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WATER GOVERNANCE –
PROMOTING LEADERSHIP AND DECISION MAKING

Tetsuro Miyazato
Senior Water Resources Specialist
Agriculture, Environment and Natural Resources Division
Southeast Asia Regional Department

I wish to congratulate the Malaysian Water Partnership for its initiative and warm hospitality in organizing this Consulting Partners Meeting for the Global Water Partnership. It is a pleasure to present to you ADB's views on the significance of good governance in integrated water resources management (IWRM).

WATER CHALLENGES

Let me start this presentation with a universally acknowledged fact—Water is essential to all life.

If managed properly, it brings good harvests, health, prosperity, and ecological abundance. If managed poorly, we can expect poverty, disease, environmental degradation, and human conflict.

The global realities on water are grim. Already, 1.1 billion people have no access to a safe water supply, and 2.4 billion lack basic sanitation facilities. By 2025, it is estimated that 2 out of 3 people in the world will face water shortages.

The Asia-Pacific region has not escaped such stark realities. In fact, water has become the critical natural resource in most countries in the region. One in three Asians does not have safe drinking water and one in two does not have adequate sanitation. Of those without access to water or sanitation, almost 90 percent live in rural areas.

The whole region suffers the effects of decades of neglect-- its forested watersheds and wetlands are overrun by development, myriad species are disappearing fast, and water bodies are polluted tenfold. The damages from floods continue to increase dramatically, reducing more and more of the population to live below the poverty line.

The poor are particularly vulnerable to water scarcity, pollution, drought and flooding, which severely compromise their health, productivity, and quality of life.

Water scarcity and deteriorating water quality have become crucial concerns in many countries-- limiting national economic development, food production, and provision of basic health and hygiene services. The situation is compounded by the limited awareness or priority of water issues at the political level, the national and local governments' inability to manage pressures on water resources, the low investments in the water sector, and the fact that very few water managers view water holistically.

With pressures and competition for water escalating on an almost daily basis, we have no choice but to look to the management of our water resources.

A CRISIS OF WATER GOVERNANCE

International conferences have recognized that the water crisis in the region is essentially a crisis of water governance, of how water is managed. It is an issue of ensuring that everyone, including the poor, have adequate access to water services, and that water resources are managed in a sustainable way.

For water to be available to all across countries in the region and, in particular, to meet the needs of the poor who are the hardest hit by water challenges, water sector governance needs to improve.

The Global Water Partnership states that water governance refers to the range of political, social, economic, and administrative systems that are in place to regulate the development and management of water resources and the provision of water services at different levels of society. Good water governance means that we need to create the right conditions for coordinated, participatory, equitable, and sustainable involvement of these systems and stakeholders. Making the right decisions lies at the heart of good governance.

ADB recognizes the importance of governance, and the way it affects growth and development. Hence, ADB became the first multilateral development bank to adopt a special policy on governance, equating good governance with sound development management. Key to our governance policy is the promotion of accountability, participation, predictability and transparency as pillars of good governance.

- Accountability requires that public officials must be answerable for government behavior, and responsive to the entity from which their authority is derived.
- Participation refers to the involvement of citizens in the development process. ADB promotes participation in various ways, among them by encouraging the involvement of project beneficiaries and affected groups, improving the interface between public and private sectors, and tapping NGOs as vehicles for mobilizing and reaching other stakeholders.
- Predictability revolves around a country's legal environment and how conducive it is to development. A government must be able to regulate itself via laws, regulations and policies, which encompass well-defined rights and duties, mechanisms for their enforcement, and impartial settlement of disputes. Predictability is about the fair and consistent application of these laws and implementation of government policies.
- Transparency refers to the availability of information to the general public and clarity about government rules, regulations, and decisions. Transparency in government decision-making and public policy implementation reduces uncertainty and can help inhibit corruption among public officials. In its concern for the burden that corruption inflicts upon the development process, ADB developed its Anticorruption policy, which ensures that ADB projects and staff adhere to the highest financial and ethical standards, and supports governments' efforts toward effective and transparent systems for public service, anti-bribery and business integrity, and active public involvement.

The need for better water governance in the region is critical, and it lies at the heart of ADB's water policy "Water for All".

ADB'S POLICY 'WATER FOR ALL'

Water governance is a challenge in each country, and there is no standard approach that fits all needs. ADB's policy is therefore to support its member countries in the process of national water sector reforms, in the management of water resources, and the improvement and expansion of the delivery of water services.

"Water for All" is ADB's vision and policy for the water sector. ADB regards water as a resource and as a service. The *sustainable and integrated management of water resources* (i.e. water rights and allocation, storage, floods and droughts, pollution, watersheds, etc) should go hand in hand with the *efficient delivery of water services* (i.e. drinking water supply and sanitation, and irrigation and drainage). The needs of the poor require special focus in all water projects, in both resource management and in water services.

ADB's water policy is premised on the Asian and Pacific Region's urgent need to formulate and implement integrated, cross-sectoral approaches to water management and development. It seeks to promote the concept of water as a socially vital economic good that needs increasingly careful management to sustain equitable economic growth and to reduce poverty. The conservation and protection of water resources in the region through a participatory approach are at the heart of the policy.

The main elements of ADB's water policy are:

- **Promote a national focus on water sector reform.** ADB's developing member countries (DMCs) will be supported to adopt effective national water policies, water laws, and sector coordination arrangements; improve institutional capacities and information management; and develop a national action agenda for the water sector. Throughout, the needs of the poor will be specifically factored into legal, institutional, and administrative frameworks.
- **Foster the integrated management of water resources.** Integrated management will be based on conducting comprehensive water resource assessments, and concentrating interlinked water investments in river basins.
- **Improve and expand the delivery of water services.** Focusing on water supply and sanitation (both rural and urban), irrigation and drainage, and other subsectors, support will be provided for autonomous and accountable service providers, private sector participation, and public-private partnerships, emphasizing equity in access to water for the poor and underserved.

KEY INSTRUMENTS TO IMPROVE WATER GOVERNANCE

In pursuit of our vision of water for all, ADB gives particular emphasis to a range of instruments that play significant roles in the conservation and management of water resources to the highest possible standards. These include:

1. **Law and policy reform**— The water policy states that ADB will support its developing member countries (DMCs) in ensuring that water projects are guided by effective national water policies that link water to national development goals and protection of the environment. While no single, common policy can serve as

a model for all, it is clear that national water policies should address both resource management and service delivery aspects. ADB will help develop comprehensive water policies in the DMCs, particularly in the areas of water rights and allocation among competing uses, water quality standards, groundwater use, demand management, resource conservation, private sector participation and more. Where necessary, ADB will also help the DMCs review existing policies and bring them in line with good international practice. Assistance for undertaking water sector assessments will be provided to ensure that policy formulation and sector reforms are well grounded.

2. **Regulation** – ADB has an established track record in helping DMCs improve regulatory frameworks, particularly in energy, banking and capital markets, and bankruptcy and liquidation. It is now putting its skills towards developing regulatory systems in DMCs that ensure that water service providers and resource managers are held accountable by law for their performance relative to prescribed standards.

To serve the best interests of both consumers and the managers of water resources, the systems of pricing, incentives, and penalties must be equitably and consistently applied. In most DMCs, such systems are absent and it is left to the government to play the role of provider and regulator. ADB is promoting the establishment of regulatory systems through its policy dialogue with the DMCs and by leveraging its loan and technical assistance programs to this end. It has also organized several workshops that bring together regulators from various DMCs and provide them with opportunities to learn from each other.

3. **Coordination/partnerships**- These allow stakeholders from different levels and sectors to contribute their strengths towards improved water resources management. ADB has sought, and will continue to seek, closer cooperation with governments, other international and bilateral agencies, the private sector, research institutes, and NGOs.

After the 3rd World Water Forum in March 2003, ADB launched several key partnership initiatives. These include the Water for the Poor – Partnerships for Action initiative, which operates at the country level to, among other things, strengthen pro-poor water governance and increase the poor's access to water services; and the Gender in Water Partnership, which works to mainstream gender considerations into the water sector operations of ADB's DMCs. The partnership has recently embarked on a comprehensive assessment of the extent to which ADB's water operations have mainstreamed gender into a) the design of investment projects; and b) the provision of advisory assistance to DMCs, with positive preliminary results.

4. **Financial incentives** - ADB develops innovative financial packages that will enable commercial lenders and promoters to manage the risks involved with investing in water-related projects. Through such financing schemes, ADB will secure additionality of resources for the water utility, superior management structures, advanced project implementation capability, construction technology, and improved operation and maintenance services. ADB will also assist DMCs to identify suitable projects for such financing and engage concessionaires. Where utilities are privatized, ADB's various financing and guarantee modalities can help obtain access to credits with longer maturities, and provide relief from debt-service burden in the early years of operation.

STRENGTHENING INSTITUTIONS

Good governance and capacity building are like two sides of the same coin. Knowledge and skills are essential to meet the challenges of improved governance, and the water sector is no exception. Hence, ADB currently supports the strengthening of several institutions critical to effective management of water resources. These include river basin organizations, national water sector apex bodies, water service providers, and regulators.

ADB recognizes that river basin organizations (RBOs) are essential instruments to help plan and implement effective management of water resources. Many of ADB's projects are now undertaken in a river basin context. We have the Red River Basin Sector project in Viet Nam, which is designed to improve agricultural performance of poorer communities through sustainable improvements in irrigation, better drainage, watershed protection and flood protection. We also have the Nam Ngum River Basin Sector project in Laos, which introduces the IWRM approach in the Nam Ngum River Basin by, among others, institutionalizing a river basin resources assessment and action agenda in consultation with stakeholders. In the Tonle Sap basin in Cambodia, ADB has a series of projects dealing with watershed management, lowland stabilization and establishment of basin management organization.

These projects generally involve capacity building of existing or new RBOs. Recently, ADB, in collaboration with the ADB Institute and Japan Water Agency (JWA; formerly Water Resources Development Public Corporation), embarked on a new partnership to promote IWRM in river basins throughout Asia. The Network of Asian River Basin Organizations (NARBO) was established to foster the exchange of information and experience among Asian RBOs, and to strengthen RBOs' capacity and effectiveness in promoting IWRM and improving water governance.

During its first general meeting in February of this year, 43 new members from RBOs, government organizations, knowledge partners and development cooperation agencies have joined the network and committed to promoting and undertaking IWRM. NARBO's initial thrusts include strengthening the network, and IWRM advocacy and capacity building.

NARBO is in a strategic position to change for the better the way we work, plan, make and implement decisions on water resources management. If we build capacity in the RBOs today, young people will have the right challenges, incentives, and skills to enjoy a career in RBOs for improved water management tomorrow.

Another institution that ADB keenly supports is the water sector apex body.

Unlike other sectors, the water sector typically has a very large number of government as well as nongovernment stakeholders in each country. A special effort in sector coordination is therefore needed to ensure that governments can exercise leadership and decision-making and move forward with developing, adopting, and sustaining effective water policies, reforms, and investments. To meet this coordination challenge, a number of countries in the region have established a national water sector apex body (NWSABs), while several others are considering similar steps.

We at ADB believe that NWSABs' principal reasons for being are to strengthen water resources management and service delivery, mainly through advice to government on cross-cutting policy and institutional issues. We see them as crucial institutions necessary to promote a national focus on water reform, guide the reform process to

ensure participation and collaboration among all stakeholders, and facilitate policy dialogue and investment partnerships with development partners, including ADB. Just last month, ADB co-organized the first meeting of water sector apex bodies in the region. During this event, 50 representatives of NWSABs and water ministries from 13 Asian countries agreed to pursue regional cooperation among NSWABs, beginning with the sharing of basic information among each other, and undertake peer review based on a well-defined benchmarking system to improve the performance of NWSABs.

Water service providers also claim a considerable percentage of ADB's attention and resources.

Focusing on water supply and sanitation (both rural and urban), irrigation and drainage, and other sub-sectors, ADB supports autonomous and accountable service providers, private sector participation, and public-private partnerships, emphasizing equity in access to water for the poor and underserved.

Just recently, ADB helped establish the Southeast Asia Water Utilities Network (SEAWUN), designed to be a self-sustaining regional network of water supply and sanitation (WSS) utilities that help its members become well-managed service providers. SEAWUN's program of activities includes capacity building for its members, and strengthening utility performance by engaging in a benchmarking exercise.

ADB has also concentrated on small-scale water providers, understanding their typology, volume of business, and customers, and is now helping them get due recognition as important actors in the WSS sector.

AN AGENDA FOR CHANGE IN THE WATER SECTOR

During ADB's Water Week in January 2004, we further explored the changes necessary in the ways water resources are managed and water services delivered. The keyword was Change. Change is in our paradigms and business processes are necessary, as the "business as usual" approach no longer works. The discussion resulted in an agenda for change in our operations:

The first change concerns selection criteria for investments, to work with the right information, organizations and leaders.

Too often in the past, water investments have been wasted by being directed to governments that promise a lot but fail to measure up with sustainable results. Change is urgently needed. For better project design to benefit the poor, it is critical to get better information about the social, physical and institutional circumstances, including on existing informal water markets, incentives, and vested interests. This can be obtained through water audits prior to designing water projects. Such analysis can reveal the factors needed to improve services for the poor. Incentives are also needed to encourage reforms to be sustained and completed, and these should be the basis for investment decisions. Investments should be focused on capable organizations with good leadership.

The second change is for incentives and advocacy to empower civil society as a catalyst of water sector reforms.

Research shows that civil society is often poorly informed about water service provider's performance and reform strategies, and that water legislation and policies

are often experienced as confusing and non-transparent. Civil society seldom appreciates that cost recovery tariffs put consumers in control whilst subsidies leave politicians in control. When civil society becomes empowered with better information, resources, and influence, they can exercise their influence to catalyze reforms, even against entrenched and powerful vested interests.

Civil society also needs to become more active in advocacy and public awareness, based on a sound understanding of sector issues and solutions, and should be given opportunities to help in designing and implementing projects, as well as in setting up “watch dogs” or other monitoring arrangements. Specific roles should be created for NGOs, academics, and journalists to help catalyze reforms and work in partnership with, rather than against government.

The third change is for regulation, in a paradigm shift from independent to credible regulators.

Unregulated water markets typically discriminate against the poor. Effective regulation can help the poor by ensuring that service provision is not captured by vested interests - often politicians - and that they meet the needs of customers at affordable prices, especially for the poor.

Although independence is desirable for regulators, our experience is that there is strong resistance against establishing independent regulators from public sector agencies who are concerned about the loss of accountability and control. Independence is therefore difficult to achieve, and we argue that pursuing credible regulators may be the next best objective. In any case, an independent regulator is not a sufficient condition for effectiveness. A regulatory office needs adequate skills, resources and authority. Neutrality, efficiency, accountability, and transparency are all needed to make regulators more credible.

The fourth change is to reward efficiency in informal markets and link formal and informal water providers.

Millions of people in Asia depend, and will continue to depend for a long time to come, on small-scale water providers for their basic water supplies. But these providers are often overlooked by government policy makers and donors, seen as a target for cash by corrupt officials, a nuisance by government owned water providers, and exploiters of the poor by the public at large. Ignorance of the essential role they play, their customer base, and the value of the services they provide are probably at the root of the problem.

We advocate that governments should recognize the importance of the small-scale water providers in the sector, and that policy and legislation can be changed to recognize the contributions made by these providers in extending services to the poor.

The fifth change is about the focus of lending, to catalyzing water investments to the rural poor and small towns.

The vast majority of Asia's poor live in rural areas and they are short-changed with the majority of ODA going to cities. The rural community is being left behind in terms of access to public services like health, education, and safe water provision. To meet the MDGs, we have to refocus our attention on the needs of the rural poor.

To date, it is mostly the cities that have benefited from development lending. Studies demonstrate, however, that cities through their tariffs and commercial borrowing capacity, should be able to finance most if not all their water services and capital needs from revenue, from cost recovery.

Where this holds true, government budgets and ODA can increasingly be diverted towards investments in rural areas and small towns, where most of the poor reside.

The sixth change is about the nature of water projects, where we argue that much more investment is needed in nonstructural interventions.

Most governments and many development agencies still focus their water investments on building new infrastructure. Big infrastructure projects appeal to politicians, they provide opportunity for corruption in the procurement process, and they produce tangible results that justify lending for the donor. Regrettably, well designed but poorly implemented or managed infrastructure projects often don't help the poor. More investment is needed in capacity building of sector organizations and civil society, and in nonstructural interventions that improve water security for the poor.

Finally, the last change is about financing partners, where we see the need to direct the money to sub-sovereign levels.

Subsovereigns such as local governments in low and middle-income countries have small development budgets, and they cannot access local capital markets, obtain private project finance, or attract private equity investments.

Development banks like ADB must lend more--and more directly--to local governments for water investments. There will be implications for credit and currency risk management. But development banks should more ambitiously use the funding discretion contained in their charters. The full power of financial instruments should be applied to local water investments, including credit enhancing guarantees and foreign exchange risk coverage. This will help overcome the dire shortage of water financing where it is most severe, at subsovereign (state and municipal) level.

Ladies and gentlemen, I have shown to you how ADB is committed to working towards improved water resources management. ADB will continue to advocate improved access to water through better governance, reforms to laws, policies, institutional mandates, and participatory processes for decision-making.

We will also promote innovation, synergies, and partnerships in enhancing financial flows to water infrastructure and management. We will continue our work to persuade our developing member countries to visibly improve sector efficiencies and adopt effective water policies, with concrete benefits to the poor.

IN CLOSING: HIGHLIGHTING THE IWRM PROCESS

The move to formulate national IWRM and water efficiency plans by 2005 offers a wide range of benefits, not least of which is the laying down of milestones and strategies that would guide the overall process of improving water resources management.

However, coming up with the plans is just the beginning of a long-term process of implementing IWRM. If we are to institutionalize IWRM in the future, it is more crucial

to pay attention to all the processes we undertake— stakeholder participation to water demand management—and learn from them.

We have much knowledge of water, but when it comes to IWRM, we need to be open to learning, and have a beginner's mind. We need to listen to our rivers. Rather than aiming to control and exploit water resources for society's needs, we should learn to listen to nature around us and understand how the river wants to be managed. IWRM involves action as well as non-action, according to timing and local needs.

We are part of the river basins in which we live. What we decide today may affect the lives of our children and future generations.

We at ADB highly value opportunities such as these to share with you our insights and experiences, and learn lessons from our development partners, specifically from your actions on the ground. We also welcome further cooperation with you so that together we can achieve the vision of "Water for All."

Thank you for your attention.