

Output-Based Aid in the Philippines: Improved Access to Water Services for Poor Households in Metro Manila

Iain Menzies and Mario Suardi

This project aims to provide access to water services through individual household connections to several low-income communities in Rizal province (Antipolo City, Baras, Rodriguez, and San Mateo) and Taguig City in the Manila Metropolitan Region through a collaboration with the concessionaire for Manila's east zone, the Manila Water Company (MWC). The GPOBA intervention supports Manila Water's flagship program, launched in 1998, the "Water for the Community" or *Tubig Para sa Barangay (TPSB)* program, which provides a regular supply of clean, safe, and affordable drinking water to the urban poor. The scheme builds on the successful track record of the TPSB program and seeks to speed up rollout of individual connections to poor households through one-time subsidies to cover the cost of the connection fee.



Photo courtesy of Manila Water Company

Background

The delivery of water supply and sewerage services in the Metro Manila region is the responsibility of the government-owned Metropolitan Waterworks and Sewerage System (MWSS). Since 1997, MWSS has contracted out provision of services via two 25-year concessions based on a geographic division of the urban area: the east zone was contracted to the Manila Water Company (MWC), and the west zone to Maynilad Water Services (MWSI).

The required service performance of both concessionaires is defined in the 1997 concession agreement, as amended over time. Since 1997 MWC has enjoyed great success in improving services; it has reduced nonrevenue water from 63 percent to 19.6 percent from 1997 to 2008 and has met and exceeded its major service obligations. Most notably, both access to and reliability of services, particularly to low-income households, has increased substantially, and reliability in terms of 24-hour availability increased from 26 percent to 99 percent of customers from 1997 to 2008. MWC now supplies 5.1 million residents with water and sewage services.

Connections for the Poor: One of the Remaining Challenges

MWC has instituted a number of programs in pursuit of its stated vision to "become the leader in the development and provision of water and wastewater services in ways that help build sustainable communities..."¹ Community programs include water and sanitation for service institutions such as hospitals, prisons, and schools, and the cooperative development program, which helps develop backyard cooperatives that provide products and services for its works programs. MWC's flagship program, launched in 1998, is the "Water for the Community," or *Tubig Para sa Barangay (TPSB)* program. Since its launch, more than 1.5 million urban poor have been given a regular supply of clean, safe, and affordable drinking water. The GPOBA project builds on the

Iain Menzies is a Senior Infrastructure Specialist in the World Bank's Finance, Economics and Urban Development Department. **Mario Suardi** is a Senior Infrastructure Specialist in the Global Partnership on Output-Based Aid.

successful track record of the TPSB program, as well as concerns identified in various independent evaluations conducted by the Asian Development Bank, the World Bank, and other organizations.

The TPSB program sought to speed up rollout of connections to poor households by tapping the community culture in the Philippines, and by working through local community leaders to achieve communal solutions for water supply. Initially, MWC offered communal meter or shared meter options (among five to seven households) to reduce the connection fees for individual households, while placing more responsibility on those individual households/communities for connecting households downstream of the meter and maintaining that “private” infrastructure. Subsequently, MWC switched to provide bulk supply or shared bills, placing the pressure and costs of bill collection partly on the beneficiary communities. At first, communities were also charged higher “bulk” tariffs, a practice MWC later modified by using social tariffs, with the consent of the Regulatory Office (MWSS-RO).

Several evaluations, while clearly crediting this approach with much faster improvements for poor households, have pointed out equity concerns. Moreover, MWC’s experience operating such schemes has demonstrated a number of the drawbacks of the shared billing approach for individual poor households. Some individual households have not paid their share of the billings, and significant customer management and credit issues have arisen with this approach; however, MWC has been reluctant to disconnect the whole community. Therefore, in this output-based aid (OBA) scheme, MWC is proposing to connect all beneficiary households with individual connections. This project would then provide the basis for a meaningful side-by-side comparison of the two approaches.

Targeting the Poor

The GPOBA project targets small pockets of households/communities that are located within larger service areas of MWC that are already being served or will be served shortly. Moreover, subsidies are targeted to reach households predominantly below the poverty line for the Metro Manila area (National Capital Region, NCR). MWC has adopted two approaches to assess/confirm low-income community eligibility. Manila Water, with its community-based partners, surveys potential communities, leveraging the expertise accumulated through the TPSB program. In addition, target communities must be

officially certified (in accordance with national government directives for poverty surveys) as “indigent” by the respective Barangay leader, indicating that a majority of households fall under the national poverty line.

Setting the Right Level of Subsidy

OBA subsidies will be paid directly to MWC on a per new connection installed and operating basis. Without the GPOBA subsidy, the total connection charge payable by a household to MWC for a service connection would be relatively high: PHP 7,531.73 (US\$167). This charge, set for 2007, consists of three parts:

	PHP	US\$
Meter deposit	1,020.00	23
Guarantee deposit	600.00	13
Connection fee	5,911.73	131
Total	PHP 7,531.73	US\$167

From the household survey data and MWC’s experience working with indigent communities, it was clear that poor households could not afford such connection charges. However, community feedback indicated that low-income households could afford to pay the meter deposit and guarantee deposit of PHP 1,620 (US\$36) if this could be paid in installments. MWC proposed and is currently offering an installment scheme over 36 months. The OBA subsidy, at 2007 prices, was therefore set at PHP 5,911.73 (US\$131). The GPOBA subsidy will be paid directly to MWC as a single payment, conditional on the independent verification of three months’ satisfactory service delivery.

Under the terms of the concession agreement, the connection fee is indexed on an annual basis in line with Consumer Price Index (CPI) data produced by the MWSS-RO. To mitigate the risk of cost inflation, it was agreed that the unit subsidy would be similarly indexed. The unit subsidy (or other aspects of the scheme design) may also be adjusted to reflect modifications to the connection fee resulting from tariff and charge reviews undertaken by the MWSS-RO.

Subsidies will not be substituting for MWC investment obligations that form part of its five-year plan approved by the MWSS-RO. The MWSS-RO has been

fully informed of the terms of the grant agreement that governs the OBA subsidy and has provided a letter of endorsement for the OBA scheme.

Defining Outputs and Ensuring Performance

The output for this OBA scheme is sustainable access to modern water services, as evidenced by working connections to the MWC network and three months of satisfactory service provision. To ensure that MWC has delivered these outputs, the Independent Verification Agent (IVA), appointed by Manila Water, must confirm the following four outputs on a representative sample of beneficiary households:

- installed water meter
- 24-hour water supply (beneficiary confirmation)
- water pressure of at least 5 psi (pounds per square inch) (from MWC operational records)
- water bill delivered, demonstrating consumption/ service delivery (confirmed by beneficiary and MWC billing records)

Contractual and Institutional Arrangements

Figure 1 summarizes the contractual and institutional aspects of the scheme design. Although the

Independent Verification Agent is appointed by Manila Water, the terms of the appointment and actual procurement require GPOBA approval. GPOBA also explicitly funds the IVA through the grant agreement.

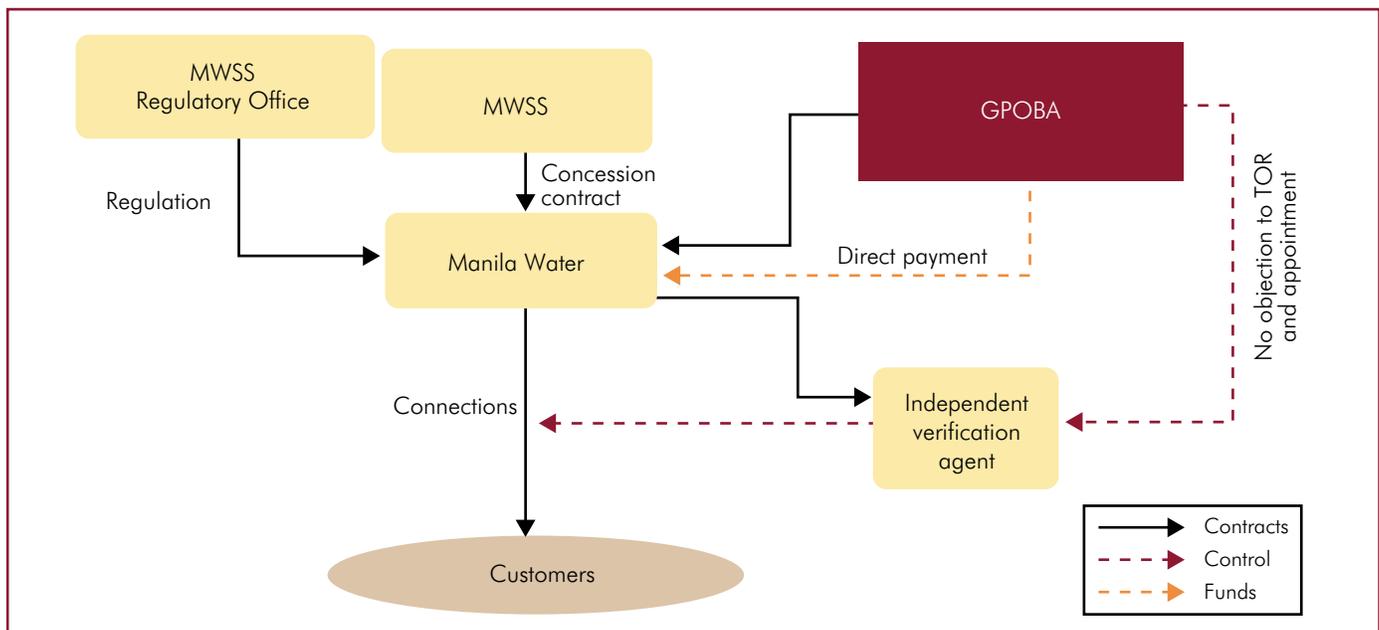
Results So Far

The potential number of beneficiaries within the targeted communities totals some 21,000 poor households (about 105,000 people). The project became effective on January 18, 2008 and 10,642 connections were completed by the end of the year. Disbursements have been somewhat delayed, however, because of difficulties in verifying water pressure output compliance. The Manila Water Company has now provided pressure maps so that the independent output verification can be completed, and disbursement will proceed shortly.

Scale-up Potential

Given the success of the Manila Water OBA pilot scheme, initial discussions have been held with the National Economic and Development Authority (NEDA) on scaling up through the creation of a national OBA water facility. Such work has recently been incorporated into the work program agreed with NEDA for FY09/10.

Figure 1. Contractual Arrangements and Funds Flow



■ Lessons Learned

Following successful implementation of the first stage of the project, a number of aspects of the scheme design are under review. In particular, MWC has observed that many beneficiary households have not modified water consumption patterns following connection; they continue to use water in the same way as they had previously by filling water containers for use inside their homes. As a result, some of the planned benefits of an individual household connection to a potable water supply network are not materializing.

MWC has proposed an alternative design that involves providing beneficiary households with the

internal plumbing necessary to bring the water to a kitchen sink and toilet. This arrangement, while improving water supply service access, would significantly increase the volume of wastewater produced by each household. Many of the poorer communities lack facilities for wastewater collection/treatment. Thus GPOBA and MWC are now working on the development of a comprehensive design proposal to incorporate wastewater management.

¹ Manila Water Company, Sustainability Report 2007.

About OBAApproaches

OBAApproaches is a forum for discussing and disseminating recent experiences and innovations in supporting the delivery of basic services to the poor. The series focuses on the provision of water, energy, telecommunications, transport, health, and education in developing countries, in particular through output-, or performance-, based approaches.

The case studies have been chosen and presented by the authors in agreement with the GPOBA management team and are not to be attributed to GPOBA's donors, the World Bank, or any other affiliated organizations. Nor do any of the conclusions represent official policy of GPOBA, the World Bank, or the countries they represent.

To find out more, visit
www.gpoba.org



The Global Partnership on Output-Based Aid