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***Keynote Address***  
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2<sup>nd</sup> Southeast Asia Water Forum: Better Water Management Through  
Public Participation  
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Colleagues from all around the globe, fellow workers from the government and non-government organizations, the private sector, the academe and research institutions, financiers and experts from international corporations and organizations, ladies and gentlemen,  
GOOD AFTERNOON!

It is truly a great honor for me to welcome you all to this session on *Leading National Water Reforms and Governance*. Essentially, the objectives of today's sessions are two-fold: i) To facilitate discussion on the role of public participation in the improvement of water reforms and governance; and ii) To define how water reforms can lead to better water management and spur higher investments in the water sector.

Water is a complex resource. Even more complex are its production, administration and distribution. It is a cascade resource in that it offers benefits for both humans and the environment from where it is sequestered and stored down to where it flows and to when it eventually re-enters the atmosphere for recycling.

One of the reasons for its complexity is that water is essentially a public good. Public goods are those which are in everybody's interest to have, but in no one individual's interest to provide. So how do we provide it adequately for people's needs?

Water is also subject to the tragedy of the commons. Common resources tend to be abused because they belong at once to everyone and to no one. Everybody wants to use it but nobody wants to maintain it, or clean it.

Given the importance of water to human life, it became essential for societies to organize to resolve these issues. Civilizations and empires thus grew out of the need to manage water resources well: the Egyptian, Babylonian, the Khmer empires flourished as irrigation water allowed them to double or even triple their harvests while providing an abundance

of fish for food and while avoiding community disputes over its use and abuse.

Water, in the form of flood, presents great risks. Governments have been addressing these risks by initiating structural measures through the construction of levees, dikes, channel straightening, widening and deepening activities. On the other hand, it is less serious in maintaining the vegetation cover of our watersheds. It simply relied on the idea that hastening the release of surface run-off to the sea through river training and wall modification works will ultimately solve the problem. We have been trying to cure the problem of floods using “hard” engineering interventions which are not only very costly but only solve part of the problem. Another paradigm or approach may have to be looked into.

Instead of hastening the displacement of water surface run-off into the seas, it can be retarded at applicable places through reforestation and watershed management to encourage infiltration. Shallow groundwater will thus be replenished and in the long run, the deep aquifers recharged. Since water is not abruptly but gradually released, it may be available all year round. And because the different river channels will not have to carry flood loads in excess of their capacity, costly channel modification and fortification efforts may no longer be necessary. Their design

magnitude will be dramatically reduced and therefore would not require enormous amount of investment.

Understanding the socio-economic dimensions of water entail even further complex exercises of science and governance. How do people use it, depend on it, and allocate its stocks to each other? How do people behave so as to give it value and invest on its supply and quality? How should it be valued as it moves from watersheds and aquifers to rivers and farms, to our communities and homes, and to our coasts? How should it be priced, who should pay it and to whom, as it cascades across its landscape of users? What management systems are required to most equitably and efficiently allocate it to its many users and dependents? What institutions would need to be created, or new institutional arrangements established, to improve the efficiency of water management and governance in the country? These are questions that lend no easy answer, yet whose answers, ultimately, need to be grappled with by all leaders and sectors of society.

Governments, through the formulation of relevant policies and laws that set the tone for the efficient use, management and development of water resources, play a key role in ensuring the equitable and sustainable water resources management. However, they do not operate

unilaterally. Issues such as managing limited water resources taking into account increasing demand and environmental needs and developing appropriate tariff structures to facilitate cost-recovery as well as to sustain the resource itself, to name a few, need to be discussed among stakeholders/users of the resource prior to the formulation of the appropriate policy frameworks to facilitate efficient allocation, regulation and management of water among competing users.

Water management requires the broad cooperation between the upstream and downstream users, between regions and states sharing and affecting a water resource, governments, regulators, providers and consumers.

In the past decade, due to the large investments required in the water sector, providing and maintaining water services can only be done through partnerships between the public and private sectors. Through the assignment of property rights to the private sector, the phenomenon of the tragedy of the commons is avoided and water resources better maintained. Property rights lead to better maintenance of scarce resources. The Arabs have this saying: If you give a man a rock with secure property rights, he will turn it into a garden but if you give him a garden with insecure tenure, he will turn it into a desert.

However, for the private sector, investing in the provision and maintenance of water resources entail high risks and a long payback period. Consequently, investors require a high rate of return to compensate for these risks.

The government, on the other hand, is faced with the challenge of providing adequate water at a reasonable price. But when water is cheap, people tend to waste it. Water should therefore be priced at its scarcity value. But the nagging question remains – who will pay for it and how do we collect from those who should pay for it? This leads to the issue of who benefits and whether they can afford to pay and if not, who subsidizes them?

A clear set of regulatory framework is therefore essential to answer these questions while making the risks to investors acceptable. A strong regulator would be needed to protect the public against excessive charges but at the same time ensure that the water company gets paid while hopefully helping those who cannot afford to pay the full cost.

It is in creating the proper environment, that is, putting the appropriate policies and sound regulatory processes in place, that the

private sector can be enticed in infusing much-needed investments in the water sector; water utilities being not only capital-intensive but also politically-sensitive industries. However, private-public partnership should be dealt with caution. Private sector greed and government corruption are the contributing factors to inefficient and expensive projects. Our experience in the Philippines has been when government takes much of the risks through performance and financial guarantees, the private sector has no incentive to put up efficient and cost-effective projects since government ends up absorbing most of the losses resulting from over-designed and very costly projects while the private proponent gets all the gains. We have to formulate contractual arrangements between government and the private sector that reduce these moral hazards and encourage the most effective and cost-efficient designs of projects.

But the heavy costs of regulation, the difficulties in its implementation, and its many failures have been driving public policy more towards market-based approaches which not only promote efficiency in its provision but help preserve the environment as well.

The green mantra of mandate, regulate and litigate has not worked. The top-down command and control approach to natural resources and

environmental management may just be too difficult to implement and administer.

To provide an example of a market-based and environmentally sound approach, the Economist Magazine reported that in 1997, the City of New York needed to act to preserve the quality of the city's drinking water. One way to do this would have been to install water filtration plants, but that would have cost US \$ 4 billion up to US \$ 6 billion in investments up front, together with an annual maintenance cost of US \$ 250 million. Instead investing in this expensive project, the city government decided to preserve the environment of the Catskill Mountains from which New York City gets most of its water. It spent US \$ 250 million on buying land to protect the mountains from development and paying the farmers US \$ 100 million a year to minimize water pollution. From US \$ 6 billion investment to only US \$ 250 million and maintenance of US \$ 250 million a year down to US \$ 100 million – that is a rather huge savings.

In Australia, farmers who use irrigation (which increases soil salinity) can buy “transpiration credits” from forest owners whose trees, by sucking-up water in the process known as transpiration, reduce their soil salinity.

While in Capetown, South Africa, it proved cheaper to restore the town's watershed to its native vegetation than to divert water from elsewhere or to create new reservoirs.

During the 2<sup>nd</sup> World Water Forum held in the Hague, Netherlands, ministers from all over the globe have recognized that water insecurity is not exclusively due to the scarcity of the resource but is also affected, to a great extent, from a crisis in governance. New paradigms of water governance will be needed while applying the lessons from ancient and indigenous water management methods.

The key to achieving effective water governance and successful implementation of integrated water resources management is getting the incentives and political processes right. It is only when water resources are managed in ways responsive to social, economic needs as well as to the long-term and environmental sustainability of the resource can water security be achieved.

This forum provides a very suitable venue for us, stakeholders, to synergize our efforts in identifying the important reforms in the water sector to resolve current and future needs. We hope that by the end of this

undertaking, each one of us, through our discussions and exchange of ideas, may learn from each other's experiences and gain important insights, which could prove to be useful in pushing for reforms in the sector in our own respective countries.

With continued cooperation and coordination, the concerns in the sector should be addressed adequately in the coming years.

Once more, I would like to welcome everybody. May we continue to adhere to our commitment in making this world a better place to live in.

Thank you and good day.