The Synthesis Report

WaterAid

Water for All?

A study on the effectiveness of Asian Development Bank funded water and sanitation projects in ensuring sustainable services for the poor

WaterAid/ Josh Hobbins

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WaterAid

WaterAid – water for life The international NGO dedicated exclusively to the provision of safe domestic water, sanitation and hygiene education to the world's poorest people.

The photographs used in this report depict the general water and sanitation situation in the countries studied. The photographs are not from the Asian Development Bank projects visited in this study.

WaterAid – ADB Knowledge Partnership

The Asian Development Bank (ADB) manages a Water Partnerships Program which is part of the regional Technical Assistance (TA 6123-REG) for promoting effective water management policies and practices, financed by the Cooperation Fund for the Water Sector.

At the third World Water Forum in Kyoto in 2003, WaterAid signed an agreement with the ADB to join its Water for the Poor – Partnerships for Action program as a knowledge partner organisation. Under this Water Partnership Program, ADB and WaterAid are co-sponsoring a programme of activities designed to strengthen the involvement of civil society in advancing water sector reforms.

The partnership supports WaterAid's corporate strategy for 2005-2010 which states that it will seek to influence others to increase the resources committed to water and sanitation and influence how these resources are allocated and managed.

The strategy commits WaterAid to

- exert influence on actors that have an impact on national policies and practices to encourage them to deliver water and sanitation services in an equitable manner
- monitor and lobby regional organisations which have a significant impact on water and sanitation
- build the capacity of partner organisations, and ultimately communities, to exert direct influence on national and international water and sanitation policies.

This study, officially called *ADB Water Policy Review 2005: Preparing WaterAid partners in Asia for involvement* , was undertaken under this partnership. The Comprehensive Policy Implementation Review carried out by ADB in 2005 of its water policy, Water for All (2001), was identified as an opportunity for WaterAid and its partners to exert influence. In the countries in which WaterAid has established Country Programmes in South Asia, namely Bangladesh, India and Nepal, ADB makes significant investments in the water and sanitation sector and is therefore a target for WaterAid's policy advocacy.

For WaterAid, this study has been a useful early activity in its partnership with ADB. It has given our Country Programmes the opportunity to build up relationships with ADB Resident Missions, understand their work, review ADB documents and visit field sites.

Thanks to this review, WaterAid finds itself with a good overall understanding of ADB's involvement in the WSS sector in the countries in which we work and an awareness of some of the key issues that need to be addressed if Water for All is to become a reality. This knowledge should lead to a fruitful partnership in the years to come.

Acknowledgements

This project is officially called *ADB Water Policy Review 2005: Preparing WaterAid partners in Asia for involvement*. It is co-funded by WaterAid and the ADB.

WaterAid is a non-government organisation (NGO) with headquarters in London and offices in Bangladesh, India and Nepal in South Asia. WaterAid is the United Kingdom's only major charity dedicated exclusively to the provision of safe water and hygienic sanitation to the world's poorest people. It works in 17 countries. The Asian Development Bank, based in Manila, Philippines, is a Multilateral Development Bank whose objective is poverty reduction and which invests significantly in the water and sanitation sector.

This project has received the support of both organisations from inception. In the ADB we would like to thank the staff of the Regional and Sustainable Development Department, in particular Wouter Linklaen Arriens, Bert Van Omen, K.E. Seetharam and Ellen Pascua for their support and engagement in the process, which we deeply value. We also thank staff in the Resident Missions for inputs throughout the study process, especially Laxmi Sharma in Nepal, Rafiqul Islam, Putu Kamaiyana and Arun Saha in Bangladesh and Debashish Bhattacharjee and Alex Jorgensen in India.

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The research is composed of three country case studies. These studies are the result of team efforts and we would like to acknowledge all those involved in the work. We would like to give special thanks to Abul Barkat, Renu Khosla and Sudhindra Sharma for leading the teams. The names of all team members are given in **Box 1** below. The Nepal case study also benefits from the findings of a case study conducted by the NGO Forum

Box 1 - Acknowledgements

Bangladesh case study: Abul Barkat, Murtaza Majid, Golam Mahiyuddin, Nazme Sabina, Avijit Poddar, Matiur Rahman and Saiful Hoque of Human Development Research Centre

Nepal case study: Sudhindra Sharma, Pradeep Adhikari, Sujan Ghimire, Pawan Kumar Sen, Shiva Bishangkhe and Ansu Tumbahangfe of Interdisciplinary Analysts, Rajendra Shrestha, a freelance consultant in Nepal, and Pushkar Shrestha of Centre for Integrated Urban Development

India case study: Renu Khosla, Svetha Mathur, Sumit Chakraborty, Debjani Bose, Darshan Mehra, A.S. Dhamija and Abdul Rahim of Centre for Urban and Regional Excellence

for Urban Water Supply and Sanitation in Nepal and authored by Pushkar Shrestha of Centre for Integrated Urban Development.

We are deeply grateful to our Peer Review Group who have kept us on track and encouraged us to look carefully into our findings. They are Professor Amitabh Kundu, Jawaharlal Nehru University, Delhi, Professor Pushkar Bajracharya, Tribhuvan University, Nepal, Haroon Rashid, a freelance consultant in Bangladesh, and Sameer Dossani, previously with the NGO Forum on ADB.

James Wicken has been the Project Manager for this study. The Project Management Team wishes to record their deep appreciation and gratitude for all his contributions and for making this a very enriching experience.

The Project Management Team, March 2006

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Abbreviations

ADB	Asian Development Bank
ADF	Asian Development Fund
BME	Benefit Monitoring and Evaluation
CSP	Country Strategy and Programme
DMC	Developing Member Country
GoB	Government of Bangladesh
GoI	Government of India
GDP	Gross Domestic Product
IUDP	Integrated Urban Development Project
LIBOR	London Inter-Bank Offered Rate
M&E	Monitoring and Evaluation
MDG	Millennium Development Goal
MDT	Millennium Development Target
NGO	Non Government Organisation
O&M	Operation and Maintenance
OCR	Ordinary Capital Resources
PCR	Project Completion Report
PPAR	Project Performance Audit Report
PPMS	Project Performance Management System
PPTA	Project Preparatory Technical Assistance
RRP	Report and Recommendation to the President
SPVMP	Special Purpose Vehicle Madhya Pradesh
TDF	Town Development Fund
WSUC	Water and Sanitation Users Committee
WSS	Water Supply and Sanitation

Executive summary

Background, objectives and methodology

The Asian Development Bank (ADB) approved its first water policy, Water for All, in 2001 and in 2005 began conducting a Comprehensive Policy Implementation Review (hereafter referred to as the Review). WaterAid sees the Review as an opportunity to engage with a major regional sector stakeholder and decided to undertake this study to feed into the Review. WaterAid aimed to use the study to provide an informed, evidence-based input to the Review process and to use the findings to seek changes to ADB's project design, implementation and evaluation procedures so that ADB supported projects ensure sustainable water supply and sanitation services for the poor.

The study looked at 11 ADB supported water supply and sanitation (WSS) projects in Bangladesh, India and Nepal. A common methodology was followed to allow for an examination of the same themes in each country. The themes examined related to ADB's involvement in the WSS sector; the effectiveness of ADB projects in ensuring sustainable services for the poor; monitoring and evaluation systems and what they tell ADB about serving the poor; the financial implications of ADB project funding; and implementation of certain policy actions from the ADB water policy. The methodology included a combination of primary data, collected in 21 villages/ towns/cities, and a review of documents. Eight consultation meetings were held to discuss the findings with local stakeholders, including Civil Society Organisations. A series of four workshops were held to plan the research and discuss the findings with participation of WaterAid, ADB, consultants, a Peer Review Group and Civil Society Organisations.

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Main findings

Below are some of the main findings of the study, which are discussed in detail in the main text.

On the effectiveness of projects in ensuring sustainable services for the poor

- Projects have generally resulted in overall improvements in water supply and sanitation services. However there is a distinct poor/non-poor divide in access to services as the poor are excluded from benefits due to budget allocations, project design and affordability:
  - Allocations in urban WSS projects for slum improvement components

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are very low and inadequate for providing services to all the poor in the project area

- In urban projects, land tenure is a major barrier to serving the poor. Many poor settlements are excluded at the project design stage because projects do not provide services to people living on non-tenured land
- Connection charges ranged from between less than one to more than ten months' income for poor households. These charges are a barrier to the poor's ability to connect to a piped water supply (in some cases this charge is not a part of project designs and is introduced by local authorities in an attempt to raise revenues)
- Tariffs were found to be as high as 6% of a poor family's monthly income and set to increase if tariffs are raised as stipulated in the project's conditions of service. No examples were found of different tariffs for the poor

- Latrine coverage in the communities studied was found to have increased after projects, however in all projects open defecation was still being practiced
- Sustainability of physical outputs and user groups was found to be mixed, with some projects performing well several years after implementation and other services falling into disrepair; user groups were found to be becoming inactive soon after project completion. Temporary institutions are established for project implementation with weak linkage to permanent government institutions, which are responsible for Operation and Maintenance (O&M) after project completion, and robust systems for O&M are not developed under the projects
- Water quality was perceived by users to be poor in many of the ground water systems studied
- Processes for community engagement in projects were found to be weak resulting in low levels of


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participation. Where structures for engagement were established, the poor were not able to influence decisions. Participation of wider civil society in most projects was also found to be negligible

- All WSS projects include capacity building components but these do not build knowledge and skills of Executing Agency staff and Local Government institutions on the barriers facing the poor in accessing WSS services and ways to address these

On the quality of ADB systems for monitoring and evaluation of sustainable services for the poor

- Serving the poor and participation are major thrusts of the Water for All policy. Yet, from the information provided in monitoring and evaluation (M&E) reports, it is not possible to tell whether projects are being implemented in a participatory manner and whether the poor are benefiting
- Community and local government involvement in monitoring and evaluation is low, resulting in low ownership, lack of capacity to make decisions and measure change and lessening the chances of continuation of M&E procedures after project completion
- ADB projects use different WSS indicators in different projects, within cities under the same project and between baseline and end of project evaluations. This limits the utility of M&E data. Indicators focus on counting physical outputs and not on either community mobilisation processes or sustainability
- A weak feedback loop between the results of M&E, and decision-making and rigid project designs result in minimal changes to implementation on the basis of M&E results

On the financial implications of ADB project funding

- On-lending of concessional ADB loans at increasing interest rates between multiple stakeholders means that the end borrowers receive relatively high interest loans

- In some projects the cost recovery principle is over-zealously applied with users required to pay O&M and capital costs, in some cases 50% of the capital costs of the water component. Attempts at capital cost recovery result in unrealistically high tariff projections, high and unaffordable connection costs and lack of political support for projects

On water policy implementation

- Water policy implementation is mixed for the policy action points assessed and varies across the three countries. Implementation is weakest in the areas related to serving the poor and ensuring participation of users and civil society

The recommendations in this report

The recommendations laid out in more detail in the main sections of the report try to address the issues uncovered by the study. They are designed to help the ADB in its implementation of the water policy, so that sustainable services can be provided for the poor. Some of the key specific recommendations are as follows:

- Support the integration of pro-poor approaches in national sector policies by financing studies and supporting consultative forums with active participation of a wide range of stakeholders
- Develop implementation strategies during the preparation of each WSS project on: how to serve all the urban poor, including safety nets to ensure affordability; better designed and adequately resourced processes for ensuring participation of communities and civil society; training for Executing Agency and Local Government institutions' staff to work with the poor
- Prioritise coverage of sanitation and sewerage infrastructure, not

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excluding slums and poor populations, and track and report on investment in sanitation

- Design for and monitor the sustainability of services provided under projects
- Open up discussions with local government and the public on tariff policies to get agreement and commitment
- Attempts at recovering costs should include safety nets for the poor, tariffs should recover at least O&M costs to ensure sustainability, and in using any additional revenue (above and beyond that needed for O&M) priority should be given to expand services to unconnected poor areas rather than repaying loans
- Review on-lending terms of concessional ADB loans for affordability
- Improve monitoring and evaluation of WSS projects by disaggregating all data, tracking the impact of projects on the poor and vulnerable and developing processes for community and local government certification of all M&E reports
- Continually monitor implementation of the pro-poor components of Water for All, by reporting against them in Project Completion Reports and other evaluations and by carrying out a further participatory Review after five years. This review will assess overall policy implementation, with an emphasis on all pro-poor components, after the first generation of post-policy projects have either completed or have significantly progressed in terms of implementation.

Contents

WaterAid/ Jim Holmes; Libby Clarke; Jim Holmes; Marco Betti; Abir Abdullah; Jim Holmes

Introduction

Background

Since establishment in 1966, the Asian Development Bank (ADB) has invested over US$20 billion in the water sector, of which around a quarter is in urban (21%) and rural (3%) water supply[1]. The ADB approved its first water policy, Water for All, in 2001. The policy stipulates that a Comprehensive Policy Implementation Review (hereafter referred to as the Review) will be carried out five years after approval and this Review began being undertaken in 2005. WaterAid seeks to influence organisations to increase the resources committed to water and sanitation and influence how these resources are allocated and managed. The Review provides an opportunity for WaterAid and its partners to exert influence on a major regional stakeholder.

Objectives

The study aimed to provide an informed, evidence-based input to the Review process and to use the findings to seek changes to ADB's project design, implementation and evaluation procedures so that ADB supported projects ensure sustainable water supply and sanitation services for the poor.

[1] ADB website, July 2003 – WSS sub sector lending 1968 to 2006

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Methodology

The main driver in designing the methodology was for the study to be evidence based and hence grounded in reality. The three countries in which WaterAid has country programmes in the Asia Pacific region, which are also ADB Developing Member Countries (DMC), were selected for the study, namely Bangladesh, India and Nepal.

Between them the ADB projects in these countries cover the full typology of ADB supported WSS projects: rural and urban (small towns and cities) WSS projects, WSS only projects; multi-component infrastructure projects, including WSS components. Relatively old projects were selected to allow for an examination of sustainability, and relatively new projects to enable review of implementation of the new water policy. Details of the projects studied are presented in **Table 1**.

While there is tremendous variation between the ADB funded projects in the selected countries, a set of common research questions and a common methodology were used to guide the research across the three countries and allow for examination of the same themes. The questions are:

- What is ADB's involvement in the water supply and sanitation sector in Bangladesh, India and Nepal, its

Table 1 - ADB supported projects selected for the study

Designed	Status	Urban		Rural
		Small/district towns	Large towns/cities	
Before ADB Water Policy	Completed	Second Water Supply and Sanitation Sector Project, 1993 (B) Secondary Towns Infrastructure Development Project II, 1995 (B)	Karnataka Urban Infrastructure Development Project, 1995 (I)	Third Rural Water Supply and Sanitation Sector Project, 1992 (N) Fourth Rural Water Supply and Sanitation Sector Project, 1996 (N)
	Ongoing	Small Towns Water Supply and Sanitation Sector Project, 2000 (N)	Rajasthan Urban Infrastructure Development Project, 1998 (I) Karnataka Urban Development and Coastal Environmental Management Project, 1999 (I)	
After ADB Water Policy	Ongoing	Secondary Towns Water Supply and Sanitation Project, (B)*	Urban Water Supply and Environmental Improvement Project in Madhya Pradesh, 2003 (I)	Community Based Water Supply and Sanitation Sector Project, 2004 (N)

* Project in design phase and not yet approved by ADB Board
Note - dates given are ADB Board Approval Dates; B=Bangladesh, I=India, N=Nepal

contribution to the MDG targets for water and sanitation and its impact on sector policies and practices?

- How effective are selected ADB water and sanitation projects in ensuring sustainable services for the poor?
- How does ADB monitor and evaluate WSS projects and do these procedures need to be changed to enable ADB to know if projects are ensuring sustainable services for the poor?
- What are the financial implications of ADB project funding for WSS at various levels?
- How is the ADB water policy reflected in project design and implementation and does the policy need to be changed to make it more effective?

The study is based on a combination of primary data and a review of documents. Primary data collection was carried out in 21 villages, towns and cities using a combination of quantitative and qualitative techniques. These included household surveys, participatory mapping, focus group discussions, key informant interviews, matrix ranking and seasonality calendars. To review policy implementation, 11 policy actions relevant to WSS and serving the poor were selected from the ADB water policy. Judgements were made on the level of implementation, based on the evidence gathered through the study. Eight consultation meetings were held to discuss the findings with local stakeholders, including Civil Society Organisations. A series of four workshops was held to plan the research and discuss the findings with participation of WaterAid, ADB, consultants, a Peer Review Group and Civil society Organisations.

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Limitations

The study was conducted in only three of the 45 ADB Developing Member Countries, and within these countries a sample of projects and sub-projects was selected. While suitable sampling strategies were followed, caution should be taken in generalising the findings.

Some of the projects studied were implemented prior to the approval of ADB's water policy. This is an uncontrollable limitation, given that the study is based on a ground level assessment and that the new generation of projects designed after approval of Water For All are in the early stages of implementation. However ADB staff and document review indicated that, prior to the water policy, projects were guided by similar principles as those enshrined in Water For All. At the same time, selecting some projects initiated after approval of the water policy meant that these projects were in the implementation phase and therefore not suited to an examination of sustainability issues.

In project areas, particularly in urban areas, WSS related interventions have been made by numerous agencies and attributing changes to the ADB-supported projects only is not possible. In some on-going projects, project staff were reluctant to share information. In some completed projects, very few documents were available with ADB and Executing Agencies, especially regarding M&E.

Organisation of the report

In this study country case studies were prepared for Bangladesh, India and Nepal. This is a synthesis report of the three country case studies. The report is organised around the research questions and each section highlights main findings and recommendations. Included at relevant points in the report are boxes with information on the level of implementation of some of the Water for All policy actions reviewed in the study. A comprehensive assessment of the level of implementation of policy actions is included in each country case study. Boxes have also been included, showing good practice from WaterAid's work. These should be regarded as examples of how recommendations can be made real.

ADB's involvement in the water supply and sanitation sector in Bangladesh, India and Nepal

Main findings, issues and recommendations on ADB involvement

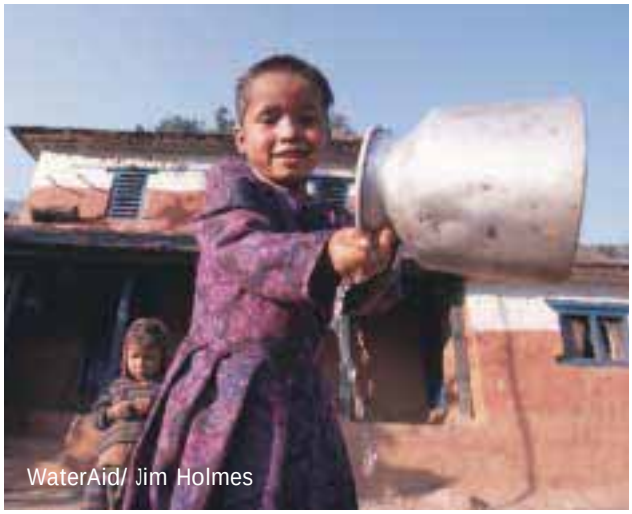
ADB investment in the water and sanitation sector

ADB investment in water supply and sanitation (WSS) projects in Bangladesh, India and Nepal can be split into two parts: water and sanitation only projects, and multi-component projects including water supply and sanitation.

The allocation to WSS in multi-component projects ranges from minimal to high, and in some cases cannot be calculated due to lack of disaggregated data. Twenty-four WSS related projects have been identified in the three countries, of which 10 (42%) are water and sanitation only projects, and 14 (58%) are multi-component projects. Of these 24 projects, 14 have been completed and ten are currently being implemented. Around one fifth of the projects identified are rural, all in Nepal, with the remainder being in urban areas.

Urban areas covered by ADB have traditionally been small and medium towns, but a recent shift to capital cities is evident. Another shift is a move from WSS only projects to more integrated urban development projects that include WSS elements. Based on a review of Project Completion Reports (PCR) and Reports and Recommendations to the President (RRP), it is estimated that ADB's total investment in WSS in these three countries is around US$1 billion[2]. The average size of WSS-only loans is around US$29 million and the average size of loans for multi-component projects including WSS is US$100 million.

[2] Calculated on the basis that on average 50% of the loan in multi-component projects is for WSS



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ADB's Country Strategy and Programme (CSP) documents for the three countries prioritise the WSS sector, and at least two projects are in the pipeline in each country. In Nepal, the next rural project is being planned along with a follow up to the on-going Urban Environmental Improvement project in small towns. In Bangladesh, ADB is planning a large investment in the Dhaka water supply and a Project Preparatory Technical Assistance (PPTA) to design the third WSS investment in secondary towns is on-going, as is planning to support arsenic mitigation. Of the three countries, the greatest ADB investments in the WSS sector are seen in India. There, the CSP indicates that one Integrated Urban Development Project (IUDP) will be approved each year. Since this study began IUDPs have been approved in Jammu and Kashmir and in the North Eastern states, a project for Kerala is on stand-by and a project is being designed in Uttaranchal.

ADB's contribution to the Millennium Development Goals for water supply and sanitation

The three countries studied have all signed up to the Millennium Development Goals (MDG) and set their own national sector targets. Under MDG 7, a target has been set to halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation. In this study an attempt was made to calculate ADB's contribution to this target, based on its recent and on-going projects in the three countries. The assessment was made considering the number of beneficiaries served and the investment made.

Breakdowns of the number of people benefiting from the various services provided in WSS projects were found not to be available in many ADB documents. As a result, it is not clear how many people benefited from which services. Likewise, it was found that many project

Water for All policy implementation box 1: Water action agendas

"ADB will assist the Developing Member Countries in developing and adopting water action agendas that have clearly defined objectives and milestones linked to resources." (p. 19, Water for All)

In some countries (for example Nepal) comprehensive water sector strategies and plans were found. However, no evidence of specific **water action agendas** developed through ADB support was found during the study.

Drawing up these agenda's is an important step in completing the foundational elements of Water for All. ADB should pursue this activity with governments and use this process to ensure that the agenda for sector reform has a pro-poor focus.

Water for All policy implementation box 2: Comprehensive water policies

"The Asian Development Bank will help develop comprehensive water policies in the Developing Member Countries." (p. 17, Water for All)

Implementation of this action varies across countries. In some cases, ADB has supported preparation of comprehensive sector assessments and taken a leading role in formulation of national polices (Nepal), in others ADB is playing a supporting role in national policy development (Bangladesh) and in some cases ADB appears not to be engaged in national policy development (India).

documents do not provide breakdowns of expenditure on different services, especially in multi-component projects. Therefore an exact calculation of ADB's contribution to the MDT is not possible.

Based on available data, it is evident that ADB is making a significant contribution to the MDG target for WSS in all three countries and that this contribution is increasing in recent years. The largest contribution was found to be in Nepal where it is estimated that ADB will serve 45% of people needed to meet the water MDT in urban areas and 30% of people that need to be served with water in rural areas. In the countries studied, sanitation coverage is significantly lower than that of water. As a result, the sanitation MDT is more challenging than that for water. Yet ADB's contribution to the sanitation MDT was found to be much lower than that to water.

ADB influence on sector policies

Based on experiences and lessons learned, ADB attempts to influence sector policies and bring about reform. The extent to which ADB is doing this varies considerably between the three countries. In Nepal, ADB was found to take a lead role in supporting government in sector policy formulation. For example, the recent Rural Water Supply and Sanitation National Policy 2004 was found to be highly influenced by the ADB, with many pro-poor elements of Water for All evident in the policy. In Bangladesh, the ADB played a role in the formulation of a National Policy for Safe Water Supply and Sanitation in 1998 and since then has played more of a supporting role, while other donors have taken the lead. In India ADB influence in national sector policy formulation was not evident.

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Water for All policy implementation box 3: Factoring in the needs of the poor

"The needs of the poor will be specifically factored into legal, institutional, and administrative frameworks." (p. 15, Water for All)

Progress on this action was found to vary across countries. In Nepal revised national sector strategies have a pro-poor focus and this can be attributed to ADB involvement. In Bangladesh recent sector policy revisions have a pro-poor focus but this cannot be attributed to ADB and in India it was not evident that ADB had tried to factor in the needs of the poor into these frameworks.

If the poor are to benefit from Water for All, this is a crucial policy action and ADB should increase the level of priority given to implementing this policy action.

Conclusions and recommendations

The ADB is making large investments in WSS in Bangladesh, India and Nepal through funding projects. This investment shows an increasing trend since approval of the Water for All policy. With the reclassification of the sector as 'Water Supply, Sanitation and Waste Management Sector' - previously WSS had been classified as a sub-sector under the Social Infrastructure Sector - it appears that the ADB is giving greater priority to the sector. These investments mean that ADB is making a significant contribution to the MDTs for water and sanitation, as well as national sector coverage targets. ADB's contribution to water targets is estimated to be greater than that to sanitation targets, reflecting the lower priority given to sanitation by both governments and the ADB.

In Nepal, ADB is the largest sector investor and a long term partner and hence has policy influence and this is being used to push the principles of Water for All, including the pro-poor principles. In Bangladesh and India, where investments are less significant as a proportion of sector investment, ADB is less engaged in policy formulation.

Increase the pro-poor focus in sector policies

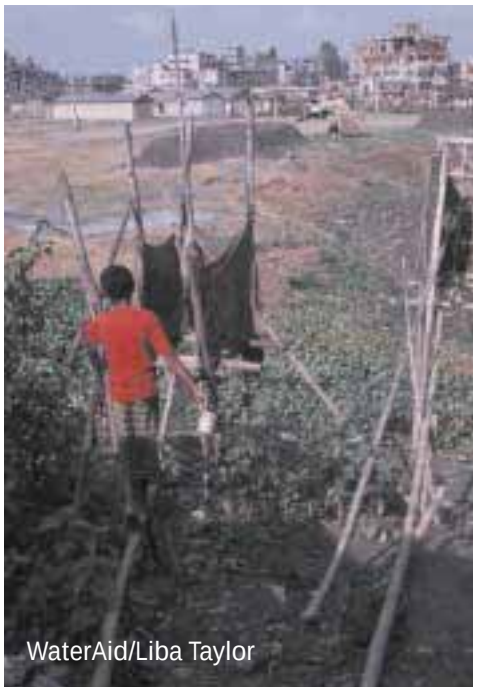
ADB should support integration of pro-poor approaches in national sector policies by financing studies and supporting consultative forums, with active participation of a wide range of stakeholders. Achieving policy influence is only half the battle. The ADB should then work with other sector actors to facilitate monitoring of government's implementation of the pro-poor elements of water and sanitation policies.

WaterAid/Libby Clarke

Effectiveness of ADB funded water and sanitation projects in ensuring sustainable services for the poor

Issues and recommendations on making services pro-poor

The projects studied in all countries were found to be resulting in overall improvements in access to water and sanitation. Our concern is whether the poor are benefiting from these overall improvements.



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Services for only some of the urban poor

In urban projects land tenure continues to be a major barrier to serving the poor. In some projects, settlements of poor people living on untenured land are excluded (Nepal) as governments are unwilling to provide services to these "illegal" settlements. In other projects, specific components are designed to serve slum communities (Bangladesh and India). Selection of slums for inclusion in ADB funded projects are based on government lists of notified slums. Given the rapid rate of urbanisation and the political nature of these lists, the lists undercount slums and hence many poor communities are excluded (see **Box 2**).

Box 2: Exclusion of non-tenured poor communities in Jodhpur

Services are being provided in Jodhpur, India, as part of the Rajasthan Urban Integrated Development Project. In Jodhpur there are estimated to be **220 slums** of which **119 (54%) are notified** on government lists. Of the total slums only **68 (31%) slums were selected** for the project, less than a third of the total. Of the total project cost of US$362 million, only **3%** (US$11.5 million) is allocated to the slum improvement component.

Many people living in listed slums which are included in projects are not the poorest of the poor, while the most vulnerable, non-tenured settlements are never included on these lists. This is leading to systemic exclusion. In Bangladesh, inequity was noted between the type of services being provided to poor people living on the periphery of towns and other residents living in the core areas. The poor are provided with tubewells, while other residents are provided with in-house connections.

Inadequate resource allocations for the poor and loose targeting of services

Overall, allocations in WSS projects for slum improvements are very low. For example, in the four projects studied in India the allocation averaged less than 3% of the total project cost. Given that one third of the population of cities in India live in informal settlements this is insufficient. Even when projects are classified as those of "poverty intervention", the allocations for slum improvement were found to be below 2%. Only 4 - 7% of the slum population in the selected cities are to be served by one such project (Urban Water Supply and Environment Improvement Project in Madhya Pradesh, India).

A distinct poor/non-poor divide exists in access to services. Non-poor households were found to be benefiting more than poor households from water supply services provided under the ADB projects. Poor targeting of available resources exacerbates the problem of shortfalls in those resources. Where funds are insufficient for city-wide improvements, it is vital that the most needy areas are targeted. Failure to distribute investments equitably arises partly due to lack of accurate data on where the poor live, and also due to the politicised nature of resource allocation.

Affordability of water supply

In some cases, services provided by projects were found to be expensive for the poor. In some cases, they were unaffordable. Consumers normally pay three costs to access piped water supplies: an official connection charge, the cost of plumbing and a regular tariff.

Affordability estimates, made as part of project feasibility studies, are often based on monthly tariffs only. However, it is the cost of connection to the piped

Water for All policy implementation box 4: Subsidies

"ADB will promote the phased elimination of direct subsidies to the poor for accessing basic water services in line with an increase in affordability levels. ADB will support subsidies for water services... where a limited quantity of treated water for the poor is regarded as a basic human need." (p.27, Water for All)

Subsidies were found to persist and to benefit the high consuming richer users rather than the unconnected poor (Bangladesh and India). Attempts at tariff increases and subsidy reductions were found to be largely ineffectual, in part due to bypassing of local governments (India). No attempt at introducing differential pro-poor subsidies was noted. Where tariffs have been increased, attempts to maintain an affordable lifeline tariff for the poor were noted in some cases (Nepal).

There is a risk that the focus in Water for All on cost recovery will result in a blanket reduction in subsidies for all. ADB must be vigilant in ensuring that water remains affordable to the poor as tariff reforms are introduced.

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network that is often a barrier to the poor accessing services. In the projects studied, this charge was found to range from between less than one to more than ten months' income of poor households (US$13 to $270). In some cases, this charge is not a part of project designs and is introduced by local authorities in an attempt to raise revenues.

The study found some evidence of a move by ADB towards more pro-poor connection policies. In the Melamchi Water Supply Project, Nepal, connection charges of US$26 are being proposed, a dramatic decrease from the current charge of US$160.

Tariffs were found to be as high as 6% of a poor family's monthly income and this will increase if tariffs are raised as stipulated in the project conditionalities. No examples were found of different tariffs for the poor. The Water for All policy makes clear ADB's position on tariffs - tariffs should cover the full cost of operation and maintenance, and will be decreased in line with affordability and better targeted towards the poor. Yet, in the projects studied, subsidies persist and continue to benefit those who are a) networked to the system and b) use more water. Narrow targeting to benefit the poor is not yet evident.

Time to put the spot light on sanitation

Despite recognition of the gap between sanitation and water coverage, and recent commitments to sanitation (globally at Johannesburg at the World Summit on Sustainable Development, and regionally at the South Asian Conference on Sanitation in 2003), sanitation remains the neglected service of the sector. While some of the ADB projects studied focussed on sanitation, in most projects priority was given to water. Allocations to sanitation remain low and are inadequate given the sanitation gap and the high cost of sanitation services in urban areas.

Latrine coverage in the communities studied was found to have increased after projects. However, in all projects open defecation was still being practiced. In most communities studied, the ADB projects did not provide household latrines and increases in latrine coverage were due to private investments and projects by other agencies. Health and hygiene components of the ADB projects may have indirectly increased latrine coverage. In urban projects slum areas are not being networked to city-wide sanitation infrastructure.

Sustainability of facilities and institutions

Sustainability is one of the most important issues facing the sector. It can be analysed in terms of the sustainability of physical outputs and of institutions, and the two are interlinked.

The findings regarding sustainability of physical outputs were mixed. In some communities WSS facilities were functioning well up to five years after completion (for example gravity flow water supply systems in Nepal). In others, services were non-functional within a few years after completion (for example single pit latrines in Bangladesh where pits filled up, resulting in latrines being abandoned). Issues such as the choice of technology, the level of community demand for the project, the status of the local Water Users Committee and support from government departments were all found to affect sustainability.

Sustainability of institutions is another concern. Most projects were found to create temporary organisations for project implementation. These organisations were found to have weak linkages with permanent government departments and local bodies. This resulted in a lack of ownership of new infrastructure and a lack of capacity to manage it after project completion.

Some projects establish institutions at the community level to manage project implementation and subsequent O&M. Again performance was mixed, with some groups still actively performing their role and others becoming dysfunctional soon after project completion. It was found that most projects did not give sufficient attention to developing robust systems for O&M of the new assets.

Need for a greater focus on water quality

Water quality testing was not carried out as part of the study but users' perceptions on quality were recorded. In a number of projects, especially projects supplying groundwater in Bangladesh and Nepal, poor water quality meant that people were no longer using services and were reverting to traditional, sometimes unsafe, sources.

Little evidence was found of water quality testing or treatment as part of the ADB projects, even in areas in Bangladesh where arsenic was known to exist in groundwater and users had made repeated complaints to authorities. Poor water quality was found to be affecting sustainability as users were refusing to pay for poor quality water, harming the financial viability of schemes.

Low participation of communities and civil society

Water for All recognises the importance of community participation and repeatedly commits to putting communities at the heart of projects. Yet processes for community engagement in projects were found to be weak, resulting in low levels of participation.

The overall impression gathered from the study was that the community

participation components were considered of secondary importance to the overriding objective of infrastructure creation. Little evidence was found of community involvement in the early and crucial phases of the project cycle, such as project design and technology choice. Community involvement was largely limited to labour during implementation and responsibility for O&M. Where user committees are formed, they were found to lack representation of the poor and be controlled by dominant groups.

In recent projects the responsibility of securing community participation is contracted to NGOs. In many projects, non-local NGOs were selected without strong backgrounds in community development (Nepal and India). These components were found to be under-resourced and often delayed, meaning that social mobilisation and preparation activities were happening after infrastructure creation (India). In the latest generation of projects in India there were signs that these elements were receiving greater priority, largely due to partnerships with other donors providing funding for social components.

Involvement of civil society in projects was found to be negligible, with one notable exception (see **Box 3**).

Box 3: Civil society engagement in the design of the Community Based Water Supply and Sanitation Sector Project in Nepal

In designing this project in 2003, ADB followed an innovative consensus building process that involved a series of consultative meetings and working groups on all areas of the project, including gender sensitive and pro-poor approaches. Civil society organisations participated actively in these discussions. The result was a project design with many pro-poor provisions and a more gender sensitive and pro-poor National Rural Water Supply and Sanitation policy.

Water for All policy implementation box 5: Participation of the poor

"The poor must be enabled to influence decisions that affect their access to water for both consumptive and productive uses." (p.16, Water for All)

"ADB will continue to press for and support policies that provide for explicit participation of the poor in water-related projects" (p.27, Water for All)

"Getting the poor to participate, and mainstreaming them into community thought and action, will be a key area of ADB work" (p. 30, Water for All)

A number of water policy actions refer to the need to increase users' participation, especially poor users, in all areas. Field level findings indicate that this policy action is not being implemented and the focus in projects continues to be largely based on asset creation without participation of users and the poor in particular. Where structures for participation are being established, the poor are not included in decision-making.

The tools for participation that the water policy mentions would be developed were not evident in the projects (p.31, Water for All). These tools should be developed and ADB and Executing agency staff trained in their use.

Water for All policy implementation box 6: Participation of civil society

"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." (p.31, Water for All)

The study findings validate the importance of this policy action. In the one project where substantial civil society input was sought at the design phase, the resulting project design includes many pro-poor provisions (see Box 3). However, this project was the exception. Most projects studied were found to fail to engage civil society during project negotiation, designing and implementation. Lack of transparency complicates and furthers the non-engagement.

No capacity building on how to work With the poor

ADB's Poverty Reduction Strategy states that 'it will be critical for ADB staff to "think poverty" at all times'[3]. This principle should apply to Executing Agency and local government staff also. Institutional strengthening and capacity development activities are included in all ADB WSS projects. However, they do not have a focus on building capacity to work with the poor. Interaction between poor communities and project staff was found to be infrequent and ad hoc, with few formal mechanisms for consultation or addressing of grievances.

[3] Fighting Poverty in Asia and the pacific: The Poverty Reduction Strategy, ADB, p.34

Martin Argles

Conclusion and recommendations

It cannot be assumed that improvements in water supply and sanitation, be it at the village, town or city level, lead to improvements in poor areas. This is because overall improvements mask a poor/non-poor divide in access to services.

This divide is caused by:

- lack of information on the number, location and vulnerability of poor in project areas;
- exclusion by design of poor settlements due to failure to address land tenure issues;
- the high cost of accessing services for the poor due to affordability assessments which do not take into consideration connection costs and projected tariff increases.

Sanitation continues to receive a low priority from governments. Budget allocations for household sanitation are low, and software components weak. As a result, open defecation persists in project areas. Projects are focussed on implementation and do not do enough to secure the sustainability of facilities, or community and sector level institutions. Governments are unwilling to spend loan

money on building processes for participation of both communities and civil society in project design and implementation and, with the majority of project staff being from engineering backgrounds, these components are poorly designed. As serving the poor remains peripheral to most projects, capacity building components for Executing Agency staff are not designed to build skills and knowledge on how to ensure services for the poor.

Develop implementation strategies in each project on how to serve all the urban poor

ADB should make it mandatory for WSS project designs to include strategies to show how all the urban poor will all be served under projects. Strategies should include participatory city-wide poverty mapping (see **What Works Box 1**), sufficient allocations to serve all the poor, and processes for targeting of these resources. Strategies should include checks and balances to ensure that the services are affordable to the poor. Strategies should pay particular attention to connection charges and ensure that they are brought in line with affordability of the poor. This should be achieved either by getting rid of connection charges for the poor, or by partly subsidising the costs of connections and ensuring flexible payment mechanisms, designed in consultation with the poor. Strategies must also include ability to pay studies for setting tariffs, and include affordable lifeline tariffs for the poor. ADB should experiment with differential pricing for the poor.

Create an environment where land tenure issues are recognised and addressed

ADB should ensure that the projects it funds provide piped water to all the urban poor in the project area by creating an environment where land tenure issues are recognised and addressed through joint advocacy with other sector players.

Increase priority of sanitation and track this investment

ADB should increase its investment in sanitation, and should track and report on this investment. All ADB supported WSS projects should prioritise sanitation

What works box 1:

Mapping the poor

In Kathmandu, Nepal, ADB is funding a number of projects in improve the valley water supply. NGOs have produced maps of the Kathmandu valley to show where the poor are located and how they are accessing water supply.

A task force of ADB, government and NGOs was established to lead this work and the task force endorsed the methodology and committed to base project implementation on the findings. The maps show the location of all public stand posts, an important water source for landless people, and their current status. The maps also show the location of all slum and squatter communities, including information on the population in these communities and their access to water supply. The maps will be used to prioritise services to these areas.

Water for All policy implementation box 7: Capacity building

"ADB will promote the development of sustainable plans for capacity building." (p.33, Water for All)

All projects were found to include capacity building components. However, none of these components addressed capacity of governments and Executing Agencies to serve the poor.

If the pro-poor elements of Water For All are to be realised, ADB must ensure that capacity building components are designed to increase awareness on the obstacles facing the poor in accessing water and sanitation services, and on the knowledge and skills needed to overcome these.

and sewerage infrastructure, ensuring that slums are covered and facilities are provided in public spaces and schools, with an aim of open-defecation free communities.

Give greater attention to the sustainability of projects

It is accepted that if the MDT and national targets for WSS are to be achieved, services provided must be sustainable. Given the financing gap in the sector this becomes even more vital. ADB should ensure the sustainability of institutions (community and sector) and facilities. Project implementation should be undertaken in close coordination with existing institutions, with robust processes established for O&M. At the community level, community groups should be trained and supported over the long term to implement O&M, backed up with support from local government. Projects should be demand based, and technology options should be selected in consultation with communities.

Give greater emphasis to water quality issues in all projects

ADB should give greater emphasis to water quality issues, including testing and treatment, especially in areas where water quality is known to be below minimum standards.

Better design and adequately resource processes for ensuring participation of communities and civil society

ADB should ensure that processes for community participation are better designed and adequately resourced. Where these elements are contracted out to NGOs, suitable organisations should be selected and involved in projects from the early stages. Where governments are reluctant to use loan money for these activities, ADB should support them to identify grant based co-financing. ADB should ensure that processes for civil society participation are initiated and that elected representatives/legislators, as well as citizen's forums with adequate representation of the poor, are engaged. ADB's new Public Disclosure Policy should also be implemented in both letter and spirit, to increase information dissemination on projects and improve transparency.

Train and Incentivise executing agency and local government institutions' staff to work with the poor

As serving the poor is one of the more challenging aspects of Water for All, ADB should invest in training the staff of Executing Agency and local government institutions. Elected representatives and municipality staff should be trained to work with the poor, and incentives rewarding the use of the new knowledge and skills should be introduced.

ADB systems for monitoring and evaluation of sustainable services for the poor

Issues and recommendations on pro-poor monitoring and evaluation

ADB has an established set of Monitoring and Evaluation (M&E) procedures and these are used to ensure timely execution of projects, to identify and resolve problems and to improve the design and execution of future projects. The study sought to find out how M&E worked and to what extent it informed ADB whether the projects it supports are providing sustainable services to the poor.

The poor and women are hidden by aggregate numbers

All M&E data were found to be aggregated. It was therefore not possible to tell whether the poor are benefiting from projects. Aggregating data may show overall improvements, but it does not show who benefits. Despite project design and policy statements on the participation of women, in most projects data regarding benefits and participation were not found to be disaggregated by gender. As a result, any projects' success regarding inclusion of women could not be measured. Other ADB reports have also recognised this weakness[4]. Nevertheless, this realisation does not appear to have led to change in most projects.

Evidence of a recent move to disaggregated data was found in the monitoring formats for the new generation of projects in Nepal, where data on the population of project areas is disaggregated on the basis of income.

Lack of focus on the impacts on poor and women in evaluations

Evaluations were found to focus more on achievement of physical outputs and financial sustainability, with only a cursory

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[4] Effectiveness of ADB Approaches and Assistance to Poverty Reduction, Operations Evaluation Office, ADB, 2000, notes that "none of the surveys presented data that would show the distribution of benefits to the poor and non-poor or whether the poor benefit at all" and calls for "a monitoring system to observe whether the poor participate equally in projects"


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examination of the impact of projects on the poor. In addition, evaluations did not focus on the different impacts of projects on men, women and children.

Lack of standard indicators and duplication of government M&E processes

Indicators are the basis of M&E. ADB does not have a standard set of indicators for water supply and sanitation projects, and the study found that this results in a lack of consistency in indicators used, even within the same project. During project design a set of measurable indicators are defined in project log-frames, but often not used in M&E. Indicators used in baselines were also found to differ from those used in evaluations, making measurement of change problematic. Different indicators were used in different cities making inter-city comparisons impossible. Indicators used were also found not to be clearly defined in evaluation reports, resulting in a lack of transparency.

Government processes also exist for M&E of projects. Executing Agencies must follow both these processes and other procedures specified by ADB (such as Benefit Monitoring and Evaluation, and Project Performance Management System). Based on the study findings, each country case study has proposed indicators and processes that should be considered when developing a standard set of indicators for M&E of WSS services for the poor.

Lack of focus on monitoring of community processes and sustainability

Review of monitoring formats found that the focus during project implementation was on counting outputs and managing expenditure, and on procurement. In most projects, no indicators were found to monitor community participation processes. Without indicators to measure community involvement, it will be difficult for ADB to know if it is making progress on participation, which is central to its water policy. A positive shift was evident in the recent generation of projects, such as the Small Towns Water Supply and Sanitation Sector Project in Nepal, where indicators for community involvement are included in monitoring formats.

Monitoring formats and processes were found to focus on project implementation only and systems for sustainability monitoring were not evident.

Communities and local government not adequately involved in M&E of services

Community and local government involvement in monitoring and evaluation is an effective means of increasing ownership, building capacity for decision making and O&M, and hence ensuring sustainability. The study found that in most cases consultants working on behalf of Executing Agencies performed M&E. Where data is collected by local stakeholders, it is sent to a central body for analysis. The result is that M&E is not institutionalised. It is often discontinued after hand over of the projects to local level institutions, and local level capacity to measure change is not strengthened.

Given the emphasis in project designs and the ADB's water policy on community participation and decision-making, communities should be involved in collecting the data on which decisions can be based. In one on-going project, the Small Towns Water Supply and Sanitation Sector Project, Nepal, Water and Sanitation User Committees are involved in M&E, yet the one day training provided is insufficient. In the Second Water Supply and Sanitation Sector Project in Bangladesh, a Water and Sanitation Committee established under the Municipality played a role in M&E, but this was not continued after project completion.

Weak feedback loop from M&E results to decision making and rigid project designs

For M&E to be effective, there must be a feedback loop from analysis of findings to decision making. Sufficient flexibility is needed to allow changes to implementation, in response to findings. The study found little evidence of this loop, especially with regards to monitoring. Instead, M&E activities appear to take place in a vacuum, rarely influencing the project. Some M&E activities were even found to be delayed with the result that findings are of questionable value. For example, in the Rajasthan Integrated Urban Development Project in India, baseline studies were being conducted after implementation had begun.

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Once projects are designed there appears to be little space for changes based on monitoring results. The processes involved and the scale of ADB projects means that they take a long time to implement, often longer than envisaged. Given that design normally begins two years prior to ADB Board approval, the average duration between design and actual closing for WSS projects in the countries studied is around 10 years. During this period, the context and people's needs alter and the knowledge of project staff on how to provide services deepens. Processes for changing project designs could be made easier to allow for adaptation in response to these changes.

Regarding evaluation, the situation was found to be better. There was evidence that the lessons from past projects were used when designing the next generation of projects. For example, in Nepal formation of Water User and Sanitation Committees (WUSC) prior to project implementation was promoted after project evaluations showed that lack of community ownership, resulting from WUSC formation only after project completion, was having a negative impact on sustainability.

Conclusions and recommendations

The ADB's overall objective is poverty reduction and the Water for All policy aims to provide services to the poor. While the new water policy is more pro-poor and gives greater emphasis to participation, changes in M&E procedures have not kept pace and the focus of these systems remains monitoring of asset creation.

The result is that these systems do not allow ADB to know if progress is being made on these new policy thrusts and ultimately ADB does not know if the projects it supports are ensuring sustainable services for the poor. These findings support the conclusions of an evaluation by the Operations Evaluation Office published in 2000 on the Effectiveness of ADB Approaches and Assistance to Poverty Reduction. With both external and internal studies highlighting these weaknesses, the ADB needs to begin to address these shortcomings.

Furthermore, by not adequately involving communities and local government in M&E, these processes undermine the goals of participation and ownership, and are not continued after project completion. In the past it may not have been necessary for ADB to have a set of specific indicators for WSS. However, with the reclassification of the sector (from a sub-sector of Social Infrastructure to a fully-fledged sector of its own) and a trend of increasing investment, this would provide ADB with a useful tool to measure progress.

Track impact of projects on the poor and women in all M&E processes

ADB should disaggregate all M&E data to clearly show how the poor and women are benefiting from each service provided in a project and how much was spent on the provision of each service. Evaluations should make more in depth assessments regarding the impacts of projects on the poor and women. Project Completion Reports and Project Performance Audit Rreports should give a score, with a substantial weightage for performance in these areas.

Develop a standard set of M&E indicators for the sector and support government in harmonisation of M&E systems

ADB should develop a set of standard pro-poor indicators for ADB WSS projects (in a consultative and participatory manner) and these should be used in all project log-frames and baseline, monitoring and evaluation reports. These indicators should include indicators to monitor community participation processes. In the long term, ADB should support government to move towards harmonization of sector M&E systems.

Monitor the sustainability of projects more rigorously

ADB should adopt processes and indicators to monitor the sustainability of a sample of sub-projects in every WSS project, five years after project completion.

Develop processes for community and local government certification of all M&E reports

Communities and local government should be involved in M&E from the very beginning of projects through participatory processes. They should certify all project M&E reports. Capacity building should be provided and systems established in local governments so that these M&E activities are continued after project completion. An example of how communities can be involved in M&E, and the benefits this brings, is provided in the **What Works Box 2** below.

What works box 2:

Community based M&E system

Sustainability of any water and sanitation program greatly depends on active community participation and involvement throughout the project cycle and beyond. For communities to manage project sustainability they need to use convenient M&E procedures.

In Nepal, WaterAid partners encourage communities to use a simple community based M&E system which uses six tools - project progress chart, hygiene assessment chart, well-being assessment chart, meeting monitoring chart, project calendar log and social auditing chart. Experience shows that the system has the following benefits:

- Enhanced performance of the community in areas of participation, financial planning, work prioritisation, leadership skills, record keeping and quality control
- Communities are able to identify poor and marginalized households and realise the need for affirmative actions
- Due to community involvement in periodic hygiene assessments, hygiene messages are quickly adapted and health and hygiene behaviour improve
- Increased visibility and transparency of financial matters and decision making processes

Financial implications of ADB project funding on governments and the poor

Issues and recommendations

ADB project funding for WSS in the three countries studied is in the form of loans. The study examined the financial implications of these loans at national, State and city/town levels.

National and state level debt situation

National level debt varies considerably across the three counties studied, equating to 18% (2004), 33% (2003) and 63% (2003) of GDP in India, Bangladesh and Nepal respectively. While the national level debt burden in India is decreasing, it is increasing in Nepal where the annual increase in debt servicing outstrips revenue growth.

While loans for WSS alone are not responsible for a debt burden at the national level, total outstanding debt to the ADB in Nepal and Bangladesh is significant. In Nepal, around 38% of the country's outstanding external debt is owed to the ADB[5], with this figure standing at 27% for Bangladesh[6]. In India, where ADB loans are exclusively from the more expensive Ordinary Capital Resources, ADB lending is on the increase, with India now the largest borrower of all ADB's Developing Member Countries.

In India, while national level debt indicators have improved in recent years, State government debt is accumulating. In 2004 State debt had reached 29% of GDP and debt repayments had reached 25% of revenue receipts[7]. This is higher than the 18% threshold considered sustainable in the medium term, and pushes States into a vicious circle of

[5] Financial Comptroller General Office, 2005 and Economic Survey, 2004

[6] Flow of External Resources into Bangladesh, External Relations Division, Ministry of Finance, 2004

[7] State Finances: Study of Budgets, Reserve Bank of India, 2004

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deficit, debt and interest payments. In the State of Madhya Pradesh, State debt as a proportion of Gross State Domestic Product increased from 38% in 2002/03 to 53% in 2003/04[8].

Financial implications of ADB loans for WSS at the City/Town level

In urban projects, ADB loans are on-lent to cities and towns, to the local government in the case of India and Bangladesh, and directly to a users committee in Nepal (with local government acting as a guarantor). Cities/towns take on these loans and face difficulties in repayments due to four interlinked reasons. Firstly, the interest rates on these loans are relatively high by the time they reach towns (see Table 2 below).

Secondly, there is a complete divergence between unrealistic pre-feasibility projections, calculated at the design stage to show that projects will be sustainable and hence secure ADB Board approval, and actual policies followed by local governments regarding tariff revision and other revenue generation. For example, in the town of Ratlam under the Urban Water Supply and Environmental Improvement Project in Madhya Pradesh, water tariffs and property tax were projected to increase by 8.4 and 10.2 times respectively over a 16 year period.

Thirdly, local governments are peripheral to the process of project design and implementation. Local governments do not take the lead in making projections regarding tariff increases and assurances given in loan agreements. The projects make low investments in building local capacity to increase revenue generation. Loan repayments are made by central government on behalf of local government. Information regarding the status of loans is not available at the local level. Undermining local governments in this way means they view the loans as grants from central government, and make no

[8] Reserve Bank of India, 2004

Table 2: On-lending of ADB loans at increasing Interest rates

Country	ADB Project	Step 1	Step 2	Step 3
India	Urban Water Supply and Environment Improvement Project in Madhya Pradesh - case of Ratlam	ADB to Government of India (GoI) @ **LIBOR + 0.60%** (OCR - 25 year loan with 5 year grace period)	GoI to Special Purpose Vehicle Madhya Pradesh (SPVMP)	SPVMP to Municipality @**12**%
Nepal	Small Towns Water Supply and Sanitation Sector Project	ADB to HMGN @ **1.5**% (ADF - 32 years, 8 year grace period)	HMGN to Town Development Fund (TDF) @ **5**% (20 year loan with 5 year grace period)	TDF to Water Users and Sanitation Committee @ **8**% (for 12 years with 3 year grace period)
Bangladesh	Second Water Supply and Sanitation Sector Project	ADB to GoB @ **1.0**% (ADF - 40 year loan, 10 year grace period)	GoB to Paurashava @ **7.5**% (20 year loan with 5 year grace period)	Paurashava to poor residents @ **14**% (market rate, through NGOs)

Water for All policy implementation box 8: Cost recovery

"ADB will consistently advise governments of the need to adopt cost recovery principles in their water policies and strategies. The expansion of access to water and the improved provision of water services require that capital costs be funded mainly from within the sector by accessing debt markets and developing appropriate tariff strictures. Consumers will be expected to meet the full operating and maintenance costs of water facilities and service provision in urban and rural water and sanitation schemes subject to subsidy considerations." (p. 27, Water for All)

The cost recovery principle is being strongly promoted in all three countries. In some cases users are being asked to bear capital costs in addition to O&M costs (Nepal and India) and this is placing a financial burden on users and local governments.

serious attempt at repayment. In some cases, they are not even aware of their obligations under the loans (Nepal). Changing leadership in local government further erodes a sense of responsibility towards loans.

Finally, and partly as a result of the other three reasons, collection efficiency is low due to a lack of political will by elected representatives. This is partly based on their belief that water is a basic need, so they are reluctant to make the unpopular decision of increasing charges for water. In some cases, elected representatives were even reported to discourage residents to pay user charges and loan repayments.

This is part of a wider problem whereby local governments are expected to shoulder the responsibility for water and sanitation services, without fiscal decentralisation and adequate staffing and skills. The new generation of Integrated Urban Development projects in Bangladesh are being designed in recognition of many of these issues. They are performance based, with local government required to display capacity to generate revenue before infrastructure creation begins.

Box 4: Cost sharing for water supply component in the Small Towns Water Supply and Sanitation Sector Project, Nepal

50%	Grant from central government
5%	Up-front cash contribution from users
15%	Cash or kind contribution from users (collected in cash in most towns)
30%	Loan taken by users (at 8% annual interest rate)

The 50% user contribution equates to US$270 and US$190 per household in the two small towns studied, Birendranagar and Ratnanagar, excluding interest on the loan. This is equivalent to ten and seven months' income of a poor household.

From recovering O&M costs to capital cost sharing

ADB's Water for All policy adopts a cost recovery approach and specifies that users will be required to cover at least O&M costs. In some projects, for example the Small Towns Water Supply and Sanitation Sector Project in Nepal, the cost recovery principle has been overzealously applied and transformed

into 'capital cost sharing'. Users are required to pay O&M costs and 50% of the capital costs of the water component (see **Box 4**).

Interest rate hikes with on-lending of ADB loans

Concessional ADB lending in WSS projects is being on-lent at higher interest rates (see **Table 2**). End borrowers, including the poor, are paying relatively high, far-from-concessional rates on loans; the concessions are benefiting central governments only. While more serious in some projects, this trend is evident in all countries.

There are sensible reasons why interest rates are increased at different stages, including covering the risk of currency devaluation, loan default and overheads of intermediaries. Yet the result is perverse. Loans designed to alleviate poverty end up burdening cities/towns with debt. In India, some cities have analysed the ADB proposals and decided that, under the conditions attached, the loan is too burdensome. In the case of Ratlam, Madhya Pradesh, the loan was rejected. The Government of India has recently made changes which mean that Multilateral Development Bank loans can be on-lent to States at the same terms as Government of India itself receives from the Banks.

In projects studied in Nepal, the debt taken by some towns is also very high. However, faced with acute water shortages, and with no other financing options, towns are sometimes compelled to accept loans, despite the burden. In Bangladesh, credit for latrine construction targeted at the poor, is given at 14% interest, when Government of Bangladesh takes the loan at 1% interest from ADB.

Increasing scope and variable impact of loan conditions

Loan conditions are largely related to project execution. In more recent projects the scope of loan conditions was seen to be expanding to cover local government capacity building, tariff and revenue increases, and sector reform. The extent to which governments adhere to these conditions varies greatly between countries and may be linked to the country's dependence upon ADB financing and ADB's dependence on a county's borrowing.

For example, in India, the biggest borrower from ADB and a key customer, the conditions appear to be largely ignored. Yet ADB's investment in the sector continues to increase. In Nepal where 76% of WSS sector investment comes from foreign aid, most covenants are complied with and government even adheres to far reaching conditions, such as passing revised sector strategies and action plans. It is increasingly being realised

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that the political economy of reform is complex. Conditionalities are of limited value in gaining leverage in countries like India and it is believed that the key to reform is to identify and support reforming political leaders[9].

Conclusions and recommendations

Cities and towns require investment in WSS infrastructure and have a limited range of financing options. In urban ADB WSS projects, loans are on-lent to towns/cities, normally through an intermediary institution, at higher interest rates and these loans create a burden on town/city finances. Some project designs step beyond recovery of O&M costs to capital cost sharing in an attempt to share the burden of loan repayment between government and users, further increasing the burden on these towns.

Feasibility of loan repayment is calculated on the basis of unrealistic tariff increases which are not signed-off by local governments, who then have the task of imposing these unpopular hikes. Local governments are not directly involved in making repayments to ADB and hence treat loans as grants from central government. These various factors result in a lack of political support for projects and without this backing increases in revenue collection are unlikely, damaging chances of project sustainability.

Ensure local government's involvement in and commitment to tariff increases and loan repayment

ADB should ensure that local governments and the public are involved in deciding tariff increases and loan repayment schedules and then sign off on these projections, thereby ensuring commitment to these processes.

Attempts at recovering costs should include safety nets for the poor, tariffs should recover at least O&M costs to ensure sustainability, and in using any additional revenue (above and beyond that needed for O&M), priority should be given to expand services to unconnected poor areas rather than repaying loans.

In order to ensure sustainability it is important that tariffs recover at least O&M costs, however raising tariffs may make services unaffordable for the poor. In all ADB WSS projects, safety nets for the poor must be ensured so that cost recovery does not exclude them from accessing services. Safety nets can be in the form of subsidised or abolition of connection fees, flexible bill payments and access to affordable credit. For an example of a pro-poor approach to cost sharing refer to the **What Works Box 3**.

Given the poor track record of towns in ADB projects to repay even O&M costs, the practice of capital cost sharing seems unlikely to be financially sustainable and places a heavy burden on the users. Additional revenue (above and beyond that required for O&M) should be used for expanding the system to cover all users, including the poor, instead of re-paying loans.

Ensure that on-lent ADB loans reach end users at concessional rates

ADB should review on-lending practices for affordability. Where necessary projects should include checks and balances to ensure that its loans reach end users at concessional rates. ADB should make available information on the debt profile of clients (national, State and city level).

[9] World Bank also recognised that in India it is unable to exert leverage through conditions. Water Resources Sector Strategy: Strategic Directions for World Bank Engagement, 2004

What works box 3:

Pro-poor cost sharing strategy

Experiences suggest that cost-recovery practices often limit the access of the poorest to water and sanitation services and even prevent programmes from working in areas where the majority of people are extremely poor.

Under the WaterAid Advancing Sustainable Environmental Health (ASEH) programme in Bangladesh a strategy has been devised that gives priority to the poorest and is based on people's **ability** to pay. The cost sharing strategies are based on seven core principles:

1. Capital cost recovery and provision of subsidy depend on poverty levels of users
2. Both cash and in-kind contributions will be accepted and accounted for
3. Both up-front contributions and contributions in instalments will be accepted
4. Costs shared by the community will be considered as revolving funds and will be used for scaling up
5. 100% O&M costs will be borne by the community, but a process of cross-subsidization will be adopted to benefit the poorest
6. Community groups, partner organisations, local government or a combination of these will manage revolving funds and CBOs will manage O&M funds
7. A clear system of accountability will be ensured through programme and financial monitoring by WaterAid Bangladesh and partners for proper utilization of funds

The targeting strategy aims to reach the maximum number of the poorest and most vulnerable people in a community. Households are divided into four categories by **participatory situation analysis:** non-poor, poor but relatively better-off, moderate poor and hardcore extreme poor. After this an **ability to pay** analysis session is conducted among the beneficiary group to cross check the analysis.

Cost sharing depends on two factors: composition of the group, and poverty category of beneficiary households. The first factor follows one simple principle – the higher the number of poorest people in a group, the lower the amount to be recovered; and the second factor concentrates on the ability to pay: the poorer the member, the less they have to contribute.

Water for All - implementation of the water policy

An analysis based on evidence gathered in the case studies

Level of implementation

Water for All is a new policy and it makes ambitious commitments in difficult areas, including those regarding participation and serving the poor. ADB Resident Mission staff described the policy as "aspirational", and overall there was little familiarity with the policy at Resident Mission level.

This study found that policy implementation is mixed for the policy action points assessed. There have been some shifts after introduction of the water policy, and in many areas it is evident that ADB is beginning to translate policy into action. However, the case studies found implementation to be weakest in the areas related to serving the poor and ensuring participation of users and civil society. If Water for All is to become reality, efforts at making good on these challenging commitments must be increased.

Conclusions and recommendations

The Water for All policy contains many pro-poor elements and some sound development principles. If the policy were to be implemented in both letter and spirit, the water and sanitation sector would perform better and the poor would have improved access to services.

Implementing the policy is a huge challenge for the ADB and monitoring of this task requires more than a one-off Review. The Review should be seen as the first step in a process of monitoring performance and ADB should follow this up at the project and institutional level in the following ways:

Regular monitoring of policy implementation in all project evaluations

Project Completion Reports and other evaluations of WSS projects should report against the pro-poor components of the Water for All Policy.

Follow up policy reviews

Based on the Review, the ADB should publish a list of key policy actions requiring improved performance. A further participatory Review should be implemented after five years, after the first generation of post-policy projects have either completed or have significantly progressed. This will enable assessment of overall policy implementation, with an emphasis on these areas and on all pro-poor components.

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WaterAid - water for life

WaterAid is an international non governmental organisation dedicated exclusively to the provision of safe domestic water, sanitation and hygiene education to the world's poorest people. These most basic services are essential to life; without them vulnerable communities are trapped in the stranglehold of disease and poverty.

WaterAid works by helping local organisations set up low cost, sustainable projects using appropriate technology that can be managed by the community itself.

WaterAid also seeks to influence the policies of other key organisations, such as governments, to secure and protect the right of poor people to safe, affordable water and sanitation services.

WaterAid is independent and relies heavily on voluntary support.

WaterAid

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