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# ENVIRONMENTAL COOPERATION-ASIA

*Catalyzing change through regional cooperation*



Promoting Sustainable  
Water Services in Asia

# BACKGROUND

**Global Challenge.** Wide-spread migration to urban centers throughout Asia is placing tremendous stress on urban water supplies and sanitation services, with a disproportionate impact on the poor and women. Improving access to clean water and adequate sanitation for the urban poor is among the highest priorities facing Asian decision-makers, who are committed to achieving the Millennium Development Goals (MDG) by halving by 2015 the proportion of people without sustainable access to safe drinking water and sanitation.

Under the Environmental Cooperation-Asia (ECO-Asia) program, USAID works with water services providers, local and national governments, civil society groups, and financial institutions to demonstrate innovative strategies for achieving the MDG water targets. Expanding service coverage, however, is only one challenge faced by Asian water and sanitation service providers, since many users are struggling to cope with unreliable or unsafe services. As a result, providing sustainable access requires service providers to focus also on improving existing services.

**Critical Importance of Finance.** Meeting MDG water targets will require new investment and significant increases in financial flows from a range of sources, including higher user tariffs, governmental outlays, local financial markets, multilateral financial institutions and bilateral donors. Devising innovative financing strategies, however, poses a significant challenge for many water and sanitation service providers in Asia. For most water and sanitation service providers, revenues do not cover recurring expenditures, and resulting financial shortfalls seriously limit their ability to improve or expand services, leading to a vicious cycle of service delivery decline.

In particular, many Asian service providers operate inefficiently, which can lead to poor service, inadequate skills development and limited investment, resulting in customer dissatisfaction and low willingness to pay. As a result, these service providers often have limited financial resources to maintain existing services and finance expansions. By contrast, financially strong service providers support efficient operations and provide good standards of service, which contribute to customer satisfaction, high willingness to pay, and new investment.

**Promoting Sustainability.** Sustainability is the central principle guiding ECO-Asia water and sanitation activities. ECO-Asia works with partner organizations that are committed to demonstrating innovative solutions that link enhanced service delivery or policy reform with improved access to finance. In many cases, prospective investors and financial institutions will only invest in creditworthy or “bankable” service providers that are capable of recovering costs and meeting loan, bond or other investment obligations.

For ECO-Asia, strengthening the credit capacity of service providers is a necessary first step in supporting new investments for improved or expanded service. Depending on local opportunities and constraints, ECO-Asia facilitates the transition to sustainable services by promoting cost-efficient and well-managed operations, cost-reflective tariffs, and feasible financing options for expanded services, especially targeting the urban poor.



Robert James Elliott

## STRATEGIC FOCUS AREAS

Through pilot projects and regional activities, ECO-Asia demonstrates and disseminates innovative policies and practices for expanding or improving water and sanitation services. Strategic focus areas for ECO-Asia water and sanitation program include:

- Improved corporate governance and management by water service providers
- Innovative models for expanding water supply to poor communities
- Sustainable sanitation solutions
- Improved enabling conditions for water and sanitation services
- Innovative financing mechanisms

US-AEP Staff / Philippines



In implementing country and regional activities, ECO-Asia identifies partners that are committed to demonstrating innovative policies and practices that can be replicated at a national or regional level, and support achievement of the MDG water targets. Program countries include: India, Indonesia, Philippines, Sri Lanka, Thailand, and Vietnam.

### Improved Corporate Governance and Management by Water Service Providers

Weak corporate governance and management by water service providers is a major constraint to expanding and improving water supply services in Asia. To address this challenge, ECO-Asia works with selected water service providers to identify specific interventions for improving corporate governance and management systems, including corporatization, performance contracts, staff incentive programs, asset management policies and benchmarking. ECO-Asia interventions also assist with improvements in operational efficiencies, including supporting adoption of best practices for reducing non-revenue water and production inputs costs (e.g., energy, chemicals). Pilot projects measure progress through improved staffing efficiency, accounts receivable collection ratio and full cost recovery ratio, all of which support financial standing of water service providers.

### Innovative Models for Expanding Water Supply to Poor Communities

The poor represent the vast majority of underserved urban populations. Though studies show a high willingness among the poor to pay for piped water, governments and water utilities continue with low tariff and subsidy policies that limit investment in new systems for poorer communities, and perpetuate the myth that the poor are unable to pay for piped water services. In addition to inadequate pricing, other factors include land tenure constraints, weak corporate governance, and inappropriate service models, such as house connections in areas where community standpipes and wholesale services are more appropriate. To expand service coverage to the poor, ECO-Asia works with selected communities to pilot new innovative models that address technical, institutional and financial constraints.

### Sustainable Sanitation Solutions

Sanitation services in Asia are generally under-funded and do not apply business models for sustained service. In some cases, governments have constructed wastewater collection and treatment systems, but do not undertake necessary maintenance measures. Inherent financial constraints or limited application of user fees also reduce system effectiveness and prevent long term growth of sanitation services. In addition, for many urban communities in Asia, conventional centralized sewerage systems are not effective near-term solutions, due to high investment and operational costs, challenges in construction and operations, and limited access to a reliable supply of piped water. Increasingly, local governments are developing decentralized wastewater treatment systems that apply appropriate, low-cost technologies tailored to a community's resources and needs.

ECO-Asia works with target communities to support development of pilot projects that demonstrate sustainable sanitation solutions. Through a participatory planning process, ECO-Asia assists local communities in structuring investments in treatment facilities that address community priorities, including deploying low-cost technologies for public and commercial facilities, septage management systems for domestic sources, and rehabilitation of existing facilities. To strengthen overall support for system development, and increase willingness to pay for required user's fees, ECO-Asia also works with civil society groups, including women's

groups, to implement social marketing techniques to motivate target audiences to take specific actions, such as desludging septic systems or hand-washing campaigns.

### Increasing Enabling Conditions for Water and Sanitation Services

National and local governments have an important responsibility in establishing the enabling conditions necessary for ensuring sustainable water and sanitation services, including appropriate and effective national policies, pricing mechanisms, regulatory frameworks, commercial legal systems and civil governance structures. ECO-Asia works with national and local governments to support development and adoption of innovative policies and practices that promote improved enabling environments that support growth of sustainable services for specific communities, or nationally. Recognizing that cost recovery is a major challenge for Asian water and sanitation service providers, ECO-Asia works with partners to develop, test and share effective methods of setting water and sanitation prices to achieve "full cost recovery".

### Increasing Access to Innovative Financing

Many water service providers and cities in Asia do not have the financial standing or capability to obtain the financial resources necessary to improve or expand water and sanitation systems. Under the first four strategic focus areas, ECO-Asia works with partners to develop the necessary systems, capabilities and credentials to put forward "bankable" projects. As a fifth strategic focus area, ECO-Asia works with financial intermediaries and other organizations to develop and replicate innovative, sustainable financing mechanisms for use by water and sanitation service providers in improving or expanding service. Examples include revolving funds, bond pools, and special water/sanitation loan windows in financial institutions. ECO-Asia also assists lenders in developing loan products that are specifically designed for utilities in transition, including the types of investment that are allowed under the loans, grace periods, and tenor of loans. And finally, ECO-Asia works with selected water and sanitation partners to structure appropriate project financing arrangements, such as leases and Rehabilitate/Operate contracts that mobilize necessary financial resources.

Jay Tecson / ECO-Asia



# ECO-ASIA'S APPROACH

Sharing best practices and experience is at the heart of ECO-Asia's water and sanitation activities. Primary implementation strategies include:

- Piloting country interventions that lead to improved policies, practices and systems;
- Sharing and replicating experiences from pilots and other interventions through technical exchange, regional tools, and regional networks and organizations; and
- Leveraging resources and regional experience through cooperation with USAID bilateral country missions and international development partners.

ECO-Asia deploys a range of program resources including targeted technical assistance, coordination support, small grants, exchanges, and communications support. In collaboration with program partners, ECO-Asia applies these resources in an integrated mix to support policy formulation workshops, targeted studies, awareness campaigns, peer-to-peer exchanges, counterpart "twinning" arrangements, regional toolkits, regional forums and trainings, and communications tools.

## Pilot Projects

ECO-Asia initiates pilot projects with water and sanitation service providers, national and local governments, financial intermediaries and other organizations that offer strategic opportunities to ensure development impact for the poor and women, and demonstrate potential to showcase innovative policies and practices. For water and sanitation service providers, pilot project selection criteria may include: reliable and efficient operations as reflected in benchmarking data, commitment of senior management, political will to make necessary changes to improve or expand coverage, and commitment to the poor.

The overall approach combines targeted support for pilot activities in individual cities with national policy development and regional dissemination of best practices. To promote regional cooperation, ECO-Asia facilitates counterpart exchange for country and regional activities, including facilitating peer-to-peer "twinning" arrangements between Asian or U.S. counterparts.

## Regional Cooperation

To share best practices and findings on sustainable water and sanitation services, ECO-Asia prepares regional toolkits and organizes specialized trainings, as well as disseminates best practices through knowledge management systems. ECO-Asia partners with the Southeast Asian Water Utilities Network (SEAWUN) to share information and experience among member utilities, and national associations of utilities. ECO-Asia also serves as secretariat for the Sustainable Water Services Leadership Forum Asia, a regional platform where sector leaders conduct a regional dialogue on key strategies for promoting improvements and reform in the region.



## For Additional Information

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