

# GREEN economy Philippines

## BACKGROUND

The Philippines is endowed with abundant natural water features, including more than 400 rivers, 50 natural lakes and 100,000 hectares of freshwater swamps. In addition, numerous dams and the high levels of precipitation on many islands offer the promise that the large population's water needs can be adequately met. Despite this, the Philippines faces acute challenges from climatic variability and in managing water resources to meet competing needs for water use. Indeed, the Philippines' resource base faces growing pressures from rapid socioeconomic changes across the islands, and as a consequence, water quality has deteriorated and become a serious concern. These challenges are exacerbated by inappropriate pricing with substantial subsidies allocated to service providers. Further, the current policy context is characterized by jurisdictional fragmentation, and the sector faces significant financial, regulatory, coordination, and data barriers to reform.

## REGULATIONS, PRICING AND FISCAL POLICY

- ▶ The national government has considerably reduced its fiscal role in the water and sanitation sector as a direct service provider through devolution of responsibility and authority to lower levels of government. The actual water service providers are a mix of Local Government Units, Water Districts, Barangay Water and Sanitation Associations, Rural Water and Sanitation Associations, Irrigators Associations, private firms, private-public partnerships, and cooperatives.
- ▶ At present, there is no overarching framework to regulate economic behaviour reliably in the water sector, although there is a proposal to create an independent water regulatory commission to address this problem. The current regulatory framework has contributed to, among others, problems of groundwater extraction at unsustainable rates, a lack of sustainable water management practices, and limited accountability of some service providers to users.
- ▶ There is a significant investment shortfall to reach coverage targets set for 2025, estimated at over US\$400 million in capital expenditure per year, though investments are difficult to track as there is no national account for water and sanitation. Ineffective management and regulation can further limit the national environment for water sector investment.
- ▶ With respect to pricing of water supply and sanitation, the large number of service providers and the absence of a centralized database and regulator of pricing make it difficult to assess and restructure current pricing practices to meet national water goals. It appears that the levels of pricing are too low to achieve cost recovery. Incentives to use scarce water resources efficiently and to meet the needs of low-income households are hindered by the widespread application of increasing block rate tariffs.
- ▶ For some uses, such as irrigation, collection rates are low for service fees and these fees have recently been waived for many users. In these cases, it is clear that water pricing is not meeting its full potential as a policy instrument that could encourage efficient water use or raise revenues with which to support investment.

## REFORM OPTIONS FOR REGULATION, PRICING AND FISCAL POLICY

In terms of fiscal and pricing policy reform to ensure sustainable and socially inclusive water, the *Philippines Development Plan 2017-2022* expresses a considerable number of commitments to pursue priorities related to water and sanitation, including promoting efficient use, rationalizing irrigation fees, strengthening sectoral coordination, creating an independent regulator, establishing a unified financing framework, and preparing master sanitation coverage and water supply plans.

<sup>1</sup>This summary is based on the UN Environment working paper (2018), 'Pricing Reforms for Sustainable Water Use and Management in the Philippines,' prepared by Ted Horbullyk and Joseph P.G. Price at the International Water Management institute (IWMI).

- ▶ A key factor that determines the effectiveness of investments in the water and sanitation sector is the process by which the investments are governed and regulated. The levels of investment, water governance and regulation of water service providers are highly inter-related in their bearing on current practice and on opportunities for further reforms.
- ▶ There appears to be an opportunity to coordinate the use of funds from diverse sources and to better target the allocation of funds by using a unified financing framework. The recent experience with the Philippine Water Revolving Fund provides a good starting point for expanded use of this blended finance approach, including selective use of output-based aid. Despite challenges, there could be a large payoff in terms of higher investment productivity and returns, and in the ability to pursue coverage targets in the regions of greatest need.
- ▶ In cases where water supply and sanitation pricing is too low to achieve cost recovery, or where the volumetric charge for water is below the social marginal cost of supply, this invites socially wasteful uses of water. A two-phase roadmap is suggested to phase out the increasing block rate water tariffs. The first phase is establishing the ability to implement a sound pricing policy, which involves information provision, improved systemic integrity, meter installation, and financing household connections. The second phase is establishing a transition pathway to a tariff that balances cost recovery, economic efficiency, and fairness objectives. This pathway has several components, including an independent regulator, means-tested financial assistance, and initiating moves toward a single-tariff system. It would then entail charging industrial consumers full cost, eliminating discrepancies between residential and industrial tariffs, discontinuing increasing block tariffs, improving service quality, and instituting a volumetric tariff equal to the marginal cost of service provision.
- ▶ For sanitation, where there is an apparent need for expansion of wastewater treatment services and infrastructure, well-designed tariffs could play an important supporting role to encourage efficient behaviour and to raise much-needed financial capital.
- ▶ Communication and public education targeting utility operators, (prospective) customers, and the public should be key components of the reform strategy. Key messages should include careful characterization of the service improvements that will accompany the proposed reforms to regulation and pricing. The design and operation of means-tested or pro-poor pricing features or income redistribution arrangements will need to be explained carefully. It is also important to create a process that invites ongoing public participation in reform and oversight processes including those that address apparent wastage, inefficiency and corruption.
- ▶ The environmental gains from judicious use of water and sanitation can be significant. When commercial and industrial users comply with supply and discharge requirements, there may be financial gains from sharing information about processes, methods, and technologies that can save or re-use water resources. For firms whose gains come as increased reliability or service quality, these changes will sell themselves.
- ▶ For government agencies implementing these reforms, there may be benefits from starting gradually. Phased or timed changes of specific reforms can accommodate the need to develop systems and capacity to perform new roles effectively. A key to adaptive management will be collection of and ready access to timely data and information about levels and trends of key performance indicators, both with and without the introduced reforms. Good measurement supports good management.

## WAY FORWARD

In the Philippines, the water supply and sanitation sector is in a state of transition, as documented in the *Philippine Development Plan 2017-2022*. The way forward consists of a series of choices among these options leading to implementation of a program of legislative and regulatory reforms. Ideally, a range of potential stakeholders could contribute their views and insights on the best choices. As presented here, one sees a clear and inter-related series of choices, the broad essence of which the Philippines has already committed to address in its pursuit of socially inclusive and sustainable development.