting methodology. The basic idea is to be able to compute annual revenues, compute annual expenses, compute for the tariff rates for each business plan objective and finally, decide on the new tariff rate based on informed choices.

The features of the simplified manner of computation include the use of less number of spreadsheets, the use of simpler formulas, and the provision of pro-forma statements and data in cases where data is not available. These are all contained in the attached Tariff-Setting Manual of the full study. The study team reiterated that the use of the simplified manner of presenting the tariff-setting methodology is the very incentive that will entice WSPs to get formalized and regulated by NWRB.



*Fill It Up* Erwin Lim

## 5.0 Moving Forward

Given the national macro-water conditions and challenges, there is need for intervention to raise water coverage levels and facilitate the entry of informal, unregulated or autonomous WSPs into the formal regulatory system because their number and coverage are critical in reaching a greater number of poor people. But their operations must also improve and made sustainable. The JP and LHR, in particular envisions that the newly registered WSP under LHRs, armed with their business plans and proposed tariffs, would achieve cost recovery, improve and sustain operations, and eventually expand coverage and increase access for the poor.

To ensure the successful institutionalization of a LHR policy framework, two actions are necessary. One, the NWRB must establish an overall enabling environment for LHR in terms of policy, structures, and resources. It must pass a Board resolution that acknowledges LHR as an essential strategy, and this action will generate the funds, human resources and logistical and technical support for the implementation of the strategy. Two, it must implement the following key operational actions: 1) pursue focused and pro-active IEC; 2) improve performance of deputized agencies with clear and realistic service standards and accountabilities; 3) decentralize NWRB by establishing satellite NWRB offices (regional or field levels); 4) develop reduced but progressive filing and renewal fees; 5) develop performance guidelines for LGUs; 6) simplify and augment the data requirements for business planning; and 7) implement the tariff-setting methodology in a simplified manner and provide proper technical assistance and capacity building for WSPs focusing on business planning and tariff-setting.

Among all the above key operational actions facing NWRB, the most challenging is the development of performance guidelines for LGUs. It is the most critical action not only because NWRB would have to proactively promote the performance standards while LGU utilities have no formal mandate to apply economic regulation or proper water resource pricing. This action would also determine whether a greater proportion of the poor will gain access to water. Among all the informal, unregulated WSPs, LGUs have the greatest potential in reaching the poor. However, this potential can only be realized if the operational conditions of LGU utilities would improve with capacity building and mentoring in business planning and tariff-setting, and thereby strengthen their sustainability, together with the current P3W and Kalahi projects.

A simplified, usable tariff-setting methodology, however, is not sufficient to realize the envisioned goal. There must be consensus within the utility, local government and community on the immediate problems and strategic goals to address, the priority actions to take, their assessment of the benefits and costs of improving the present and future viability of the utility. And there must be consumers' capacity and willingness to pay for the costs of such improvements vis-à-vis their willingness to support the poor, as well as LGU commitment to cost recovery rather than political, short-term considerations. And if the LGU utilities yield a surplus, these savings must flow to investments in utility improvements or expansion, and not merely diverted for unproductive or deficit budget areas.



While economic regulation (in the form of tariff-setting) is necessary to change and transform the orientation and practices of autonomous or newly formalized LGU utilities, it would not be sufficient to merely enunciate a policy directive on proper resource pricing for LGUs and detail the tariff guidelines and performance standards for their utilities. **Apart from this regulatory policy, there must be a national agency for LGU utilities that would monitor and regulate the utilities, as well as track and nurture their development. The overall purpose of a regulatory-developmental agency is therefore to promote the sustainability of existing LGU utilities (including the P3W and Kalahi projects) and thereby ensure the continued and greater access of the poor to water services.**



*A Day's Work* Erwin Lim



## NOTES ON THE STUDY

1. During the August 2011 meeting of the Sub-committee on Water Resources at the NEDA Boardroom, it was noted that the study recommendations on WSP categorization do not adequately reflect new information regarding all WSP categories operating in the country. But it was also recognized that the information was not yet available at the time the recommendations were being formulated. In this regard, the study recommendations on WSP categorization, light-handed regulation and simplified tariff methodology will be used as inputs together with later findings when the NWRB finalizes the scope and coverage of LHR later on.
2. This study was prepared by a study team commissioned by NEDA composed of Germelino M. Bautista (Team Leader), Gilbert Magno C. Braganza (Institutional Expert) and Rina Maria P. Rosales (Economist).

**Germelino M. Bautista (Team Leader)** is a Full Professor of Economics at the Ateneo de Manila University where he teaches Basic Economics, Economics of Environment and Natural Resources, and History of Economics at the undergraduate and graduate level. He obtained his doctoral degree in Development Studies, major in Economics at the University of Wisconsin, Madison. Over the past two decades, his research studies have been on the forestry crisis, groundwater depletion, raw water pricing, environmental valuation, the uncompensated costs of metallic mineral mining, economic instruments for Integrated Water Resource Management, payments for environmental services, strategic environmental assessment, rural development and the financing for climate change adaptation.

**Gilbert Magno C. Braganza (Institutional Expert)** continues to be active in the field of community-based natural resources management particularly focusing on the operational, cultural, and socio-institutional aspects. He has been involved in cultural resource mapping, local resources management planning, community and institutional development, and environmental governance. He is currently working with various development organizations and government agencies in helping local communities to effectively and sustainably manage their resources as a means to improve their economic well-being and conserve biodiversity.

**Rina Maria P. Rosales (Economist)** does policy studies using tools in environmental economics. Her work experience includes economic valuation of natural resources, establishing market-based instruments to serve as incentives and disincentives for natural resource management, designing sustainable financing schemes for protected areas, and using business planning techniques for protected area management.

3. A copy of the full study report can be requested from the National Economic and Development Authority. Interested parties may contact **Ms. Kathleen P. Mangune, Project Manager** ([kpmangune@neda.gov.ph](mailto:kpmangune@neda.gov.ph)).
4. This summary document was prepared by Rosario Aurora L. Villaluna based on the final report of the Study Team. This report feeds into the Integrated Policy Document on Pro-poor water supply and sanitation.



**Ms. Rosario Aurora L. Villaluna** is currently the Chairperson-elect of the Philippine Water Partnership and is a member of the NEDA Sub-committee on Water Resources. She is currently the Chairperson of the Philippine Ecological Sanitation Network and the Executive Secretary of the Streams of Knowledge.



*A Flow of Life* Arnold C. Jumpay



Implementing Partners:



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Development Authority



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Children's Fund



United Nations Development  
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