

## The national government's role in local water supply delivery in the Philippines

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To fast-track the achievement of Sustainable Development Goal 6 to “ensure availability and sustainable management of water and sanitation for all”, the *Philippine Development Plan 2017–2022* has identified water supply and sanitation (WSS) as essential to “accelerate strategic infrastructure development” (NEDA 2017a). The *Philippine Water Supply and Sanitation Master Plan 2019–2030* presents an action plan to achieve universal access to safe WSS by 2030 (NEDA 2019). Though these are international and national goals, actual water service delivery, being a devolved public service, depends heavily on local governments and communities.

This *Policy Note* looks into the national government's role in the delivery of local water supply through a survey of national government-funded programs for local water provision. Specifically, it examines expenditure trends and whether project objectives are attained using a mixed-methods approach through sequential parallel analysis.

### **Water as an economic good**

Water is a complex good. The different stages of its provision determine the type of good it is perceived and, therefore, how it is provided, managed, and regulated. First, water at the source is a common resource. Since every additional user can reduce water supply, unregulated access to a water source can result

### **Salient Points:**

- *Decades of national government budgetary support for local water projects show erratic funding owing to varied demand across local government units (LGUs). Fund utilization is also higher for national government initiatives than the mandated local development fund, which is the source of LGUs' infrastructure spending.*
- *With the implementation of the Mandanas ruling in 2022 and the possible discontinuation of the national government's infrastructure programs, LGUs will be primarily responsible for attaining Sustainable Development Goal 6 of universal access to water by 2030.*
- *If, however, the national government maintains a local water support program, it should be strategically targeted, given the weak evidence that past programs were associated with regional poverty incidence and access to water supply.*

in overconsumption. This negative externality can be managed by having a regulatory body control its usage through permits (Stiglitz and Rosengard 2015).

The second stage is potable water distribution. Water provision is considered a natural monopoly. Given the large sunk costs needed to establish a water system,

having fewer suppliers is more acceptable and efficient to take advantage of economies of scale. Economic theory, however, prescribes a different kind of regulation, one for an imperfect competition<sup>1</sup> to ensure nonexploitative pricing (Zetland 2014; Stiglitz and Rosengard 2015). Furthermore, water quality standards must also be regulated.

The nature of regulation or economic provision also depends on who provides water and how. If it is the government, the pricing mechanism and regulation depend on whether the water service is provided free or with tariff imposed (to recover costs). Pricing also depends on the level of a water system and is determined more in the realm of the political economy (Zetland 2014). If it is the private sector or a hybrid public-private sector that provides water, regulators treat it as a natural monopoly (Stiglitz and Rosengard 2015).

### **Decentralized Philippine water supply service delivery**

The Philippine water sector operates under at least eight legal frameworks, with the fundamental law being the Water Code of the Philippines (Presidential Decree [PD] 1067). Several regulatory bodies are responsible for water service delivery. The two main bodies are (1) the National Water Resources Board (NWRB), which is in charge of setting, administering, and enforcing all rules related to water, such as the control, conservation, and protection of waters, watershed, and related land resources (Rola et al. 2015); and (2) the Local Water Utilities Administration (LWUA), which is a specialized lending institution for the promotion, development, and financing of local water utilities (PD 198 as amended by PD 768).

The NWRB regulates the 12 water resource regions in the country. Since these water resource regions are fewer and different from administrative regions, these common resources are shared by different local government units

<sup>1</sup> Imperfect competition is a situation where there are few suppliers/firms in a market such that they can charge a high price.

(LGUs). This brings about the need for cooperation and comprehensive planning of water resources development across LGUs (Rola et al. 2015).

The different management types of water service providers (WSPs) (Table 1) are categorized into various water system levels (Table 2). Overall, 43.6 percent of the country's population have access to Level 3 water, 11.2 percent to Level 2 water, and a surprisingly large proportion of 45.2 percent to Level 1 water (NEDA 2019).

### **Evidence on national government support programs for local water supply**

The two major programs of the national government to support water supply provision are (1) the *Sagana at Ligtas na Tubig Para sa Lahat* (SALINTUBIG) and (2) the Local Government Support Fund Assistance to Municipalities (LGSF-AM)<sup>2</sup> program. SALINTUBIG was implemented in 2012 as a pro-poor initiative designed to provide community-based water supply systems to 455 waterless municipalities (NEDA 2017b).<sup>3</sup> Beneficiaries were identified based on poverty incidence, presence of waterborne diseases, and access to water.<sup>4</sup> Initially, the LGU had to be a Seal of Good Housekeeping awardee to qualify for the grant, but through time, the program coverage has been expanded as part of the Bottom-up Budgeting (BuB), Grassroots Participatory Budgeting, and the LGSF-AM. The amount of the grant depended on the kind of water supply project<sup>5</sup> requested but could be topped up or cofinanced by the LGU (DILG 2012).

<sup>2</sup> LGSF-AM evolved from the Bottom-up Budgeting and Local Government Support Fund Assistance to Disadvantaged Municipalities (LGSF-ADM) programs.

<sup>3</sup> Waterless areas are those where more than 50 percent of the total poor population in a municipality or barangay do not have access to safe water supply.

<sup>4</sup> Based on the priority list identified by the National Anti-Poverty Commission using the Department of Social Welfare and Development's National Household Targeting System.

<sup>5</sup> Eligible projects for infrastructure investments included the rehabilitation/expansion/upgrading of Level 3 water supply systems and construction/rehabilitation/expansion/upgrading of Level 1 and Level 2 water supply systems.

**Table 1. Water supply service providers by management type**

Major Groups	Management Type	Description
Water districts	Water district	A quasi-public corporation formed by an LGU under the Provincial Water Utilities Act and recognized with a Certificate of Conditional Conformance by LWUA
LGU-run utilities	LGU-run utility	A water supply system (WSS) owned and operated by an LGU
Community-based organizations	Barangay water and sanitation association	A nonstock and nonprofit organization that owns, operates, and maintains a water system and sanitation facilities in the barangay
	Rural water supply association	A nonstock and nonprofit organization formed by a group of persons in a defined area, such as a street, a group of houses, a <i>sitio</i> , or a <i>purok</i> , to establish and maintain water supply and sanitation
	Cooperative	A membership organization formed under the Cooperative Code of the Philippines and registered with the Cooperative Development Authority
Private utilities	Homeowners' association	An organization that operates and maintains a water supply system and is registered with the Securities and Exchange Commission or Housing and Land Use Regulatory Board
	Real estate developer	A real estate developer that operates a water supply system for its lot owners
	Unnamed WSP	An unregistered WSP that serves at least 15 households
	Industrial locator	An industrial estate that operates a water supply system for its locators in an economic special zone
	Peddler	A nonpipe WSP that extracts and delivers water through containers
	Ship chandler	A WSP for ships
	Other private operators	Other private entities formed under the general business and corporation laws of the country to operate and maintain a WSS

LGU = local government unit; LWUA = Local Water Utilities Administration; WSS = water supply system; WSP = water service provider  
Source: NEDA (2019)

**Table 2. Definition of water systems**

Level	Description
Level 1 (point source)	A protected well or a developed spring with an outlet but without a distribution system serving an average of 15 households, with people having to fetch water from up to a 250-meter distance
Level 2 (communal faucet system or stand post)	A piped system with communal or public faucets serving 46 households within a 25-meter distance
Level 3 (waterworks system)	A fully reticulated system with individual house connections based on daily water demand of more than 100 liters per person

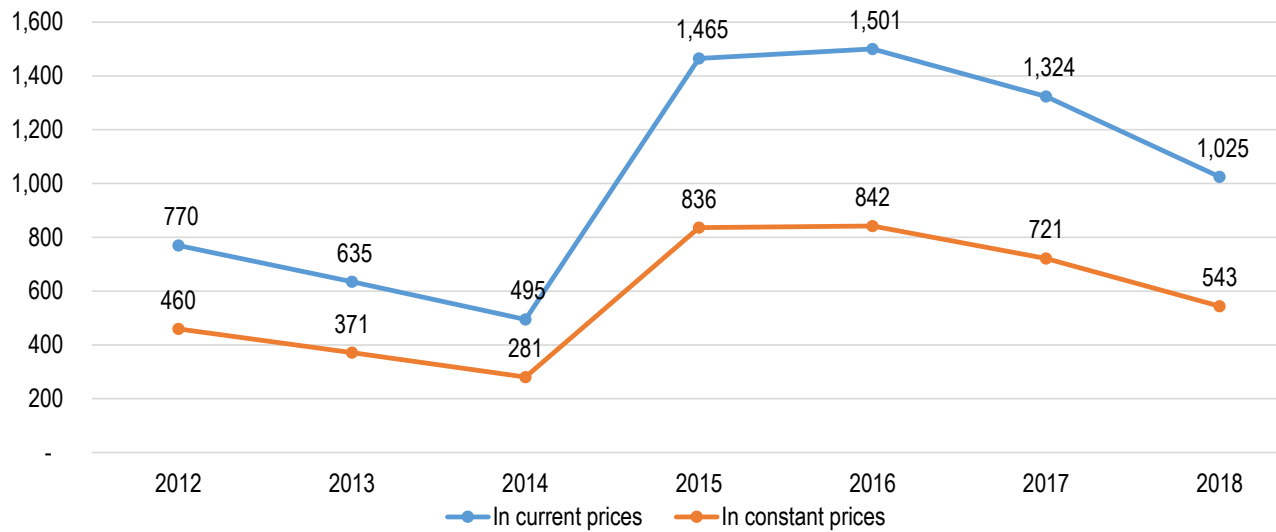
Source: NEDA (2010)

Although the number of waterless municipalities decreased from 455 in 2010 to 234 in 2015, the budget allocations under the SALINTUBIG program had increased in succeeding years because of the rising number of barangays without access to water in the remaining waterless municipalities. SALINTUBIG expenditures peaked in 2016 at PHP 1.5 billion but

have been declining since then (Figure 1). For the BuB program, expenditures had been increasing from 2014, peaking in 2017 at PHP 3.4 billion (Figure 2).

As BuB evolved into the LGSF-ADM and LGSF-AM programs, expenditures on water systems declined in 2018. The irregular funding for these programs could

**Figure 1. SALINTUBIG expenditures in million PHP, 2012 to 2018**



SALINTUBIG = *Sagana at Ligtas na Tubig para sa Lahat*  
 Source: DILG (2020)

be attributed in part to the demand for water services being dependent on the dynamism of the local economy and population. It was also observed that allotments for both programs were almost fully utilized compared to LGUs' local development funds (LDF), whose utilization has been historically low (Diokno-Sicat et al. 2020).

One of the challenges of having different programs addressing the same purpose is monitoring their progress and impact. This study examined correlations of regional poverty incidence and the proportion of households with access to water in areas that received SALINTUBIG and BuB/LGSF-ADM/LGSF-AM funding. It is hypothesized that expenditures on water service provision by the national government should be (1) higher for regions with higher poverty incidence and (2) lower for regions with a higher proportion of households with access to water.

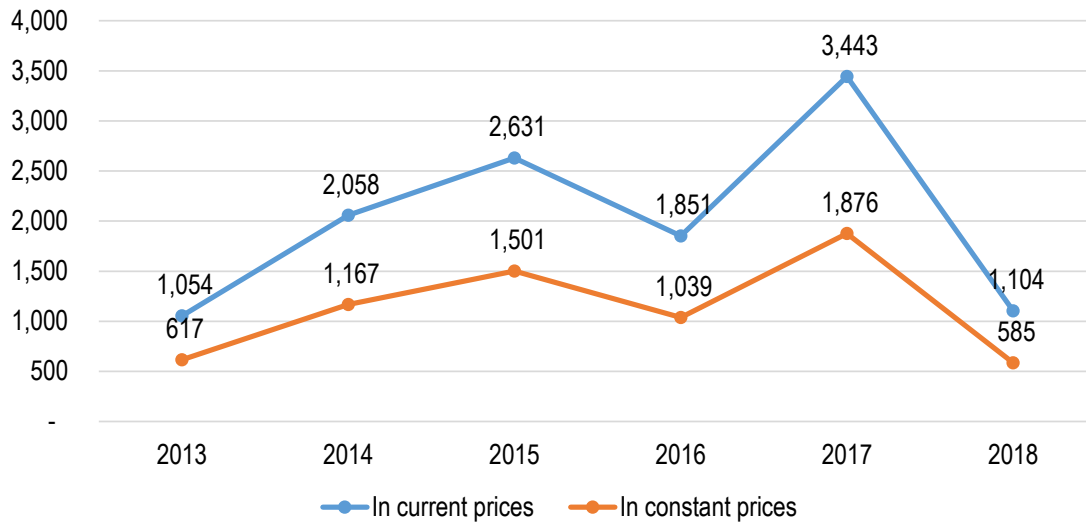
The study, however, found that poverty incidence is only moderately correlated with SALINTUBIG and weakly correlated with BuB/LGSF-ADM/LGSF-AM program

expenditures. A stronger correlation is to be expected for SALINTUBIG because it is focused on water service provision compared with the BuB/LGSF-ADM/LGSF-AM programs, which can be used for several other priority infrastructures.

Regional poverty incidence accounts for only 16 percent of the variations in SALINTUBIG expenditures and 15 percent in BuB/LGSF-ADM/LGSF-AM expenditures. These results suggest that regional poverty incidence is not a strong determinant of these programs, which, for a time, were targeted towards poorer LGUs.

There is also a weak correlation between the regional distribution of SALINTUBIG expenditures and the proportion of households without water service by region. For the programs funded under the BuB/LGSFADM/LGSF-AM, no such association was observed. Thus, factors other than poverty incidence and household access to water determined the distribution of expenditures for these programs.

**Figure 2. BuB/LGSF-ADM/LGSF-AM expenditures in million PHP, 2013 to 2018**



BuB = Bottom-up Budgeting; LGSF-ADM = Local Government Support Fund Assistance to Disadvantaged Municipalities; LGSF-AM = Local Government Support Fund Assistance to Municipalities  
 Source: DILG (2020)

### Recommendations

The review of the national government’s local water support programs showed that (1) LGUs received irregular funding because of the varied demand for water services; (2) funding for national government-initiated programs had been almost always fully utilized while utilization of LDF, which is the source of funding of LGUs’ infrastructure investments, had been perennially short of the mandate; and (3) regional distribution of expenditures was weakly, at best moderately, associated with poverty incidence.

The low capacity of LGUs to spend their LDF will create a problem if the national government decides to discontinue financing local infrastructure programs given the impending fiscal impact of the Mandanas ruling. The Mandanas ruling of the Supreme Court, which will take effect in 2022, will significantly increase LGU intergovernmental fiscal transfers because of the expanded national internal revenue tax base. Thus, in the post-Mandanas scenario and the absence of national government-funded programs, the responsibility of closing the gap to attain universal water by 2030 lies entirely on LGUs and local communities.

With these findings, it is recommended that oversight agencies, such as NEDA, DILG, and Department of Budget and Management, ensure that LGUs spend on water if support programs of the national government are discontinued. This requires strengthening LGUs’ capacity for investment planning, identifying bottlenecks, and finding solutions for the delayed utilization of their LDF.

On the other hand, if the national government decides to maintain its local water supply support programs, it must ensure that these are purposively targeted. Efforts in addressing political economy issues affecting water service provision must also be strengthened. Overlapping WSPs highlight the inefficient use of investments because of political economy issues.

For decades, the DILG (2006) has reissued a memorandum circular on the “Operational Autonomy of the Local Water Districts”, reminding LGUs to “allow water districts to operate with least hindrance and interference from local officials but with maximum support and assistance”.

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