

***Water and Poverty Initiative
for the 3rd World Water Forum***

**MULTISTAKEHOLDER DIALOGUE ON
WATER SERVICES FOR THE
URBAN POOR**

DRAFT SUMMARY REPORT



Asian Development Bank
Manila, Philippines

29–31 May 2002

Table of Contents

1. Introduction	2
2. Opening Session	2
3. Case Studies	3
3.1 The Dhaka Water Story	3
3.2 The Jakarta Water Story.....	4
3.3 The Manila Water Story.....	5
3.4 WaterAid’s Experience Working with Urban Poor Communities	7
3.5 ONDEO’s Experiences Serving Low Income Communities.....	7
3.6 Manila Water Company	8
3.7 Maynilad Water Services	9
4. Field Visit to Urban Poor Communities	10
4.1 Maynilad Water Services Sites.....	10
4.2 Manila Water Company Sites	11
4.3 Synthesis of Field Visits	12
5. Regulatory Services	13
5.1 Jakarta’s Regulatory Approach	13
5.2 Manila’s Regulatory Approach.....	13
5.3 ADB Research on Regulation of Urban Water Supply and Sanitation in Developing Countries	14
6. Plenary Discussions: Towards a Framework for Serving the Urban Poor	15
6.1 Community Participation.....	15
6.2 Governance.....	15
6.3 Promoting Sustainability	16
6.4 Areas for Further Study	17
7. Action Planning in the Context of the Third World Water Forum and Beyond	17
8. Closing Session	18
9. Contacts	18
10. Appendixes (available upon request or at http://adb.org/Water after September 30)	
1. Program of Activities	
2. Bradford Philip’s Opening Remarks	
3. Guide to the Case Studies Presentation	
4. WaterAid Presentation	
5. Ondeo Presentation	
6. Maynilad Water Presentation	
7. Manila Water Presentation	
8. Site Visit Presentations (Groups A and D only)	
9. Jakarta’s Regulatory Approach Presentation	
10. Manila’s Regulatory Approach Presentation	
11. ADB Regulatory Presentation	

For more information, please visit our website at <http://adb.org/Water/theme1.asp>. This publication was prepared by consultants for the Asian Development Bank. The findings, interpretations, and conclusions expressed in it do not necessarily represent the views of the Bank or those of its member governments. The Asian Development Bank does not guarantee the accuracy of the data included in this publication and accepts no responsibility whatsoever for any consequences of their use.

1. Introduction

A 3-day "Multistakeholder Dialogue on Water Services for the Urban Poor" was held on 29–31 May 2002 in Manila. Water services for the urban poor is an integral part of two themes of the 3rd World Water Forum that will be held in March 2003 in Kyoto, Japan. The Asian Development Bank (ADB) has taken a leading role in the Water and Poverty Initiative, which will be a central theme of the Kyoto Forum. The results of this Dialogue will feed into a large regional consultation workshop on water and poverty on 22–26 September in Dhaka, Bangladesh, which will set the stage for the presentations and discussions in Kyoto. ADB is also contributing to the Water in Cities theme for which a comparative study of water issues, including water and poverty linkages, will be conducted in 20 Asian cities.

The main objectives of the Dialogue were to gain a better understanding of critical issues in providing water services to the urban poor, including the constraints and opportunities. Case studies identified lessons learned and good practices in strategies and projects, including the complementary roles of the various stakeholders. Finally, the Dialogue aimed to define areas of common concern and follow-up studies, actions, and collaborative partnerships among the government, private sector, and nongovernment organization (NGO) stakeholders.

Thirty-nine participants attended the 3-day Dialogue, representing international and local NGOs, private companies, government, external support agencies, academe, and media. The Dialogue was jointly organized by ADB, WaterAid UK, and Ondeo Services and featured presentations, working groups, and field visits to urban poor areas served by water concessionaires in Manila.

2. Opening Session

Mr. Bradford Philips, Director of the Agriculture, Natural Resources, and Social Sectors Division of ADB, welcomed the participants and set the tone of the Dialogue. He cited ADB's "Water for All" vision and policy for the water sector in the context of several stark statistics: Asia is home to nearly two-thirds of the world's poor, and its freshwater supplies are among the lowest in the world. One in three Asians does not have access to a safe drinking water source within 200 meters of home, and one in two Asians does not have adequate sanitation.

He stressed two critical issues: water sector governance and financing water services. Good governance means sound management, participation by stakeholders, transparency and accountability. ADB's policy is to support its member countries in the process of national water sector reforms, in the management of water resources, and to improve and expand the delivery of water services. He said ADB sees the establishment of independent regulatory bodies as an integral part of the reform process.

Mr. Philips underscored Asia's critical need for more financing, both for maintenance and new water infrastructure. Private sector funds will be needed from both international and domestic capital markets, including local communities and individual consumers. More needs to be learned more about ways in which public sector responsibility and ownership of water infrastructure can be blended with private management. He predicted that the ongoing decentralization trend in many countries in the region will catalyze innovative financing schemes by local governments, including municipalities and local water districts and communities.

While ADB recognizes that water is both a social and economic good and that the private sector can help deliver more financing and better management, Mr. Philips stressed that ADB's water policy does not prescribe privatization of water services. What ADB advocates is the

improvement and expansion of water services through autonomous and accountable service providers, together with cost recovery, good regulation, and increased public awareness. (See Appendix 2 for the complete text of his opening remarks.)

WaterAid Advocacy Manager, Ms. Belinda Calaguas, welcomed the group and introduced the work of WaterAid UK and the concept of multistakeholder dialogues. Among WaterAid's initiatives, she said, is a research study on private sector participation in the water sector. She encouraged the Dialogue participants to actively join the discussions and be open to one another's ideas.

Ms. Mai Flor, Ondeo Business Development Manager and Global Water Partnership Steering Committee member, also briefly welcomed the group on behalf of Ondeo.

3. Case Studies

Several case studies were presented on Day 1 of the Dialogue to highlight lessons learned from country practices and to provide concrete examples for the workshop discussions. Ms. Malou Mangahas of the Philippine Center for Investigative Journalism reported on her field visits to water projects in Dhaka, Bangladesh; Jakarta, Indonesia; and Manila, Philippines. Mr. Eric Gutierrez of WaterAid drew examples from WaterAid's experiences in providing services to the urban poor. Ms. Mai Flor of Ondeo presented Ondeo's worldwide operations designed to benefit the urban poor.

On Day 2, the participants visited urban communities being served by the two private concessionaires in Manila. Prior to departure, they were briefed by Mr. Thierry Krieg, Chief Operations Officer for Maynilad Water Services, and Mr. Virgilio Rivera, Group Director of the Regulatory Affairs and Planning Group of the Manila Water Company.

3.1 The Dhaka Water Story

At least 3 million people, or a third of Dhaka City's population of 9 million, are slumdweller who live in 3,000 slums throughout the city. Slumdweller are generally ignored in Dhaka City's urban development and water service plans. They cannot get water connections because the city government requires households to present titles to their land, or holding numbers of their rented dwellings, before they can be given piped water connections.

But a group of NGOs, inspired by the pioneering efforts of the DSK (*Dushtha Shasthya Kendra* or Health Center for the Distressed), has built 150 waterpoints in as many slums over the past five years. A waterpoint consists of one or two simple suction handpumps mounted on an underground storage reservoir and a concrete platform, which slumdweller can use for a fee collected from individuals or families.

Today, the waterpoints are serving 17,500 families or 110,000 people, who represent 3% of the city's slumdweller.

The project is greatly assisted by the culture of partnership that drives the relationship among the NGOs, slumdweller, and the government agencies in charge of water and urban planning services—the Dhaka Water and Sanitation Services Authority (DWASA) and the Dhaka City Corporation (DCC). Because of the efforts of the NGOs to interact with them, senior DWASA and DCC officials have grown very receptive to the idea of installing waterpoints. The city

officials value the waterpoints because they help reduce nonrevenue water. The slumdweller's record in paying water bills on time is a high 94%.

To the NGOs, the most positive aspect of the project is organizing slumdweller to solve their own problems. In this instance, it is the lack of steady and safe water in the slums. After their success with waterpoints, slumdweller say they now want to move on to other projects in education and health.

The group of NGOs, led by the DSK, plan to build 113 more waterpoints over the next two years with technical and financial assistance from WaterAid, Plan International, and UNICEF. However, funding has not yet been secured for 80% of the 113 waterpoints planned over the short-term, making the prospect of reaching the more than 2,700 remaining slums quite challenging.

3.2 The Jakarta Water Story

Across Indonesia, 35% of the people are considered to be "chronic poor," "transient poor," or "highly vulnerable" to poverty as a result of the financial crisis of 1997. Of the 9 million people in Jakarta, estimates of the urban poor or slumdweller range from 40%–50%.

Private sector participation in Jakarta's water sector started in February 1998 under a 25-year concession agreement. The concession was split into two sections with the Ciliwung River—Jakarta's principal water source—as the demarcation line. The West Zone was awarded to PT Pam Lyonnaise Jaya (Ondeo or Palyja), and the East Zone to Thames Pam Jaya (TPJ). Sanitation and sewerage services are the separate responsibility of two other government agencies.

In 1997, before privatization, the city government's Pam Jaya utility had installed 428,764 connections, covering at most 42% of the population. The majority of Jakarta's residents bought water at rates many times higher than the cost of piped water, while big companies and hotels sourced water from deep wells. Non-revenue water ranged from 53%–57%.

By the end of 2001, or four years after the two private companies took over the service, total connections had increased 30% to 610,000. The two companies report that they have extended the network 787 km, rehabilitated 454 km, and have made total combined investments of 896 billion rupiah. The Jakarta Water Supply Regulatory Body estimates that by the end of 2001, the coverage ratio was 43.77% in the Palyja area, and 61.36% in the TPJ area. Non-revenue water was 47.75% in the Palyja area, and 49.91% in the TPJ area.

While the private companies have demonstrated progress in increasing the number of total connections and in reducing non-revenue water, they have not met all the performance targets set in the June 1997 agreement, which calls for 70% population coverage and 35% non-revenue water by the end of 2002. Both companies cite the great difficulties they faced due to the Asian economic crisis and the ensuing political crisis in Indonesia as reasons for this.

The Jakarta Water Supply Regulatory Board, an independent water regulatory office, was established four years after privatization in September 2001. Chairperson Mr. Achmad Lanti says the main reason for appointing a regulatory body was "the obvious need for an independent, impartial 'umpire' between the private operators and the government."

Water services for Jakarta's urban poor have been expanded through a multi-tiered tariff grid that provides a cross subsidy for the poor. The poorest households pay a minimal 375 rupiah tariff per m³ of water, compared with 2,500 rupiah for luxury house residents, and 5,200 rupiah for non-domestic customers. Given the extremely low tariff for the poor, it has become financially difficult to expand services to them.

Over the last four years, the number of urban poor customers has increased. As of April 2002, Palyja (West Zone) reported a 255% increase, and TPJ (East Zone), a 55% increase in the number of customers whose domicile space is 36 m² or less. If they were to buy water from vendors, the poor would have to pay 50 times per m³ more than what they pay for piped water from the private companies, the water companies estimate.

As the water companies and the regulatory office try to build a partnership of equals, water tariffs are scheduled to increase in 2003 and 2004 by 8% and 35%, respectively. This could trigger protest actions and concern from the urban poor and professionals. Fundamental issues must be addressed as well. The water system's network capacity is low but demand is high. This is compounded by the increasing salinity of groundwater in parts of the city owing to over-extraction of water, and the large number of deep wells that big establishments have built, regulators say.

3.3 The Manila Water Story

Metro Manila's large and growing population has severely taxed the city's ability to provide it with potable water. Sanitation services are virtually nonexistent, making the canals, rivers, and Manila Bay the repository of a constant stream of untreated sewage.

The urban poor make up the vast majority of those unserved by the water system. Most poor families are informal settlers (squatters) on government and private land in Manila, Quezon City and Caloocan City. Although there are millions of poor and marginal people living in the National Capital Region, the government defines the "poverty threshold" at a mere \$354 annual per capita income. Using this measure, there were about 860,150 poor people living in the capital region in 2000, representing 8.7% of the total 2.14 million families.¹

In 1995, the poor spent 8–12%, and some as much as 20%, of their income on water from illegal vendors, who sold lower quality water at 7.4 times the basic rate charged by the Metropolitan Waterworks and Sewerage System (MWSS). Most poor households were not eligible for water connections because they did not have titles to their land or permission for a water connection from their landlords.

When it was privatized in August 1997, MWSS was US\$800 million in debt, and was perceived to be grossly inefficient. Potable water was available to only two-thirds of the population and only 11% were connected to a sewerage system. Non-revenue water was about 60% due to technical losses and theft.

After international bidding was held in 1997, 25-year concession agreements were awarded to Manila Water Services Inc. (Ayala Corp., Bechtel Corp., and United Utilities) for the East Zone and Maynilad Water Corp. (Benpres Holdings, Lyonnaise des Eaux [now Ondeo], and Lyonnaise Asia Water Holdings) for the West Zone. ADB provided financing for the Maynilad

¹ Source: Technical Working Group on Income Statistics, National Statistical Coordination Board, year 2000 statistics. Calculations based on an average of 4.62 people per family.

consortium. A separate regulatory office was established under MWSS to monitor and enforce compliance by the concessionaires, implement rate adjustments, disseminate information to the public, respond to complaints, and prosecute or defend cases before an appeals panel.

The two companies have installed 238,000 new connections as of 2001, which is three times MWSS's rate for the last five years of its operations. As a result, the population covered by water service rose from 67% to 93% in the East Zone (above the 77% target), and from 69% to 85% in the West Zone (below the 87% target). More than half (54%) of the new connections were in urban poor communities covered by the two concessionaires' special programs for depressed areas—Manila Water's *Tubig para sa Barangay* (water for the community) and Maynilad's *Bayan Tubig* (community water).

The companies said they have provided 69% of the estimated 185,570 poor families in Metro Manila with water. Other studies place the number of squatters without piped water connections at 50%. The disparity suggests that some of the water connections intended for the poor may have gone to low or middle-income households instead. Nonetheless, the availability of piped water service has made a big difference in the slums, in terms of lower costs for water, better health and sanitation, and improved productivity. One family, which used to pay up to 900 pesos a month for trucked water now pay only 150 pesos for their monthly water bill.

Early on, the concessionaires developed innovative strategies to address the problems of dealing with the urban poor. They no longer require proof of legal ownership, instead asking the local government to approve the installation of water service in a certain community. In the Manila Water service area, poor households have been encouraged to organize themselves into small groups to share a single piped water connection.

The concessionaires' record in meeting performance targets is mixed. Although both companies are servicing a larger percentage of the people in their area, Manila Water failed to meet water coverage targets in 6 of 14 towns and cities in the East Zone, while Maynilad Water failed to meet targets in 12 of the 17 towns and cities in the West Zone. This is due in part to the delays in the delivery of additional water that was committed under the concession agreement.

Maynilad provided sewerage connections to 15% of its water customers, slightly below the target of 16%, but only desludged 7% of its customers' septic tanks, well below the 43% target. Manila Water met the 3% target for sewerage connections but almost totally failed to comply with the 38% target for desludging septic tanks.

Both companies have failed to meet their targets to reduce non-revenue water to 30% (Manila Water) and 34% (Maynilad Water) by the end of 2001. Manila Water estimates that in the East Zone, non-revenue water has increased from 39.8% in 1999 to 47.7% in 2001. Maynilad estimates its rate has decreased slightly from 67.2% to 66.1%. Non-revenue water was not a key performance indicator in the concession agreement, but was used in the financial bids to estimate future earnings. The main constraint to reducing non-revenue water is the funds required to monitor and repair the network. In addition, the past 5 years was a learning process for the two concessionaires as far as network management is concerned, since the bid documents did not accurately reflect the actual condition of the network. In the case of Maynilad for instance, the bid documents stated that the West Zone had 2,500 km of pipes, but later study of the network revealed the actual length to be nearly 4,000 km.

After Maynilad and Manila Water took over in August 1997, water rates fell by 74% and 44%, respectively, and have increased minimally every year since 1998. But large adjustments were

allowed from October 2001 to June 2002 for the companies to recover foreign exchange losses due to the depreciation of the peso from 26 per dollar in August 1997 to about 50 after the Asian economic crisis. By October 2002, the companies will have completed the rate-rebasing adjustment, following the process outlined in the concession agreement, which will likely result in a significant rate increase by January 2003. However, the piped water rates are still lower for those who used to buy water from small-scale vendors.

3.4 WaterAid's Experience Working with Urban Poor Communities

Mr. Eric Gutierrez of WaterAid-UK said the top three common difficulties in delivering water and sanitation service to urban poor communities are 1) Issues relating to land tenure; 2) Location of the settlement (distance, accessibility); and 3) Costs of accessing services.

Land tenure is a major hindrance since municipal providers do not supply water to people who lack legal tenure to the land they live on. Therefore, supplying services to illegal settlements could be seen as de facto political recognition. In practice, it is often impossible to deliver water and sanitation services to citizens without formal land tenure.

To illustrate location problems, Mr. Gutierrez displayed pictures of urban poor people in Dhaka living on unsuitable land, including the banks of rivers and railways, and flood embankments. It is difficult to deal with right-of-way issues and construction in these unplanned settlements, and local political complexities and billing problems also arise. Some poor settlements are located far away from the urban centers, requiring long travel times and transportation costs. These issues make construction costs higher for slum areas, which makes project financing harder to obtain. As a result, donor grants and government funding for large-scale urban water and sanitation systems have become more difficult to access.

Despite this situation, some exemplary initiatives have specifically targeted services to the urban poor. The Orangi Pilot Project (OPP) in Karachi, Pakistan is a good example. It included a social preparation phase that tapped community-based organizations as the principal players. They used the conceptual plan as a tool and mobilized local leaders and activists as "frontline" development workers. Breakthroughs were achieved in severing links between land tenure and the exercise of water rights, and tapping the wealth of traditional local knowledge. Small-scale and large-scale private sector participation, payment for services, public-private collaboration (rather than partnership), and community financing through self-help initiatives and sanitation bonds, are among the creative solutions that OPP successfully used.

In closing, the speaker raised two key issues for the participants to consider:

- Developing a framework for assessing options to serve the urban poor, and
- Pro-poor governance of contractual and non-contractual transactions in large-scale urban public-private partnerships.

3.5 ONDEO's Experiences Serving Low Income Communities

Ms. Mai Flor presented Ondeo's corporate profile and strategies in providing water services to disadvantaged populations. Ondeo, a wholly-owned subsidiary of the SUEZ group, operates in 130 countries and is managing water and sanitation services for 115 million consumers, including 8.8 million (27%) low-income households in developing countries.

She refuted the misconception that the poor cannot afford and are unwilling to pay for piped water and sanitation services. In reality, they are quite willing to pay for water with the proper arrangements. Although subsidies may be a good way to provide water for the poor, such subsidies should specifically target that sector as most often, they mainly benefit those who are not poor. Moreover, she pointed out that providing sanitation services in low-income areas is feasible and the demand for it is higher than previously believed.

Ondeo's approach to low-income areas features

- Development of specific know-how and a customer-oriented field-based approach;
- Knowledge management (and make this knowledge available to their partners); and
- Development of strategic partnerships between low-income communities, public institutions, and the private operator.

Ondeo's "Water for All" program has the following principles of action: 1) Integration of low income communities; 2) Creation of strategic partnerships amongst government, NGOs/people's organizations, and international organizations and programs; 3) Optimization of technical standards; and 4) Real services, not just connections (covering technical and financial support, health education campaigns, and special commercial and rates policy).

From its operations around the world, Ondeo has learned general lessons in providing services to low-income communities: 1) The value of including low-income communities into business plans; 2) The wisdom of adapting services to local conditions; 3) The development of service based on community demand; and 4) "Water for All" can be a reality for more cities in the years to come.

3.6 Manila Water Company

Manila Water Company Inc. has made significant gains in spite of external shocks over the last four years, including the Asian financial crisis in 1997, the El Niño phenomenon in 1998, a tariff negotiation that had to be elevated to an international appeal panel in 1999, and the political upheaval in 2000. Manila Water achieved its goals via fiscal prudence and various operating efficiency measures. From 1997 to the end of 2001, the company

- Provided water to over 100,000 households, expanding its coverage from 67% to 89% of the population;
- Improved the availability of 24-hour water service from 26% to 83% of the population connected to the existing network;
- Adopted a low-cost, decentralized sewerage strategy that is more affordable for customers;
- Improved the ratio of staff per thousand connections from 6.3 to 3.6; and
- Incurred losses in 1997 and 1998, broke even in 1999 and made a profit beginning in 2000.

Manila Water's *Tubig para sa Barangay* (water for the community) program is focused on providing depressed communities with properly connected water service at affordable rates. The urban poor usually get their water from contaminated sources or pay a steep price of 100 pesos per cubic meter from water vendors. Through the program, the cost per cubic meter of water was reduced by as much as 97%.

Since 1997, some 171 *Tubig para sa Barangay* projects have been completed in key cities in the East Zone benefiting over 50,000 households. The projects have generally been met with enthusiasm by the communities and the local government officials, fostering excellent community partnerships. Through the program, the company has minimized leaks, illegal connections, and the incidence of water contamination. The company is currently building its biggest *Tubig para sa Barangay* project, the Manggahan Floodway Water Supply project. The Manggahan project will install 18 km of pipelines to provide water to over 200,000 urban poor residents living along the East and West Banks of the floodway. The floodway was meant to divert monsoon floodwaters from the Marikina River and its tributaries to Laguna de Bay, but has since become home to the city's informal settlers.

See Section 4 for a description of the Manila Water sites included in the field visits on Day 2 of the Dialogue.

3.7 Maynilad Water Services

The West Zone covers 7.5 million people in 17 cities and municipalities in Metro Manila and the nearby province of Cavite. Upon privatization 5 years ago, Maynilad assumed 90% of MWSS debt of over US\$800 million, two-thirds of the service population of 11 million, and the oldest pipes in the system.

Despite these difficulties, Maynilad has increased in water service coverage from 63% in 1997 to 84% and sewerage connections from 13% to 19%. Out of the 143,805 new connections, 61,370 were in the urban poor areas.

Although 24-hour supply to all connected to the system has not yet been achieved, the percentage of connected customers with 24-hour supply has increased from 60% to 79%. Water pressure has increased from 0 psi–10 psi to an average of 12 psi.

To better serve the urban poor, Maynilad launched the *Bayan Tubig* (community water) program to specifically target the urban poor communities in the West Zone. This has met considerable success with more than 500,000 people connected to the system since the program began in 1999. The scheme involves individual connections and metering, although in areas without enough space, meters are clustered in one location.

Prior to connection to the system under the *Bayan Tubig* program, customers claimed that they were less productive. They experienced sleepless nights waiting for hours to get a bucket of water in the middle of the night when it was available from public faucets or water vendors. Often, fighting erupted while queuing up for the day's water requirements. Today, over 61,370 new connections have been made in the poorest areas of the concession, accounting for 40% of new connections.

Moreover, consumption generally increased while costs decreased upon connection to the system. Once connected, average monthly consumption increased from 6–7 cubic meters to 27 cubic meters. At the same time, the average monthly bill decreased from 225–900 pesos to 275 pesos.

In the future, Maynilad will have to meet the following challenges: conclusion of the rate rebasing exercise; possible equalization of tariffs between the East and West zones; increased *Bayan Tubig* connections with a possible reduction of the connection fee; and expanded coverage to the entire population of the West Zone.

See Section 4 for a description of the Maynilad Water sites included in the field visits on Day 2 of the Dialogue.

4. Field Visit to Urban Poor Communities

The participants took field visits to talk directly to the urban poor people and assess the existing situation of communities currently served and unserved by the water concessions in Metro Manila. The field trip was organized by the Manila Water Company and Maynilad Water Services Inc.

Representatives of the two water companies briefed the participants on their water concessions in Manila (see sections 3.6 and 3.7) and the sites to be visited (summarized below).

The participants were then divided into four groups, with two going to urban poor communities covered by the Maynilad Water Services concession, and two going to communities handled by the Manila Water Company concession. The specific sites visited were as follows:

Groups	Maynilad Water Services	
	Served Area	Unserved Area
1	Parola Compound, Tondo, Manila	Happyland Subdivision, Tondo, Manila
2	Riverside Extension	San Dionisio
	Manila Water Company	
	Served Area	Unserved Area
3	Welfareville, Mandaluyong City	Villa Cuana, Pasig City
4	Pook Masagana, Quezon City	East Bank, Pasig City

4.1 Maynilad Water Services Sites

1. Parola Compound

Parola, Tondo is a 15 hectare (ha) area of reclaimed land situated near the Philippine Port Authority. It is home to about 28,000 low-income families.

In August 2000 mainline and lateral pipes were laid. There are now 4,541 individual service connections and water is available 18 hours a day at 8 psi average pressure.

2. Happyland Subdivision

Happyland, Tondo is located at the north end of North Pier Harbor, Barangay 106. More than 400 low-income families live in the 2 ha area.

Maynilad initiated the *Bayan Tubig* program in the area in July 1999, but due to financial constraints and a fire that damaged installed connections and meters, it was restarted in March 2002. A small mainline extension to the area was constructed. Applications for 126 service connections have been received and are being constructed.

3. Riverside Extension

The Riverside Ext. area is located in the Commonwealth section of Quezon City with 680 households covering 29,150 m².

Maynilad laid a 63 millimeter (mm) tertiary main at the end of 2001 and installed 330 service connections that now supply water 19 hours a day at 7 psi.

4. San Dionisio

San Dionisio is located at Unit 5, Barangay Commonwealth, Quezon City. It has a land area of 46,480 m² and 1,162 poor households.

The project is still being completed. Distribution lines of 1,885 m of the planned 4,507 m have been laid. Lower ring main supply lines will be laid under an ADB-funded project.

4.2 Manila Water Company Sites

1. Welfareville Compound

The project is located in Block 37 & 38, Welfareville Compound, Addition Hills, Mandaluyong City.

The project involves laying 31 service connections of 63 mm service pipes with 40 mm water meters and 2 service connections of 32 mm service pipes with 25 mm water meters. The project has benefited approximately 2,000 households.

2. Villa Cuana

The project is located at Ilugin and Nagpayong areas, Barangay Pinagbuhatan, Pasig City.

The area covers approximately 90 ha with about 50 ha occupied. About 90% of the residents, or approximately 15,000 households, belong to the urban poor. The area has never had piped water. Manila Water has started a "*Tubig para sa Barangay*" project that will serve Phase 1 of the area by extending the mainline. This would include Doña Aurora, Ilugin I & II and Villa Cuana I & II.

3. Pook Masagana

The project is located in Alley 25 St., corner Pluto St., Barangay Bahay Toro, Project 6, Quezon City.

The project involves laying 23 m of 75 mm diameter PVC pipes and 45 m of 63 mm PE tubing tapped at mainline, and 200 mm diameter PVC pipes along Mindanao Ave., Tandang Sora, Quezon City. The pipe passed through a private lot with a right-of-way clearance from the owner. The project has benefited approximately 150 households and has reduced non-revenue water in the area.

4. East Bank

The project is located along the East Bank of the Manggahan Floodway in Pasig, Cainta, and Taytay.

The project involves laying 12 km of 600 mm, 400 mm, 300 mm, and 250 mm diameter pipes along the East Bank of the Manggahan Floodway. This will provide water to the urban poor communities occupying the stretches of the floodway. The 600 mm diameter waterline along the East Bank will be interconnected to the 2,200 mm diameter water main along Amang Rodriguez. The East Bank project will benefit approximately 20,000 households.

4.3 Synthesis of Field Visits

All four groups gained many insights from the field visits. It gave them an opportunity to see for themselves the opportunities and constraints inherent to serving the urban poor. During the post-trip discussion, the following observations were raised.

1. Community Participation

The participants observed a high level of community organization and participation at all the field sites. The residents seemed cooperative and motivated. At Manila Water's Pook Masagana and East Bank sites the community organizations facilitate building permits, negotiations with landlords, and security for meter reading and equipment. They have also acted as non-revenue water sentinels to reduce pilferage.

2. Community Satisfaction

The communities with piped water were generally quite happy with the service provided by the water companies, especially since they now pay less. People in the Parola Compound in Tondo used to pay 600 pesos per month when they bought water from vendors plus the time spent getting the water. Now that they have individual connections from Maynilad Water, they use double or triple the amount of water and pay 400 pesos per month. Those who cannot afford the cost of piped water buy water from their neighbors.

In those communities where piped water is not yet available, the people said they very much want individual connections and are willing to pay for them, especially since they are already paying a high price from vendors and public taps. In the Happyland Subdivision served by Maynilad Water residents are paying an average of 600 pesos per month for water from a public tap managed by a community leader who sells water on behalf of Maynilad. Prior to this, they bought poor quality water from vendors at a higher price and had to spend a few hours fetching the water. Sanitation in this area is very poor. The residents must pay 1 peso to use the public toilet and 5 pesos to take a bath (2 pesos for a child).

However, even where there is piped water, the people expressed frustration with other problems, including poor or no sanitation services, lack of land titles, flooding during the rainy season, and unemployment. The Dialogue participants stressed the need to treat sanitation services as equally important as water services.

3. Company Employees

In general, ex-public service employees who are now holding important frontline managerial positions were enthusiastic, understood the area well, and had worked closely with the local government units and the members of the community. The staff at the Manila Water Pook Masagana and East Bank sites seemed especially empowered to innovate on the ground. It was clear that the company had invested in capacity building training and decentralized service delivery mechanisms in the field. The staff were allowed to provide interim arrangements for unserved areas, and had implemented effective social preparation activities with the communities. The benefits of these investments were apparent in improved service levels and responsiveness, slight decreases in non-revenue water, and improved morale.

5. Regulatory Services

5.1 Jakarta's Regulatory Approach

Alizar Anwar, Operations Manager of the Jakarta Water Supply Regulatory Body, made a presentation on Jakarta's regulatory approach and lessons learned. The Regulatory Body was established in September 2001, four years after privatization of the water utility, to balance social and commercial objectives to encourage a system in which the interests of society are served. He stressed that to create a sustainable water service, the private companies must be able to recover their costs, and make a reasonable profit. The Regulatory Board follows a mechanism for determining if expenditures by the companies are real and reasonable. The public interest must also be served, which includes low-income and underserved communities, existing customers, and the interests of politicians and government bureaucrats.

The role of the Regulatory Board is confined to regulating economic and quality issues—not decisions requiring political input—and focuses on technical matters such as engineering, financial, and legal issues. He outlined five indicators of successful regulation: 1) Independent but complies with its legal mandate; 2) Accountable to the general public; 3) Fair and transparent decision-making processes; 4) Effective and efficient; and 5) Has sufficient expertise to exercise its regulatory tasks.

The Regulatory Board is still in a start-up/transition period until the end of 2002 and is "learning by doing." It has learned the importance of regulation to drive efficiency in a no-competition environment, and that the board must strive to be independent and accountable. It must push for cost recovery targets while maintaining credibility and set quality benchmarks even in the absence of good information. It has also seen the value of establishing dialogues with the public to better understand public interests.

5.2 Manila's Regulatory Approach

Engineer Eduardo Santos, Chief Regulator of the Metro Manila Water Supply and Sewerage Regulatory Office, presented the Manila experience from a regulator's perspective. In 1997, the national government decided to privatize the provision of water supply and sewerage services in Metro Manila to dramatically improve service delivery of water supply, sewerage and sanitation services. The Regulatory Office was created to monitor compliance to the service obligation targets and determine water tariffs in accordance with the provisions of the concession agreement.

Since 1997, the two concessionaires have achieved significant improvements in the number of people served, number of new water service connections, water availability, and number of staff per 1,000 connections. However, the non-revenue water target was not attained, which reduced revenues needed to finance capital expenditure projects. Bigger financial problems occurred as a result the El Niño phenomenon, which reduced the supply of water by about 30%. The magnitude of the peso/dollar devaluation during the 1997 Asian financial crisis was about 80%, which resulted in a cash flow mismatch between the recovery of losses and revenues. The concession agreement did not provide for an accelerated or automatic recovery for the foreign exchange losses, so it had to be amended.

Delays in several major projects by MWSS and one of the concessionaires (La Mesa Balara Tunnel) has also delayed attainment of certain obligation targets. The Regulatory Office has also spent about \$1 million for arbitration costs—further appeals will drain its budget.

To strengthen the Regulatory Office's monitoring activities, the Public Performance Assessment System (PPA) was created and a pilot project was carried out from 1999 to 2001. The PPA utilizes independent observers to monitor, evaluate and report on the performance of the concessionaires to the MWSS and other stakeholders, including the public. The results of the PPA revealed that the overall performance of the two Metro Manila concessionaires was good to very good. This was the first PPA system in the world, giving the Philippines a leadership role in international research on service performance assessment.

5.3 ADB Research on Regulation of Urban Water Supply and Sanitation in Developing Countries

Mr. Arthur C. McIntosh of the Asian Development Bank presented the results of research conducted on the regulation of urban water supply and sanitation in the ADB's developing member countries. He presented four requirements for autonomous water utilities: 1) transparent government policy; 2) an independent regulatory body; 3) a private sector contract(s); and 4) the involvement of civil society.

Transparent government policy should address how to ensure that investments in necessary infrastructure will be made, and how service coverage can be expanded to include the urban poor while maintaining tariffs that are affordable for them. The policy should specify operator performance criteria and incentives, service levels, institutional responsibilities, and mechanisms to monitor groundwater extraction and promote water conservation.

He defined regulation as rules for development and management of urban water supply and sanitation based on policy and law. Successful regulation is transparent, efficient, accountable, sustainable, and most importantly, equitable.

There are no blueprints for a good regulation design—it is a dynamic process that is best approached through monitoring based on appropriate performance benchmarks, not controlling. A clear policy is needed that targets the poor. Income profiles should be developed so that subsidies and tariffs can be arranged according to affordability and willingness to pay. Small-scale service providers that have bridged the gap between utility providers and the informal settlers should be legitimized and regulated so they can provide better and less expensive service to the poor. He stressed that the poor should be involved in the process and provided with transparent and accessible information.

6. Plenary Discussions: Towards a Framework for Serving the Urban Poor

The following are highlights of the plenary discussions on Days 1 and 3. On Day 1, a workshop was held in which the participants formed three working groups to discuss the case studies in more detail. On Day 3, a plenary session was held to discuss critical issues, lessons learned, follow-up actions, and areas for further study.

6.1 Community Participation

There was general consensus on the importance of involving poor communities in a process to assess options and decide on arrangements that will best suit their needs. There is a valid need to invest in long-term community building rather than a short-term contractual relationship.

There are concrete benefits to community participation in water services for the urban poor. Experience shows that the urban poor can provide vital information to service providers, assist in defining payment structures and community financing arrangements such as installment plans, and mitigate the risk of eviction. Organized community members also participate in raising awareness and educating other community members, and help reduce non-revenue water through monitoring and community pressure.

In mobilizing community participation, the following guiding principles were discussed:

- Access to safe and adequate water is a basic human right for all people;
- This right to water comes with responsibilities—to pay, to be involved and informed;
- Organizing the community and conducting capacity-building programs should be a top priority;
- Information and pricing structures should be transparent;
- Mobilizing existing community resources and expertise is a key to success;
- The community should participate in all levels of decision making; and
- Mechanisms for relevant stakeholder participation should be in place.

There are also many barriers that prevent communities from actively participating. There is a lack of clear pro-poor water policies, and decision making on water issues tends to be politicized. The poor are not given adequate information on opportunities and resources that would make their participation have a bigger impact. Generally, their voices are not being heard. There is insufficient use and sharing of local experiences within and between countries that could strengthen local communities. Disadvantaged groups, such as women, are usually not given adequate attention to get them involved in policy formulation and program work. There is insufficient political will and financial resources to ensure targeted services to the poor. However, the group also agreed that most users do not feel either responsibility or concern about stopping illegal connections and wastage of water.

Some of the major impediments to providing affordable and sustained services to the urban poor are low tariffs, poor physical state of networks, water shortages from existing sources, and crowded living conditions that make it difficult to construct water systems.

6.2 Governance

Effective regulation of water and sanitation services is critical for pro-poor governance. However, regulation by contract is restrictive—ideally, contracts would develop in line with an

existing policy. Regulators must have the tools to enforce policies. Multistakeholder regulation was discussed as an option in which transparent consultations could lead to a more balanced and objective decision-making process.

The roles of small-scale private service providers and community-based providers must be recognized and enhanced to improve service and reduce costs for those without piped water. Ways to scale-up and improve these community-level services should be considered.

The role of civil society is important, but the capacity of civil society may not be adequate. What kind of competence is required for facilitating meaningful participation? How can this capacity be built? This should be addressed to optimize collaboration between the different stakeholders.

Political interference is a major constraint to good regulation. Policy makers should be very specific and avoid gray areas in defining policy. And after the policy has been approved, they should let the regulators do their job.

Educating politicians and the public would help create political will to make positive changes and establish effective and informed stakeholder platforms at the national level (dealing with policies and laws) and at the local level (on procedures and implementation). Legal amendments relating to land tenure and tariff reform would make it easier to provide services to millions of poor people living in informal/illegal settlements. The performance of concessionaires can be improved through setting benchmarks for performance, involving the public in monitoring their performance, and having the media report on the performance and raise issues. There is also a need to carry out comprehensive capacity assessments and training in participatory approaches and facilitation.

6.3 Promoting Sustainability

In discussing sustainability of water services and sanitation for the urban poor and made the following main points were made:

1. For targeted services to the urban poor, there is a need to consider the total picture of policies that directly or indirectly influence the lives of the poor. Governments should ensure a minimum level of land tenure security so that water and sanitation systems can be built. Land policy is the key to provision of water services for the urban poor.
2. Sanitation and sewerage services are especially challenging—it is more difficult to use economic criteria as costs are high and base level provisions are far lower than for water supply. Septic tanks or other decentralized community-based sanitation systems are promising, but major institutional and economic issues need to be resolved. For new developments, sanitation requirements can be built in into permits.
3. There should be clear and realistic targets, based on sound policy and equitable service provision that targets the urban poor. Poor communities have demonstrated willingness to pay as long as regulators develop a tariff structure based on sound economics.
4. There should be a clear and transparent institutional framework for the poor to negotiate with service providers. Strong collaboration among important stakeholders should be institutionalized.

5. Political will and transparent governance are necessary. Once in place, effective information, education, and awareness programs can help communicate these to the urban poor.
6. Water distributors must have access to sufficient and good quality water resources to put into the system.

6.4 Areas for Further Study

The participants raised and discussed the following areas for further study to improve the provision of water and sanitation services for the urban poor:

1. The poor are willing to pay for improved water supply and sanitation, even if it requires a considerable percentage of their income. A better understanding is needed of what percentage of the urban poor's income is spent on water in actual terms.
2. Poverty should be further defined in relation to water. Does it mean income poor? Asset poor? Food poor? No land tenure?
3. There is a significant lack of attention on environmental sanitation and hygiene. Some private companies do provide small sewerage systems and sanitation services, such as pumping out septic tanks, but on a very limited scale.
4. Serving the urban poor is not just about access to services. It relates strongly to poverty alleviation. What are some effective pro-poor approaches for providing water?
5. What are the key lessons learned about private sector participation that could be built on? How can the gains of the present be protected?
6. What is the way forward? Private sector, governments, civil society, and communities must continue a dialogue on the way forward. Resources should be provided to facilitate community participation and encourage "champions" among community members.
7. How can private companies, regulators, and government deal with the issue of non-compliance to targets due to the government's failure to deliver on its part of the agreement?

7. Action Planning in the Context of the Third World Water Forum and Beyond

To facilitate planning, Mr. John Soussan made a presentation on the Water and Poverty Initiative as it relates to the 3rd World Water Forum (WWF) in Kyoto. The first meeting of the steering group for the Water and Poverty Initiative was held on 28 May in Manila to guide the Initiative forward to the 3rd WWF. The steering group will help link the Initiative to the other themes and regional activities, mobilize additional resources as needed, prepare case studies, and help to ensure the legitimacy of the recommendations resulting from the Initiative. A report on the meeting can be found at <http://adb.org/Water/theme1.asp>. He also mentioned the regional consultation workshop on water and poverty that will be held in Dhaka, Bangladesh from 22–26 September 2002 as an important milestone in preparations for the 3rd WWF. More information on the 3rd WWF and related events can be found at <http://adb.org/Water>.

The participants then listed general ideas on possible next steps. These were grouped into clusters and the participants identified what they considered to be the top five priority actions to prepare for the 3rd WWF.

As a result of the exercise, the participants agreed on the following five priorities:

1. Conduct research and case studies on water and poverty;
2. Conduct research on subsidies, linked with the water and poverty research;
3. Define benchmarks in providing water and sanitation services to the urban poor;
4. Support and reinforce existing initiatives on environmental sanitation and hygiene, especially on defining targets; and
5. Form a multistakeholder advisory group for water services to the urban poor in selected cities including Manila.

Interim planning working groups were formed to address these priorities and coordinators were assigned as follows to take a lead role in defining follow-up action on each priority area:

1. Research: Coordinator John Soussan of ADB; Members Wouter Lincklaen Arriens of ADB, Dinesh Bajracharya of WaterAid Nepal, Belinda Calaguas of WaterAid UK, and Rory Villaluna of the Philippine Center for Water and Sanitation.
2. Subsidies and tariffs: Coordinator Wouter Lincklaen Arriens of ADB; Members Anwar Alizar of the Jakarta Water Supply Regulatory Body, Arthur McIntosh of ADB, and Cesar Yñiguez of ADB.
3. Benchmarks and databases: Coordinator Rory Villaluna; Members Anwar Alizar, Wouter Lincklaen Arriens, Violeta (Bobet) Coral of NGO Forum, and the WaterAid representative.
4. Sanitation and hygiene: No coordinator assigned; Members Wouter Lincklaen Arriens, Cesar Yñiguez, and the Bangladesh, India, and WaterAid representatives.
5. Multistakeholder advisory group: Coordinator Teun Bastayemer of the International Water and Sanitation Centre.

8. Closing Session

Wouter Lincklaen Arriens of ADB made the closing remarks on behalf of the organizers and the sponsors of the meeting. He highlighted the gains of the Dialogue in providing a common and better understanding of actions on the ground, areas of future collaboration, and the collective advocacy work that has to be done. He thanked all the presenters, the facilitators, rapporteur and the secretariat for the collective input that made this event possible.

9. Contacts

For further information and follow-up, contact the Water and Poverty Initiative Team:

Wouter Lincklaen Arriens, Theme Leader for Water and Poverty, ADB,
wlincklaenarriens@adb.org;

John Soussan, Lead Consultant, j.soussan@geog.leeds.ac.uk or johnsoussan@hotmail.com

Christina Duenas, Policy Specialist, ADB, cduenas@adb.org

Water and Poverty Initiative website: <http://adb.org/Water/theme1.asp>