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*NATIONAL WATER REFORMS FOR INVESTMENT*<sup>1</sup>

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**I. INTRODUCTION**

1. In the past century, world population has more than doubled to 6.4 billion people, 3.9 million of whom live in Asia. At present, Asia has 10 out of the world's 19 megacities, with populations of 10 million or more. As this progression continues, so do the pressures on our natural resources including the most essential to human life, water.

2. Today, water resources are fast deteriorating with over-abstraction, pollution and inefficiencies. The stark reality that water is a finite resource should serve to push everyone into action to ensure its sustainability and delivery for people, food and the environment. Indeed water has become everybody's business.

3. In 2000, coupled with the birth of putting water at the forefront of the world's agenda, was the unveiling of the Millennium Development Goals, among which is the goal to halve the proportion of people without sustainable access to safe drinking water and improved sanitation by 2015<sup>3</sup>. In the Asia-Pacific region, 700 million people still do not have access to safe drinking water and some 2 billion people live without adequate sanitation. Thus, one in three Asians lacks access to safe drinking water and half of the people living in the region do not have access to basic sanitation services.

4. To a large extent, the issue is a result of a lack of investments to fuel the considerable infrastructure requirements of the sector. An ADB study estimates that a total of USD 8 billion is required yearly until 2015 if the region is to meet the MDG targets for water supply and sanitation; double that or USD 16 billion to cover all the unserved. This translates to approximately USD 2 dollars per year for each person living in the region; a cost that is relatively affordable<sup>4</sup>. Although the requirements are large, the bigger challenge is how to encourage the different players, may it be governments, donor-institutions, private sector, and communities to invest in the sector.

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<sup>1</sup> The views, interpretations and conclusions expressed in this document do not necessarily represent the views of the Asian Development Bank (ADB) or its member governments.

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<sup>3</sup> Millennium Development Goal Target 10

<sup>4</sup> 2005. Technical Background Paper on *Achieving the MDGs in Asia and the Pacific – the Role of Water and Sanitation*. ADB, Manila.

5. Increased investments however, can only be achieved if water reforms in the areas of institutional strengthening and coordination mechanisms, regulation, and tariff policies are vigorously pursued. This is a fact that can no longer be ignored.

6. In the ADB Water Week 2004, one of the essential changes required for improved water governance is a change in the selection criteria for investments<sup>5</sup>. Good management must be rewarded with increased funding – investments should be focused where good leadership exists and reforms are sustained and completed. The conclusion is simple: investments must be linked to reforms.

## **II. WATER SECTOR REFORMS AND STRATEGIES**

7. There is a wide variety of reforms that is required to improve water management. All these basically fall within two major categories: institutional reforms and regulatory reforms.

8. Institutional reforms involve the review of a vast scope of policies and laws to ensure better sector coordination, provide clarity of roles among government agencies and levels of government, and improve data management and sharing amongst government agencies for effective planning. It likewise involves building the capacities and increasing the understanding of decision-makers, bureaucrats, operators, civil society and communities.

9. Regulatory reforms on the other hand, involve two types of regulation: resource regulation and economic regulation. Resource regulation deals with the issue of allocation and prioritization of use and the corresponding fees therefore, water quality standards and rules on pollution and discharge, as well as conflict resolution amongst competing uses. Economic regulation involves the regulation of water utilities both in terms of service performance using a variety of standards such as coverage, 24-hour supply, non-revenue water, among others, and tariffs – how much can the utility charge. Both have been the subject of many debates – when is regulation appropriate?

10. There is a growing acceptance that the obstacles to meeting the objective of 'water for all' are based on institutional and political grounds. The present institutional arrangements of governance in the water sector have yet to adapt to the realities of the times – that water concerns cut across sectors and as such, is best managed in an integrated manner. As well, the politics of giving water for free thus, keeping tariffs artificially low, have resulted in deteriorating systems, intermittent supply and overall poor service. There is an urgent need therefore to complete institutional, regulatory and tariff reforms.

### **A. Institutional Reforms**

11. The following are the principal institutional reforms that must be completed if we are to achieve 'water for all': improve sector coordination, promote decentralization, foster participation, build capacity and increase understanding of the issues confronting the sector.

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<sup>5</sup> ADB. 2004. *An Agenda for Change, Setting the Rules and Finding the Money, ADB Water for All Series No. 15*. Manila.

## Improve Sector Coordination

12. Water is a key development driver that impacts on a variety of areas: health, agriculture, environment and ultimately, the economy. Its cross-cutting nature involves a sensitive balance among many diverse and competing uses – water for irrigation, domestic and industrial use, and the environment. Given this, it is of no wonder that its management is not without its complications and complexities.

13. Typically, we find water being managed by numerous water agencies amidst several layers of government bureaucracy, whether national or local, necessitating a coordination mechanism that will ensure that everyone's interests are adequately addressed and their respective powers and authorities are respected. There is a need for a national water sector apex body that will lead sector reforms and oversee policy formulation for better sector coordination. These apex bodies are ideally multi-agency and multi-sectoral organizations peopled by high-level members of government and respected people in civil society.

14. Many countries have established such apex bodies while others have begun efforts towards their establishment. Specific cases of such efforts are discussed in this paper.

15. Moreover, as water knows no political boundaries, its management cannot be the subject of administrative subdivisions but rather of hydrological boundaries. Thus, it has been recognized that integrated water resources management (IWRM) is the most efficient and effective manner of managing water resources with the river basin as the ideal unit of management to put IWRM into practice. Countries in Southeast Asia have likewise recognized this and are slowly moving towards the establishment of river basin organizations (RBOs). After Indonesia, the most impressive effort thus far is that of Thailand where the government has, in the past few years, created 27 RBOs for all 27 water resources regions of the country<sup>6</sup>.

16. Furthermore, in recognition that river basins are the key institutional ingredient towards integrated water resources management in Asian rivers, the Network of Asian River Basin Organizations (NARBO) was established in 2003 during the 3<sup>rd</sup> World Water Forum in Kyoto, Japan. ADB supports the decision of NARBO to engage in performance benchmarking of its members with the end in view of improving the management of river basins. The benchmarking of 11 pilot RBOs across Asia is currently on-going with ADB assistance. Among the member-countries in this pilot program are Indonesia, Philippines, Thailand and Viet Nam.

17. We will learn about the progress of this benchmarking activity during the ADB-sponsored NARBO session entitled, Launching of the Performance Benchmarking system of RBOs with Peer Review Process scheduled on September 3, 2005<sup>7</sup>.

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<sup>6</sup> Country Report, Thailand, 1<sup>st</sup> Regional Meeting of National Water Sector Apex Bodies, Hanoi Vietnam, May 2004

<sup>7</sup> 2<sup>nd</sup> Southeast Asia Water Forum, Bali, August 2005

## **Promote Decentralization**

18. Many countries in the region support decentralization as a strategy towards improved water management. In most cases, local governments and local service providers already have the legal responsibility to provide water services to their constituents. Consequently, they should be armed with the necessary capacities and authorities to discharge this responsibility.

19. In the Philippines, the provision for water supply and sanitation services has been devolved to more than 1000 local government units and approximately 500 water districts across the country. Ways and means to strengthen the capacities of these local governments and water districts to enable them to raise the needed financing for their operations and expansion are being undertaken by the Philippine Government through innovative financing mechanisms that will allow them to take advantage of concessional lending rates.

20. In Cambodia, the success of the Phnom Penh Water Supply Authority (PPWSA) is a strong case for decentralization. Through an institutional reform process that vested the PPWSA with autonomy and accountability which included a restructuring of its operations, the streamlining of responsibilities and the empowerment of its leaders, the company has dramatically improved its service performance connecting 85% of the population, reducing NRW to 14% with a collection ratio of 99% despite a full-cost recovery policy. Without a doubt, political will coupled with a true devolution of powers, are key to the resounding success of the PPWSA.<sup>8</sup>

21. Similar success brought about by decentralization and participation is likewise evident in the irrigation and drainage sector. In 1995, the Government of Indonesia launched the ADB-assisted Farmer Managed Irrigation System Project with direct involvement of local governments and beneficiary farmers in the decision-making process with farmer contribution toward O & M and scheme rehabilitation and upgrading costs. The success of this project prompted the Indonesian Government to formally adopt by law the irrigation management reform program (IMRP). The IMRP makes local governments responsible for planning, development and management of irrigation and transferring irrigation management to water user associations and their federations.

## **Foster Participation**

22. In the quest for better water resources management and improved delivery of water services, all stakeholders have a role to play. Participation of civil society and the communities is essential to the success of the process.

23. Communities and organizations are vital to any development of water supply and sanitation as they provide the local knowledge about the needs and priorities of the area as well as the condition and sustainability of water sources, the skills to build and maintain the systems, and to a significant degree, the source of funds to enable the development of water supply and sanitation systems.<sup>9</sup>

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<sup>8</sup> Sovithea, Samreth. 2005. Champion of the Case: Performance of A Public Enterprise, Phnom Penh Water Supply Authority. Paper presented at the Roundtable Discussion on Private Sector Participation in Urban Water Supply in India, Bangalore, India, 15 June.

<sup>9</sup> Footnote 2

24. A recent study of three countries, Bangladesh, Sri Lanka and Thailand, on civil society participation however, shows that the spaces for participation have been in practice confined.<sup>10</sup> This may be attributable to the novelty in the concept of participation and the critical position of some NGOs which has discouraged governments from involving them. Governments however recognize that the spaces for participation require improvement and will work towards meaningful, inclusive and broad-based participation in the reform process.

25. We may begin by making information on water sector reforms and related matters more accessible to all stakeholders. Open access to information helps stakeholders make informed decisions. Also, facilitating policy dialogues create the necessary platform for continuous exchange of opinions among stakeholders. Reforms are results of regular review of sector situations, of identifying what works and does not work. It is a product of consensus of different stakeholders. To make it happen, there must be a venue where discussions and decisions can be made.

### **Build Capacities and Understanding**

26. There is a continuing need for the building of capacities and understanding of public officials and decision makers on the urgent requirements of the water sector for improved management. It has been said that the water crisis is largely a crisis of governance and new and better ways of managing our water resources are needed to ensure sustainability and improve accessibility to clean and affordable water and sanitation.

27. There must be a sustained and continuing effort to promote the need for reforms with decision makers through high-level consultations and dialogue. Undoubtedly, governments, international donor communities and civil society have a role to play in this endeavor.

28. The various World Water Forums, Southeast Asia Water Forum and in-country consultations are excellent examples of such effort.

29. Moreover, capacity-building programs must be sustained through continuous training and human resources development. ADB is currently assisting Southeast Asian governments to build institutional and individual capacities for improved water management.

### **B. Regulatory Reforms**

30. There are generally two types of regulation: resource regulation and economic regulation. Resource regulation is important to the sustainability of the water resources and as such is a concern of utility operators – that water resources are protected from pollution and upstream users to ensure continued supply. Economic regulation is as important since this will help protect consumers from possible monopolistic abuse and as well protect operators from potential government intervention particularly in keeping

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<sup>10</sup> Newborne, Peter. 2005. *Study of National Water Sector Apex Bodies and Civil Society Involvement In Asia*. London.

tariffs artificially low for political gain<sup>11</sup>. Reforms in both areas must be pursued to ensure sustainability of water resources and improve access.

### **Establish Clear Rules on Allocation and Prioritization of Use**

31. In most countries of Southeast Asia, water resources are generally unregulated. Only the Philippines has a comprehensive law on water allocation through the issuance of water rights, the imposition of raw water fees for water use, and prioritization of use in cases of water shortfalls<sup>12</sup>. Other countries in the region have been cautious in imposing formal rules on these issues owing to the prevailing view in some countries that water is a God-given right and therefore should naturally be free.

32. However, recent developments in the water sector like the El Nino of 1997 which severely affected the region have forced governments and communities to take a second look at this view. Stakeholders are now better understanding the delicate balance between water use and sustainability. Over-abstraction has resulted in land subsidence in several megacities in the region and unrestricted dumping into rivers of refuse and raw sewage has considerably reduced the availability of safe water supplies. Several countries in the region have initiated the development of policies and laws to allow for a more systematic and efficient allocation of water to ensure its sustainability. Thailand, Lao PDR, and Vietnam are in various stages in this process.

### **Establish Standards for Service Delivery**

33. In the past 10 years, the Asia Pacific region in general has had considerable progress towards meeting the MDG targets for water supply. About 982 million people have gained access to water supplies based on figures comparing water supply coverage in 1990 and 2002. In Southeast Asia, improved access to water supplies has reached 79% in 2002, representing 93 million people that have gained access to improved water supply from 1990. Despite this good performance however, there are still approximately 115 million that do not have access to improved water supply in 2002<sup>13</sup>.

34. We qualify however, that these numbers represent those with “improved access to water supply” and do not necessarily mean “access to safe drinking water” as required by the MDGs, nor to piped water networks on a 24 x 7 basis. To date, all surveys are based merely on “improved access” which includes point sources such as point sources, hand pumps and standpipes, not just piped networks. In an ADB study on Asian cities which includes six cities in Southeast Asia, it was determined that “effective coverage” with piped water in five out of the six cities was below 50%<sup>14</sup>.

35. The situation for sanitation is dismal with only less than half the population of the Asia Pacific region with access to improved sanitation facilities in 2002 or approximately 2 billion people. In Southeast Asia in particular, total sanitation coverage is only 60%. This may prove to be more difficult to address as the financial requirements for improved sanitation are far larger than for water supply.

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<sup>11</sup> World Bank. 2005. Privatization Toolkits. Available: <http://www.rru.worldbank.org/Toolkits>

<sup>12</sup> 1976. Presidential Decree No. 1067, *Water Code of the Philippines*. Manila.

<sup>13</sup> Footnote 2.

<sup>14</sup> McIntosh, Arthur. 2003. *Asian Water Supplies: Reaching the Urban Poor*. Manila: ADB.

36. Against this backdrop, it is clear that Asia's goal is not simply to meet the MDG targets for water and sanitation. The challenge is to go a step further and move towards piped water and appropriate sanitation and wastewater systems including in the megacities of Asia.

37. Together with good water management, governments must likewise develop appropriate policies to promote transparency and accountability of service providers. Policies on standards of service for coverage, 24-hour supply, water quality, tariffs, non-revenue water, customer service, as well as the necessary incentives and penalties, need to be formulated and implemented. This will allow for a systematic monitoring of service performance of all utilities, may it be public or private, and enable governments to provide incentives to reward good performance and penalties for poor performance.

38. It is worth noting that many utilities, through the Southeast Asian Water Utilities Network (SEAWUN), have begun the move towards accountability through a benchmarking program with 45 companies participating including small, medium and large utilities from Indonesia, Malaysia, Thailand, Philippines, Viet Nam, Laos, Cambodia and Singapore<sup>15</sup>. Performance indicators have been agreed upon and the benchmarking activity is currently underway. SEAWUN was established in 2002 to encourage exchange of information and experiences amongst water utilities in Southeast Asia with the objective of improving service delivery and achieve operational and management efficiency.

39. Further, the role of small-scale service providers should likewise not be overlooked. Surveys show that a large percentage of people in Asia are provided water by informal sector. Small scale service providers have been defined as independent small companies, cooperatives, or individuals that supply water to users<sup>16</sup>.

40. Policies should be developed to recognize the potential of small scale service providers and allow its operations in cases where the large water utilities holding franchises for an area are yet unable to provide the service. To protect consumers however, standards and perhaps even regulation of its operations and service should be instituted.

### **Formulate Clear and Rational Policies on Tariffs and Subsidies**

41. Tariffs are the lifeblood of service providers<sup>17</sup>. Consequently, tariffs should be based on economic considerations such as cost-recovery and not political ones. Far too often however, politics gets in the way.

42. There is still a widespread perception that the poor cannot pay for water and therefore tariffs are kept artificially low for their benefit. As we have learned however, this is a myth and the strategy has backfired on the poor themselves who have to content

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<sup>15</sup> Southeast Asian Water Utilities Network. 2005. Available: <http://www.seawun.org>

<sup>16</sup> Conan, Herve. 2004. *Small Piped Water Networks, Helping Local Entrepreneurs to Invest*. Water for All Publication Series No.13, Manila: ADB.

<sup>17</sup> Chino, Tadao. 2002. ADB Water Financing Policies and Experience. Presentation at the 2<sup>nd</sup> Meeting of the World Panel on Water Infrastructure Financing, ADB, Manila, 18 April

themselves with intermittent supply, poor service or simply no service at all as expansion of the system is seriously hampered by the lack of funding.

43. Contrary to popular belief, the reality is that the poor are willing and able to pay for water supplies and sanitation – they already pay more for poor quality service and questionable quality water being sold by local vendors<sup>18</sup>. Strange as it may sound, recovery-based tariffs are actually pro-poor.

44. The examples of Manila Water and PALYJA provide the clear answer - financially sound tariffs can entice investments into the water.

45. Following a successful rate rebasing exercise with their regulators, Manila Water and PALYJA have both successfully turned to the markets for additional funding for its operations. Manila Water Company, the Concessionaire on the east zone of the Manila concession has listed the company in the local stock market with resounding success raising some USD 60 million of fresh capital for the company. Jakarta's west concessionaire as well, PALYJA, has successfully floated local bonds in the amount of IDR 650 billion to refinance its USD 60 million dollar debt. This reduces the company's exposure to foreign exchange risks which have been quite volatile following the Asian Financial Crisis of 1997<sup>19</sup>.

46. Moreover, should subsidies indeed be required given the capacity of consumers to pay, the same must be based on rational and well-thought out foundation. Thus, policies on subsidies should guarantee that the same truly benefit those to which the subsidies are intended – the poor. However, it must be remembered that ultimately, subsidies are a cost and someone has to bear it. The choice therefore is whether this is borne by the government alone or through a cross-subsidy amongst consumers where the average tariffs will be sufficient to connect the poor.

### **Creating Credible Regulators for Water Utilities**

47. In the ADB Water Week 2004, participants have come concluded that one of the changes essential to improve water governance is to develop credible regulators. Credible regulators will balance the interests of all stakeholders: governments, the operators, and the public thus boosting investor confidence, ensuring the public of fair and reasonable tariffs, and promoting efficiencies and accountability of service providers<sup>20</sup>.

48. Of course the road to credible regulation is not without its difficulties. In a region where most water utilities are public-run and self-regulation is the norm, building capacities of regulators, arming them with sufficient powers and authorities, and finding the necessary resources to support these regulatory offices will prove to be a challenge. There is a need to develop the institutional and individual capacities of regulators and to upgrade their skills and understanding of their role not only to protect the interest consumers but that of the operators and investors as well who are entitled to viable and sustainable operations.

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<sup>18</sup> Footnote11.

<sup>19</sup> Krieg, Thierry. 2005. Building Credible Water Regulators and Reforming Tariffs for Better Water Service. Paper presented during the 2<sup>nd</sup> Southeast Asian Water Forum. Bali, 2 September.

<sup>20</sup> Footnote3

49. In Southeast Asia, only Jakarta and Manila have formal regulators created through the concession contracts. Although regulation by contract is not an ideal arrangement, it certainly is a commendable start. The experiences of the Jakarta and Manila concessions, although marred by financial difficulties as a result of the Asian Financial Crisis of 1997 and regulatory weakness at the start of the concessions, have recently produced some encouraging results.

50. Despite financial setbacks, particularly of the west concessionaire of Manila, both concessionaires have met their service obligations on coverage and water quality in the past five years of operations connecting an additional 9.4 million to the system, a significant portion of which belong to the urban poor.<sup>21</sup>

51. The Jakarta concessions as well are on the road to financial stability as a result of a successful 5-year rate rebasing exercise last year and the implementation of the Automatic Tariff Adjustment that guarantees contract sustainability. The role of the Regulator was crucial to the success of the process. During the period of 1998-2004, PALYJA, Jakarta's west concessionaire, has made a cumulative investment of USD 80 million to fund its expansion programs.<sup>22</sup> It has recently raised an additional USD 60 million through a bond issuance.

52. The experience of the Manila and Jakarta concessions show that credible regulators encourage investments in the sector as it gives investors the confidence that there will be a good return on their investments. Investors want to minimize risks – may it be political, financial or economic risks. Having credible regulators reduces these risks as can be observed in the cases of Jakarta and Manila. These cases will be presented during the session on Building Credible and Independent Water Regulators and Reforming Tariffs for Better Water Services<sup>23</sup>.

### **III. RESPONSE OF COUNTRIES AND ADB ASSISTANCE**

53. With the daunting challenges ahead, countries in Southeast Asia have stepped up their actions to address the situation. Cases from Cambodia, Indonesia, Laos, Malaysia, Philippines, Thailand, Vietnam, on the different reform initiatives they are undertaking will be presented in various ADB-sponsored sessions at the 2<sup>nd</sup> Southeast Asia Water Forum. Some of the specific country cases below will be presented in the session entitled, Leading National Water Reforms and Water Governance scheduled for the afternoon of August 29, 2005.

54. In recognition of the need for institutional strengthening, ADB is assisting countries in Asia in the strengthening of their national water sector apex bodies. To date, two regional meetings have been held culminating in an agreement by member-countries to conduct a benchmarking exercise using a peer-review process. This will be coupled with a peer review training course aimed at building individual capacities for increased effectiveness and for peer review. The peer review training will be conducted by the Philippines' Ateneo de Manila University (ADMU) which is also currently assisting

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<sup>21</sup> Santos, Eduardo. 2003. Manila Water Supply Regulation. Paper presented during the 3<sup>rd</sup> World Water Forum, Kyoto, 18 March

<sup>22</sup> Footnote 17

<sup>23</sup> 2005. 2<sup>nd</sup> Southeast Asia Water Forum, Bali, 29 August-3 September.

the Philippines' apex body, the National Water Resources Board in its reorganization and strengthening.

55. Thailand, Philippines and Malaysia from Southeast Asia have volunteered to be the pilot countries for this activity. Performance indicators have been agreed during the 2<sup>nd</sup> Regional Meeting of National Water Sector Apex Bodies held in April 2005<sup>24</sup>. Benchmarking and peer review of all pilot countries in Southeast Asia is scheduled within the year.

### **Cambodia**

56. As PPWSA has demonstrated, the commitment of government is vital to its success.<sup>25</sup> The Government approved a water tariff that is recovery-based which allowed the utility's viable operations. PPWSA has proven that the poor can and are willing to pay for good quality service.

57. Vesting the PPWSA with operational autonomy gave it a flexibility of management, accountability of its leaders and staff and consequently, motivated its people towards excellence. The financial assistance from various donor groups including the ADB likewise contributed to its success especially in the beginning.

58. The PPWSA just completed implementation on a USD 20 million ADB Loan to expand access to water supply and sanitation services and the improvement of drainage systems. The ADB continues to support the PPWSA in its continued efforts towards improvement of service to the people of Phnom Penh.

### **Indonesia**

59. Indonesia recently completed the implementation of the ADB-financed Farmer Management Irrigation Systems (FMIS). The project involved the rehabilitation and improvement of FMIS using traditional and simple technology, identification of farmers' needs through a participatory process, involving farmers throughout the development process, having farmers manage construction and contribute labor and materials as well as take responsibility for financing and managing the operations and maintenance of the systems<sup>26</sup>. Training and strengthening of the management capacities of water users associations was also included in the Project to ensure the sustainability of operations. The Project was aimed at reducing poverty in rural areas in Indonesia that were dependent on village irrigation.

60. Around 300,000 farm households benefited from the project resulting in increased agricultural productivity and farm incomes from rice cultivation. The strengthening of water user associations (WUAs) should however continue in order to ensure the viability of these systems.

### **Lao PDR**

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<sup>24</sup> Report on the 2<sup>nd</sup> Regional Meeting of National Water Sector Apex Bodies. 2005. ADB, Bangkok, 27-29 April.

<sup>25</sup> Chan, Ek Sonn. 2005. Securing Potable Water for Phnom Penh Inhabitants. Paper presented to the 2<sup>nd</sup> SEA Water Forum, Bali, 29 August.

<sup>26</sup> ADB. 2005. *Project Completion Report on Farmer Managed Irrigation Systems Project*. Manila.

61. Lao People's Democratic Republic (PDR) agrees that an apex body is needed in order to improve water resources management and service delivery. Thus, in 1999, it established the Water Resources Coordinating Committee (WRCC). Admittedly a fledgling body, it was nevertheless instrumental in the preparation of a sector strategy and action plan addressing cross-sectoral issues by emphasizing appropriate policies, community education and data management<sup>27</sup>. ADB supports Lao PDR's efforts at institutional reform through capacity building programs.

## **Malaysia**

62. Malaysia has recently reorganized its water bureaucracy establishing the Ministry of Natural Resources and Environment in 2004. It earlier established its apex body, the National Water Resources Council in 1998 as a coordinating and integrating body for the planning and management of water resources. ADB is assisting Malaysia in the strengthening of the NWRC through the benchmarking activity involving nine (9) other apex bodies in Asia. The NWRC was also tasked with the formulation of the National Water Policy which will provide strategies for future development and conservation of national water resources.

63. Today, Malaysia has achieved 100% coverage in piped water supply in the urban areas; and 87% of the rural population with safe drinking water. The Malaysian Government intends to spend USD 2.4 billion from the period 2006-2010 to ensure 100% coverage for water supply by 2010. Malaysia is also close to achieving 100% coverage in the provision of sanitation services. The private sector has likewise been tapped in the provision of sewerage services involving 84 local authorities<sup>28</sup>

## **Philippines**

64. The Philippines' national water sector apex body is the oldest in Asia having been created by law in 1976. The National Water Resources Board is tasked with implementing the Water Code of the Philippines which lays down the rules for allocation of water rights, prioritization of use and conflict resolution among competing users. Raw water fees for non-domestic water use are likewise well established given its long history over the past 30 years.

65. The NWRB is the only apex body in Asia that has economic regulatory powers. It is currently in the process of strengthening its function of economic regulation over water utilities outside of Metro Manila. As well, it is studying its options towards decentralization, reorganizing its bureaucracy in order to establish regional presence for more effective management of water resources.<sup>29</sup>

## **Thailand**

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<sup>27</sup> Country Report: Lao PDR. 2004. 1<sup>st</sup> Regional Meeting of National Water Sector Apex Bodies, Hanoi, 18-21 May.

<sup>28</sup> Rahman, Radzi. 2005. Statement of Malaysia to the United Nations at the 13<sup>th</sup> Session of the Commission on Sustainable Development, New York, 21 April.

<sup>29</sup> Ateneo Research and Development Foundation. 2004. Formulation of a Revised Organizational Structure for NWRB, World Bank, Manila.

66. Thailand is currently in the process of legislating a modern water law that will formally establish its apex body, the National Water Resources Committee and the RBOs nationwide as well as set the rules for allocation of water use and procedures for conflict resolution. To date, Thailand has had several consultations nationwide and should see the passage of the law in the near future.

## **Viet Nam**

67. Viet Nam's National Water Resources Council (NWRC) on the other hand, was created in 2002 and functions under the auspices of the newly established Ministry of Natural Resources and Environment (MoNRE). The NWRC is chaired by the Deputy Prime Minister with similarly-ranked members from other concerned government departments. NWRC has the responsibility of advising the Government on strategies, policies, plans and projects related to the water sector. With assistance from the ADB, the NWRC has successfully completed the National Water Sector Profile, National Water Resources Atlas, National Water Resources Strategy and several government decrees on water resources information management, licensing of water use and discharge, and IWRM<sup>30</sup>.

68. Moreover, the reorganization of the water bureaucracy of Viet Nam resulting in the creation of the MoNRE is likewise proof of Viet Nam's commitment to sector reform. Under the law creating MoNRE, the responsibility and authority over state management of water resources was transferred from the Ministry of Agriculture and Rural Development (MARD), in recognition that water management can be made more effective by separating it from the activities of exploitation and use for economic and technical use such as agriculture, industry, tourism, forestry, etc.<sup>31</sup>

## **IV. ADB'S FINANCING PROGRAM**

69. In recognition of the substantial requirements of the water sector, the ADB is preparing to significantly increase its lending portfolio in the sector. ADB intends to launch its Water Financing Program within the year concentrating on three areas of investments:

- rural water services for health and livelihoods
- urban water services for sustained economic growth
- basin water for integrated water resources management

70. The program is intended to help bridge the gaps in the financial requirements of the water sector by supplementing the current levels of financing with innovative and competitive products aimed at poverty reduction and economic growth. ADB will also support policy and institutional reform programs and exchange of experiences and knowledge among countries towards the promotion of improved water governance.

71. ADB has likewise developed other innovative lending products in response to the needs of our member-countries. As the region is generally prone to foreign exchange

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<sup>30</sup> Thanh, Nguyen Cong. 2005. Viet Nam Country Report to the Ministerial Meeting, 2<sup>nd</sup> Southeast Asia Water Forum, Bali, 3 September.

<sup>31</sup> 2002. Decree No. 91. Creation of the Ministry of Natural Resources and Environment, 11 November. Viet Nam.

risks, ADB has launched local currency bond issues in several countries including Malaysia and the Philippines to cushion the impacts of foreign exchange fluctuations and help stimulate capital development. As well, ADB is exploring lending to subsovereign (municipal) governments who are ultimately responsible for providing water and sanitation services to their population.

## **V. CONCLUSION**

72. Studies have shown that the amount needed to achieve “water for all” is within reach. We have to persuade investors that putting their money in the water sector can yield reasonable returns and result in good quality service. This is only possible in an environment where risks are minimized and the investments are viable. Experience has shown that implementing reforms both at the institutional and individual levels through the establishment of apex bodies and credible regulators, devolving functions to local governments and stakeholders, and the strengthening of their capacities, can minimize these risks and consequently can translate into increased investments in the sector.

73. It bears noting that investors include not only the traditional financiers such as governments and donor institutions but the private sector as well, and to a large extent, the public in general. The private sector certainly has the financial capacity to bridge sector requirements. And ‘private sector’ does not necessarily mean only the large, international firms as Southeast Asia has produced its own brand of private service providers who have learned from their experiences in their respective countries. Manila Water and Singapore’s Public Utilities Board for example have begun to branch out in other parts of the region. Manila Water has recently prequalified in a bid for a management contract in New Delhi, India and Singapore’s PUB holds several consultancy contracts for water demand management, treated water reuse and wastewater treatments in Brunei, India and China. Let us also not forget the small scale service providers who already play an important role in providing water services to millions of people in Asia. They need more recognition as part of city water strategies.

74. Finally, we come to the most important financial partner in this business – the public. They too must be confident that they get the service they deserve. They are willing to pay and have shown this willingness time and again. Politicians must recognize this and begin to demonstrate a willingness to support tariffs that allow sustainable water services and the expansion of systems to include poor communities.

75. In the end, reducing risks through the implementation of needed reforms can translate to increased investments.