Water Financing Issues for South East Asia

Ir. Keizrul Abdullah
Chair
GWP South East Asia Steering Committee
18 March 2006
Water profits inspire protests at forum

BY MARK STEVENSON
Associated Press

MEXICO CITY — Falling public water systems have forced more and more people in poor countries to buy bottled water from private companies, a form of privatization that has created a sharp divide among activists and officials gathered in Mexico City for an international water summit.

As delegates from the 121 countries gathered Thursday for the IV World Water Forum, demonstrators planned protests against privatization, dam projects and water extraction from impoverished Indian communities.

The goal of the seven-day forum is improving water access for the poor, an effort that has failed in the past. The poor pay vastly more to private companies for their water than they did when the first global water forum was held in Marrakech, Morocco, in 1997.

Bottled water, on the other hand, has earned good profits and little attention.

“It’s in some way sort of a stealth privatization,” said Janet Larsen, research director for the Earth Policy Institute, a private, Washington-based environmental group.

BOTTLED WATER

Once a First World health indulgence or a symbol of European opulence, bottled water is fast becoming a staple of the Third World, dominated in many regions by giants like Coca-Cola, PepsiCo and Nestle. Larsen noted that the biggest gains in bottled water sales are in developing countries.

Mexico — where about 40 percent of the nation’s 103 million residents live in poverty — is a poster child for the phenomenon. The country is now the second-largest consumer of bottled water in the world, just behind the United States in terms of volume and behind Italy in per capita consumption.

Sales of bottled water in China jumped by more than 250 percent between 1999 and 2004. They tripled in India and almost doubled in Indonesia, according to a study released by the institute. Worldwide, the industry is now worth about $100 billion per year.

It’s not because people can suddenly afford the luxury; it’s because tap water in some countries is so bad people are loath to use it, sometimes even for bathing.

“Taste a water of any tap on the street and you will realize that you are drinking contaminated water. This is the case in many cities in Latin America,” said Javier Bogantes, director of the Latin American Water Tribunal, which is holding mock “trials” of water-rights violations in Mexico City during the forum.

In Mexico, bottled water is distributed by vendors in roaming bicycle carts for as little as 80 cents for a 4.5-gallon jug. Usually, it’s just filtered tap water.

Still, it’s a hot seller in Mexico City slums such as Iztapalapa, where the yellow-brown tap water is tainted by magnesium and iron. Locals call it “amargado juice,” referring to tropical fruit.

Juana Maria Bautista — like many poor around the world — said she often spends as much as one-tenth of her income on water sold in bottles or delivered by water-tank trucks.

“We usually buy three or four jugs a week but sometimes, there isn’t enough money,” said the 42-year-old factory worker, who earns about $60 a week.

UNSAFE TAP WATER

Mexican officials, stung by criticism that bottled water costs consumers thousands of times more than tap water would, announced a quixotic campaign in early March to persuade people to drink from the tap.

Two days after the announcement, the government’s Health Department conceded that, given tap water quality, people should boil it before drinking it.

“The problem isn’t that these companies are supplying people” with bottled water, Bogantes said. “The question is, given that governments have invested millions of dollars in water treatment and distribution systems, why aren’t they supplying the population?”

One problem is that many people are accustomed to paying a little or nothing for municipal water in many developing countries, said German Martinez, director of the water system in Mexico City, where only about 40 percent of customers pay on time. “What we really have to do is get people to pay for their water,” he said.

When authorities construct dams to provide more water for the population, “people come and demonstrate” against them, added Jesus Campos, assistant director of Mexico’s National Water Commission.

The World Water Forum, which meets every three years, is examining these issues. It will also address harnessing water for growth, providing water more efficiently, using it in a more environmentally conscious manner, and preventing it from causing natural disasters.
Be prepared for costlier water

KUALA LUMPUR, Tues: The days of cheap water are numbered. All water supply departments may eventually be privatised due to rising production costs, said Works Minister Datuk Seri S. Samy Vellu.

He said for 43 years the government had supplied water at between RM1.40 and RM1.50 per 1,000 gallons.

Water charge makes up only 1% of the average household’s monthly disposable income. This is considered very low compared with the World Bank’s proposal of 5%, he said.

He said the big subsidy from the government was not appreciated because “anything you give cheap or free there is no value, you must charge people money, then they value it”.

Hence, the burden could be shared by many people rather than shouldered by one agency, namely the water supply department, he said after launching the “Water 2002 Expo and Forum”.

Water supply in Johor, Penang and Kelantan has been privatised. Selangor and Terengganu have corporatised their water entities.

Samy Vellu said, however, that even that after the privatisation, government would still control water tariffs.

A regulatory authority would control the price of water by assessing the production costs and the profits, he added.

He said he would call for a meeting with all the state directors of water supply to discuss the matter, including the production costs and what portion to be borne by the government and the people.

The ministry would also prepare a paper on the water situation in the country and the problems faced by the state governments for submission to the cabinet, he added. – Bernama
Treating water like a commodity

Privatisation is often seen as a way to cope with the increasing water demands that come with rapid population growth and development, but is this the best option, questions HILARY CHIEW.

WHEN Energy, Water and Communications Minister Datuk Seri Dr Lim Keng Yaik announced on April 19 that water privatisation projects would be put on hold pending further studies and the setting up of the National Water Commission, it created ripples in the stock market.

The restructured ministry also said it would look into reviewing the rates water treatment companies were charging the state water authorities for treated water.

These announcements put a damper, albeit temporarily, on the water industry which had

In the case of water-deficient Selangor, privatisation was seen as a way to cope with the water demands that come with rapid population growth and development.

Puncak Niaga, which has a lion’s share of the state’s water industry, was given a 25-year concession to operate the Sungai Selangor Phase Two treatment plant, a 26-year concession to operate 26 treatment plants, and a 30-year concession for the Wangsa Maju treatment plant.

The other three operators are Konsortium Abbas Sdn Bhd which holds a 30-year con-
Background
10 Countries → ASEAN
Land Area ~ 4.36 million km²
Population ~ 500 million
GDP ~ $737 billion
Trade ~ $720 billion

South East Asia
PROBLEMS AND ISSUES ON FINANCING

- In the past, Governments predominantly main financier of water projects
- Subsidies common
- Cost recovery poor
- Low coverage of water supply, sanitation, irrigation, flood control, etc
- Substantial capital required to improve access to water and sanitation
MDG Goal 7, Target 10

What does it mean for Asia and Pacific?

- 700 million without access to improve drinking water, 115 million in S.E. Asia
- 2 billion without adequate sanitation, 208 million in S.E. Asia

What are the Investment requirements?

- Meet WSS MDGs → US$ 8 billion/yr

Ref: ADB
GWP S.E.Asia → Organize series of Financing Workshops in 2005
Objectives of Workshops

- Improve perception and increase awareness among public and private sectors on water financing issues
- Discuss effective policies and mechanisms for water financing improvement
- To make recommendations on ways to further promote water financing in support of IWRM
Perceptions & Desired Solutions
3 Sectors

- Water Consumers
- Business
- NGOs
3 Sectors

Water Consumers

• Want reliable and high quality water supply
• Want better management of water resources (to prevent pollution which increases cost of water treatment)
• Want better management of Non Revenue Water (NRW) so that they (as tax payers) do not pay for wastage and loss of water

Business

NGOs
3 Sectors

- **Water Consumers**
  - Want Government to provide sufficient funds to ensure quality & reliability
  - Want Government and water operators to organise awareness programs to minimise pollution of w.r. and increase enforcement & penalties to polluters
  - Want Government and water operators to reduce NRW (losses) and water theft

- **Business**

- **NGOs**
3 Sectors

Water Consumers

- Feels consumers want good service, but are unwilling to pay for it

Business

- Say that water business is risky with low return on investment (ROI) and long payback period

NGOs

- Feels that the mandated compliance to environmental performance requirements is high, which increases the costs and risks of doing business
3 Sectors

- Water Consumers
- Business
- NGOs

**Desired Solutions**

- Wants staggered tariff structure to address low willingness to pay for service → eg. low price for basic and essential use, higher price for excessive use
- Wants Government to provide tax reliefs and soft loans, and act as guarantors for loans
- Wants Government to be responsible for the pollution risk
3 Sectors

- Water Consumers
  - Want to be consulted by Government on water policies and projects
  - Want clear incentives and mechanisms to protect catchment areas/environment
  - Want Government to take action on managing water demands
  - Want Government to increase monitoring and enforcement to protect water resource

- Business

- NGOs
3 Sectors

Water Consumers

Business

NGOs

- **Desires Government** to charge for water extraction and have legislation/incentives to protect and conserve catchment areas
- Want Government and water operators to fund water demand management schemes
- Want Government to take action and enforcement to protect and prevent pollution of water resources
Workshops’ Recommendations
Workshops’ Recommendations

• Need to improve perception and increase awareness on water financing issues
• Need to develop effective policies and mechanisms for water financing relevant to each country’s needs
• Huge investments needed for capital works and operation and maintenance
• Need to determine quantum of capital needed and to identify sources of funding
Workshops’ Recommendations

- Attempts to attract private financing should require more immediate and credible mechanisms to mitigate foreign exchange risk
- Development of innovative financing schemes to bridge funding gap in the water sector
- Need to increase cost recovery
- Implement principle: “Funds from water must return for water”
Workshops Recommendations

- Implement “good governance” principles such as effectiveness, efficiency, transparency, accountability and stakeholders participation
- Consistent monitoring and evaluation mechanisms to be carried out by relevant authorities (with public participation)
- Formulate and implement relevant laws, regulations and other rules that are conducive for participation of all sectors
Workshops’ Recommendations

- IWRM principles to be adopted and to provide overall framework
Conclusions
CONCLUSION

- Among IWRM topics, water financing least discussed and financial reform has been lagging
- Substantial capital required to improve access to water and sanitation
- Private sector financing increasingly an option
- Good governance critical to reduce risks
- IWRM best management practices needed