



Comprehensive Review of ADB's Water Policy Implementation
FINAL REPORT AND RECOMMENDATION

April 2006

Water for All: Translating Policy into Action
The Review Panel's Final Report and Recommendations

Prepared by an independent expert review panel for the Asian Development Bank (ADB).

The Review Panel Report and Recommendations is a document of the Review Panel. The views expressed herein do not represent those of ADB's Board of Directors, Management, or staff.

ABBREVIATIONS

ADB	- Asian Development Bank
CBOs	- community-based organizations
CFWS	- Cooperation Fund for the Water Sector
CSOs	- civil society organizations
CSP/U	- country strategy and program update
CSPs	- country strategy and program
DG	- Director General
DMCs	- developing member countries
EA	- executing agency
EIA	- Environmental Impact Assessment
IEI	- Innovation and Efficiency Initiative
IWRM	- integrated water resources management
KM	- knowledge management
LGUs	- local government unit
M&E	- monitoring and evaluation
MDGs	- Millennium Development Goals
NARBO	- Network of Asian River Basin Organizations
NGO	- nongovernmental organization
O&M	- operations and maintenance
PPPs	- Public-Private Partnership
PPTA	- project preparation technical assistance
PSOD	- Private Sector Operations Department
RBOs	- river basin organizations
RD	- Regional Department
RM	- resident mission
RRP	- report and recommendation of the President
RSDD	- Regional Sustainable Development Department
SEAWF	- Southeast Asia Water Forum
SEAWUN	- Southeast Asian Water Utilities Network
SIA	- Social Impact Assessment
TA	- technical assistance
ULBs	- urban local bodies
UN	- United Nations
UNDP	- United Nations Development Programme
WCD	- World Commission on Dams
WHO	- World Health Organization
WSN	- Water Sector Network
WSSD	- World Summit on Sustainable Development
WUAs	- Water Users Associations

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EXECUTIVE SUMMARY

Panel's Assessment of Policy Implementation: Half Full and Half Empty

The Panel began the process with the metaphorical question, "Is the glass half full or half empty?" with regard to progress in implementing ADB's Water Policy. Guided by ADB's vision of Water for All, the Panel finds the glass both "half full" and "half empty." While ADB has been instrumental in promoting national water policies, water policy reforms, and establishing new institutional frameworks, reforms still lag behind in many countries. Importantly, water resources development is still not integrated into the overall national development strategy in most developing member countries (DMCs). Moreover, many countries do not make the distinction between *water as a resource* and *water as a service* and thus lack the necessary institutional and regulatory frameworks to guide work in the sector.

Likewise, ADB has made progress to advance integrated water resource management (IWRM) and improve water service delivery through targeted investments, support to build the capacity of RBOs and WUAs, and improved project design that acknowledges social and environmental concerns. However, IWRM is still not well understood at the national and local level, effective implementation of DMCs' IWRM plans is severely hampered by institutional and organizational constraints, and more must be done to mitigate adverse project impacts and ensure environmental sustainability, gender equity, and pro-poor and participatory practices in both the management and delivery of water services. Importantly, operations and maintenance (O & M) has been severely hampered by lack of resources and capacities in DMCs, causing inefficiencies and premature deterioration of water service assets.¹

The Review Panel identified eight major challenges or priority areas requiring action or investment to improve implementation of ADB's Water Policy. Broadly, these challenges encompass critical barriers thwarting progress in the DMCs as well as constraints to be addressed or actions to be initiated within ADB or in partnership with other donors or DMC stakeholders: 1) raising the status of water in the DMCs and ADB, 2) improving governance and addressing institutional constraints, 3) improving donor harmonization to optimize investment benefits, 4) mitigating adverse social and environmental impacts, 5) developing capacities and addressing constraints within ADB (institutional, financial, human), 6) improving the alignment of the country strategy and program and updates (CSP/Us), DMCs' water sector roadmaps, with ADB's Water Policy, 7) ensuring affordability and equity in water service delivery, and 8) targeting efficiency and cost effectiveness in water service delivery.

Recommendations and Suggested Actions: Translating Policy into Action

The Review Panel's key recommendations to translate ADB's Water Policy into action consider the challenges, the critical investment requirements, and capacity development within ADB and the DMCs, necessary to meet the Millennium Development Goals (MDGs) and improve conditions in the region's water sector. Essentially, the Panel urges ADB to "do more and do better" and to "think outside the box," by expanding current efforts to advance reforms and build capacities and by employing innovation to create new business opportunities and increase access, affordability, efficiency and equity in the region's water sector.

First and foremost, ADB should double its current allocation for water sector funding and introduce innovative, flexible financial instruments to leverage additional investment in the sector by 2010 to ensure achievement of the MDGs by 2015. For it to successfully move

¹ A more detailed summary of findings from the various review modalities and key inputs which informed the review is included in Appendix 5.

towards this goal, ADB must step up efforts to improve water sector governance. To create an enabling environment for increased investments in the water sector, ADB should support decentralization and expand participation in risk sharing arrangements with sub-sovereigns.

Efforts to engage clients and key stakeholders must also move beyond isolated TA and project preparation grants and loans, workshops, and conferences. ADB will need to expand current efforts to include broad-based programs that address fundamental water sector issues, reaching out to schools, colleges, the media, legislatures, and civil society. Moreover, ADB must broaden its efforts to develop close *long-term* strategic partnerships with different stakeholders in the DMCs, in recognition of the complex political and economic linkages of the water sector in the Asian region.

Obviously, ADB cannot act alone. ADB should provide leadership to help harmonize efforts among donors, recognizing the unity of interests among them and the DMCs in resolving fundamental contradictions and conflicts of interest in the water sector. Simultaneously, ADB must catalyze broader inclusion of women, civil society, the poor and other marginalized groups in the decision-making processes and institutions governing the water sector. These groups should be included in the development of national water policies, legal systems, and establishment of various water authorities. ADB should focus the implementation of IWRM on *stakeholder needs and ownership* and opt for negotiated approaches to river basin management to include indigenous knowledge and sustainable water management practices, and improve the balance between economic efficiency, social equity and environmentally sustainable outcomes of water allocation and management.

Even if done in partnership, this ambitious but imperative agenda will require increased capacities and commitments within ADB and in the DMCs. ADB must build and, where necessary, induct fresh human talent with experience working in the water sector and knowledge in both “hardware” and “software:” from infrastructure, operations, and maintenance to project finance and public-private partnerships, to civil society outreach, advocacy and policy reform. Likewise, ADB must work with stakeholders to build capacity and knowledge in the DMCs through long-term partnerships, training, public education and dissemination, and assessment, including better benchmarking, monitoring and evaluation.

Importantly, there is a need to change ADB’s corporate culture to effectively implement ADB’s Water Policy. As a statement of fundamental principles affecting the water sector, ADB’s Water Policy should drive the day to day operation and size, scope, direction, and character of the ADB portfolio in the water sector. The new mandate of the Water Committee is a first step in the right direction. However, there is an urgent need to introduce new procedures, mechanisms, and incentives to ensure the principles underlying the Water Policy are indeed institutionalized in ADB’s work.

Finally, ADB must promote ‘business unusual,’ and pursue innovative ways to ensure that the principles underlying the Water Policy are not only enshrined in the project designs as covenants but actually manifest in project implementation. In addition to providing internal incentives, ADB must provide incentives to ensure monitoring and fulfillment of relevant covenants in the loan agreements through new business models and financial instruments, e.g. sub-sovereign lending and performance-based contracts for public-private partnerships.

Sustainability, efficiency, cost effectiveness, access and affordability should be the hallmarks of effective implementation of ADB’s Water Policy and can be advanced through effective use of subsidies and cross-subsidies, new financing modalities and risk mitigation instruments, better integration of O & M in project loan and TA design, and the use and ‘scaling-up’ of alternative and appropriate technologies. Thinking outside the box, ADB can help DMCs

leverage innovation, build capacities, and work together to determine affordable and efficient solutions to meet the region's water sector challenges.

The Review Panel's Recommendations

- 1) Increase ADB's commitments and develop ADB's capacities:** This will require increased investments, staff realignment and development, and providing leadership in the region to prioritize water.
- 2) Develop long-term partnerships with DMC stakeholders and donors:** This will require policy dialogue, sector assessments, training, and promoting programmatic or policy-based lending approaches to raise status of water, strengthen institutional frameworks, improve water governance, develop capacities, and improve donor harmonization and aid effectiveness in the DMCs.
- 3) Focus the implementation of IWRM on stakeholder needs and ownership:** This will require supporting IWRM planning and implementation, increasing knowledge on IWRM in DMCs and at ADB, and developing and improving assessment tools for benchmarking, monitoring and evaluation.
- 4) Promote "business unusual:"** This will require leveraging innovations to increase access, affordability, efficiency and cost-effectiveness, including nuanced guidance on subsidy use, promoting PPPs, alternative financing modalities under IEI, robust O & M arrangements, and scaling up of alternative technologies.
- 5) Improve processes to ensure effective policy implementation:** This will require improving ADB's internal communications and procedures, coordination with DMCs on CSP/U process and national planning, and monitoring and evaluation efforts to mitigate social and environmental impacts of ADB projects.

Overview of the Review Process

In 2001, the Asian Development Bank (ADB) outlined its vision of "Water for All" and integrated water management in the region and approved its Water Policy. As stipulated in ADB's Water Policy, an in-house review of policy implementation was undertaken in the third year in 2003 and a more extensive comprehensive review led by an external expert review panel was launched in 2005, five years after the policy was approved.

The comprehensive review had four core objectives:

- To assess performance or progress in the 7 key areas of the Water Policy
- To identify challenges, investment requirements, and opportunities
- To determine capacities and constraints in ADB and the DMCs (institutional, financial, human)
- To advise ADB's management if the policy needs to be revised or supplemented

The comprehensive review focused on the three main areas (water sector reforms, water resource management, and water service delivery), and the four cross-cutting issues (resource conservation, regional cooperation, knowledge sharing through partnerships, and governance) highlighted in ADB's Water Policy. In addition to these seven key areas, the review also considered a number of internal and external issues and drivers relevant to implementing ADB's Water Policy and strengthening ADB's efforts to address the region's water sector needs.²

² The scope and methodology of the review is outlined in greater detail in Appendix 2 and in Appendix 5.

Leading the review, ADB's review panel was informed by feedback gathered at consultations, water-related conferences, ADB staff workshops, surveys, and comments gathered on ADB's water website. Other modalities included interviews, case studies, desk study of loan, project and agreement documents, and involvement in external research studies relevant to the review. Two Special Advisers also provided technical inputs, preparing papers and presentations to share with the panel throughout the review process.³ The Review Panel met four times over the course of the review in 2005 to examine various inputs, discuss stakeholder feedback, and prepare the Panel Report, which summarizes the Panel's assessment and final recommendations.

Overview of the Panel Report

The Panel Report is divided into four main chapters: Chapter I provides a short overview of ADB's Water Policy and review processes, Chapter II summarizes the Panel's assessment of progress on policy implementation, Chapter III outlines the key remaining challenges facing the water sector or priority areas requiring action, which sets the stage for the Panel's recommendations to ADB's Management outlined in Chapter IV. The report also includes five appendices with supplemental information to support the main report.

A draft action plan is provided in a matrix in Appendix 1. This matrix reiterates the links between the challenges and opportunities or priority areas raised in Chapter III and the Panel's recommendations and suggested actions outlined in Chapter IV. The matrix functions as a worksheet, as it also includes columns to clarify the expected results, probable resource implications and donor harmonization necessary to implement the recommendations. It is expected that ADB's Water Committee will work with operations colleagues to finalize the draft action plan to chart the way forward and implement the recommendations outlined by the Panel.

³ A more detailed description of the review process and short biographies for the review panel and special advisers are included in Appendices 2 and 3.

I. INTRODUCTION: 'WATER FOR ALL' REVIEW KEY MESSAGES

A. Water Sector: The Key Driver for Change

1. Water is a scarce natural resource with multifaceted uses cutting across class, economic and political boundaries. As a carrier of matter and energy, water sustains life on the planet and fuels agriculture, manufacturing and service industries across the globe. The ownership of this resource is dynamic, as water flows constantly under, over and above the surface of the earth in response to powerful natural phenomena. Inherently, the water sector has a pervasive influence on the success or failure of investments and initiatives in related sectors such as health, environment, transportation, and energy.

2. Appropriate allocation, management and conservation of water resources are thus paramount human concerns. And yet, the economics and politics of water are challenged by many myths and misunderstandings. There is intense domestic and international competition for the allocation of financial, social, and environmental resources as Asian countries struggle to improve the lives of their citizens. The quality and quantity of water resources and services, including basic sanitation, is critical to addressing problems of poverty, health and education, and to achieving sustainable and equitable development. This interdependence, strongly promoted through the Millennium Development Goals (MDGs), has widened the opportunities and responsibilities of ADB and its water portfolio. Arguably, ADB's Water Policy could provide the strongest vehicle of change to further ADB's anti-poverty agenda and mission.

B. Balancing the 'D' and the 'B' of ADB: Development Institution and Lending Bank

3. In 2001, the Asian Development Bank (ADB) outlined its vision for integrated water management in the region in its "Water for All" water policy. The policy is significant in its inclusive, umbrella perspective rather than the fractured approach that has been characteristic of the sector. It emphasizes the importance of water linkages among different sectors of the real economy, the issue of rural and urban allocation, the interdependencies of the institutional, legal, technological, and financial arrangements including public-private partnerships (PPPs), and the focus on a river basin approach as the world moves towards an integrated water resource management paradigm within and across countries. The policy also recognizes ADB's attempt to balance its multi-sectoral responsibilities, and should drive it to continuously balance its roles as a development institution and a bank.

C. Significant Increase of Commitment Required

4. ADB's Water Policy attempts to bridge a divide that is responsible for many sub-optimal national policies and practices governing the water sector, by deliberately treating water as both a social and economic good, and the fundamental distinction between '*water as a resource*' and '*water as a service*'. In sum, ADB's Water Policy outlines a framework for DMC national water policies and water sector reforms. It provides the basis for integrating water resources management and improving water service delivery in irrigation and drainage, also water supply and sanitation. It includes a pro-poor and participatory approach and outlines the need for water conservation, regional cooperation, and partnerships to share good practices and knowledge.

5. The Water Policy does not advocate a "one-size fits all" approach and recognizes the complexity of the water sector across various countries. These principles are important. However, the value of the policy is in its implementation where principles are put into practice. A significant increase in ADB's and the DMCs' commitments are required for effective implementation of the Policy.

II. ASSESSMENT OF PROGRESS OF ADB'S WATER POLICY IMPLEMENTATION: *HALF FULL OR HALF EMPTY?*

A. An Overview

Methodology and Scope

6. As stipulated in the policy, an in-house review of policy implementation was undertaken in the third year in 2003 and a more extensive comprehensive review led by an external expert review panel was launched in 2005, five years after the policy was approved.

The comprehensive review had four core objectives:

1. To assess performance or progress in the 7 key areas of the Water Policy
2. To identify challenges, investment requirements, and opportunities
3. To determine capacities & constraints in ADB and the DMCs (institutional, financial, human)
4. To advise ADB's management if the policy needs to be revised or supplemented

7. Leading the review, the Panel was informed by feedback gathered at in-country consultations and site visits in five countries with various DMC stakeholders, separate consultations with representatives of civil society and the private sector, water-related conferences, ADB staff workshops, surveys, and comments gathered on ADB's water website. Other modalities included interviews with ADB's management and staff, and DMC stakeholders, case studies, desk study of loan, project and agreement documents, and involvement in external research studies relevant to the review. Two Special Advisers also provided technical inputs, preparing papers and presentations to share with the Panel throughout the review process.⁴

8. The Panel began the process with the metaphorical question, "Is the glass half full or half empty?" with regard to progress in implementing ADB's Water Policy. Guided by ADB's vision of Water for All, the Panel finds the glass both "half full" and "half empty," and has outlined the challenges that remain and the required actions necessary to improve conditions and fill the glass to the brim.

Limitations

9. ADB's Water Policy provides an array of possibilities for enriching ADB's development role as well as its portfolio of assets, investments, and loans. However, it is important to have realistic expectations regarding what can be achieved in the DMCs through ADB's water operations and the implementation of its Water Policy, in a sector as complex as water. In the end, ADB's actions must be balanced with other donors and actors in the sector and must invariably operate through the policies, strategies, and institutional frameworks of each DMC.

10. Likewise, the comprehensive review of ADB's Water Policy implementation is necessarily limited by the fact that the ADB is only one of several actors in the evolution and implementation of water sector activities in the DMCs. As such, it is not easy to isolate the impact of the implementation of ADB's policy from other influences. Few ADB projects have been implemented, or even fully designed, during the four short years since ADB's Water Policy was approved, so it is too soon to evaluate the *outcomes* of ADB projects in order to assess the

⁴ A more detailed description of the review process and short biographies for the review panel and special advisers are included in Appendices 2 and 3. A summary of key inputs informing the review is provided in Appendix 5.

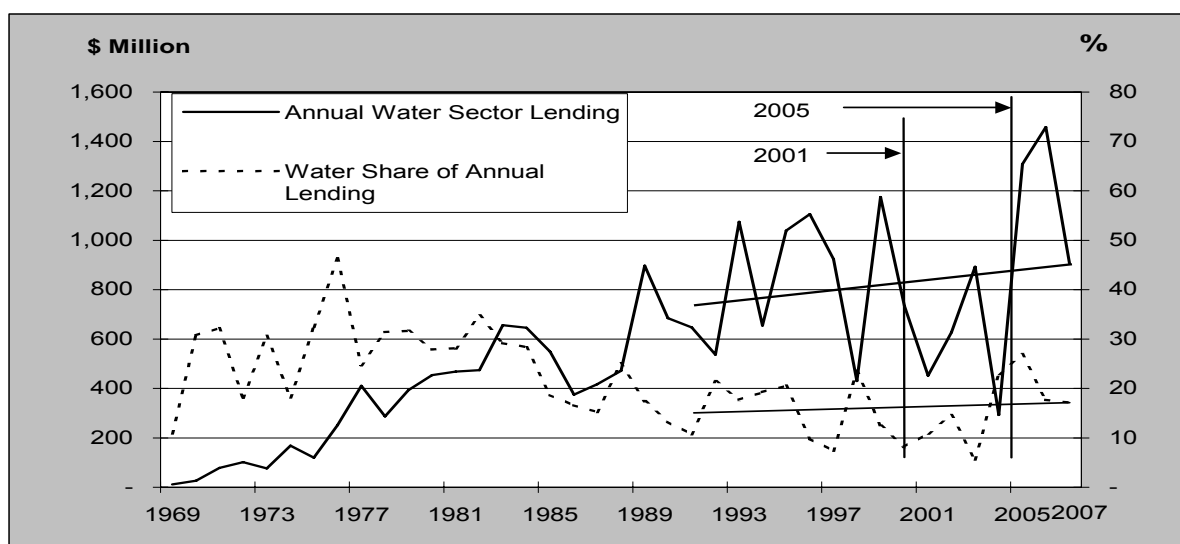
implementation of ADB's Water Policy. Thus, the review has focused on assessing the extent to which ADB's Water Policy has had an impact on the business *processes* and *products* as well as the *designs* of the project loans and technical assistance grants developed by ADB. The scope and methodology of the review is outlined in detail in Appendix 2.

Quantitative Assessments

11. ADB conducted an update to the 2003 interim review's quantitative analysis to assess progress in implementing ADB's Water Policy in terms of water sector lending and project designs through 2004. The expanded study attempted to quantify outputs achieved under each of the seven key elements of the water policy and included efforts to strengthen the methodology and indicators used to assess policy implementation.⁵

12. Broadly, the quantitative analyses indicate that ADB's investment in the water sector has been significant but has fluctuated. As outlined in Chart 1 below, until the mid-1980s, more than 25% of ADB's portfolio of ongoing loans was for water-related projects, yet the levels of ADB's water lending gradually declined as a percentage of overall lending to below 15% in the period 2000 to 2004.⁶ Understandably, decreases in ADB water lending in part can be attributed to decreases in demand in the DMCs and increases in other funding sources. However, as noted by the Camdessus Panel, the MDG Task Force and a joint study conducted by ADB, UNDP, UNESCAP and WHO, significant resources are still necessary to meet the water-related MDGs in Asia⁷. Internal ADB projections indicate that ADB's investments in the water sector are expected to increase under the proposed Water Financing Program.

Chart 1: Water Sector Lending and Share (1968-2007)



⁵ Methodological changes and key results from the 2003 interim review and the 2005 updated analyses are summarized in Appendix 5. The lists of policy actions are included in Tables 6 and 7 in Appendix 5.

⁶ ADB's Water Policy Implementation Review: Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review (June 2005).

⁷ During the 2003 3rd World Water Forum in Kyoto, Japan, the Camdessus Panel on Financing Water Infrastructure reported a significant shortfall in international aid in the water sector, calling for a doubling of international resources to meet current needs. "Asia Water Watch 2005: Are Countries in Asia on Track to Meet Target 10 of the Millennium Development Goals?" (November 2005). ADB, UNDP, UNESCAP, WHO. This paper is available on line on ADB's website: <http://www.adb.org/water>.

13. With regard to project design, the quantitative analysis indicated that ADB has made the most progress to address participation and conservation in technical assistance grant designs, and water sector reforms in project loan designs. According to the quantitative assessment, six of the seven policy elements showed improved implementation in the project designs of water-related technical assistance grants and three of the six relevant policy elements showed improved implementation in the project designs of water-related loans after the Water Policy was approved in 2001. The single element showing mixed results was water conservation, which showed substantial improvement in pursuing tariff reform but low achievement in strengthening water regulation in the region.⁸ Charts 2 and 3 below provide a snapshot of progress to improve project design in the seven key areas of the Water Policy in the years since the policy was approved.⁹

Chart 2: Incorporating Main Policy Elements into ADB's Project Design (Loans)

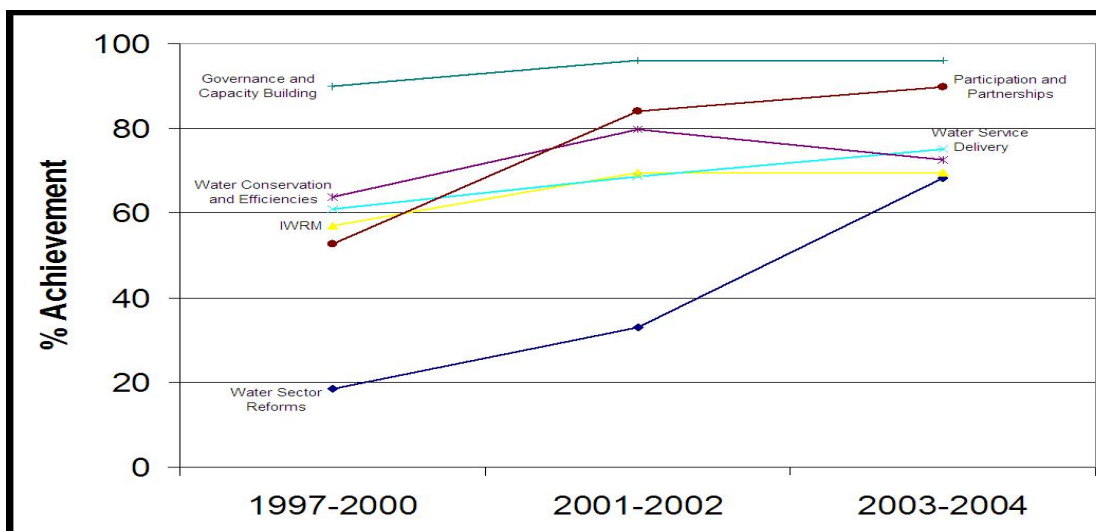
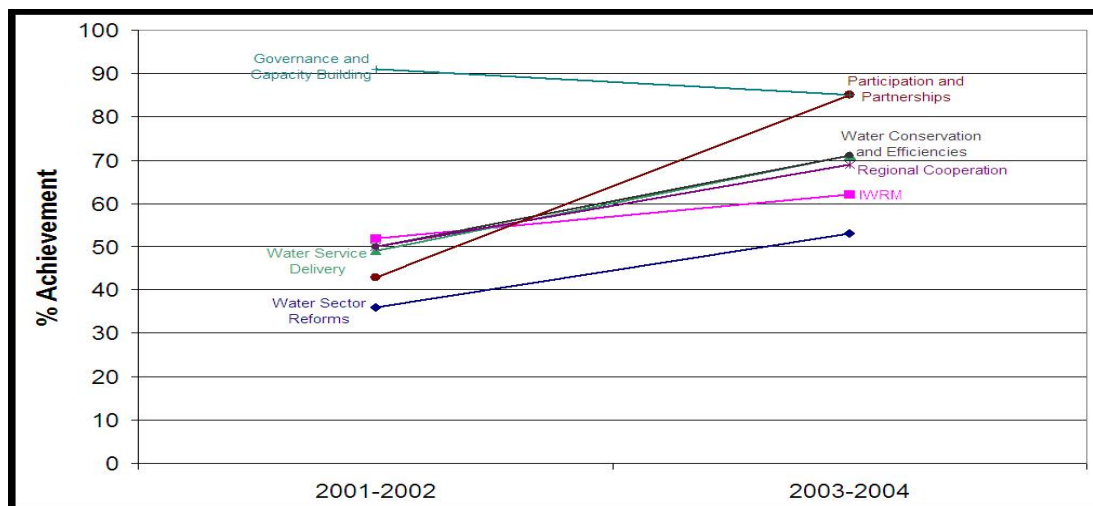


Chart 3: Incorporating Main Policy Elements into ADB's Project Design (TAs)

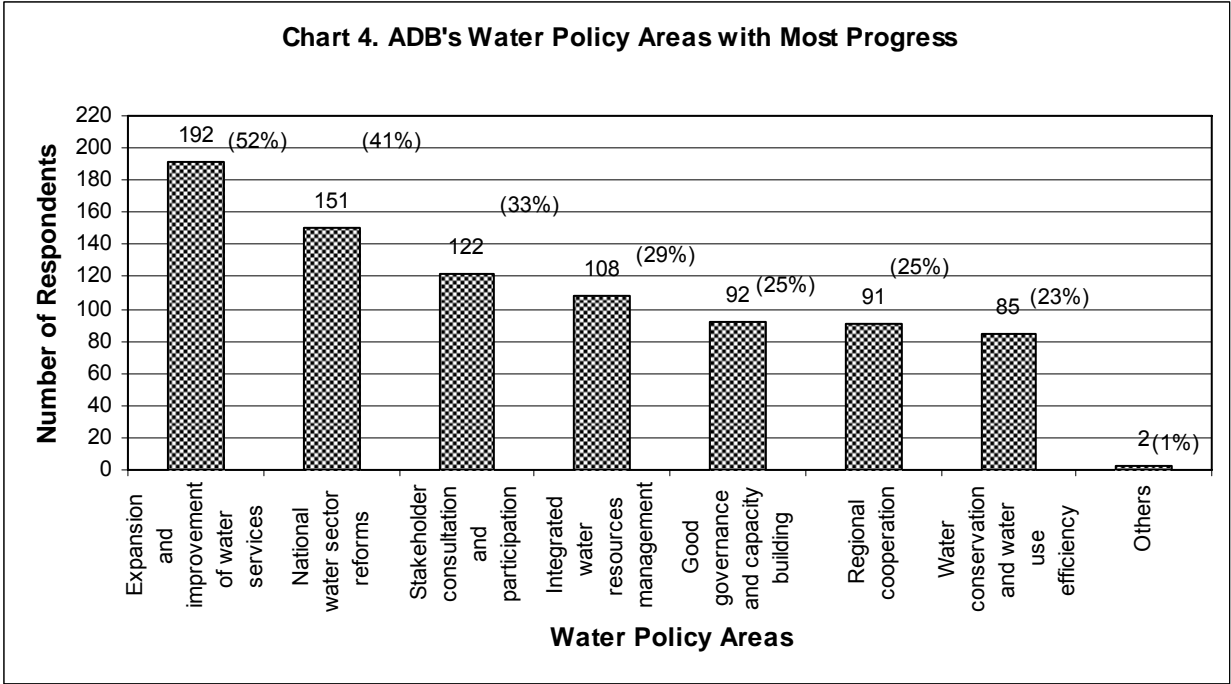


⁸ ADB. *Charting Change: The Impact of ADB's Water for All Policy on Investments, Project Design, and Sector Reform*. (November 2005) p. 13.

⁹ ADB's Water Policy Implementation Review: Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review (June 2005). Percent achievement refers to the number of

Client and Stakeholder Views: Consultations and Surveys

14. As Chart 4 below indicates,¹⁰ client and stakeholder views secured through surveys broadly coincide with the findings of the quantitative assessment, acknowledging the strides made to advance reforms, improve service delivery and increase stakeholder participation in the DMCs and suggesting that more work could be done to improve water conservation.



15. Stakeholder views secured during the consultations varied with regard to progress, challenges, required investments and actions to advance reforms, improve water resource management and service delivery in both water supply and sanitation, and irrigation and drainage in each country. Across the board, participants identified the need for investment, institutional reforms, and capacity development to improve water resource management and service delivery.¹¹

B. Progress in Key Areas

16. The comprehensive review focused on the three main areas (water sector reforms, water resource management, and water service delivery), and the four cross-cutting issues (resource conservation, regional cooperation, knowledge sharing through partnerships, and governance) highlighted in ADB's water policy. In addition, the review also considered a number of internal and external issues and drivers relevant to implementing ADB's water policy and strengthening

projects which incorporated the policy actions within that policy element in the design of the projects undertaken in the review period. A more detailed description of the methodology is provided in Appendix 5.

¹⁰ ADB's Water Policy Implementation Review: Client and Stakeholder Survey Results Final Report (December 2005). Percentages do not equal 100% as each respondent was asked to select the top 3 areas demonstrating the most progress.

¹¹ ADB's Water Policy Implementation Review. Summary of Stakeholder Feedback from ADB Consultations. (December 2005). Detailed consultation reports from each of the 7 consultations conducted to inform the review are posted on ADB's web site at: <http://www.adb.org/Water/Policy/consultations/default.asp>.

the region's water sector needs.¹² The synopsis below provides an assessment of progress, addressing the cross cutting issues and the additional internal and external drivers in the context of the three core policy areas as appropriate.¹³

National Policy, Institutional and Sectoral Reforms

17. ADB has been instrumental in promoting national water policies, water policy reforms, and establishing new institutional frameworks. The value of these efforts can not be assessed by merely enumerating the number of new apex bodies established or new laws on the books. Rather, the value in ADB's role is reflected in the catalytic effect that successful examples have had in the region to improve the governance and management of water resources and strengthen community participation in the water sector. Importantly, ADB has worked closely to build and support key regional networks aiming to improve governance and initiate reforms in the water sector, including the Southeast Asian Water Utilities Network (SEAWUN), the Network of Asian River Basin Organizations (NARBO), and the network of National Water Apex Bodies. ADB has also initiated partnerships to broaden stakeholder participation to catalyze water reform activities including the Gender and Water Alliance, Water for the Poor Partnerships in Action and Water in Asian Cities, just to name a few.¹⁴

18. Since the policy was put in place, ADB has provided support to a few countries to conduct comprehensive water sector assessments, which are a basic prerequisite for crafting effective national water policies and reforms. ADB has established the Cooperation Fund for the Water Sector (CFWS) to further promote the Water Policy and to finance water sector assessments and policy dialogues between ADB and DMCs that have prioritized the water sector in their development agendas. The Fund is widely considered within ADB as a significant mechanism for supporting water sector needs and priorities.

19. To date, five countries have conducted comprehensive water assessments (three since the policy was approved). Nine countries have national water policies in place, and eight countries are conducting national water sector reforms with ADB assistance. A few countries have established new water laws, introduced targeted legislation, and initiated several national water policy and sector reforms.¹⁵ However, the effectiveness of the new laws and water policies in some countries has been constrained by weak legal and regulatory frameworks and institutions. For example, Cambodia ambitiously conducted a comprehensive water sector assessment in 2002, formulated a draft water resources strategy in 2003, and completed a water sector road map in 2004. However, during the stakeholder consultation in Phnom Penh this past June, participants indicated that the weak regulatory and institutional framework has limited effective implementation of new laws, stalling necessary reforms in the country.¹⁶

20. Policy and institutional reforms have also been adopted in a few countries to ensure the implementation of effective national water policies. For example, Indonesia and People's Republic of China have enacted water codes, laws, and regulations, which have provided a

¹² The scope and methodology of the review is outlined in greater detail in Appendix 2 and in Appendix 5.

¹³ A more detailed summary of findings from the various review modalities and key inputs which informed the review is included in Appendix 5.

¹⁴ Profiles of ADB-led initiatives and partnerships which target governance and advance reforms are included in: ADB. *Charting Change: The Impact of ADB's Water for All Policy on Investments, Project Design, and Sector Reform*. (November 2005) and ADB's 2004 Water Sector Report (December 2005).

¹⁵ A summary of water sector reforms in the 17 DMCs where ADB has water operations is provided in Table 6 of Appendix 5.

¹⁶ ADB's Water Policy Implementation Review. Summary of Stakeholder Feedback from ADB Consultations. (December 2005). Detailed consultation reports from each of the 7 consultations conducted to inform the review are posted on ADB's web site at: <http://www.adb.org/Water/Policy/consultations/default.asp>.

good legal framework to formulate a good water management system. Notably, in Indonesia, the roles and responsibilities of the various government agencies have been clarified with the enactment of new laws and regulations and small water utilities have been formed to better serve rural communities. Moreover, in Lao PDR, a Water Resource Coordinating Committee, an apex body that can oversee policy formulation and water sector reform processes, was established under the new Water Resources Law.

21. ADB and other development institutions have also disseminated information through consultations and the media to raise public awareness and advocate for water sector reforms. Their combined efforts have increased public awareness of environmental issues and the importance of linking effective national water policies to countries' respective development goals. However, improved targeting of information dissemination to different audiences is needed to create platforms for more active participation of various stakeholders in framing policies and water projects that respond to the needs of the poor.

22. Notwithstanding the achievements, water sector assessments, and policy, legal, and institutional reforms still lag behind in many countries.¹⁷ In most DMCs, water resources development is still not integrated into the overall national development strategy. Critically, many of the countries still lack water policies and the necessary institutional and regulatory frameworks to guide work in this section. ADB's most recent assessment of its efforts in the water sector acknowledges the critical need to target and improve regulation.¹⁸ Moreover, many countries still do not make the distinction between water as a resource that must be managed and water as a service for delivery, as outlined in ADB's Water Policy. Thus, there is a need for ADB to support national initiatives to undertake such assessments and advocacy efforts, targeting the remaining policy, legal, and institutional reforms needed in those countries.

Integrated Water Resources Management (IWRM)

23. Integrated management of water resources (IWRM) is the backbone of ADB's water policy, dependent upon good governance, comprehensive water resource assessments, and interlinked water investments in river basins. The aim of IWRM is to manage water, and related resources, in a holistic and integrated manner by promoting regional cooperation *within* countries as well as *between* riparian countries.

DMC Efforts to Advance IWRM

24. During the World Summit on Sustainable Development (WSSD), an agreement was reached to have national integrated water management plans ready by 2005. ADB has offered to support a number of countries in responding to this challenge, however, only a few countries in the region will be able to meet this deadline. Preparing the plans and subsequently putting them into practice- even after financial and technical resources become available, through national budgets and supplemented by ADB loans and grants - is severely hampered by institutional and organizational constraints.

25. Notably, the institutional framework in most DMCs is not conducive to the implementation of people-centered and sustainable IWRM, as described in ADB's Water Policy. Key challenges include restrictions in implementing legislation and allocating resources, ineffectual decentralization of government functions, lack of enforcement of laws and

¹⁷ A summary of the status of water sector reforms in the 17 countries where ADB has water projects is included in Table 8 in Appendix 5.

¹⁸ ADB's 2004 Water Sector Report (December 2005).

regulations to protect ecosystems, the absence of a political culture supporting empowerment and social inclusion, limited know-how and support among water professionals for inclusive and informed participation, and insufficient political support for gender equality.

26. Progress has been made to move IWRM forward in a few of the DMCs, but the establishment of River Basin Organizations (RBOs) and Water Users Associations (WUAs) is still lagging behind. These locally based entities have been critical in helping to facilitate the participatory management of water resources. In Cambodia plans to establish river basin organizations (RBOs) and an integrated river basin approach are underway, and measures have been introduced to incorporate environmental and social concerns into water resources projects. However, in order to gain maximum impact it is essential to increase efforts with respect to improving the quality of negotiations and stakeholder ownership. In Fiji, a few initiatives have been undertaken to promote IWRM, including consensus building, awareness, education, accessing of funds, and the implementation of pilot wastewater management projects.¹⁹

ADB's Scorecard on IWRM: Regional Cooperation, Capacity Building, Investments, & Project Design

27. In the region, ADB has taken the lead to promote IWRM across Asia and the Pacific as an inclusive process, aiming to balance the allocation of scarce water resources across competing priorities with the realization of economic benefits, social equity, and environmental sustainability. ADB has mainstreamed an IWRM approach into project designs in Cambodia, Vietnam, Indonesia, Bangladesh, Philippines, Afghanistan, Timor Leste, Sri Lanka, and on a regional scale in Central Asia.²⁰ With ADB's assistance the northern part of the Aral Sea and the Syrdarya River has been rehabilitated through framework agreements between Kazakhstan, Kyrgyzstan and Uzbekistan. Learning from the success of this intervention, ADB can take a proactive role in facilitating conflict-resolution related to trans-boundary water management issues and negotiations with DMC governments.

28. Within DMCs, ADB's support and promotion of RBOs helped to establish the Network of Asian River Basin Organizations (NARBO), which is a tangible, concrete result of ADB's efforts in this particular field. NARBO's training and networking activities provide an excellent opportunity to build IWRM capacity in the region and to promote and facilitate the dissemination of information and knowledge gained in the region on using the water shed as the basic planning and management unit.

29. ADB's recent investments also demonstrate a commitment to advancing IWRM in the DMCs. While ADB lending for basin projects has fluctuated, targeted lending for IWRM introduced in 1999, has been steadily increasing ever since. Overall, ADB lending for water resource activities has gradually increased since 1990, and is expected to rise through 2007, however, this upward trend is mainly due to projected allocations for hydropower, disguising the downward trend in demand for flood and watershed management.²¹

30. Stakeholder feedback gathered through consultations and surveys supports ADB's continued investment in IWRM as roughly half, or forty-seven percent of survey respondents indicate that ADB should make IWRM a priority investment in the short term.²² Stakeholders

¹⁹ ADB's Water Policy Implementation Review. Summary of Stakeholder Feedback from ADB Consultations. (December 2005).

²⁰ ADB's 2004 Water Sector Report. (December 2005).

²¹ ADB's Water Policy Implementation Review: Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review (June 2005).

²² ADB's Water Policy Implementation Review: Client & Stakeholder Survey Results Final Report. (December 2005).

also stressed the need to catalyze water investments to the poor and address the institutional barriers responsible for gender inequality at the political level. ADB has made considerable progress in promoting the involvement of both international and national NGOs as partners in knowledge sharing and project implementation. However, more work is required before well-informed and inclusive participation is effectively incorporated into the CSPs and ADB's project design.

31. Social and environmental issues are acknowledged in ADB policies and project design. However more must be done to mitigate project impacts to ensure environmental sustainability, gender equity, and pro-poor and participatory practices. Quantitative analyses assessing performance of ADB projects in key areas outlined in the water policy, indicate that policy actions related to economic growth have received relatively more attention than those concerned with ecological restoration to ensure environmental sustainability of interventions. Notably, a substantial number of environmentally-focused policy actions related to water resources management, including wastewater discharge, protection and rehabilitation of degraded forestland, and wetland conservation, have received limited attention in project design.

32. In line with ADB's results-based focus under its Management for Development Results Initiative, project design and monitoring must better reflect efforts to achieve IWRM. Equal attention should be paid to indicators for economic benefits, environmental sustainability and social equity, with a strong emphasis on gender equality. Several recent studies indicate that high levels of gender equality show a positive correlation with investment efficiency.²³ In future operations, ADB also needs to emphasize basin-wide management approaches, with a particular focus on actions and investments in rural areas.

33. Overall, the ultimate impact of IWRM should be measured in improved livelihoods, conservation of ecosystems and aquifers and poverty alleviation. However, this causal connection cannot easily be established with the present set of instruments and the varying quality of available data. ADB should help develop instruments that can better measure and determine the relationship between investments in water resource management and the achievement of relevant MDGs e.g. Target 7 on water supply and sanitation coverage and quality and Target 9 on reversing the loss of environmental resources.

Water Service Delivery in Water Supply & Sanitation and Irrigation & Drainage

34. ADB's Water Policy promotes efficiency to ensure quality, access and affordability, and sustainability in water service delivery for domestic, industrial, and agricultural use. The policy outlines key measures to reach these goals: support for subsidies together with the gradual withdrawal of subsidies through tariff reform, the option for public-private partnerships and private sector participation, and decentralization of government coupled with increased participation of end-users.

35. Stakeholder feedback has been mixed regarding ADB's approach to advance or implement these measures on the ground through its water projects in the DMCs.²⁴ Civil society

²³ UN Task Force on Gender and Water (2005).

²⁴ ADB's Water Policy Implementation Review. Summary of Stakeholder Feedback from ADB Consultations. (December 2005). Detailed consultation reports from each of the 7 consultations conducted to inform the review are posted on ADB's web site at: <http://www.adb.org/Water/Policy/consultations/default.asp>.

has been particularly concerned with how such measures are directly linked to efficiency, improved water quality, increased access and affordability of services, especially for the poor.²⁵

Withdrawal of Subsidies

36. ADB's Water Policy acknowledges the controversial and sensitive nature of subsidies, supporting subsidies to ensure provision to the poor while outlining the goal of their gradual withdrawal for both domestic and agricultural use. To this end, ADB promotes a phased approach in line with affordability and as economic conditions in the DMCs improve.²⁶ However, it is unclear to key stakeholders how ADB seeks to apply these caveats to ensure continued differential pricing for the poor as well as effectively consider the continuing need for subsidies to support positive externalities. For example, one of the WaterAid case studies indicated that a few ADB-financed urban water supply and sanitation projects in India had not identified or included slum settlements in its service areas. The adverse impact of these ambiguities regarding subsidies is exacerbated by misconceptions that successful Public Private Partnerships have to be inevitably accompanied by withdrawal of subsidies and tariff enhancement.²⁷

37. Collectively, these misconceptions and ambiguities make it difficult for ADB to incorporate cost recovery efforts into Country Strategy Plans, Project Loans, and TA Loans in the DMCs. According to the interim review, the policy provisions related to the phased elimination of subsidies have been increasingly incorporated into almost all Loan and TA Grant project designs since 2001, however much remains to be achieved to recover O & M costs for irrigation and to better target subsidies and appropriate tariff reforms for domestic use for the poor.

Public-Private Partnership (PPP)

38. According to the interim review and updated quantitative analyses as well as interviews with ADB operations staff, the promotion of public-private partnerships has been amongst the most difficult Water Policy goals to achieve, and remains a controversial issue. While two thirds of technical assistance grants and nearly half of relevant water loans in 2001-2002 and 35% of loans approved in 2003-2004 included PPP in its project designs, ADB operations staff indicate that PPP has only been successfully integrated into two projects.²⁸

Ensuring Coverage and Access for the Poor

39. Moderate progress to increase coverage of domestic water service delivery in both rural and urban areas in the DMCs has been reported. However, empirical evidence suggests that poor people do not necessarily benefit from such increases in coverage. For example, WaterAid's case studies on ADB financed projects in India indicate that where there are land

²⁵ Two NGOs, WaterAid and the NGO Forum on ADB, prepared case studies and presented findings from their case studies on specific ADB water projects to inform the review and improve ADB's water operations during the civil society consultation held in November 2005 at ADB HQ. WaterAid's final report, is titled "Water for All? A Study on the Effectiveness of ADB Funded Water & Sanitation Projects in Ensuring Sustainable Services for the Poor," and NGO Forum on ADB's synthesis report is titled, "Running Dry: Does the ADB stand for "Water for All?" Summaries of key findings presented in the synthesis reports are included in Appendix 5. The detailed country and case studies are available on ADB's website at <http://www.adb.org/water>.

²⁶ Water for All: The Water Policy of the Asian Development Bank (2001). pg. 25, paras 45 and 46.

²⁷ These misconceptions are outlined in greater detail in Chapter III, which covers key challenges (paragraph 91).

²⁸ ADB's Water Policy Implementation Review: Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review (June 2005). ADB Staff cited the following two projects: and TA 3744-AZE: Urban Water Supply and Sanitation and TA 3059-NEP: Small Towns Water Supply and Sanitation.

tenure issues and lack of focus on slum areas, there is less than proportionate increases in coverage for the poor. This study also underscores the fact that exclusion and lack of access to water supply and particularly sanitation in rural areas is exacerbated by poverty. Moreover, the lack of disaggregated information on the impact on vulnerable groups makes it difficult to gauge progress.

40. ADB has attempted to understand and better address the urgent water needs of urban poor communities in Asia's growing cities. In 2004, ADB pioneered an initiative involving small scale private water providers in implementing small piped water networks in eight growing cities (Cebu, Delhi, Dhaka, Ho Chi Minh, Jakarta, Kathmandu, Shanghai, and Ulaanbaatar). The results of this study suggest that small piped networks provide an efficient alternative as a short-term solution until the city water utility is able to expand services into the target area. The study also provides practical recommendations to city governments to leverage local investment.²⁹

Targeting Efficiency and Cost Effectiveness: Project Design, O & M Arrangements, and Alternative Technologies

41. Efficient and equitable delivery of services, whether for water supply and sanitation or for irrigation and drainage, depends on number of financial, technological, economic and political factors and requires deliberate targeting and a proactive approach in project design, implementation and monitoring. Assessments indicate that all the key aspects among these factors may not be adequately accounted for in ADB's Water Policy or project design. Surprisingly, for example, the policy does not provide a clearly formulated and strong focus on operations and maintenance (O&M) or energetically promote the evaluation and use of alternative technologies where appropriate. These key factors are critical to ensuring affordable and equitable service and are inherently linked to efficiency and cost-effectiveness in water service delivery.

42. Sub-optimal and inefficient operations & maintenance of water service assets due to inadequate financial and human resources, and low quality technical and managerial practices are endemic to DMCs. Further, due to poor maintenance, expensive and scarce capital water service assets such as water distribution and collection systems, water and sewage treatment plants, deteriorate prematurely.

43. Basic good quality operations and maintenance (O&M) are critical to ensuring that assets can continue to be utilized without compromising water quality or disrupting access to affordable and reliable service. Reliable O&M arrangements often do not form an integral part of ADB project designs for creation of new assets, and typically ADB does not finance stand alone O&M projects. For example, in a project in four cities in Karnataka India implemented recently, high quality capital assets built or procured with ADB assistance remained sub optimally utilized due to the absence of a strategy or resources for their efficient operation.

44. Wastewater management, which is a big issue in middle income countries, has also not been adequately covered in existing ADB water project investments. In 2004, ADB developed two diagnostic tools to help address these gaps in ADB operations: The Diagnostic City Water Assessment and the Planning Urban Sanitation and Wastewater Management Improvement Tool.³⁰ It is hoped that mainstreaming use of these tools will improve ADB's efforts in these critical areas.

²⁹ Conan, H. (2004). ADB Water for All Publication Series: Small Piped Water Networks: Helping Local Entrepreneurs to Invest.

³⁰ These diagnostic tools are posted on ADB's website at: <http://www.adb.org/water/tools/city-water-assessments.asp> and <http://www.adb.org/water/tools/planning-us-wss.asp>.

III. CHALLENGES AND OPPORTUNITIES: *WHAT ACTION IS REQUIRED?*

45. As cited earlier, one of the main objectives of the review was to identify remaining challenges, required investments, and opportunities for ADB to help improve conditions in the DMCs. The Review Panel identified eight major challenges or priority areas requiring action or investment to improve implementation of ADB's Water Policy. Broadly, these challenges encompass critical barriers thwarting progress in the DMCs as well as constraints to be addressed or actions to be initiated within ADB or in partnership with other donors or DMC stakeholders:

- A. Raising the status of water in the DMCs and ADB's development agenda;
- B. Improving governance and addressing institutional constraints in the DMCs;
- C. Donor harmonization to optimize investment benefits;
- D. Mitigating social and environmental impacts;
- E. Developing capacities & addressing constraints within ADB (institutional, financial, human)
- F. Improving alignments of CSP/Us, DMCs' water sector roadmaps with ADB's Water Policy
- G. Ensuring affordability, access and equity in water service delivery, and
- H. Targeting efficiency and cost effectiveness in water service delivery.

46. The synopsis below provides an assessment of these challenges and outlines the priority areas requiring investment or action, which set the stage for the Panel's recommendations outlined in Chapter IV.

A. Raising the Status of Water in the DMCs and ADB's Development Agenda

47. Finding safe and affordable water is an exercise in futility for 700 million people in the region. For half of the region's population of 2 billion people, life without adequate sanitation is a gruesome reality and there is a very great risk that Millennium Development Goals would be extremely difficult to achieve. Moreover, declining per capita availability of water resources coupled with continuously increasing water demands for social and economic developments threaten environmental protection, ecologic rehabilitation, and limited freshwater endowments.

Making Water a High Priority Sector in the DMCs

48. The vulnerable condition of the region's water resources is exacerbated by inefficient management, exclusion of the poor, and an overall decline in water investments. Years of under-investment and neglect of proper operation and maintenance, and the phenomenon of rapid population growth constrain existing water infrastructure and supply. Service levels do not meet health and safety standards for most of the population even as potable water supply remains limited, especially among the poor.

49. Yet, in many developing countries, the water sector is not prioritized in the overall national economic development plan and budget. Raising the profile of the water sector and necessary reforms is not an easy task in view of the complexity and diversity of the water sector in varying social, economic and political contexts in the DMCs. Thus, there is a need to structure incentives to motivate and support various stakeholders in DMCs to adopt water sector policy reforms, establish supportive water laws, legislation, policies and regulations.

50. The convergence of DMC and ADB interests in advancing water sector policy reforms has to be grounded in increasing socio-political awareness and support for such reforms. There is an urgent need for national policy dialogues in the DMCs at different levels, which should include relevant Government ministers and authorities as well as politicians, senior leadership (including local district and municipal levels), academia, civil society, private sector associations,

and the media. These dialogues should help finalize water sector road maps and build consensus on DMC investment priorities. Innovative financial instruments, incentives, and long-term partnerships need to inform loan agreements to ensure that water is prioritized and the policy is manifested in project implementation. Moreover, such efforts need to be conducted on a sustained basis over the long term and not merely in the context of specific projects.

Making Water a High Priority Sector within ADB

51. Historically, over one-fifth of ADB lending has been in the water sector.³¹ Over the last three years (2003-2005), ADB's lending for water supply, sanitation and wastewater management totaled over \$1.5 billion.³² However, as cited earlier, ADB's water lending has gradually declined to below 15% in the period 2000-2004. Moreover, these investments pale relative to the overall demand by a growing population for safe and affordable water. Recent studies estimate that it will cost \$8 billion a year until 2015 to meet just the *regional* MDG targets for water supply and sanitation in Asia.³³ This includes water in urban slums to meet MDG 7 Target 10, but does not include the additional investment needed to respond to MDG Target 9 on reversing the loss of environmental resources. Thus, a key challenge for ADB is to allocate more substantial resources for increased water investments in DMCs and to introduce ADB's Water Policy into its day to day operations. Increases in ADB funding for the water sector should also target both "software" (policy, institutional and regulatory reforms, knowledge management, public awareness) and "hardware" (infrastructure development, physical assets, O& M, and technical assistance) to ensure sustainability of efforts.

52. In short, ADB needs to emphasize the link between effective management of water resources and reliable water service delivery and achieving economic growth and the MDGs. In addition to increasing investments, ADB should conduct analytical studies, widely disseminate the findings, and focus advocacy efforts to target both ADB staff and key stakeholders in the DMCs. Such efforts should help to prioritize and generate commitment to the goals of ADB's Water Policy. In this process, ADB should be able to better balance its dual roles as a bank or funder and development institution or knowledge partner.

B. Improving Governance and Addressing Institutional Constraints in the DMCs

Weak Governance and Lack of Sectoral Coordination

53. DMCs face many institutional constraints as they attempt to enact appropriate water laws and regulations. Weak participatory processes and a lack of access to, coordination and exchange of water-related information have made it difficult to raise the visibility of water issues and improve water governance. Moreover, there is a time lag between the articulation of a new paradigm for the water sector and the formulation of policies and projects reflecting these views. Thus, more time and advocacy efforts are needed to motivate politicians and the bureaucracy in the DMCs to commit themselves to allocate resources to a new development agenda. In short, improving water governance will require influencing the political process through identification and effective engagement of decision makers at all levels. Importantly, such engagement must

³¹ This figure represents an average of water sector lending share from 1968-2004.

³² ADB's Water Policy Implementation Review: Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review (June 2005).

³³ Estimates are derived from: Hutton, G. Haller, L. Evaluation of the Costs and Benefits of Water and Sanitation Improvement at the Global Level. Geneva: World Health Organization, 2004. (WHO/SDE/WSH/04.04), as quoted in "Asia Water Watch 2005: Are Countries in Asia on Track to Meet Target 10 of the Millennium Development Goals?" Working paper produced by ADB, UNDP, UNESCAP, and WHO (November 2005)

include an understanding of varying development priorities as well as an awareness of the key constraints and incentives that influence participation and reform processes.

54. DMCs also face institutional and organizational constraints which limit efforts to implement IWRM. When ADB's Water Policy was adopted in 2001, the water sector in most DMCs was, and still is characterized by a strong sectoral and sub-sectoral division of responsibilities. This division resulted in a preference for technical solutions for often complex societal issues. Cross-sectoral and participatory planning and management - key components in IWRM - are an exception to the rule. An integrated participatory approach and improved coordination among governing bodies is necessary to effectively address the increasingly complex social and environmental issues inherent in water resource management. Pro-poor development, good water quality, sufficient water allocation, and conservation of scarce resources rely on the ability to balance upstream and downstream needs, industrial, agricultural and domestic use, and the ability to respond to climate change, natural disasters and fluctuations in the water table.

55. DMCs must focus on creating demand for IWRM, especially at river basin and sub-basin levels. The mechanisms and competencies for addressing competing interests with respect to calculating, allocating water and managing water rights – conflict resolution – have to be made operational. It is crucial for all stakeholders, especially politicians, to acknowledge that IWRM is a viable solution for reducing water-related disasters and tensions and a critical framework for mobilizing outside resources for the sector to complement limited national and local budgets.

56. Unfortunately, the complexity and holistic nature of IWRM is not well understood yet by many policymakers and sector professionals. Executing Agencies in DMCs are often unable or reluctant to adapt their structures, mandates, and working mechanisms to the new realities. This appears to be the case in Indonesia. Solid evidence is needed to overcome the resistance, demonstrating the 'win-win' scenario of improved coordination and proposed sector reforms. The donor community, and in particular the ADB, has an important role to play in providing convincing evidence, which supports institutional and organizational responses for achieving improved coordination. The promotion of national apex bodies, successfully introduced in the Philippines in 1974, is one but certainly not the only option for improving sector coordination. ADB should continue to encourage and support the establishment of Apex Bodies at national, state/provincial, and river basin levels to ensure water policy consistency and better coordination among different agencies and regions on water resources management.

57. Notably, better integration and coordination is needed in the management of irrigation systems. ADB's Water Policy seeks improvement in irrigation efficiencies but how to achieve this is a great challenge. Irrigation is the major consumer of fresh water - on average more than 70% of total water allocation in DMCs - while showing low efficiency rates. Typically, water use for irrigation is seasonally concentrated and the peak requirement of water always coincides with low flow rates in the rivers, thus irrigation has a large impact on water distribution and availability of basin water resources. The challenge to produce 'more crop per drop' has been typically approached as a technical issue. However, its utilization is not optimized in view of the failure to maintain the irrigation system in good condition and the lack of accountability of service providers. The desired turnover of responsibilities for operation and maintenance to farmer groups has not happened while existing service providers have not been made accountable for the delivery of services.

58. IWRM provides the impetus for ADB to work with DMCs to promote autonomy and accountability among farmer groups, service providers, and public agencies. ADB should provide sustained support at both political and administrative levels to assist in conflict

resolution and reconciliation of competing demands for water with an emphasis on transparency and accountability in water allocation.

59. In addition to improving coordination, there is an urgent need to introduce benchmarking for irrigation systems. Enhancing collective and individual rights and responsibilities of *all* water users and providers in the context of a livelihood approach would also acknowledge the multiple use of water provided through irrigation systems. Technical solutions will fall short here as this requires political discussion as well. ADB is very well positioned to respond to this challenge and to explore the introduction of comprehensive benchmarking, which would promote the evolution of irrigation systems into multiple use systems.

Institutional Capacity Constraints: Targeting Executing Agencies and Regulators

60. In many countries, there seems to be an enormous lack of institutional capacity especially at sub-sovereign levels to implement IWRM. It is at the sub-sovereign levels where implementation of water policies has to take place; where people struggle to secure their livelihoods and where competing demands for water allocation find their expression. This finding is validated in the stakeholder feedback provided during the consultations and surveys, which identifies the critical need for decentralization and capacity building at all levels. Consultation participants and survey respondents strongly advise ADB to include capacity building as a key component in its water investment packages.³⁴ However, the major challenge will be to convince DMC governments that decentralization and investing capital for capacity development and knowledge management pays off in terms of accountability, economic growth and pro-poor, equitable development. ADB could help motivate the DMCs to take the lead in assessing the needs and designing and implementing water sector capacity development plans. ADB must also continue to promote decentralization as well as inclusive and accountable institutions in decision making and oversight of water sector management in DMCs.

61. Developing the capacities of Executing Agencies in the DMCs requires specific attention. There is an acute constraint in absorption capacity, which seriously hampers the implementation of ADB's Water Policy as reflected in loan design. It is imperative to take steps to close the gap between policy and practice in the next five to ten years. This requires capacity development including technical training and management development of implementing agency staff at local levels (district and municipalities). In TA projects, strict attention should be paid to counterpart availability to promote effective knowledge transfer as part of project design. Capacity development should also include training on community consultation methods, ensuring women's participation, a key element of people-centered development.

62. ADB should help DMCs assess and address gaps in capacity through regular training courses as an integrated component of all water sector financing. Key areas include: water policy formulation, IWRM, gender equality and mainstreaming, community consultation and pro-poor approaches, commercial, environmental and social impact studies, contract development and management responsibilities, project development and public private partnerships, monitoring and evaluation systems and capacities for water projects. Community and local government certification would also be important for added credibility and authenticity.

63. ADB should also support the development of effective regulatory frameworks through training and capacity building initiatives for regulators, including twinning arrangements with other regulators in the region. ADB should also facilitate the exchange of information among

³⁴ Summary of Stakeholder Feedback From ADB Consultations. (December 2005). Client and Stakeholder Survey Results. Final Report. (December 2005).

regulators and consider building ADB staff expertise in this area. In the short-term, ADB could, hire consultant-advisors to assist regulators in the early stages of development

C. Leveraging Donor Harmonization: *Helping DMCs Maximize Investment Benefits*

64. Increased efforts towards donor harmonization and exploration of new (co-) financing modalities are vital elements for achieving the water sector ambitions of the DMCs. Cooperation and harmonization benefit both donors and the DMCs, whereas competition fragments or duplicates donor's individual efforts and strains the limited capacities available in DMCs to implement the required sector reforms and accommodate externally funded interventions. ADB, as a co-sponsor of the Paris High Level Forum on donor harmonization which took place in March 2005, is a stakeholder in the agreement to i) increase recipients ownership of aid, ii) harmonize donor procedures, iii) align donor procedures to recipients, and iv) deliver through local systems instead of donor systems. Strategic donor harmonization allows receiving countries to draw maximum benefit from the comparative advantages of their development partners and take the lead in coordinating efforts to increase effectiveness and efficiency of loans and grants.

65. ADB should enhance its efforts in donor harmonization and aid effectiveness as agreed in the Paris Declaration in order to maximize investments in the region's water sector and to catalyze reforms, contributing to the achievement of the three water-related targets under MDG 7. For example, ADB could partner with other donors (including bilateral) to develop long-term political and social awareness and support programs for water sector reforms in the DMCs. Programs could be conducted at both national and local levels and include structured and sustained policy dialogues and evidence-based advocacy e.g. campaigns in native languages, aimed at youth, students, politicians, NGOs, media, the bureaucracy and high-level policy-makers.

66. Co-financing and joint impact monitoring of water sector interventions— in the context of the MDGs – also have the potential to help achieve a sound balance between the quantity and quality of investments. Moreover, these joint interventions provide a holistic development approach with multi-sectoral, multi-stakeholder, and cross-regional collaborations. Stakeholder feedback gathered during the in-country consultations confirmed that donor harmonization is not occurring in the DMCs as several challenges remain. In order to realize the principles of “Effectiveness, Harmonization, Alignment and Results” outlined in Paris, recipient countries have to engage in dialogues, design instruments and put mechanisms for their implementation into practice. Additional resources and capacity development is needed to engage in these activities. The CFWS could be leveraged to support this crucial process of donor harmonization in countries where ADB's contribution to the water sector is significant.

67. Improved donor harmonization should also create new financing modalities, allowing sub- and non-sovereign partners to access external funding. While ADB cannot (due to personnel constraints and historical circumstances) be expected to take the lead on all water issues in every country, it should assume a substantial role in IWRM development. ADB should take a leading role in this particular field in the next five years to generate ‘know-how’ about risks and opportunities, which would provide information to DMCs planning to scale up innovative water investments in the medium to long-term. Such efforts could allow a scaling-up in the medium to long term. The recent launching and pilot testing of five new financing instruments and modalities is indicative of ADB's eagerness to remove bottlenecks in its business model, promote a focused and client oriented approach and have more flexibility in fashioning various co-financing modalities with sub- and non-sovereign partners.

68. This initiative should be widely supported and intensively monitored by ADB's member countries by joining and replenishing the CFWS. ADB should explore a combination of technical assistance, financed by the Fund, with project and policy/program loans to move beyond the short-term project approach and evolve into long-term partnerships to support the DMCs.

D. Mitigating Adverse Environmental and Social Impacts: *Improving Project Design, Benchmarking, Monitoring and Evaluation, and Targeting Investments*

69. While advances have been made, many challenges remain with respect to mitigating adverse environmental and social impacts caused by water resources development projects and natural phenomenon e.g. flooding, earthquakes and climate change. DMCs must balance the management and development of their respective water resources with pro-poor development and environmental sustainability. Likewise, ADB must strike this balance in its water-related projects and investments. Beyond controllable measures, both DMCs and ADB must also consider contingency measures to address extreme fluctuations in water allocations and widespread water-borne disease due to unpredictable natural disasters.

Improving Project Design and Strengthening Monitoring and Evaluation

70. ADB has made an effort to improve project design and strengthen monitoring and evaluation of ADB projects. Notably, there have been a few good examples of integrated approaches such as treating water supply and sewage disposal and irrigation and drainage as two sides of the same coin or considering the multiple use of agricultural water for irrigation and human consumption. However, as cited earlier, several environmental issues continue to receive limited attention in ADB project design, including wastewater discharge, degraded forestland, and wetland conservation. Beyond project design, policy dialogue, the CSPs, and contract design can be used to push such approaches in ADB financed projects. Knowledge dissemination and examples of good practice in integrated project design should also be leveraged to influence implementing agencies in DMCs to continue and expand ADB's efforts in this area.

71. Stakeholders have expressed specific concerns about the social and environmental impacts related to the construction of dams for the purpose of water management and the generation of hydropower (environmental degradation and sustainability, compromised water quality, displacement of indigenous peoples, lack of participatory planning). These concerns have been thoroughly addressed by the World Commission on Dams (WCD). While it is important to acknowledge the significance of these concerns, it is inevitable that DMCs will continue to call upon development partners and IFIs in general, and ADB in particular, to prepare and co-finance large water resource projects. The need for water storage is evident in countries with erratic and seasonal rainfall. Moreover, water storage, in many cases, is indispensable to guaranteeing reliable water service delivery. ADB assessed its own social and safeguard policies in the context of the WCD recommendations to conclude that "the framework of ADB policies is adequate to deal with issues raised in the WCD report."³⁵

72. In line with the WCD and ADB's own policies, it is advisable for ADB to proceed with extreme caution in investing in large water resources projects, mindful of the importance of protecting the interests and livelihoods of marginalized people in the area, and ensuring that the benefits are spread equitably. ADB has worked with other donors in the past to improve assessment tools such as the Environmental Flows, Environmental Impact Assessment and

³⁵ Dams and Development E-Paper (October 2005) ADB's website: <http://www.adb.org/water/topics/dams/dams1110.asp>.

Social Impact Assessment (EF, SIA and EIA). Moving forward, ADB should take a leading role in promoting the use of these tools, so that social, economic and ecosystem benefits of large dam constructions are ensured and well balanced. Moreover, more time and energy should be invested in improving the communication of the outcomes of these assessments in order to respond to the concerns of affected people. ADB should identify and support the right partner organizations in the region to take up these tasks.

Aligning Investments to Promote Gender Equality, Participatory and Pro-poor Development

73. There was, and still is, a strong preference expressed by many DMCs for a technical focus and investments in infrastructure or asset development or the “hard ware” in ADB supported water loan projects. However, more resources should be made available for the institutional, social and environmental aspects of water resource management and the adoption of an inclusive participatory approach to water management. These often-neglected elements are key “soft ware” components of IWRM and service delivery and essential to ensuring gender equality, pro-poor development, and environmental sustainability, which are important MDGs. Providing the evidence for the water-poverty-gender nexus poses an enormous challenge to ADB and the entire donor community. However, overcoming this challenge is critical to ensure the balance between economic benefits and social equity and restore the necessary link between water sector investments and poverty alleviation.

Managing Climate Change, Natural Disasters and Water Allocation

74. Climate change and more frequent large-scale disasters involve far-reaching consequences affecting the sustainability and effectiveness of investments made in the water sector. Increasingly, the highest death toll from natural disasters does not result during the immediate catastrophe, but rather occurs in the aftermath as a result of subsequent flooding and health-related problems, such as water-borne disease. Fluctuation in water availability based on these natural events need to be addressed by re-negotiating water allocations and incorporating water-based disaster preparedness measures into DMCs strategies. Understanding and responding to these effects becomes increasingly important and should also be reflected in ADB’s loan design. Increased attention to water allocation can become an effective instrument in moving away from the predominantly one-dimensional concern for economic efficiency with regard to water management. By the same token, it can help to promote a shift towards a more multi-dimensional concern including environmental sustainability and social equity.

E. Developing Capacities and Addressing Constraints within ADB

75. ADB has placed greater emphasis on infrastructure financing and prioritized water, energy, and transport, creating a new division for these sectors within RSDD. The current view of ADB staff is that Bank lending will be increased over and above the current level of \$5-6 billion per year. As of October 2005, the distribution of projected lending to the four sectors on 2006-2008 is as follows: transport and communications (32%); energy (18%); water supply, sanitation and wastewater management (11%); and agriculture and natural resources, including irrigation (13%). Demand for urban water services is predominantly high, exceeding half of water sector lending each year.³⁶

76. Acknowledging the projected increases in the pipeline for projected water sector lending and the unique role ADB continues to play as a *knowledge center* and promoter of regional

³⁶ ADB Staff Estimates. (October 2005).

cooperation, ADB has to assess current human resources tasked to manage these activities and subsequent increased workload requirements. Two recent independent assessments indicate that many capacity issues remain unsolved, including the lack of experienced sector specialists. Moreover, discussions with ADB staff also underscore the need for policy experts or development managers in addition to increasing ADB's base of sector specialists.³⁷

77. Importantly, staff resources for the water sector activities are very thin. Moreover, the situation, if left unaddressed, may deteriorate in view of expected departures and retirement of a large number of senior technical staff in the next few years. Other key issues identified include i) difficulty in recruitment of sector specialists, ii) lack of technical skills among staff and weak missions, iii) differences in workload distribution among RDs, iv) perceived ineffectual staff promotion system, v) a disconnect between training offered and training required, and vi) a lack of authority at the Sector Director and Mission Chief level.

78. Thus, there is a need to invest in sector expertise and improve communications within ADB and to strengthen the Water Sector Network throughout the Regional Departments and the Resident Missions. To handle the projected water sector lending, ADB should 1) recruit additional sector specialists and development managers or policy experts; 2) strengthen resident mission staffing of water specialists who are well equipped to implement the safeguard policies and to delegate authority and resources; 3) rationalize the work distribution among RDs, and 4) develop a staff recruitment and promotion system and training for RD staff. ADB can also make use of ex-ADB technical specialists as an interim or temporary measure to bolster internal capacities. ADB should maintain a network of individuals and institutions with an appropriate skill mix in sustainable water and related areas, which may be tapped to help implement water and water-related activities of the Bank. Moreover, staff development programs should include training and mentoring components targeting gaps in experience and key areas of expertise e.g. ensuring gender equity in policies, TAs, CSPs, loan negotiations, and throughout the project cycle.

79. Beyond staffing levels and skill sets, the greatest challenge in the implementation of ADB's Water Policy is internal perceptions— securing full support from operations staff to implement the policy and building sufficient internal capacity to implement water projects. Importantly, there is a need for a change in corporate culture. Developing internal capacity and staff buy-in to effectively implement the policy requires better awareness of the policy, better staff coordination and communication, peer reviews and discussion groups on the policy, sharing of best practices, presentation in various workshops, and incentives for innovative water projects.

80. Operations staff in the Resident Missions and Regional Departments should also better leverage the resources and capacities available to them through RSDD. ADB's RSDD has been effective in generating and disseminating new knowledge and information by supporting and organizing Regional Water Forums and the ADB Water Weeks. Moreover, the website and the Water for All series and Water Voices Documentaries are good sources of knowledge and information. However, more reflection on better targeting both internal and external audiences is required. Internally, targeted knowledge management activities will enhance the capacity of the Bank and water sector staff, ensuring that staff are equipped to handle the technical issues in their work and that updated developments and technologies are captured and reflected in Bank operations. Externally, materials should be translated into local languages and adapted

³⁷ Independent Assessment of the Effectiveness of the Reorganization of the Asian Development Bank, Final Report (November 2004), prepared by an Independent Panel of experts comprising C. Ramachandran (Chair), D. Ritchie (member), & J. Russell (member). ADB Staff Resources: Can ADB Deliver the Planned 2006-2008 Loans? (October 2005). Prepared by A. Seki, Former DG, RSDD and Special Adviser to the Review Panel.

based on local culture, e.g. messages presented in folk theater, in order to increase understanding, ownership, and commitments of local stakeholders.

F. Improving the Alignment of the Country and Strategy Program (CSP/U), DMCs' Water Sector Roadmaps, and ADB's Water Policy

81. The convergence of ADB's and the DMCs' respective development interests ideally occurs in the Country Strategy and Program or CSP. Recent efforts to implement a more "results-based" approach to country programming have more closely aligned ADB's strategy and programs with the DMCs own development plans and included benchmarks to measure results in terms of NDP objectives and targets. Broadly, the principle elements in ADB's water policy are increasingly reflected in the CSP/Us. According to ADB assessments, policy reform and institutional strengthening in the water sector are prioritized in almost all CSP/Us, IWRM is being strongly promoted in Azerbaijan, Bangladesh, Kyrgyz, Lao PDR and Uzbekistan, and irrigation is a major focus in ten DMCs across the region. Moreover, water supply and sanitation figure in the national development agenda in Bangladesh, India, Indonesia, Nepal, Philippines, Sri Lanka, Vietnam and several Pacific countries.³⁸ However, the formulation of the CSP still needs to be improved. The CSP should function as a significant and strategic document that reflects ADB policies and drives the investment program in DMCs. It should be aligned with ADB's policies and DMCs' national strategies, and harmonized with other donor-supported country strategies.

82. To improve the CSP process, it will be crucial to first "translate" ADB's Water Policy into an operational strategy to advance the investment programming exercise between ADB and DMCs. Secondly, ADB, should aim to streamline the business processes both within ADB and in the DMCs to produce more effective investments on the ground. To ensure that ADB's Water Policy influences the CSP's investment programming process and the ADB project cycle, it will be important to produce country water sector road maps that are motivated by the CSPs. Considering the diversity and broad scope of the water sector, and the different country contexts, establishing well-focused road maps to guide both DMCs and ADB in addressing water policy issues and investment programs is critical.

83. The CSP should consider the range of water and water-related problems that could be addressed by ADB's unique package of technical expertise and financial assistance. Finally, in line with its new "results-based" focus, monitoring and evaluation of the effectiveness of CSPs should be conducted more regularly preferably as a tri-partite effort by DMC, ADB and a national resource center or knowledge institute.

84. Comprehensive sector reviews, water sector assessments, including the contribution of the water sector in the achievement of the MDGs, water policy dialogues with other donors and stakeholders in the DMCs, better analysis of country (DMC) policies, plans and capacities are some of the activities that may be undertaken both by ADB and DMCs before CSP formulation. For example, multi-donor gender assessments as conducted in Cambodia should be integrated into the CSP update process and actions formulated to respond to gender gaps. Indigenous knowledge and sustainable traditional practices coupled with ADB's regional experience and "know how" should provide the basis for a country programming dialogue to determine investment programs. A well-formulated CSP could be used as a vehicle to resolve conflicts between competing demands.

³⁸ ADB. 2004 Water Sector Report. (December 2005).

G. Ensuring Affordability, Access and Equity in Water Service Delivery: Clarifying ADB's Position on Subsidies and Ensuring Access for the Poor

Subsidies and Tariff Reform

85. As explained earlier in paragraph 36, the position articulated in ADB's Water Policy on the issues of subsidies is ambiguous. Thus, it would be useful for ADB to delineate different circumstances vis-à-vis subsidies and clarify the theory and practice underlying ADB's policy regarding the appropriate role of targeted subsidies, cross subsidies and differential pricing to support positive externalities and the needs of the poor even while phasing out wasteful and misdirected subsidies. It is imperative that ADB assume a nuanced but clear position on this sensitive issue, so that ambiguities do not lead to misunderstanding and opposition to ADB practices and thereby thwart the successful implementation of the policy.

Ensuring Access for the Poor

86. Ensuring sustained access and affordable services for poor people will require deliberate targeting and a proactive approach in project design, implementation and monitoring. The challenge here will be to develop close working relationships between community groups, civil society, implementing agencies and local government. It will also require a better understanding of poor communities' "willingness," "ability" or "capacity" to pay. As WaterAid's empirical study of ADB financed projects in Nepal has shown,³⁹ it cannot be assumed that an overall increase of service coverage, whether in water, sanitation or irrigation, will automatically lead to access and usage by poor people. Water quality and reliability of service also factor into the equation as poor communities are not willing to *pay* for substandard or unreliable service. However, in some cases poor communities may not switch from substandard and unreliable but free service to the more reliable but paid service. Thus, to achieve ADB's explicit policy mission of addressing poverty, deliberate and targeted measures will be needed including:

- Cooperation with civil society organizations to help identify and map poor communities and the underlying causes for poverty and gender inequalities as part of project design.
- Active user participation (including particular attention to women's representation) in community and user groups from project inception through to monitoring of impact with community and local government certification of outcomes/impacts.
- Inclusion of MDG targets as far as appropriate in assessing impact at local levels with indicators of poverty used in the monitoring and evaluation framework.
- Emphasis on generating awareness to ensure that communities and service providers are informed about the importance of sanitation issues and the development of appropriate financing instruments and mechanisms (e.g. support credible micro finance groups and institutions for financing connection charges), particularly for rural sanitation.
- Awareness of tariff levels and loan repayment schedules' impact on poor communities.
- Careful and deliberate targeting of subsidies.

³⁹ Source: WaterAid: Water for All? A Study on the Effectiveness of ADB Funded Water and Sanitation Projects in Ensuring Sustainable Services for the Poor: Synthesis Report on Case Studies from Bangladesh, India, and Nepal. (November 2005).

H. Targeting Efficiency and Cost Effectiveness in Water Service Delivery: Leveraging O & M, Appropriate Technologies, and Public-Private Partnerships (PPP)

Efficiency Gains through Prioritization of O & M in the Water Sector

87. As cited earlier, provisions for O & M in water sector arrangements as well as integration with asset creation activities critical to protecting ADB's investments, do not find explicit articulation in ADB's Water Policy nor are they contractually ensured in ADB's project design.

88. As a bank, ADB should also recognize that robust arrangements for O & M and its linkages with asset creation is a good way of addressing credit risk and protecting ADB's investments. Further, concern for ensuring good O & M arrangements must go beyond mere covenants to that effect in the loan agreements. Instead, it is important for DMCs to internalize the incentives for good O & M into the project or loan design and reduce dependence on covenants. This can be achieved through long term performance-based PPP contracts that link commercial rewards with proper O & M as well as through structured financial instruments that offer progressively finer terms in return for better performance in operations and management of water assets. PPPs can also create incentives for good O & M by combining the two responsibilities of construction and O & M into integrated contracts and rewarding good performance over the life cycle of the capital assets.

Need to Enhance Cost Effectiveness through Appropriate Technologies

89. In the DMCs, there is a tendency among contractors to opt for the well understood, centralized, high cost brick and mortar solutions of long distance piping of water and sewage, and large centralized treatment plants. Water projects can be often made more financially attractive, politically desirable, and environmentally sustainable by supporting or up-scaling alternative technologies such as water harvesting, ecological sanitation, short loop sewage treatment systems. As cited earlier, the choice of alternative, appropriate or environmentally-friendly technologies is not explicitly articulated in the Water Policy, nor is it leveraged enough in ADB projects.

90. Building on the success of its recent initiative on small piped water networks, ADB should extend its innovative use of the CFWS to fund a study of urban and rural water utilities, to develop a compendium and protocol for the use of innovative, appropriate technologies and to support up-scaling demonstration projects which have successfully demonstrated the utility of new innovative approaches. The use of such technologies presents an implementation challenge, so ADB will need to partner with NGOs, CBOs and local financial intermediaries to take them to scale. Due to the small scale and decentralized nature of such technologies, it will also be useful to develop innovative project designs that can allow ADB to support a large number of such projects. These can be replicated in many parts of the region in contrast to the usual way of funding few large projects.

Promoting Accountability and Efficiency through Public Private Partnerships (PPP)

91 The success of public-private partnerships depends to a large extent on the following prerequisites: (a) an environment conducive for partnership; (b) the presence of well structured business opportunities for engagement of the private sector; and (c) the availability of risk mitigation and financial instruments to motivate investments in water. In this context, the following challenges need to be addressed:

Challenge #1: Misconceptions: The Need for Advocacy & Public Education

92. As cited earlier, many misconceptions continue to adversely affect ADB's efforts to improve water service delivery in the DMCs. In particular, three popular misconceptions make it difficult to establish public private partnerships in the water sector:

Misconception #1): it is asserted that PPPs compromise water rights by assigning "ownership" to a public resource. The distinction between public ownership of water as a resource and private management of water and water related services continue to elude most political and public decision makers in DMCs. In the absence of this understanding, they are suspicious of the involvement of the private sector, perceiving private "ownership" of water necessary for human survival.

Misconception #2): Attracting private capital rather than achieving gains in technical, managerial, and allocative efficiencies is commonly misperceived as the primary purpose of PPPs. As a consequence of this excessive focus on private capital, PPP arrangements are usually not considered for projects financed entirely or largely by public funds, even when PPP arrangements such as performance-based management contracts and leases can play a useful role in providing cost effective, higher quality and sustainable water services.

For example, PPP solutions can be effective in providing water sector services even in rural areas. CBOs and farmers groups can play an instrumental role with the government, providing subsidy support as required to ensure the provision of services through an efficient, accountable, and well regulated private service provider. A good example of this model can be found in Paraguay, funded through a World Bank loan. Under this initiative, private investors were engaged to provide services to un-served rural areas through a competitive bidding process and were provided an output-based aid-subsidy (OBA) on successful completion of connections. The community response was overwhelmingly positive due to rapid progress of construction without any up-front cash contributions from them.⁴⁰

Thus, performance-based management contracts and leases should be promoted by ADB at least as strongly as BOT-type interventions. This would help to separate the issue of efficiency gains from tariff reforms and cost recovery. Innovative community-centric PPP structures should also be promoted, such as involvement of NGOs in billing and collection, microfinance based financing of connection charges, small piped networks managed by the community, and outsourcing and management contracts.

Misconception # 3): Due to the perceived primacy of private capital, there is an exaggerated notion of private "rents", tariff increases, full cost recovery, and withdrawal of subsidies being integral to PPP arrangements. This notion breeds reluctance, if not hostility, among politicians, NGOs and the poor towards PPPs.

93. To counter these misconceptions, ADB should implement a sustained program of advocacy and outreach to clarify the role of PPPs in the water sector - as a driver. Key messages that need to be disseminated are that: 1) the primary goal of PPPs is to enhance accountability and efficiency of service provision rather than merely to attract private capital 2) PPP is about genuine *cooperation* among the government, private sector, NGOs and civil society, 3) different PPP models involving varying levels of risk transfer will be applicable in

⁴⁰ Global Partnership on Output Based Aid, World Bank - OBA Approaches Note No. 07, (May 2005) (www.gpoba.org); Project Appraisal Document – Paraguay Fourth Rural Water Supply & Sanitation Project, World Bank, (August 1997) (www.worldbank.org).

different situations, 4) PPP does not necessarily imply withdrawal of subsidies or transfer of ownership, and 5) government will always need to play a definite and large role in the management of water and provision of water sector services. The target audience of these outreach efforts should be politicians, NGOs, the media, and the front-end bureaucracy and not, as is often the case, the “converted”. This outreach program could be achieved through policy dialogues, knowledge dissemination, the CSP process, and of course through TA and project loans.

94. It may also be useful to reorient the text of ADB’s Water Policy by emphatically locating private sector participation and PPPs within an operational efficiency context.

Challenge #2: Lack of Well-Structured Projects for PPP & Project Development Assistance

95. ADB also needs to invest directly in capacity building of public entities in undertaking the “project development” necessary to make PPP projects viable. The financial and professional resources required for the techno-commercial studies, environmental and social impact studies and management, and for structuring of contracts that allocate and manage risks in an optimum manner are in short supply. This gap can be addressed through TA loans, grants, and, most importantly, by direct participation by ADB staff and nominees in the knowledge dissemination and the process management of project development. ADB needs to establish Funds and appropriate risk sharing instruments, and joint arrangements with DMC governments, private sector, and other donors to contribute to project development capacities. ADB has recently made promising proposals on these lines to the Government of India.

Challenge #3: The Need for New Risk Mitigation Arrangements and Financing Instruments to Promote PPP: ADB as a Market Maker

96. The costs of addressing political, technical, and commercial risks through a priori techno-commercial studies, and tightly written contracts enforced through the law of the land are often impractically high and unattractive to private sector partners in PPP projects. Risk mitigation measures are also often not adequate to attract private sector investments. Thus, there is a strong case for the ADB, as a development bank, to directly address the issue of high-risk perception of water sector projects. It can do so, inter alia, by taking a higher level of political and project risks than the private sector is able to take. This may be done through partnering with sub-sovereign governments and, where appropriate, linking its own rewards with the efficiencies realized through PPPs.

97. Risks should be further mitigated through strengthened regulation. Thus as suggested earlier, ADB should step up its efforts to develop effective water regulatory frameworks in the DMCs. It is expected that the association of ADB in such risk sharing arrangements will bring greater discipline to the political decision-making process and thereby enhance private sector confidence in such projects. Moreover, ADB’s superior knowledge and understanding of the water sector should allow it to absorb higher levels of information and data uncertainties than the average private sector player. ADB can further reduce project risks by pooling them with other similar project risks.

98. Direct risk participation by ADB would require leveraging appropriate financial instruments and arrangements. Under the Innovation and Efficiency Initiative (IEI), ADB has recently announced the launch of five new financing instruments that could lead to more effective partnerships among DMCs, private investors, and ADB to better address the inadequacies in water infrastructure. These instruments include: (i) multi-tranche financing; (ii) sub-sovereign

and non-sovereign public sector financing; (iii) local currency financing for the public sector; (iv) refinancing; and (v) new forms of co-financing through active financial syndications and risk sharing with commercial financing partners. Leveraging these modalities would also address the need to generate the venture capital required for upstream project development in order to help create a robust project pipeline for implementation in PPP formats.

99. In conclusion, while there is an obvious and widely acknowledged *need* for private sector participation in the water sector, this need is still far from translated into *demand*. This constitutes a promising opportunity into which ADB can step in with appropriately designed messages and projects to respond to the challenges and promote PPPs. Importantly, ADB's increased participation in project development and implementation risks would require a cultural change in ADB. ADB must emerge as a market maker.

IV. RECOMMENDATIONS TO ADB'S MANAGEMENT: *TRANSLATING POLICY INTO ACTION*

100 The Review Panel's recommendations are based on the review of relevant documents, interviews, analysis and outputs from key components of the review process, and consider critical investment requirements and capacity development needs to meet the MDGs. The Review Panel's recommendations recognize the results of the interim review conducted in 2003, current efforts underway to implement ADB's Water Policy, and stakeholder concerns expressed during the consultations and outlined in case studies conducted to inform the review. Several issues were raised with regard to specific principles outlined in ADB's Water Policy and the application of these principles in the policy's implementation.

101 The Panel acknowledges that ADB must address recent stakeholder feedback to modify the policy as necessary. Thus, the Panel recommends that in the short-term ADB should clarify key policy concepts and elaborate how ADB is implementing these aspects of the policy.

The Panel makes the following five broad recommendations:

- A. Increase ADB's commitments and develop ADB's capacities;
- B. Develop long-term partnerships with DMC stakeholders and donors to strengthen institutional frameworks, improve water governance, and develop capacity in the DMCs;
- C. Focus the implementation of IWRM on stakeholder needs and ownership;
- D. Promote "business unusual" innovations to create new business opportunities and increase access, affordability, efficiency and cost-effectiveness; and
- E. Improve processes to ensure effective policy implementation.

102. Each recommendation presented below is followed by a short synopsis of the rationale for the recommendation and a number of suggested actions to implement the recommendation. The suggested actions emphasize the need for ADB to 'do more and do better' and directly address the eight broad challenges or priority areas outlined in Chapter III. A draft action plan is provided in a matrix in Appendix 1. This matrix reiterates the links between the challenges flagged in Chapter III as priority areas, and the Panel's recommendations and suggested actions outlined below. The matrix functions as a worksheet, as it also includes columns to clarify the expected results, probable resource implications and donor harmonization necessary to implement the recommendations. It is expected that ADB's Water Committee will work with operations colleagues to finalize the draft action plan to chart the way forward and implement the recommendations outlined by the Panel.

A. Increase ADB's Commitments and Develop ADB's Capacities

103. As cited earlier, DMCs face increasing demands in the water sector, while ADB's lending and staff capacity has not kept pace. To ensure achievement of the MDGs by 2015, several recent assessments have calculated that current allocations for water sector funding must be doubled to leverage additional investment in the sector by 2010. For ADB to assist the region in accomplishing this goal, ADB must significantly increase investments and also step up efforts to improve water sector governance. Water is a critical driver for change and inexorably linked to other development needs, which warrants making water one of ADB's key priorities in its overall development agenda. Increasing ADB's commitments will require doubling and sustaining ADB's water investments to meet increased demands and the MDGs, building capacities and developing a long-term strategic plan for staff development within ADB for more effective implementation of the water policy, and providing leadership in the region to prioritize water.

SUGGESTED ACTIONS IN KEY PRIORITY AREAS:

- 1) ***Increase and Target Investments:*** Double and sustain an increase in water sector financing in 2006-2010, with balanced investments for both hardware and software, and track progress on the MDGs targets by 2015.
- 2) ***Assess and Realign Staff Capacities and Resources:*** Conduct a detailed assessment to realign current staff specialists and determine the number of additional sector specialists required to match projected lending needs and workload requirements. Continue to conduct water related research within the Bank, which may require engaging more water related staff or leveraging ties with DMC partners (civil society, research institutes or other relevant agencies). Develop and implement a long-term strategic plan for recruitment, retention and staff development for water sector staff in the context of BPHR's overall strategy.
- 3) ***Provide Leadership in the Region to Help Prioritize Water:*** Launch the "ADB Water Public Awareness Campaign of 2007" linked to poverty reduction and the MDGs in the context of the UN Water for Life Decade currently underway (2005-2015). The campaign should be high profile and involve a wide range of stakeholders, including government, politicians, civil society, the media, and academe from the national to community level (including children/schools) in countries where ADB has water projects. ADB should leverage regional events such as the Asia Water Summit scheduled to take place in 2007.

B. Develop Long-Term Partnerships with DMC Stakeholders and Donors to Strengthen Institutional Frameworks, Improve Governance, and Develop Capacities in the DMCs

104. In order to raise the profile of water in the DMCs, address institutional constraints, and build consensus to ensure the sustainability of current efforts, ADB should move beyond its "project by project" approach to implement a longer-term programmatic approach and pursue strategic longer term partnerships to advance the core principles of ADB's water policy in the DMCs. Regular policy dialogues and citizen forums; inclusive and strategic collaboration with civil society, women, the poor and the private sector; and partnerships with existing knowledge networks and apex bodies will build broad-based support and help create awareness and ownership of the Water Policy. Providing assistance to complete sector assessments and to conduct necessary capacity building and training will strengthen institutional and regulatory frameworks in the DMCs. Moreover, partnering with other donors to harmonize various interests and efforts in the water sector is necessary to improve water sector governance, mobilize resources, and build capacities in the DMCs.

SUGGESTED ACTIONS IN KEY PRIORITY AREAS:

- 1) ***Raise the Status and Visibility of Water in the DMCs Through Dialogue:*** Facilitate multi-stakeholder policy dialogues involving politicians, CSOs, media and academe, and raise issues specific to each country e.g. subsidies and tariff reform, O & M, PPP, efficiency, and IWRM. Policy dialogues should be conducted initially in three countries before the end of 2006 and be extended to five by the end of 2007.
- 2) ***Improve Governance Through Assessment:*** Assist with sector assessments in countries without roadmaps in place through ADB assistance or under DMC national strategies or other donor assistance. ADB should catalyze the resources needed to

conduct these assessments and could work with national and regional knowledge institutes to complete by the end of 2008.

- 3) **Ensure Sustainability Through A Longer-term Approach in DMCs:** Evolve from a short-term project-driven approach to a long-term programmatic approach and develop mechanisms to establish long-term partnerships with clients and stakeholders to build capacity and promote sustainability, e.g. policy-based lending for long-term umbrella water programs in partnership with DMCs.
- 4) **Strengthen Sectoral Capacities and Knowledge Through Training and Partnership:** Pilot a capacity development program to strengthen the institutional and regulatory frameworks at all levels (from national to community level) in the DMCs, targeting regulators, EAs, RBOs, government officials, policy makers, public and private water services providers, and operations/technical staff. Strengthen existing partnerships with knowledge institutes and networks to establish baseline data and disseminate indigenous knowledge and good practices within ADB and in DMCs.
- 5) **Improve Donor Harmonization and Aid Effectiveness Through Partnership:** Organize a multi-donor roundtable meeting on investment needs and explore partnerships with other donors to maximize investments benefits in the DMCs e.g. co-financing modalities among donors. Facilitating a donor roundtable could also help increase the endowment of the Cooperation Fund for the Water Sector (CFWS) and diversify the Fund's contributors.

C. Focus the Implementation of IWRM on Stakeholder Needs and Ownership

105. As cited earlier, DMCs face severe institutional and organizational constraints which limit efforts to implement IWRM. To effectively advance IWRM, it will be critical to consider negotiated approaches to river basin management to include indigenous knowledge and practices, improve benchmarking to monitor the quality of the performance and inclusiveness of RBOs, and support knowledge management and capacity building in DMCs with respect to IWRM and integrated river basin management. Implementing IWRM with a focus on stakeholder needs and ownership will improve the balance of economic efficiency, social equity and environmentally sustainable outcomes of water allocation. ADB can play an important role in helping DMCs understand and effectively implement IWRM.

SUGGESTED ACTIONS IN KEY PRIORITY AREAS:

- 1) **Support IWRM Planning and Implementation in DMCs:** Support the finalization of DMCs' IWRM plans according to the WSSD. ADB should aim to complete five countries or five river basins by end of 2006 to get DMCs back on track.
- 2) **Increase Knowledge on IWRM in DMCs:** Increase support to nodal centers in the region to enhance knowledge management and capacity building in DMCs with respect to IWRM and integrated river basin management and closely cooperate with existing resource centers and networks (e.g. NARBO, Streams of Knowledge) that may be used as vehicles for knowledge dissemination.
- 3) **Increase Knowledge on IWRM at ADB:** Enhance the mandate of the Water Committee and increase its access to resources to actively build capacity and consistently promote (within ADB) IWRM as a process that achieves sustainable livelihoods and poverty alleviation, both demonstrating the impact of ADB funding.

- 4) ***Develop and Improve Assessment Tools (Benchmarking, Monitoring, and Evaluation)***: Introduce benchmarking and impact monitoring in five countries using a multi-stakeholder approach starting in 2007.

D. Promote 'Business Unusual': Innovations to Increase Access, Affordability, Efficiency, and Cost Effectiveness

106. ADB must clarify the key concepts outlined in the water policy and leverage new financial modalities to improve water service delivery. First and foremost, ADB must remove ambiguities on the issue of subsidies, cross-subsidies, and differential pricing in the Water Policy to clearly communicate its commitment to supporting positive externalities and concern for the poor. ADB must also continue its efforts to promote 'business unusual' and develop new alternative financial and risk mitigation instruments under its Innovation and Efficiency Initiative (IEI), such as sub-sovereign and non-sovereign lending, local currency financing, and effective public-private partnerships. These options will provide DMCs with greater access to ADB resources and expertise in support of their development agenda. Leveraging new financing modalities and risk mitigation instruments, promoting robust O & M arrangements, and supporting and scaling up alternative technologies, present vast opportunities for unlocking additional investments and new business opportunities to improve conditions in the water sector.

SUGGESTED ACTIONS IN KEY PRIORITY AREAS:

- 1) ***Clarify Key Concepts in ADB's Water Policy (Provide Nuanced Guidance on Subsidies, PPP, Water Rights)***: Supplement the policy document by the end of 2006 and implement a sustained program of advocacy and outreach to clarify ADB's approach to several key concepts outlined in ADB's Water Policy: subsidies, water rights, PPP, O & M, and conflict mediation between riparian countries).
- 2) ***Promote and Support PPP as a Tool to Improve Water Service Delivery***: Assist directly or through partners, sovereign and sub-sovereign governments to undertake project development for Public Private Partnerships. ADB's assistance could include contributions to Project Development Funds, provision of ADB expertise, and facilitation of other institutional arrangements to undertake project development activities in DMCs.
- 3) ***Increase Use of Risk Sharing Arrangements and Innovative Alternative Financing Instruments***: Move from traditional sovereign guaranteed loans toward risk sharing arrangements and sub-sovereign financing through innovative and flexible instruments designed under the IEI initiative. Use of new financing modalities should include components for capacity development of local authorities with the aim of expanding the use of such financial innovations for increased local water investments.
- 4) ***Promote Robust O & M Arrangements***: Improve efforts to integrate financial and institutional arrangements to ensure the quality of O & M and the preservation of physical assets. ADB should develop and disseminate by the end of 2006, project design templates which integrate construction, O & M, and poverty targeting into long term contractual arrangements. ADB should also consider limited involvement in stand alone O & M projects through both TA and Project Loans.
- 5) ***Support and Scale up Alternative Technologies***: Consider partnering with local CSO, private sector or LGUs to bring to scale alternative technologies that recognize local traditions and economies of scale e.g. rainwater harvesting, short-loop wastewater

treatment, ecological sanitation. ADB should target two countries for pilot projects by end of 2007.

E. Improve Processes to Ensure Effective Policy Implementation

107. In addition to supporting necessary policy and institutional reforms to create an enabling environment, addressing capacity development needs both within the DMCs and ADB, and targeting investments and considering new financing modalities, ADB must improve processes to ensure the effective implementation of its Water Policy. As cited earlier, there appears to be a lack of integration of ADB's Water Policy into operational procedures, the project cycle, CSP formulation, and DMC national planning efforts. ADB's internal procedures should equip project operations staff with the tools and incentives necessary to incorporate the principles outlined in the water policy into project processes throughout the project cycle: from design and implementation to monitoring and evaluation. Likewise, DMCs require incentives and tools to align national planning and improve monitoring and evaluation efforts. Thus, it would be useful for ADB to prepare an integrated strategy with quantifiable goals and targets for implementation of the water policy and to strengthen partnerships in the DMCs to monitor and mitigate project impacts. The water policy document itself outlines a sequenced approach for 'getting the policy to work,' which includes both internal and external actions.

SUGGESTED ACTIONS IN KEY PRIORITY AREAS:

- 1) **Strengthen ADB Operations and Business Processes within ADB:** Supplement ADB's water policy document with an operational strategy and plan linked to ADB operations 3-year rolling work plans, with quantifiable targets and implement the same throughout its business processes. ADB should develop incentives to ensure explicit linkages between the water policy, related ADB policies (forestry, fisheries, social and environmental safeguards) and business processes.
- 2) **Integrate ADB Strategies, CSP/Us and National Planning in the DMCs:** Improve integration and structure of policy dialogue processes in DMCs with the CSP/U process. CSP should be guided by the sector operation strategy and integrated into DMCs overall development plans. Likewise, ADB should develop incentives to ensure explicit linkages between the water policy, other related ADB policies, CSPs, project and TA loan agreements, and DMCs own plans, leveraging new financial instruments.
- 3) **Monitor and Mitigate ADB Project Impacts:** Work more closely with knowledge management organizations (regional and DMC-level) and civil society to improve monitoring of social and environmental impacts of ADB projects in line with the Water Policy's pro-poor approach. Efforts should include: honing SIA and EIA tools, conducting poverty mapping (disaggregating data to track impacts on poor), ability to pay studies, and developing processes for community and LGU certification of all M & E reports, and pro-poor implementation strategies in project designs, e.g., flexible payment mechanisms, and differential pricing.

APPENDIX 1: DRAFT RESULTS-BASED ACTION PLAN TO EXECUTE RECOMMENDATIONS*

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
A. Increase ADB's Commitments and Develop ADB's Capacities				
<i>1. Increasing Investments / Targeting Sector Financing</i>	1.1 Double and sustain investment in water sector in 2006-2010 and track progress on the MDGs targets by 2015. 1.2 Adjust lending from project oriented to more programmatic oriented approach (policy-based lending) 1.3 Target investments to include both software and hardware (better balance investments to cover software like governance, capacity building, participation/pro-poor approach with hardware like O & M and asset creation/ infrastructure)	<ul style="list-style-type: none"> ▪ Increase # water-related projects, TAs, and loans processed etc. ▪ Help achieve regional water-related MDGs (7) ▪ Enhance ADB's position in the water sector and the region ▪ Raise visibility of water in DMCs ▪ Enhance participation in DMCs ▪ Ensure sustainability of water operations beyond project life-span 	<ul style="list-style-type: none"> ▪ RDs ▪ RMs ▪ RSDD 	
<i>2. Assessing and Realigning Staffing Capacities</i>	2.1 Conduct detailed assessment to determine number of sector specialists required based on projected increases in water sector lending and realign staffing in RMs/RDs to match sector needs and workload requirements (link with staffing plans under MTS-II) 2.2 Develop long term recruitment, retention, and staff development strategic plan. Program in place by 2007.	<ul style="list-style-type: none"> ▪ Raise visibility of water at ADB ▪ Provide necessary staff capacity to administer increased water portfolio ▪ Improve depth/ breadth in staff knowledge and placement of finite staff resources ▪ Improve knowledge management 		

**The Panel has identified priority actions, which are highlighted for your reference.*

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
	<p>2.3 Provide training and mentoring to target gaps, e.g. ensuring gender equity in policies, the CSP, TA preparation, loan negotiations, and throughout the project cycle. ADB may consider providing all RMs managing substantial water sector programs with permanent access to gender expertise.</p> <p>2.4 Continue to conduct water-related research within the Bank and in partnership with DMC stakeholders.</p>			
<i>3. Providing Leadership in the Region to Help Prioritize Water</i>	<p>3.1 Launch high profile awareness campaign in 2007 linked to MDGs and poverty reduction. Campaign should target countries where ADB has water projects.</p>	<ul style="list-style-type: none"> ▪ Raise status and visibility of water at ADB and in DMCs ▪ Increase awareness and knowledge of key water issues among various stakeholders 		
<i>B. Develop Long-term Partnerships with DMC Stakeholders and Donors to Strengthen Institutional Frameworks, Improve Governance, and Develop Capacities in the DMCs</i>				
<i>1. Raising the Status and Visibility of Water in DMCs</i>	<p>1.1 Conduct multi-stakeholder policy dialogues targeting DMC specific issues: 3 in 2006 and 5 total by end of 2007 (involve ADB's KM Center)</p> <p>1.2 Facilitate dialogues between government & citizen forums</p> <p>1.3 Conduct annual meeting with water-related ministries</p>	<ul style="list-style-type: none"> ▪ Mobilize high-level political commitment on water & promote an enabling environment ▪ Raise status & visibility of water in DMCs overall development agenda ▪ Facilitate exchange of experiences and promote preparation of water policies in the DMCs ▪ Promote regional cooperation in the region 		

**The Panel has identified priority actions, which are highlighted for your reference.*

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
<p><i>2. Addressing Governance and Institutional Constraints</i></p>	<p>2.1 Assist with water sector assessments in countries without roadmaps in place through ADB assistance or under DMC national strategies or other donor assistance (identify countries)</p> <p>2.2 Promote decentralization and inclusive and accountable institutions</p> <p>2.3 Provide sustained support at political and administrative levels to assist in conflict resolution and reconciliation of competing demands for water</p>	<ul style="list-style-type: none"> ▪ Improve policymakers' understanding understand the water situation for police maker in DMC & ADB understand the needs ▪ Help formulate national water strategies and identify priority area for support & business opportunities ▪ Ensure long-term capacity development for DMCs ▪ Develop water service market and improve regulation 		
<p><i>3. Strengthening Sectoral Capacities/Sectoral Knowledge</i></p>	<p>3.1 Develop mechanism to establish long-term partnerships with DMCs (policy-based lending or programmatic approach versus project-based approach)</p> <p>3.2 Pilot capacity development program to strengthen institutional and regulatory frameworks: training should target regulators, EAs, RBOs, gov't officials, policy makers, and operations staff.</p> <p>3.3 Provide community and local certification for added credibility.</p> <p>3.4 Engage in and help facilitate strategic collaboration with key stakeholders: civil society, women, the poor, private sector</p>	<ul style="list-style-type: none"> ▪ Facilitate good communication & ongoing pipeline of activities with DMC partners ▪ Ensure flat lending & prevent lending fluctuations ▪ Improve integration of software and hardware investments ▪ Ensure sustainability and long-term development of water sector capacities in DMCs ▪ Advance pro-poor aspects of ADB water policy: increase and improve quality of participation/ representation 		

**The Panel has identified priority actions, which are highlighted for your reference.*

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
	<p>3.5 Engage in and help facilitate strategic collaboration with key stakeholders: civil society, women, the poor, private sector</p> <p>3.6 Strengthen existing partnerships with knowledge institutes, networks, to establish baseline data, disseminate indigenous knowledge and good practices within ADB and in DMCs.</p>	<ul style="list-style-type: none"> ▪ Mobilize more investment and knowledge resources for water activities ▪ Improve data sources, knowledge base, and promote water literacy 		
<p><i>4. Improving Donor Harmonization and Aid Effectiveness</i></p>	<p>4.1 Organize a multi-donor roundtable meeting on investment needs in 2nd quarter of 2006. This roundtable could also be used to increase endowment and diversify CFWS contributors.</p> <p>4.2 Explore strategic alliances with donors (including bilateral) to enhance donor harmonization and aid effectiveness, specifically to achieve targets defined under MDG 7, e.g. work together to develop long-term political and social awareness support programs through structured dialogue and evidence based advocacy including campaigns in native languages</p>	<ul style="list-style-type: none"> ▪ Mobilize funds in water investment ▪ Coordinate water activities & supports ▪ Better integrate donor activities into the national development agenda ▪ Prevent overlap and maximize resources available 		<ul style="list-style-type: none"> ▪ Use CFWS to leverage multi-donor coordination to undertake recommended policy dialogues and support recipient countries in responding to the challenges of donor harmonization as agreed in Paris High Level Forum

**The Panel has identified priority actions, which are highlighted for your reference.*

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
<i>C. Focus the Implementation of IWRM on Stakeholder Needs and Ownership</i>				
<i>1. Supporting IWRM Planning and Implementation in DMCs</i>	1.1 Assist DMCs to finalize IWRM plans according to WSSD: 5 countries or 5 river basins by end of 2006 to get back on track (identify countries) 1.2 Opt for negotiated approaches to river basin management to enhance inclusion of indigenous knowledge and sustainable natural resource management.	<ul style="list-style-type: none"> ▪ Improve economic efficiency, social equity and ensure environmentally sustainable outcomes ▪ Improve water resources management in the DMC ▪ Help reform river basin organizations ▪ Promote better water resources allocation 		
<i>2. Increasing Knowledge on IWRM in DMCs and at ADB</i>	2.1 Increase support to nodal centers to enhance knowledge management and capacity building on IWRM (NARBO, Streams of Knowledge) 2.2 Enhance mandate of Water Committee to build capacity and promote IWRM within ADB	<ul style="list-style-type: none"> ▪ Increase knowledge of IWRM ▪ Promote exchange of experiences in IWRM 		

* The Panel has identified priority actions, which are highlighted for your reference.

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS (Managing for Development Results Framework: link to internal KRAs etc.)	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
3. <i>Developing and Improving Assessment Tools: Monitoring and Evaluation</i>	3.1 Introduce benchmarking and impact monitoring in 5 countries starting in 2007 to monitor quality of RBOs (identify countries)	<ul style="list-style-type: none"> ▪ Provide basis to measure economic efficiency, social equity and ensure environmentally sustainable outcomes ▪ Improve future project design and funding ▪ Adjust the long-term strategy and program 		
<i>D. Promote “Business Unusual:” Innovations to Increase Access, Affordability, Efficiency, and Cost Effectiveness</i>				
1. <i>Clarifying Key Concepts in the Water Policy: Providing Nuanced Guidance on Subsidies, PPP, Water Rights etc.</i>	1.1 Supplement policy document by the end of 2006 & implement a sustained advocacy & outreach program to clarify approach to subsidies, water rights, PPP.	<ul style="list-style-type: none"> ▪ Improve relationships with key stakeholders ▪ Improve ADB water policy implementation ▪ Improve efficiency in water sector funding 		

* The Panel has identified priority actions, which are highlighted for your reference.

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
<p><i>2. Promoting and Supporting PPP as Tool to Improve Water Service Delivery</i></p>	<p>2.1 Establish Project Development Revolving Funds in 5 select countries by the end of 2007 in partnership with governments /private sector/other donors to finance project structuring to create pipeline of good PPP projects.</p> <p>2.2 Collaborate with select water utilities to sponsor development of 2 projects by end of 2006 involving management contracts for urban water supply and sewage (with or without the use of the project development fund described above).</p>	<ul style="list-style-type: none"> ▪ Improve ability to meet client and stakeholder demand ▪ Improve efficiency in water sector funding 	<ul style="list-style-type: none"> ▪ 	
<p><i>3. Increasing Use of Risk Sharing Arrangements and Innovative Alternative Financing Instruments</i></p>	<p>3.1 Leverage ADB's Innovation and Efficiency Initiative (IEIs) to implement new financing modalities and arrangements: sub-sovereign lending, risk mitigation instruments.</p>	<ul style="list-style-type: none"> ▪ Improve ability to meet client and stakeholder demand 		
<p><i>4. Promoting Robust O & M Arrangements</i></p>	<p>4.1 Promote performance-based contracts and PPP in O & M.</p> <p>4.2 Develop and design project templates by end of 2006 which integrate construction, O & M and poverty targeting into long term contractual arrangements.</p>	<ul style="list-style-type: none"> ▪ Ensure sustainability of investment and operations 		

* The Panel has identified priority actions, which are highlighted for your reference.

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
<i>E. Improve Processes to Ensure Effective Policy Implementation: Getting the Policy to Work</i>				
<i>1. ADB Operations and Business Processes within ADB</i>	<p>1.1 Supplement policy with 3-year operational strategy and plan linked to ADB operations 3-year rolling work plans, with quantifiable targets and implement the same throughout ADB's business processes</p> <p>1.2 Develop incentives to ensure explicit linkages between the water policy and business processes.</p> <p>1.3 Strengthen internal communications and operations to improve alignment with other ADB policies: forestry, fisheries, social and environmental safeguards.</p> <p>1.4 Make RSDD resources available to RMs to help implement water policy and operational strategy</p>	<ul style="list-style-type: none"> ▪ Improve ADB water policy implementation ▪ Improve efficiency in water sector funding ▪ Improve balance of hardware and software in the DMCs ▪ Promote efficient use of staff and resources for operation ▪ Improve sub-sector coordination 		
<i>2. ADB Strategies, CSP/Us, and National Planning in DMCs</i>	<p>2.1 Develop incentives to ensure explicit linkages between the water policy, CSPs, project and TA loan agreements, and DMCs own plans, leveraging new financial instruments</p>	<ul style="list-style-type: none"> ▪ Improve integration of ADB water activities into national development plans 		

* The Panel has identified priority actions, which are highlighted for your reference.

KEY RECOMMENDATIONS AND PRIORITY AREAS	SUGGESTED ACTIONS AND TIMELINE	EXPECTED RESULTS <i>(Managing for Development Results Framework: link to internal KRAs etc.)</i>	PROBABLE RESOURCE IMPLICATIONS	DONOR HARMONIZATION AND ALIGNMENT NECESSARY
<p>3. ADB Project Impacts: Transparency, Accountability, and Sustainability</p>	<p>3.1 Conduct regular monitoring in all project evaluations and disaggregate all data to track project impacts on poor and vulnerable</p> <p>3.2 Work with knowledge management organizations (regional and DMC-level) and civil society to monitor social and environmental impacts: support refining of EIA and SIAs—use RBOs as reliable brokers of information</p> <p>3.3 Develop processes for community and LGU certification of all M & E reports</p> <p>3.4 Conduct poverty mapping, ability to pay studies, flexible payment mechanisms and consider differential pricing in line with pro-poor approach.</p> <p>3.5 Encourage DMCs to provide public disclosure of project decisions at the local level</p>	<ul style="list-style-type: none"> ▪ Improve ability to meet client and stakeholder demand ▪ Improve relationships with key DMC stakeholders ▪ Ensure sustainability of investment and operations ▪ Improve monitoring and evaluation in DMCs 		

* The Panel has identified priority actions, which are highlighted for your reference.

APPENDIX 2: Background on ADB's Water Policy and Review Processes

In 2001, the Asian Development Bank (ADB) outlined its vision for integrated water management in the region in its "Water for All" water policy. The policy recognizes the Asia and Pacific region's need to formulate and implement integrated, cross-sectoral approaches to water management and development.

The principal goals outlined in the water policy are as follows:

- Promote a national focus on water sector reform
- Foster the integrated management of water resources
- Improve and expand the delivery of water services
- Foster the conservation of water and increase system efficiencies
- Promote regional cooperation and increase the mutually beneficial use of shared water resources within and between countries
- Facilitate the exchange of water sector information and experience through partnerships
- Improve governance and capacity building

As stipulated in ADB's water policy, an in-house review of policy implementation was undertaken in the third year in 2003 and a more extensive comprehensive review led by an external expert review panel has been launched in 2005, five years after the policy was approved.

The comprehensive review has four core objectives:

1. To assess performance or progress in the 7 key areas of the water policy
2. To identify challenges, investment requirements, and opportunities
3. To determine capacities & constraints in the DMCs and ADB (institutional, financial, human)
4. To advise ADB's management if the policy needs to be revised or supplemented

Expert Review Panel

In accordance with ADB's water policy, ADB has commissioned an expert review panel to guide the comprehensive review of its water policy implementation. In the selection of experts from the DMCs, ADB sought candidates with policy and decision-making experience in the water sector. Selection of panel members also considered a desirable range of expertise and experience across regional perspectives, gender, and key areas targeted in ADB's water policy: water sector reforms, water resources management, water service delivery, conservation, regional cooperation, knowledge sharing through partnerships, and governance.

The review panel consists of three leading experts from ADB's developing member countries (DMCs), and senior representatives from NGO, private sector, and bilateral donor communities. The UN Special Ambassador for Millennium Development Goals in the Asia and the Pacific region, Ms. Erna Witoelar, has been appointed to serve as the Review Panel Chair. A list of the panel members and their home countries is provided below and a summary of their short biographies is attached in Appendix 2.

Review Panel Members

Erna Witoelar, Indonesia (Panel Chair)
Li Yuanyuan, People's Republic of China
Gilberto Llanto, Philippines
Ravi Narayanan, India/UK
Pradeep Singh, India
Annelie Hubach, Netherlands

Review Design

Key Components and Methodology

The review has been conducted in a manner that ensures broad stakeholder participation, transparent proceedings and reporting, and wide dissemination of the policy and the results and recommendations of the review. Leading the review, ADB's review panel has been informed by feedback gathered at consultations, water-related conferences, ADB staff workshops, surveys, and comments gathered on ADB's water website. Additional modalities include interviews, case studies, desk study of loan, project and agreement documents, and involvement in external research studies relevant to the review.⁴¹

The review process has benefited from experts from policy, practitioner and academic networks enlisted to inform the work of the panel and participate in the in-country consultations and regional workshops where appropriate. Two Special Advisers have provided technical inputs, preparing papers and presentations to share with the panel throughout the review process. The Review Panel and its Special Advisers report to ADB Management through the Director General of ADB's Regional and Sustainable Development Department (RSDD).

Scope

The review focuses on the three key areas highlighted in ADB's water policy (water sector reforms, water resource management, and water service delivery), and the four cross-cutting issues (resource conservation, regional cooperation, knowledge sharing through partnerships, and governance). In addition to the seven key areas outlined in ADB's water policy, the comprehensive review also considers a number of key internal and external issues and drivers relevant to implementing ADB's water policy and strengthening efforts to address the region's water sector needs:

Internal Drivers and Issues at ADB

- Investment partnerships with DMCs
- Internal water policy actions (development of skills mix, resources, use of available knowledge)
- Innovation and Efficiency Initiative
- Managing for Development Results Initiative
- Capacity Development Program
- Gender and Development Program
- Poverty Reduction Strategy (pro-poor sustainable growth, social development, good governance)
- NGO Framework: empowerment of and interactions with civil society
- Cooperation Fund for the Water Sector
- ADB's Financing Water Program
- Agenda for Change (from ADB Water Week 2004)

Broader Drivers and Issues

- Millennium Development Goals (MDGs)
- harmonization with MDBs and other donors
- dams and development (what is possible)
- public awareness and information
- knowledge management and partnerships
- private sector participation

- urban & rural linkages (balancing urban & rural development through water sector investments)
- disaster management with a pro-poor focus

Timeline and Expected Outputs

The Review Panel met four times over the course of the review in 2005 to examine various inputs, discuss stakeholder feedback, and prepare the Panel Report and Recommendations. In December 2005, the Panel Chair presented the Panel's key findings and recommendations to the Director General of ADB's Regional and Sustainable Development Department (DG RSDD) who is responsible for the review.

In January 2006, the DG circulated the report to regional directors to collect interdepartmental comments. In February 2006, the Panel responded to the comments and finalized the Panel Report. In March 2006, the Panel Chair presented the Panel's main findings, recommendations, and suggested action plan to ADB's Board of Directors during an informal Board Seminar. In April 2006, DG RSDD submitted the final report to Management for circulation to ADB's Board of Directors as a Board Information Paper. At that time, RSDD also posted the Panel Report on ADB's website for broader circulation. During the second quarter of 2006, ADB is expected to initiate follow up actions in response to the Panel Report.

APPENDIX 3: Short Biographies for Review Panel Members and Special Advisers

Panel Chair

Ms. Erna Witoelar is the UN Special Ambassador for Millennium Development Goals in Asia and the Pacific. Before this post, she served as the Indonesian Minister of Human Settlements and Regional Development, responsible for the portfolio on housing & human settlements, public works, water resource management, and spatial planning. Ms. Witoelar also serves as the chairperson of the Indonesia Biodiversity Foundation (KEHATI) and is an Earth Charter Commissioner. She initiated several partnerships and organizations focused on governance and environmental reforms including the Partnership for Governance Reform in Indonesia and the Indonesian Forum for the Environment (WALHI) and provided leadership to others, serving as president of Consumers International and the Indonesian Consumer Foundation (YLKI). Ms. Witoelar obtained a bachelor degree in Chemical Engineering from the Bandung Institute of Technology, and completed post-graduate study in Human Ecology from University of Indonesia.

Panel Members

Mr. Li Yuanyuan is the Deputy Chief Engineer and Professor of the Water Resources and Hydropower Planning and Design General Institute of the Ministry of Water Resources. In this capacity, he is spearheading several long-term water resource planning initiatives in the PRC focused on flood mitigation, infrastructure and land use, and national water sector development. Mr. Li also serves as the Secretary-General of the National Committee of International Water Resources Association and National Water Resources Planning Study Commission, Vice-Chairman of China Water Resources Association, China Natural Resources Association and is a Member of the International Collaborative Council of Water and Sanitation. Mr. Li obtained his B.S. in Hydrology and Water Resources from Chengdu Science and Technology University, PRC.

Mr. Gilberto Llanto is the Vice-President of the Philippine Institute for Development Studies (PIDS). Prior to this post, he has held various executive and technical (research) positions as a professional economist most recently with the National Economic and Development Authority (NEDA) as Deputy Director General [Under Secretary]. He currently serves as a Research Fellow with the Rural Development Research Consortium at the University of California, Berkeley, and is a member of the National Research Council of the Philippines and the International Association of Survey Statisticians. He is also a member of the Editorial Board of the Journal of Philippine Development. Mr. Llanto has chaired and served on the Board of Directors of several organizations including the Center for Training and Research in Agricultural Banking (CENTRAB), the Philippine Economic Zone Authority and the Philippine Economic Society. Mr. Llanto has conducted extensive economic research and policy work focused on financial markets, fiscal and monetary policy, agricultural finance, and public economics. He has degrees in philosophy and economics and received his Ph.D. in Economics from the School of Economics, University of the Philippines.

Mr. Ravi Narayanan is the Chief Executive of WaterAid, an international NGO focusing on the delivery of water and sanitation services and working on pro poor policy and advocacy issues worldwide. Prior to joining WaterAid, Mr. Narayanan was the Head of International Operations and Asia Director at ActionAid, where he previously directed programs for Africa, Asia and Latin America. He currently serves as a Trustee of Action on Disability and Development and is a member of the Water Supply and Sanitation Collaborative Council. Mr. Narayanan is also engaged as a Senior Associate with the National Institute of Advanced Studies. In addition to earning bachelors and masters degrees from Delhi and Cambridge Universities in Physics and Engineering, Mr. Narayanan has nearly two decades experience in engineering design, production, sales and general management in the UK and India.

Mr. Pradeep Singh is the President and CEO of IL&FS Infrastructure Development Corporation, which has established partnerships with the Federal Government and more than ten state governments in India for developing infrastructure projects in Public Private Partnership formats. Mr. Singh is a former member of the Indian Administrative Service and held several positions in state and central government before joining the IL&FS in 1997. He was also engaged in policy formulation and implementation of development programs that focused on the poor. Mr. Singh received a Masters of Public Administration degree from Harvard University and a MBA and M.Sc in Physics from Punjab University, India. He was also a Rotary International Graduate Fellow at Stanford University in the Department of Engineering Economic Systems.

Ms. Annelie Hubach is consultant to the Division for Environment and Water Resources Management of the Ministry of Foreign Affairs of the Netherlands. Ms. Hubach's work focuses on integrated water resources management and water and sanitation with respect to poverty and gender mainstreaming and institutional change. She is also engaged as advisor to the Netherlands' Council of Women assisting with policy and strategy development for the Women for Water Partnership. Prior to these engagements, she also served as an adviser with the Water Unit and Social Policy Division of the Ministry of Foreign Affairs of the Netherlands. Ms. Hubach obtained a Masters in Social Geography and Teaching Training College diploma from Vrije Universiteit van Amsterdam, with qualifications in Geography and History.

Special Advisers to the Review Panel

Mr. Akira Seki worked at ADB from 1978 to 2002. Most recently he led ADB's Regional and Sustainable Development Department as Director General. Prior to this post, he served as Director, Agriculture and Social Sectors Department [West] (AWD); Deputy Director, Infrastructure Department (West); Resident Chief of the Pakistan Resident Mission; and Head, Transport Division, handling ports, railways and highway sectors. Before joining ADB in 1978, Mr. Seki began his career as Civil Engineer (water resources) at Nippon Koei, Tokyo for overseas operations, and in 1973 he worked in the Natural Resources Division, Economic and Social Commission for Asia and Pacific (UN ESCAP). Mr. Seki earned a degree in Irrigation Engineering from Tokyo University of Education in Japan and has completed graduate study in Civil Engineering Planning at Stanford University in the United States.

Dr. Peter Rogers is the Gordon McKay Professor of Environmental Engineering and Professor of City Planning at Harvard University in the United States. He is also a member of the Technical Advisory Committee of the Global Water Partnership and a recipient of Guggenheim and Twentieth Century Fellowships. Dr. Rogers has conducted extensive fieldwork and model studies on population, water and energy resources, and environmental issues in Bangladesh, Costa Rica, People's Republic of China, India, Pakistan, and Philippines. His recent work focuses on the relationship between Chinese electric power developments and their impact on global warming. Dr. Rogers earned a Bachelor Degree of Engineering from the University of Liverpool, a M.S. in Engineering from Northwestern University, and a Ph.D. in Engineering from Harvard University.

APPENDIX 4: Summary Timeline of Key Activities of the Review

Month	Major Activities (dates)
2005	
January-March	<p>PLANNING AND INCEPTION PHASE:</p> <ul style="list-style-type: none"> ▪ Interview ADB operations directors and staff to secure initial feedback on the review design and Review Panel selection process ▪ Finalize Review Panel and Special Advisors recruitment and schedule ▪ Finalize schedule for in-country consultations and regional meetings ▪ Finalize communications strategy & schedule: coordinate with Water Awareness Program (WAP) ▪ Finalize design of review process and submit inception report presenting work plan
April	<ul style="list-style-type: none"> ▪ ADB Staff Workshop: Water Sector Network (WSN) and ADB water operations staff (12) ▪ Training Workshop for National River Basin Management Organizations (NARBO) Colombo, Sri Lanka (24-29) ▪ 2nd Regional Meeting of Apex Bodies in Bangkok, Thailand (27-29)
May	<ul style="list-style-type: none"> ▪ Review Panel Work Session #1: ADB HQ (9-13)
June	<ul style="list-style-type: none"> ▪ SEAWUN Convention on Water and Wastewater in Southeast Asia in Hanoi, Vietnam (7-9) ▪ Roundtable on Private Sector Participation in Urban Water Supply, Bangalore, India (15-16) ▪ In-country Consultation #1: Phnom Penh, CAMBODIA (23-24)
July	
August	<ul style="list-style-type: none"> ▪ In-country Consultation #2: Suva, FIJI (9-10) ▪ Review Panel Work Session #2: Jakarta/Nusa Dua, Indonesia (4 days) (26, 27, 30-31) ▪ In-country Consultation #3: Jakarta, INDONESIA (25/27) ▪ 2nd Southeast Asia Water Forum in Nusa Dua, Indonesia (29-2)
September	<ul style="list-style-type: none"> ▪ In-country Consultation #4: Almaty, KAZAKHSTAN (15-16) ▪ In-country Consultation #5: New Delhi, INDIA (28)
October	<ul style="list-style-type: none"> ▪ 2nd International Yellow River Forum, Zhengzhou, PRC (17-21) ▪ Private Sector Consultation, ADB HQ (18) ▪ Review Panel Work Session #3: ADB HQ (18-20)
November	<ul style="list-style-type: none"> ▪ Civil Society Consultation at ADB HQ (17-18)
December	<ul style="list-style-type: none"> ▪ FINAL Review Panel Work Session: ADB HQ (2-6) ▪ ADB Staff Session with Review Panel at ADB HQ (2)
2006	
January-May	<ul style="list-style-type: none"> ▪ ADB staff review Panel's draft report for accuracy, fairness, relevance and feasibility ▪ Panel presents main findings and recommendations to ADB's Board of Directors ▪ Panel finalizes report ▪ DG RSDD submits Panel's report to ADB's President for circulation to the Board of Directors as a Board Information Paper ▪ Public release of the Panel's report ▪ ADB's Water Committee initiates process of follow-up action

APPENDIX 5: Summary of Key Review Inputs: Assessments and Review Processes

A. 2003 Interim Review

In 2003, ADB conducted an interim review to assess the implementation of ADB's Water Policy approved in 2001. This review identified 40 policy actions in the seven policy areas and examined how these had been integrated into the 117 ADB loans and TAs.

Scope

The scope of the review encompassed the following:

- water assessments and policy dialogue in DMCs
- design of loan and technical assistance projects
- response to ADB's poverty reduction strategy
- progress of regional cooperation
- internal ADB actions
- impact of ADB's 2002 reorganization on policy implementation
- impact of the Cooperation Fund for the Water Sector on operations

Methodology

The interim review was an in-house exercise relying on information gathered through desktop analyses of project documents, completion of checklists for policy actions, and surveys of regional directors. While the process was internal, the report was posted on the website to secure comments from DMCs and NGOs.

Key Findings

The review determined that ADB had made encouraging progress to help its clients expand the delivery of water services, conserve water, foster participation, and improve governance. ADB made modest progress in fostering integrated water resource management (IWRM) and in promoting regional cooperation. Key findings include the following:

- 54% of ADB's water loans approved after the water policy's adoption are consistent with the policy
- 20% of water TA projects examined were consistent with the policy
- 29% of DMCs with ADB water financing operations conducted comprehensive water assessments (5 in 17)
- 53% of DMCs have national water policies in place (9 in 17)
- 59% of DMCs are conducting national water sector reforms (10 in 17)

Significant gains were also made by DMCs to involve more stakeholders in their efforts to adopt reforms and improve governance in the water sector. ADB also achieved positive gains in improving information dissemination, capacity building, monitoring and coordination for the operations departments. Moreover, the Cooperation Fund for the Water Sector provided much-needed additional resources to catalyze policy implementation while also providing a strategic framework and creating synergy among ADB's water operations. Additionally, ADB's reorganization in January 2002 provided considerable additional support to operational departments through the Water Sector Committee and Network, supported by the water focal point (Water Team) in the Regional and Sustainable Development Department.

Key Recommendations

The interim review resulted in recommendations for internal ADB actions as well as external actions in the DMCs. Key recommendations are as follows:

In the DMCs: Pursue national water sector reforms, develop capacity, & address financing issues.

1. *Conduct comprehensive water sector assessments* to guide sector-level policy dialogues and develop national policies. Only 5 in 17 DMCs with water operations completed comprehensive national water sector assessments. While 9 of these DMCs had national water policies in place and 10 are engaging in water sector reforms, no sector-level policy dialogues had taken place at the time of the interim review.⁴²
2. *Increase investments* in institutional development at sector and sub-sector levels.
3. *Adopt new financing methods*, particularly with the private sector, and for cost recovery.

Within ADB: Embed the water sector and the water policy better in CSP processes and in the project cycle, and strengthen water staffing.

1. *Operations departments to improve project design* to be more consistent with the water policy, in particular in TAs. Only 20 percent of the TAs were consistent with the water policy.
2. *ADB to adopt water management as a thematic classification*, including both the delivery of water services and the management of water resources, as advocated in the water policy.
3. *ADB to improve staff strength in water specialists*, particularly in policy and institutional development, water quality and wastewater management, social sciences and resource economics, and private sector participation.

Overall, the review resulted in three key overarching recommendations focused on policy dialogue and sector reforms, development priorities and investments, and measurable indicators and best practices. Key points for each recommendation are as follows:

Undertake Policy Dialogue and Promote Sector Reforms.

1. Conduct more comprehensive national water sector assessments.
2. Develop and refine water sector roadmaps as the critical foundation for CSP/U preparation.
3. Provide advice in developing and testing policy dialogue with DMCs and replicating the results.

Review Development Priorities in DMCs and Align Investments

1. Examine development priorities in preparation of CSP/Us to increase water sector investments.
2. Prioritize ADB resources to support comprehensive water sector assessments, reforms and development needs in the DMCs so that the most urgent needs can be met within the budget constraints and TA and lending ceilings.
3. Consider modalities to conduct sector assessments and support sector reforms beyond PPTA.

Develop Guidelines for Project Design, Establish Measurable Indicators, and Disseminate Best Practices

⁴² The status of policy reforms in the 17 DMCs where ADB has water operations is summarized in Table 8 at the end of this Appendix.

1. Establish guidelines, checklists and generic terms of reference for water project designs and projects with significant water components.
2. Align guidelines and checklists with the 40 actions outlined in the water policy, incorporating key elements of the poverty reduction strategy (pro-poor sustainable growth, social development, and good governance), and targeting harmonization with other aid organizations' efforts and global benchmarks e.g. the MDGs and the World Bank Water Resources Strategy.
3. Disseminate examples of well-designed projects and project frameworks with measurable indicators linked to water policy requirements.

ADB's Response to Interim Review Recommendations

ADB has responded to nearly every recommendation with some measure of follow-up action since the interim review concluded. Key initiatives underway are summarized in Table 1 below.

Table 1. ADB Initiatives: Water Sector Reforms, Capacity Development, and Financing

Priority Area	Initiatives Underway
Water Sector Reforms, DMC Priorities, and the CSP Process	Support was offered to operations divisions on a pilot demonstration basis for water sector assessments and policy dialogue in DMCs, and CSP preparation. Support was also offered to assess and compare policy and legal reforms in the DMCs to gauge impact of reforms on water financing.
Capacity Development and Knowledge Management	The Water Sector Committee approved a capacity development program for DMC and ADB water staff focused on knowledge management (KM) for water reforms. KM applications are under development to improve information and experience sharing. The Water Committee was reformed in 2005 to lead a broader water community of practice.
Financing	In 2004, RSDD prepared a water financing initiative to address critical water financing issues. Products to date included: advocacy package on tariff reform, pilot implementation of small piped water networks, and financing for small-scale piped networks. In 2005, the initiative was further developed into a Water Financing Program to be launched by ADB Management in early 2006.

B. 2004 Revision of Paragraph 32

The interim review also highlighted the need to revise the policy provision for large water resources projects that involve dams. The recommendation involved modifying the impractical requirement for all stakeholders to agree on the justification of large water resources projects with the provision that, "...stakeholders must be provided the opportunity to comment regarding the justification with their views considered. The ADB will promote the participation of government, civil society and other stakeholders in the country towards this end."

The review noted that while ADB should continue to pursue a cautious approach to projects involving dams, it is impractical to expect all stakeholders to agree on the justification for such projects. The Water Sector Committee recommended to revise the policy provision in the context of ADB's new accountability mechanism, and to reflect how ADB can promote the

participation of stakeholders in project preparation. Water agencies, NGOs, and other interested stakeholders were invited to send their comments in 2004. The comments received were reviewed, and a revised proposal was submitted and approved by ADB's Management and Board of Directors in January 2005.

C. 2004-2005 Updated Analyses to Interim Review: Improving the Methodology

ADB conducted an update to the interim review analysis to assess projects through 2004. The expanded study attempted to quantify outputs achieved under each of the seven key elements of the water policy and included efforts to strengthen the methodology and indicators used to assess policy implementation. Three papers were produced as part of the updated analysis.⁴³ Special Advisers to the Review Panel were commissioned to provide technical inputs on key issues according to their expertise to inform the review process. Special Adviser, Mr. Akira Seki, was tasked to examine the current methodology and set of indicators used to assess water policy implementation. Seki's main recommendations are:

- reduce the coverage of indicators from 40 to 18
- assign weighted values to the indicators with total weight of 80%, under three groups (a) Principal =50%, (b) Complementing = 30% and (c) sub-sector-specific=20%, add a new category to the assessment matrix to reflect "qualitative" aspects and with a weight of 20%
- adopt a reclassified sub-sector⁴⁴ grouping of (i) basin water, (ii) rural water, and (iii) urban water.

The original 40 policy actions are summarized in Table 6 at the end of this Appendix. The list of the 18 Policy Actions is included in Table 7 below. Taking into consideration the recommendations from Mr. Seki's report, the updated analysis follows the same methodology and scope as the draft analysis, "*Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review*", (June 2005), except as indicated in the next section.

Modifications on Scope of Review

The quantitative analysis included (i) trends in lending using the rural, urban and basin, (RUB) sub-sector grouping, (ii) inclusion of the 18 water policy actions in the design of loan and TA projects, and (iii) achievement per 18 policy actions. Revised checklists based on RUB grouping were prepared. The policy actions included in the checklist per grouping (using the old numbering system for ease of reference) and the new scoring matrix is shown in Table 2 below.

A total of 183 projects were re-evaluated comprising: (i) 50 recently approved loan projects (24 loans approved from January 2001–December 2002; 26 loans from January 2003–December 2004); (ii) 84 recently approved TAs (39TAs for January 2001–December 2002; 45 TAs from January 2003–December 2004); and (iii) 49 loan projects approved prior to January 2001 (1997–2000).

Changes in the methodology were in the following areas: (i) actions completed or to be undertaken by the government or with other MDBs or bilateral assistance were considered, (ii)

⁴³ The three papers produced as part of the update to the interim review analysis include: Seki, A. *Draft Note: ADB's Water Policy Implementation Review: A Review of Current Indicators* (August 2005). *Quantitative Assessment of Implementation for ADB Projects Through 2004: Strengthening the Methodology and Updating the Indicators: Reducing the Policy Actions from 40 to 18* (August 2005). *Quantitative Assessment of Implementation for ADB Projects Through 2004: An Update to the 2003 Interim Review* (June 2005).

⁴⁴ Rural Water includes Rural Water Supply and Sanitation and Irrigation and Drainage sub-sectors; while Urban Water Supply and Sanitation and Wastewater Management sub-sectors composed the Urban Water, and Basin Water comprises Flood Management, Hydropower, and Integrated Water Resources Management sub-sectors.

categories of policy actions were given weights, and (iii) criteria for classification of projects into exemplary practice, good practice and room for improvement were revised.

Table 2. Policy Actions per Category and per Reclassified Sub-sector Grouping

WFP Grouping	Objective Scoring of Achievement (80%)			Qualitative Assessment of Risks / Assumptions on Overall Achievement of Water Policy Actions (20%)
	Principal Type of Actions (50%)	Complementing Type of Actions (30%)	Sub-sector-Specific Type of Actions (20%)	
Rural Water (13 Policy Actions)	1, 2, 3, 4, 7, (24, 27, 28, 29), 30	11, 12, 21, 31	(19&22), 25	
Urban Water (13 Policy Actions)	1, 2, 3, 4, 7, (24, 27, 28, 29), 30	11, 12, 21, 31	(19&22), 20,	
Basin Water (14 Policy Actions)	1, 2, 3, 4, 5, 7, 30	11, 12, 21, 31	6, 13, 14	

In the evaluation of the projects using the revised checklist the achievements were indicated as follows: (i) YES – actions completed or to be undertaken with ADB or others assistance, and (ii) NO – actions were not included in the scope of the project or not mentioned in the RRP.

The analysis of project achievement is based on the weights per category as shown in Table 2 above. The qualitative aspect in the achievement analysis consists of assessment in the design phase and in the implementation of the project. For the updated analysis only the assessment in the design phase is considered. Assessment on the implementation will be done in due course.

Taking into consideration the above analysis, in the classification of projects the following criteria based on total achievement score were used: (i) **exemplary practice** with score of 75% and above, (ii) **good practice** with score between 66 to 74%, and (iii) **room for improvement** with score equal or below 65%.

In addition to the three quantitative analyses mentioned above, ADB also produced a publication for broader distribution to stakeholders across the region. This publication takes a closer look at the work that the 2003 interim review inspired, how ADB's regional operations departments have used the water policy, and the achievements and challenges of ADB's policy-based initiatives⁴⁵.

D. Comprehensive Review Modalities

- Consultations

Objectives, Participants, and Process

⁴⁵ *Charting Change: The Impact of ADB's Water for All Policy on Investments, Project Design, and Sector Reform.* (November 2005)

ADB conducted five in-country consultations and two additional consultations at ADB HQ on key topics to secure feedback from a broad range of stakeholders to inform the comprehensive review of ADB's water policy implementation⁴⁶. Review Panel members participated in the consultations, interacting with various stakeholder groups across the region. Drawing from the consultation reports prepared for each consultation, this summary report recaps the main observations and recommendations made during these consultations.⁴⁷ A summary of the consultation schedule and participants is outlined below. The consultations were designed to generate feedback on policy implementation and other inputs to improve water operations, considering:

- experience in implementing the water policy
- achievements and lessons learned
- challenges and investment requirements
- opportunities and areas for improvement
- issues that require attention

The in-country consultations involved stakeholders from national and sub-national levels of government, elected representatives, civil society including NGOs and academe, private sector, the media, and other institutions involved in water sector related work. In selecting participants and outlining the agenda for the in-country consultations, ADB aimed for a balanced representation across geography, ethnicity, gender, and the main sub sector and thematic areas outlined in ADB's work.

The private sector consultation involved representatives from large and small-scale private sector water service providers and commercial banks interested in financing water sector projects. The civil society consultation involved representatives from knowledge management organizations, development and service organizations, academe, advocacy organizations, and project-affected areas.

Table 3: Final Consultation Schedule and Number of Participants

Country	Regional Department	Final Dates	Number of Participants
<i>In-country</i> ⁴⁸			
Cambodia (Phnom Penh)	Mekong	23-24 June 2005	49
Fiji (Suva)	Pacific	9-10 August 2005	33
Indonesia (Jakarta)	SERD	25/27 August 2005	49
Kazakhstan (Almaty)	ECRD	15-16 September 2005	46
India (New Delhi)	SARD	28 September 2005	51
<i>Other Consultations</i>			
ADB HQ (Manila)	Private Sector Consultation	18 October 2005	14
ADB HQ (Manila)	Civil Society Consultation	17-18 November 2005	62
TOTAL			304

⁴⁶ A brief synopsis of ADB's water policy and review processes including the scope of the comprehensive review and timeline of key events is included in Appendices 1-3

⁴⁷ Detailed consultation reports are available on ADB's website at <http://www.adb.org/water>.

⁴⁸ The consultation itself was a one-day exercise. The second day listed in the table was allotted for site visits for the Review Panel members present.

Table 4: Breakdown of Country Consultation Participants

Stakeholder Group	Number of Participants				
	Total (Men/ Women)				
	Cambodia	Fiji	Indonesia	Kazakhstan	India
SUBTOTALS					
Government 79 (67/12) 35%/85%	19 (11 / 8)	14 (13 / 1)	20 (18 / 2)	6 (5 / 1)	20 men
Project Resource Persons 16 (14/2) 7%/87%	4 men	2 men	0	10 (8 / 2)	0
NGOs 73 (45/28) 32%/62%	13 (10 / 3)	10 (5 / 5)	16 (9 / 7)	15 (7 / 8)	19 (14 / 5)
Private Sector 18 (16/2) 8%/89%	5 men	None	1 woman	3 (2 / 1)	9 men
Academe 16 (10/6) 7%/63%	2 men	1 man	6 (2 / 4)	7 (5 / 2)	None
International Orgs 26 (18/8) 11%/69%	6 (5 / 1)	6 (4 / 2)	6 (4 / 2)	5 (2 / 3)	3 (3 men)
Total (Gender Breakdown)	49 (37 / 12)	33 (25 / 8)	49 (33 / 16)	46 (30 / 16)	51 (46 / 5)
GRAND TOTAL	228 (171 / 57) 75% men / 25% women				

Table 5: Breakdown of Civil Society Consultation Participants

Stakeholder Group	Number of Participants			
	Total (Men/ Women)			
	Total	India	Philippines	Others
Development/ Service Organizations	9 (7 / 2)	2 (2 / 0)	3 (1 / 2)	4 (4 / 0)
Knowledge Organizations	26 (18 / 8)	10 (7 / 3)	6 (3 / 3)	10 (8 / 2)
Advocacy Organizations	19 (7 / 12)	3 (1 / 2)	9 (2 / 7)	7 (4 / 3)
Representatives of Project-Affected Areas	6 (6 / 0)	6 (6 / 0)	0	0
Partner Organization	2 (0 / 2)	0	2 (0 / 2)	0
GRAND TOTAL	62 (38 / 24) 61% men / 39% women			

Timeline and Expected Outputs

The consultations were scheduled during the months of June to November 2005. The schedule was coordinated with the Resident Missions, related regional events, and other ADB policy reviews planned for 2005. In-country consultations were conducted in countries representing the five regions ADB serves.

Each consultation produced the following outputs:

- Participants' assessment of ADB's water policy implementation: performance and progress, challenges and constraints, and required actions
 - Participants' recommendations to improve ADB's water policy implementation in the short and medium term: investment priorities, partnerships, innovations, and new business opportunities
 - A summary report of the consultation reflecting participants views and comments
-
- Additional Regional Events

Throughout the review process, ADB participated in several water-related conferences and regional events to secure feedback through surveys circulated to stakeholders and conference participants and to share progress reports on the review. Key events include:

- 2nd Regional Meeting of Apex Bodies in Bangkok, Thailand: 27-29 April 2005
 - Training for NARBO in Colombo, Sri Lanka: 25-29 April 2005
 - Southeast Asian Water Utilities Network (SEAWUN) Convention on Water and Wastewater in Southeast Asia held in Hanoi, Vietnam: 7-9 June 2005
 - 2nd Southeast Asia Water Forum (SEAWF) in Bali, Indonesia: 25-31 August 2005
 - 2nd International Yellow River Forum in Zhengzhou, People's Republic of China: 18-21 October 2005
-
- ADB Staff Workshop and Feedback Sessions

ADB organized a staff workshop and feedback session to elicit feedback from ADB's water operations directors and Water Committee and Network staff members and consultants. ADB staff workshop and feedback sessions aimed to:

- review and respond to key findings and recommendations from the [2003 interim review](#)
- outline the expanded scope of the [2005 comprehensive review](#)
- secure feedback on ADB's performance and progress to address key water sector priorities identify benchmarks and criteria to measure ADB's progress in implementing the water policy
- identify key constraints facing water operations staff and ADB clients
- identify necessary resources or technical inputs to improve implementation of ADB's water policy
- identify priority investments and business opportunities that ADB should pursue in the next year.

In April 2005, more than 30 staff (WSN and water operations colleagues) attended the first ADB staff workshop to help launch the comprehensive review and address key issues raised during the 2003 interim review. A very short survey targeting the members of the Water Sector Network (WSN) and other water project staff has also been circulated and initial responses from approximately 30 staff members have been tabulated. This "5-Minute Pulse Check" was designed to gauge perceptions on performance, constraints, and lending that could boost ADB's water operations in the next year.

Among respondents, there is a general consensus that ADB is making modest gains to promote national water sector reforms, implement IWRM, foster regional cooperation, conservation, and governance. However, several respondents stressed the need to improve efforts to promote national water sector reforms and water conservation. Perceptions were somewhat aligned regarding key constraints facing water policy implementation as capacity development, water sector reforms, and financing issues all ranked high. Capacity development in the DMC's was identified as the greatest constraint facing ADB staff and clients in implementing the water policy.

In October 2005, the Review Panel members met with water operations directors and members of ADB's Water Committee to discuss the opportunities to increase ADB's water investments and address capacity development needs within ADB and in the DMCs.

In December 2005, ADB water operations staff joined the Review Panel again to discuss key issues informing the Panel's initial recommendations from its year-long comprehensive review. Key issues discussed included: private sector participation, O & M, capacity development in ADB, constraints in the DMCs, and options to leverage new financing modalities and special initiatives.

▪ Client and Stakeholder Survey

ADB developed a short survey to gauge perceptions on key areas outlined in ADB's water policy. The Client and Stakeholder Survey contains questions focused on ADB's performance, progress in the DMCs, and recommendations on investment priorities and partnerships. The survey was distributed online, at water related conferences, and during the in-country consultations. ADB produced a synthesis report summarizing the initial findings from a total number of 367 respondents of which 234 respondents were from in-country consultations, 103 respondents were from regional conferences, and 30 responded through the online survey in the ADB website. The summary of recommendations for ADB from this report is provided below:

PROGRESS

- ADB made the most progress to expand and improve water services, make reforms in the water sector, improve stakeholder consultation and participation and integrate water resources management (IWRM). ADB should also focus its efforts to accelerate progress in the areas of: water conservation and water use efficiency, regional cooperation and good governance and capacity building.

PRIORITIES: Investments and Approaches

- ADB's water investments should focus on urban water supply, rural water supply, sanitation and IWRM in river basins the next 5 years (through 2010).
- ADB should include sector assessments and analyses of issues, technical assistance, and capacity development in its water investment packages.
- ADB should improve responsiveness and increase investments through multi-donor budget support to government, financing subprojects selected by government, financing projects designed in advance, and private sector participation.
- To improve conditions in the water sector, ADB should consider working more selectively with the right information, organizations, and leaders, and empowering civil

society organizations as catalysts for water sector reforms, promoting credible water regulatory bodies for water services, and catalyzing water investments for the rural poor.

- ADB should consider community-managed water networks, water education in schools, water awareness campaigns by local government and service providers, and management by water user organizations to facilitate community ownership and sustainability in poor rural areas.

PARTNERSHIPS

- In order to sustain the progress that ADB has achieved in its water policy to support its clients in the Asia Pacific region and to maximize the benefits of its future water investments in the areas of urban, rural water supply and sanitation and IWRM as suggested by the respondents, ADB should develop strong partnerships with civil society organizations for advocacy, establish private-public partnerships for co-financing scheme, and build capacity of networks among national water apex bodies, river basin organizations, water utilities, and regulatory bodies.

E. External Studies Relevant to the Review

ADB actively encouraged NGOs, research organizations, and academe to contribute case studies and research findings to inform the review. Two NGOs, WaterAid and the NGO Forum on ADB, prepared case studies and prepared their networks for active involvement in the review process. Both organizations presented findings from their case studies on specific ADB water projects to inform the review and improve ADB's water operations during the civil society consultation held in November 2005 at ADB HQ. WaterAid also presented preliminary findings during the India in-country consultation in September 2005. As WaterAid outlines in its own concept papers, their effectiveness study underscores the fact that ADB's policy implementation review is acknowledging independent evidence-based reviews and employing participatory approaches to NGO involvement in the review process. A summary of the key findings and recommendations from these studies is provided below.⁴⁹

SUMMARY OF WATERAID'S KEY FINDINGS

- Allocations to cover sanitation and sewerage including slums and poor populations are too low and inadequate
- Participatory processes to include the community and civil society are weak resulting in low participation: poor are unable to influence decisions
- Connection charges and tariffs are too high for the poor: no differential pricing for poor
- On-lending at increasing interest rates mean borrowers receive relatively high interest loans

⁴⁹ The detailed reports are available on ADB's website at <http://www.adb.org/water>: WaterAid's final report, titled "Water for All? A Study on the Effectiveness of ADB Funded Water & Sanitation Projects in Ensuring Sustainable Services for the Poor," and NGO Forum on ADB's synthesis report is titled, "Running Dry: Does the ADB stand for "Water for All?"

- Indicators used to measure progress are inconsistent and inadequate: indicators focus on physical outputs not on community participation, data aggregated so difficult to tell who benefits

SUMMARY OF WATERAID'S MAIN RECOMMENDATIONS

Improving ADB's responsiveness to the needs of the poor:

- Develop implementation strategies in each project on how to serve all the poor e.g. poverty mapping, ability to pay studies, flexible payment mechanisms, differential pricing.
- Prioritize coverage of sanitation and sewerage including slums and poor populations
- Train and provide incentives for EAs and LGUs to work with the poor
- Initiate discussions with LGUs and public on tariff policies, set tariffs to recover only O & M, with safety nets for poor
- Review on-lending terms of concessional loans for affordability

Improving ADB's project design, monitoring, & evaluation processes:

- Design for and monitor sustainability of services
- Design projects to better include community and civil society participation in projects (provide resources to do so)
- Conduct regular monitoring of the implementation of ADB's water policy in all project evaluations
- Disaggregate all data and track impact of projects on the poor and vulnerable
- Develop processes for community and LGU certification of all M & E reports

SUMMARY OF NGO FORUM ON ADB FINDINGS AND RECOMMENDATIONS

- Negative project impacts are a direct result of lack of adequate community consultation & participation: (both social and environmental impacts)
- Private sector participation is taking place without adequate regulation in place, resulting in rising water rates for the poor, increasing debt burdens for DMCs, without promised improvements in water service coverage and water quality
- Principles underlying ADB's water policy must be revisited:
-water rights: inalienable human right versus tradable right determined by the market-full cost recovery versus pro-poor approach
- ADB must temper its influence on DMCs: imposition of policy reforms and loan conditionalities threaten national sovereignty

ADB staff also monitored and participated in relevant regional activities including critical research studies and evaluations to inform and improve the review process. Importantly, ADB

prepared the second progress report on MDGs in Asia in coordination with the World Health Organization (WHO), United Nations Development Programme (UNDP) and UNESCAP. In partnership with these same organizations, ADB has also taken the lead in preparing a technical background paper specifically on water and the MDGs.⁵⁰

⁵⁰ “Asia Water Watch 2015: Are Countries in Asia on Track to Meet Target 10 of the Millennium Development Goals?” is available on line on ADB’s website: <http://www.adb.org/water>.

Table 6: Summary of ADB Water Policy Actions-- All 40 Policy Actions⁵¹

National Policies and Reforms
1. The Asian Development Bank (ADB) will help develop comprehensive water policies in the DMCs.
2. Assistance for undertaking water sector assessments will be provided to ensure that policy formulation and sector reforms are well grounded.
3. Because project planning and implementation are commonly fragmented among many institutions, ADB will support the optimization of agency functions for planning and implementation. It will also focus on the development of effective cross-sector coordination mechanisms, such as a neutral sector apex body that can oversee the policy formulation and sector reform process.
4. Support will be provided for the review and revision of water legislation particularly in the areas of water rights and allocation among competing uses, water quality standards, groundwater use, demand management, resource conservation, private participation, and institutional responsibilities for water sector functions at national, regional or basin, local, and community levels.
Water Resources Management
5. ADB will help the DMCs introduce integrated water resources management (IWRM) and undertake comprehensive water resources assessments in river basins as a basis for future water investment projects
6. To implement IWRM, ADB will support the establishment of river basin organizations (both formal and informal) to facilitate stakeholder consultation and participation, and to help improve planning, information gathering, monitoring, and advisory services to local and national authorities.
7. ADB will encourage the DMCs to adopt participatory and negotiated approaches for water allocation .
8. ADB will adopt a cautious approach to large water resources projects —particularly those involving dams and storage—given the record of environmental and social hazards associated with such projects. All such projects will need to be justified in the public interest, and all government and nongovernmental stakeholders in the country must agree on the justification.
9. Where the risks are acceptable and ADB’s involvement necessary, ADB will ensure that its environmental and social impact assessment procedures are rigorously applied. Any adverse environmental effects will be properly mitigated, the number of affected people in the project area will be minimized, and those adversely affected will be adequately compensated in accordance with ADB’s policy on involuntary resettlement.
10. In line with its energy sector policy, ADB will continue to extend its support for technically and economically feasible hydropower projects that form part of a country’s least-cost energy development plan, provided that their environmental (including impact on fisheries) and social effects can be satisfactorily managed in accordance with ADB policies.
11. To help stakeholders address water quality issues , ADB will support water quality investment programs that focus on four existing gaps: (i) knowledge development of the impact of human activities on water quality, and of water quality requirements for ecosystems, including determination of water quality thresholds; (ii) management of land conversion, including protection of catchments and wetlands, which are the natural filters in many aquatic systems, and pollution prevention at source; (iii) improving water management to reduce the inefficient use of water, excessive water abstraction, and groundwater pumping leading to Salinization; and (iv) reducing pollution by urban and industrial users, through on-site or combined wastewater treatment and reuse, and improved farming practices.
12. The introduction of wastewater discharge permits and effluent charges as part of water rights administration will be encouraged.
13. ADB will pursue the protection and rehabilitation of degraded forestlands . To rehabilitate watersheds, ADB encourages the involvement of local communities and nongovernmental organizations (NGOs).

⁵¹ These Policy Actions are extracted from ADB’s Water Policy. These are used for reviewing achievement of projects in all developing member countries (DMCs) in the implementation of the Water Policy. Not all policy actions, however, are applicable to all subsector projects. Specific checklists were developed for each subsector.

14. Wetlands have important functions in the river basin, including flood alleviation, groundwater recharge, water quality improvement, ecosystem maintenance, and biodiversity conservation. ADB will promote wetland conservation and improvement in a river basin context.
15. ADB will continue to help the DMCs reduce economic losses from floods and rapidly restore economic infrastructure and social services after such disasters.
16. ADB will seek to increase its understanding of the effects of periodic El Niño and La Niña events on climatic patterns, and share its knowledge and experience with the DMCs.
17. ADB will adopt a proactive approach to reduce the severe economic and social costs of natural disasters by promoting the use of combined structural and nonstructural approaches to flood protection, including flood-risk insurance.
18. Poverty reduction will be targeted by carefully formulating flood management projects, and ensuring compensation for loss of assets or livelihoods and assistance in reestablishing productive activities will eliminate negative impacts.
Improving Water Services
19. ADB's sector strategies within countries will identify the need for introducing phased programs to increase the autonomy and accountability of service providers , either as new enterprises or by reorganizing existing agencies.
20. ADB will develop modalities for public-private partnerships in the management of physical infrastructure.
21. User participation will also be supported to (i) make services and service providers more responsive and accountable to beneficiaries; (ii) align the provision of services with users' needs and ability to pay, thereby improving cost recovery and sustainability; and (iii) tailor institutional arrangements for water service management to local practices. Participation will be the cornerstone of ADB's country water sector strategies; institutional arrangements for participation, particularly at the community level, will be strengthened.
22. The autonomy of service providers, especially in terms of staffing and tariffs, but not privatization, is typically the central issue in urban water supply and sanitation systems. ADB will support the upgrading of existing systems in physical and managerial terms.
23. ADB will help develop contracting modalities that allow potential investors to participate in the expansion and improvement of services. In particular, contracts that address social equity concerns and improve water and sanitation services to the poor will be developed.
24. Subsidies for operating and maintaining public irrigation and drainage systems will be phased out .
25. The phased turnover of responsibilities for distribution system operation and maintenance to farmer groups will improve system sustainability. Correspondingly, the collective and individual rights and responsibilities of water users (including poor and marginal farmers at the tail end of irrigation systems), service providers, and public agencies will be clarified and agreed.
26. ADB will seek to initiate monitoring and benchmarking exercises for irrigation and drainage service providers to track value and performance parameters.
Conserving Water
27. ADB will promote tariff reforms through water-related projects and programs to modify structures and rates so that they reward conservation and penalize waste.
28. ADB will consistently advise governments of the need to adopt cost recovery principles in their water policies and strategies.
29. ADB will continue to press for and support policies that provide for explicit participation of the poor in water-related projects; simultaneously, it will promote the phased elimination of direct subsidies to the poor for accessing basic water services in line with an increase in affordability levels.
30. ADB will promote the establishment of regulatory systems through policy dialogue with the DMCs and by leveraging loan and technical assistance programs to this end.
31. In its water-related projects and programs, ADB will incorporate components that educate the industry on the efficient use of water , and the need for higher prices for both water use and effluent treatment and discharge .
Promoting Regional Cooperation

32. By assisting with water sector assessments in riparian countries, and helping with the exchange of data, ADB will promote awareness and understanding of water resources issues and needs within each country.
33. Based on joint requests from riparian countries, ADB will support joint projects for the planning, development, and management of shared water resources, including the mapping of physical and institutional resources, information sharing, and establishment of a regional legal regime encompassing dispute resolution mechanisms.
34. Given its ability, neutrality, and comparative advantage in providing assistance of this nature, ADB will assist governments to develop collaborative frameworks with riparian stakeholders . These will include an assessment of the downstream impact of any ADB-financed water project, in a river basin context.
35. Strategically, ADB will accord higher priority to the optimization of existing systems . In line with this approach, and subject to joint requests made by governments concerned, ADB will be prepared to help operationalize international arrangements to manage river systems.
Fostering Participation
36. ADB will promote participation in the management of water resources at all levels and collaborate in fashioning partnerships between governments, private agencies, NGOs, and communities.
37. Water projects supported by ADB will incorporate carefully designed components that promote the participation of civil society in identifying needs and issues, designing solutions, and establishing mechanisms for monitoring and dispute resolution.
38. The key elements in a gender approach to planning, implementing, and evaluating of water sector activities are (i) including a gender analysis at the design stage, (ii) incorporating explicit gender equity provisions in the objectives and scope of the activity, and (iii) disaggregating data in monitoring and management information systems along gender lines. These elements will be incorporated in ADB's water sector operations.
Improving Governance
39. ADB will promote the development of sustainable plans for capacity building ; these will include the establishment of indigenous institutional arrangements for skills development at basic and advanced levels. The plans will incorporate processes that allow the sharing of subregional or regional experiences.
40. To optimize the work of knowledge and skills development institutions, and to promote regional self-help, a regional research and capacity-building network among these institutions would provide a cost-effective approach. ADB will continue dialogue with its development partners to jointly establish the network as a complementary capacity-building ingredient in the water sector.

Table 7: Summary of ADB Water Policy Actions --Reducing the Policy Actions to 18⁵²

National Policies and Reforms
1. ADB will help develop comprehensive water policies in the DMCs.
2. Assistance for undertaking water sector assessments will be provided to ensure that policy formulation and sector reforms are well grounded.
3. Because project planning and implementation are commonly fragmented among many institutions, ADB will support the optimization of agency functions for planning and implementation. It will also focus on the development of effective cross-sectoral coordination mechanisms, such as a neutral sector apex body that can oversee the policy formulation and sector reform process.
4. Support will be provided for the review and revision of water legislation particularly in the areas of water rights and allocation among competing uses, water quality standards, groundwater use, demand management, resource conservation, private participation, and institutional responsibilities for water sector functions at national, regional or basin, local, and community levels.
Water Resources Management
5. ADB will help the DMCs introduce IWRM and undertake comprehensive water resource assessments in river basins as a basis for future water investment projects
6. Based on the IWRM approach and to support decentralization of planning, development and management of water and related resources to levels that respond best to river basin boundaries, groundwater aquifers or hydrological regions, ADB will support the establishment of river basin organizations (both formal and informal) to facilitate stakeholder consultation and participation, and to help improve planning, information gathering, monitoring, and advisory services to local and national authorities.
7. ADB will encourage the DMCs to adopt participatory and negotiated approaches for water allocation . Until such time as transferable water rights are properly developed, ADB will support the introduction of systems of water entitlements, or usage rights.
8. To help stakeholders address water quality issues , ADB will support water quality improvement programs that focus on four existing gaps: (i) knowledge development of the impact of human activities on water quality, and of water quality requirements for ecosystems, including determination of water quality thresholds; (ii) management of land conversion, including protection of catchments and wetlands, which are the natural filters in many aquatic systems, and pollution prevention at source; (iii) improving water management to reduce the inefficient use of water, excessive water abstraction, and groundwater pumping leading to salinization; and (iv) reducing pollution by urban and industrial users, through on-site or combined wastewater treatment and reuse, and improved farming practices.
9. 12.The introduction of wastewater discharge permits and effluent charges as part of water rights administration will be encouraged.
10. ADB will pursue the protection and rehabilitation of degraded forestlands . To rehabilitate watersheds, ADB encourages the involvement of local communities and NGOs.
11. Wetlands have important functions in the river basin, including flood alleviation, groundwater recharge, water quality improvement, ecosystem maintenance, and biodiversity conservation. ADB will promote wetland conservation and improvement in a river basin context.
Water Service Delivery
12. ADB's sector strategies within countries will identify the need for introducing phased programs to increase the autonomy and accountability of service providers , either as new enterprises or by reorganizing existing agencies.
13. ADB will develop modalities for public-private partnerships in the management of physical infrastructure.

⁵² These Policy Actions are extracted from the Water Policy. These are used for reviewing achievement of projects in all DMCs in the implementation of the water policy. The list contains 18 policy actions derived from the 40 policy actions adopted for the 2003 interim review of water policy implementation.

14. **User participation** will also be supported to (i) make services and service providers more responsive and accountable to beneficiaries, (ii) align the provision of services with users' needs and ability to pay, thereby improving cost recovery and sustainability, and (iii) tailor institutional arrangements for water service management to local practices. Participation will be the cornerstone of ADB's country water sector strategies; institutional arrangements for participation, particularly at the community level, will be strengthened.

15. The **phased turnover of responsibilities** for distribution system operation and maintenance to user groups will improve system sustainability. Correspondingly, the collective and individual rights and responsibilities of water users, service providers, and public agencies will be clarified and agreed.

Water Conservation

16. (24/27/28/29) 29a. ADB will promote **recovery-based tariff reforms** through water-related projects and programs, and also to promote **phased elimination of direct subsidies** for accessing basic water services in line with an increase in affordability levels.

17. ADB will promote the **establishment of regulatory systems** through policy dialogue with the DMCs and by leveraging loan and technical assistance programs to this end.

18. In its water-related projects and programs, ADB will incorporate components that educate the industry on the **efficient use of water**, and the **need for higher prices for both water use and effluent treatment and discharge**.

Table 8: Summary of Status of Water Sector Reforms in DMCs

Country	Comprehensive National Water Policy	Comprehensive Water Sector Assessment	Neutral Water Sector Apex Body	Updated Water Legislation	Water Sector Roadmap	Water Sector Agenda/Plan
Azerbaijan	Partial. For water supply and sanitation with support from ADB	Partial. For water supply and sanitation with support from ADB	Partial. For water supply and sanitation	Yes. Water Code of 1997		
Bangladesh Water sector reforms are ongoing	Yes. Adopted in 1999	Yes. Bangladesh Water Sector Review in 2003	Yes. National Water Council formed in 1999	No. Water Act under review	Yes. Prepared as part of the 2003 Water Sector Review	Yes. National Water Management Plan prepared in 2001.
Cambodia Water sector reforms are ongoing	Yes. Adopted in 2001	Yes. Prepared in 2003 as part of the preparation of water sector profile	No	No Water Resources Law under review	Yes. Prepared in 2003 2005-2009 CSP includes environment roadmap and agriculture and natural resources roadmap that cover water resources management and irrigation, respectively	Yes. Prepared as part of the water sector profile preparation in 2001-2002, along with National Water Resources Strategy and Strategic Action Plan for the Ministry of Water Resources and Meteorology
India	Yes. Adopted in 1987, updated in 2002	Partial. For Madhya Pradesh	Yes. National Water Resources Board established. Apex body also established for Madhya Pradesh	Partial. For Madhya Pradesh	2004-2006 CSP includes agriculture and natural resources roadmap and urban sector roadmap which cover water resources and irrigation and water supply, respectively	No

Country	Comprehensive National Water Policy	Comprehensive Water Sector Assessment	Neutral Water Sector Apex Body	Updated Water Legislation	Water Sector Roadmap	Water Sector Agenda/Plan
Indonesia Water sector reforms are ongoing	Yes Adopted in 1993 based on Guidelines of State Policy	Partial. For water supply and sanitation with support from ADB	No Proposal under review	Yes. Water Law approved in 1974	Yes. 2003-2005 CSP include environment and natural resources roadmap and urban development, water supply and shelter roadmap which cover water resources and flood management and water supply, sanitation and hygiene, respectively	Yes. Preparation of national strategies and action plans began in 2004 and a water sector profile was drafted in 2005 with support from ADB
	Partial. For water supply and sanitation with support from ADB	Partial. For water supply and sanitation with support from ADB	No	No Revised law under preparation	Yes. Water sector profile prepared in 2002 with support from ADB	Yes. National IWRM and Water Efficiency Plan under development in 2005
Lao PDR Water sector reforms are ongoing	Yes. National strategic action plan adopted in 1999	Yes. National water sector profile completed in 1997, 2001 with support from ADB	Yes. Water Resources Coordinating Committee established in 1998 with support from ADB	Yes. Water and Water Resources Law adopted in 1996	No	Yes. Sector Strategy and Action Plan prepared in 1999 with support from ADB
Mongolia	No	No	No	Yes. Water Law was passed in 1996	Yes. 2006-2008 CSP includes urban development roadmap covering water supply, sanitation and wastewater	Yes. National Water Action Plan for 2002-2006 prepared in 2002
Nepal	No	Partial. Only for Kathmandu Valley	Yes. Water and Energy Commission established in 1975	Yes. National Water Act		Yes. National Water Plan prepared in 2005
Pakistan Water sector reforms are ongoing	Yes. Adopted in 2002	Yes. National water sector profile completed in 2002 with support from ADB	No. Proposals under review	No. Legislative reforms under review	Yes. Prepared in 2003 with support from ADB	Yes. Pakistan Water Sector Strategy and Sector Profile prepared in 2005 with support from ADB

Country	Comprehensive National Water Policy	Comprehensive Water Sector Assessment	Neutral Water Sector Apex Body	Updated Water Legislation	Water Sector Roadmap	Water Sector Agenda/Plan
Philippines Water sector reforms are ongoing	Yes. Adopted in 1975	Partial. Water and sanitation sub-sector profile completed in 2001 with support from ADB	Yes. National Water Resources Council (now a Board) in 1974, provisions updated recently	Yes. Adopted Water Code in 1975 – revisions under consideration	No.	Yes. National Strategy and Action Plan for Water Supply and Sanitation prepared in 2001 with support from ADB
People's Republic of China Water sector reforms are ongoing	Yes. Adopted Water Law in 1988 that includes policies	Yes National water sector profile prepared as part of ADB Strategic Options Study	No Water Resources Management Committee proposed	Yes Revision of legislation (1988 Water Law) Water Law revised in 2002	Yes. Agriculture and rural development roadmap which covers irrigation; water sector roadmap covering water supply, sanitation and wastewater management, and environment and natural resources which covers water resources and wastewater management in the context of environmental protection and management	
Sri Lanka Water sector reforms are ongoing	Yes Water Resources Policy adopted, further public consultations ongoing	Yes National water sector profile completed in 1996, with support from ADB	Yes Water Resources Council established in 1996, with support from ADB	Yes Water Resources Act	Yes. Water supply and sanitation sub-sector roadmap which focuses on financial management and operational efficiency of the National Water Supply and Drainage Board (NWSDB) but not about how water supply coverage is to be improved by when and at what costs or how water general water policies are to be addressed, e.g. cost recovery	Yes. Strategic Framework and Action Plan for Comprehensive Water Resources Management adopted in 1995
Tajikistan	No	Partial. For water supply and sanitation	No	Yes. Water Code adopted 2000	No	Yes. Water Sector Strategy Paper of 2005
Timor Leste Water sector reforms are ongoing	Yes	Partial For water supply and sanitation	No	No		

Country	Comprehensive National Water Policy	Comprehensive Water Sector Assessment	Neutral Water Sector Apex Body	Updated Water Legislation	Water Sector Roadmap	Water Sector Agenda/Plan
Uzbekistan	Partial. For water supply only.	No	No Reforms are under discussion	No. Reforms are under discussion		
Viet Nam Water sector reforms are ongoing	Partial. For water supply and sanitation	Yes. Completed in 1994 with support from ADB	Yes. National Water Resources Council formed in 1998 with ADB support	Yes. Water Resources Law approved by National Congress in 1998 and became effective in 1999. ADB provided technical assistance for capacity building to implement the law.	Yes. Prepared in 2003	Water Vision for 2025 and Framework for Action for water resources management