

# **THE GLOBAL FINANCIAL AND ECONOMIC CRISIS AND THE WATER SECTOR**

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## **LIST OF ABBREVIATIONS AND ACRONYMS**

AfDB	African Development Bank	NEPAD	New Partnership for Africa's Development
AGRA	Alliance for Green Revolution in Africa	NBI	Nile Basin Initiative
AICD	Africa Infrastructure Country Diagnostic	NGO	Non-governmental organisation
AMCOW	African Ministerial Conference on Water	NELSAP	Nile Equatorial Lakes Subsidiary Action Plan
AU	African Union	O&M	Operation and maintenance
AWF	African Water Facility	OBA	Output-based aid
AWV	African Water Vision	ODA	Official development assistance
CAADP	Comprehensive African Agricultural Development Plan	OECD	Organisation for Economic Cooperation and Development
CapEx	Capital Expenditure	PIDG	Private Investment Development Group
COP	Conference of Parties	PPIAF	Public-Private Infrastructure Advisory Facility
DFI	Development Finance Institutions	PPP	Public-private partnership
DAC	Development Assistance Committee (of the OECD)	PSP	Private sector participation
DFID	(UK) Department for International Development	RWSSI	Rural Water Supply and Sanitation Initiative
EAC	East African Community	SADC	Southern Africa Development Community
EDF	European Development Fund	SEK	Swedish kronor
EIB	European Investment Bank	SFP	Strategic Financial Planning
EUAITF	EU Africa-Infrastructure Trust Fund	UNICEF	UN Childrens' Emergency Fund
EUIP	EU Infrastructure Platform	WB	World Bank
EUNIF	EU Neighbourhood Investment Facility	WHO	World Health Organisation
EUWI	EU Water Initiative	WSP	Water and Sanitation Program (of the World Bank)
FAO	United Nations Food and Agriculture Organization	WSS	Water supply and sanitation
FDI	Foreign Direct Investment		
GFRP	Global Food Crisis Response Program		
GNP	Gross National Product		
GWP	Global Water Partnership		
IADB	Interamerican Development Bank		
ICA	Infrastructure Consortium for Africa		
IDA	International Development Association (of the World Bank)		
IFAD	International Fund for Agricultural Development		
IFC	International Finance Corporation		
IFI	International Financial Institution		
IMF	International Monetary Fund		
IWRM	Integrated Water Resources Management		
LIFDC	Low Income Food Deficit Countries		
MDG	Millennium Development Goals		
MDWPP	Multi-Donor Water Partnership Program (WB, or AfDB)		
MFA	Ministry of Foreign Affairs		
MICs	Middle Income Countries		

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# 1 KEY MESSAGES

This Report examines the financial status and needs of the global water sector in the light of the current international economic and financial crisis. Its main messages are:

**1. Financial crisis and food crisis set back growth and poverty gains.** The global financial crisis that has developed since 2007 has overlapped with the earlier food crisis, and has, together with fluctuating energy costs, compounded the economic problems of many developing countries, including many of the poorest. Economic growth in Africa as a whole is likely to decelerate from an estimated 5.7% in 2008 to 2.8% in 2009, affecting most severely those with lesser economic diversification and greatest dependence on external finance.

**2. Persistent underinvestment in water.** These twin crises are overlaid on a more fundamental crisis for water in many countries that has been made even worse by recent events. The basic problem is underinvestment in three key aspects of water, namely: 1) water services, both for basic needs and productive services necessary for economic growth, 2) water resource management and development and 3) governance functions (such as reform, regulation, pollution control, data collection and monitoring).

**3. Deteriorating and deficient infrastructure have stalled MDG progress.** The cumulative result of neglect and underinvestment is deterioration in the infrastructure providing water services to households and farmers, and a lack of infrastructure to cope with the succession of droughts and flooding worsened by climate change. Many countries, especially in Africa, are seriously lagging in their progress towards achieving the Millennium Development Goals for water supply and sanitation, and other MDGs (notably poverty reduction, hunger reduction and access to energy) where water infrastructure has yet to make a key contribution.

**4. Financial vulnerability of water services.** Water services are particularly vulnerable in the current financial climate. The three basic sources of revenue - tariffs, taxes and external transfers (the “3Ts”) - are all likely to suffer. This is affecting access to repayable sources of funds to the sector such as commercial loans, bonds and private equity.

**5. Seven impacts of the crisis.** Developing countries have been affected by the economic crisis through seven principal impacts: financial, trade, commodity prices, foreign direct investment, remittances, aid disbursements, and exchange rate movements. The net result of these impacts varies by countries, and some countries will even gain, but most African countries will end as losers. The situation is still evolving, and the permanent impacts are unlikely to be known for some time. Firm evidence of impact in the water is likely to emerge over the next 12-24 months, as 2009 statistics on the water sector become available from 2010 onwards.

**6. Long-term problems aggravated by the economic crisis.** The water sector’s difficulties will be aggravated by the crisis. Evidence based on previous financial crises, most recently the crisis in East Asia in 1997, indicates that investment in infrastructure will be reduced, with long term repercussions on growth and poverty reduction.

**7. Deficient financial flows in Africa.** New estimates indicate that Africa’s annual financing requirements for water could be US\$ 50bn, into drinking water and sanitation, wastewater, desalination, irrigation and water management, hydropower and multipurpose storage. Compared with this need, current flows are deficient in many respects: overall amounts are inadequate, geographically imbalanced, and insufficient to fund capital expansion and recurrent costs (of operation, maintenance, governance, resource management and observational networks) at the rates needed for growth and development.

**These findings highlight the need for a purposeful and proportionate response to the financial needs of global water, which responds to problems caused by the current international financial and economic crisis, but which goes beyond this to address the chronic under-financing of this sector.**

**8. Rise of new disbursement instruments.** On a positive note, the international development banks (IFIs) are gearing up to expand their lending, which is particularly suitable for water infrastructure and Development Financing Institutions (DFI) are prepared to scale up the use of investment guarantees to back up infrastructure investment transactions. A number of countries are also including water infrastructure in their economic stimulus packages. Publicly sponsored investments from Asia and the Middle East can boost development in Africa.

**9. Opportunity to trigger reforms.** The unfolding financial and economic crisis, added to the other problems in the global economy, is having a serious impact on developing countries and their water infrastructure. However, if it can trigger reforms in the current “business as usual” approach to water and stimulate innovation and new sources of financing it will have some positive outcomes in the longer term.

**10. Policy response opportunities available to Sida.** The report contains a menu of actions for Sida to consider for mitigating the impacts of the compound crises on the poor. It comprises measures to counter the impacts of the current economic crisis, the lingering food crisis and aspects related to increasing energy costs. A second category of actions – Levers of Change – would contribute to addressing some of the underlying, problems involved in raising investment in water to the level needed to deliver basic services and economic growth.

The menu of actions takes into account Sida’s formal response to the Swedish Government on the implications of the global economic crisis and suggests that more can be done to improve the livelihoods for the poor that are water-related. The analysis is informed by the fact that Swedish development assistance to water was officially at 3.3% of Sida’s total ODA disbursements in 2008 compared to an OECD average of 8% in 2006<sup>1</sup>. Actions take into account Sida’s channels for development assistance (bilateral and multilateral). Policy options are summarised in the following Table. These policy options and linked actions are described comprehensively in Chapter 6.

Summary of policy response options for Sida to consider

<i>Countering impacts of the economic and food crises</i>	<i>Levers of change</i>
<ul style="list-style-type: none"> <li>a) National economic stimulus packages</li> <li>b) Food price crisis response</li> <li>c) Mobilising NGOs and civil society for local operations</li> <li>d) Risk sharing instruments</li> <li>e) Blending grant and loan finance</li> <li>f) Urgent housekeeping and efficiency measures to strengthen finances of water services</li> </ul>	<ul style="list-style-type: none"> <li>g) Supporting African regional organizations and promoting regional integration</li> <li>h) Building the pipeline of ‘bankable’ projects</li> <li>i) Co-financing with multilateral agencies</li> <li>j) Leveraging commercial and private finance</li> <li>k) Pioneering Strategic Financial Planning</li> <li>l) Transition of emergency water support to sustainable water management in fragile States</li> </ul>

**11. Implementing policy change at Sida to promote water related livelihood outcomes.** The following implementation actions within Sida are suggested to enable policy responses to be moved forward:

- a) Identify crisis response options urgently through rapid assessments,
- b) A comprehensive update of Sida’s water policy and financial commitments,
- c) Strengthening and supporting Sida’s internal services and country teams,

<sup>1</sup> Not taking environment and climate change aid into account (see details in Annex 3).

- d) Forging global partnerships with IFIs, DFIs and bilateral ODA alliances for effective coordination and delivery,
- e) Maximizing input from Sweden's human resource base to support implementation in several sectors,
- f) Leading the global water agenda for real development outcomes through applied research and innovation.

## 2 Report Summary

### 2.1 Outline of the report

As recognised in the opening key messages of the 3<sup>rd</sup> World Water Development Report, ‘Water is essential for achieving sustainable development and the Millennium Development Goals. Properly managing water resources is an essential component of growth, social and economic development, poverty reduction and equity and sustainable environmental services – all essential for achieving the Millennium Development Goals. Water is linked to the crises of climate change, energy and food supplies and prices, and troubled financial markets. Unless their links with water are addressed and water crises around the world are resolved, these other crises may intensify and local water crises may worsen, converging into a global water crisis and leading to political insecurity and conflict at various levels.’

This report examines (in Chapter 3) the impact of the financial crisis since 2007 and relates this also to the impact of the food price crisis beginning one year earlier. Chapter 4 examines the status and trends in the financing of water in Africa, and Chapter 5 assesses the deficiencies of the current model that has created inadequate financial flows. Chapter 6 presents suggestions for Sida to consider in framing its response to the immediate financial troubles and – looking beyond these – addressing the underlying needs of Africa’s water resources management, services and governance through levers of change.

This chapter provides an overview of the main issues involved, and how Sida could contribute to the global response.

### 2.2 Impact of the global financial crisis

The impact of the financial crisis on developing countries is multi-faceted. Seven key impacts stand out:

1. Reductions in financial flows (contraction of bank liquidity, declining international commercial lending, the “flight to quality” amongst fund managers and investors, risk appetite is lost)
2. Contraction of trade (lower investment, reversal of inventory building, reduced consumption, growth of protectionism)
3. Falling commodity prices (falling, due to declining demand and de-stocking)
4. Reduced Foreign Direct Investment (FDI) by the private sector
5. Reduced remittance flows, almost as important as exports to many countries, will be hit by reduced earnings of migrants, and unemployment, in their host countries
6. Reduced disbursement of aid (ODA) which could be curtailed by the budgetary difficulties in their source countries
7. Exchange rates fluctuations. Forces such as those above will manifest themselves in depreciation, adding to the burden of servicing foreign debts and raising the cost of importing inputs, consumer goods and food.

The outcome of these individual forces will differ between countries and regions, meaning that the overall impact of the crisis is highly differentiated. Some countries will even end up as net gainers. All these forces do, however, point in the same negative direction for Africa. Economic growth in Africa as a whole is likely to decelerate from an estimated 5.7% in 2008 to 2.8% in 2009<sup>2</sup>, affecting most severely those with lesser economic diversification and greatest dependence on external finance<sup>3</sup>. Its potential social impact is serious since a disproportionate part of the impact and the required

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<sup>2</sup> Africa Economic Growth Outlook, 2009

<sup>3</sup> African Center for Gender and Social Development: African perspectives of the global economic and financial crisis, including the impact on health. 2009

adjustment falls on the poorest in society. Spending on public programmes benefiting the poor is also likely to be reduced.

### 2.3 The food price crisis

The global economic and financial crisis since mid-2007 overlaps a food price crisis that has been gathering force since 2006. Although the latter had separate causes<sup>4</sup>, the two crises have compounded the problems for many countries, notably the poorest and most vulnerable.

The 2008 food price crisis came after the downward trend in food prices during the 1980s and 1990s reversed in the early 2000s, when world stocks of wheat, maize and rice had dropped to 30-year lows<sup>5</sup>. The fall in stocks, reflecting a lag of production behind consumption, caused inflation in food prices to rise sharply, from 9% in 2006 to 23% in 2007 and 51% between January-June 2007 and January-June 2008<sup>6</sup>. Africa's cereal import bill (maize, wheat and rice), already high at 20 billion US\$ per year before the crisis, is estimated to have increased by 49% during 2008 and remained high, compared to rises of 25% in Asia and 31% in Latin America<sup>7</sup>. Other contributing factors were Australian and southern European drought, and the growing demand for biofuels that, according to some, reduced availability of cereals on the global market due to market demands in the USA and Europe. At the same time, the price of fossil-based energy increased, causing major price increases in agribusiness, particularly fertilizer.

In coping with consecutive food and economic crises, poor people in many countries have been forced to reduce their dietary diversity and cut spending on essential items such as education and health care. At such times of hardship the poor draw on their meagre assets even more deeply, creating poverty traps and reducing longer-term food security. Infant mortality and gender inequality are likely to increase.

### 2.4 Impact on the global water sector

The “water sector” is a spectrum of different activities and services, each with specific financial needs. It comprises various kinds of *services* – household water supply & sanitation, wastewater collection and treatment, industrial use, irrigation, navigation, and hydropower. Secondly, these services depend on *managing, protecting and developing the water resource* through source development for outcomes through agriculture and energy, watershed and groundwater management, flood control, environmental conservation and pollution control. A third category consists of *g*, including policy-making, regulation, institution building, research, data collection and monitoring, and public information.

Although the service category above is most visible - particularly water supply and sanitation - and tends to attract most finance, the other two types also need adequate funding. All parts of the sector hang together - under-funding in one part soon shows up as problems for others. It is, however, a fact that governments faced with fiscal problems turn to cuts in areas where spending can easily be postponed, which includes many of the resource management and governance activities.

Much water investment is in long-lived infrastructure for which long term and, ideally, low interest loans or bonds are appropriate. Some infrastructure - urban water supply, wastewater treatment plants, industrial water supplies, hydropower and even irrigation services – can attract private equity and the various forms of public-private partnership, given appropriate financing structures and risk sharing. However, all such repayable financing sources rely on a robust cash flow for their repayment or servicing. These basic revenues consist of the “3Ts” - tariffs, taxes and transfers from external

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<sup>4</sup> *Extreme climatic events also played their part in disrupting agriculture and food output. One of the contributing factors to the 2007-2009 price increases was six years of drought in Australia*

<sup>5</sup> *ESCAP “Sustainable Agriculture and Food Security in Asia and the Pacific” 2009*

<sup>6</sup> *United Nations Food and Agriculture Organization/WFP State of Food Insecurity 2009*

<sup>7</sup> *African Development Bank Food Price Crisis Response 2008*

agencies. Where water governance is weak – which is the situation in many countries – water becomes the most problematic part of public infrastructure to finance, and has a number of specific risks to overcome.

These structural features create “pressure points” where the crisis would hit. Each of the 3Ts would be affected. Likewise, repayable funding sources – commercial loans, bonds and private equity – would be reduced. The many hybrids and facilities that have been developed to encourage more flows of money into water would have to survive in a harsher environment. The crisis will make it even harder for developing countries to raise (or even maintain) their rate of investment and spending for water.

The latest shocks come against a background of inadequate and uneven financing of key parts of the water sector. The latest events are likely to make an unsatisfactory underlying situation even worse. The situation is still evolving, and the permanent impacts are unlikely to be known for some time. But the crisis adds to the urgency of reforms that have long been seen as necessary: many believe this is “too good a crisis to waste”.

## **2.5 African water services, water resource management and development, and governance: financing status and trends**

The latest estimates of the cost of attaining the Africa Water Vision 2025<sup>8</sup> contain annual totals of around US\$ 50 billion over the next 20 years or more. This breaks down as follows (in US\$ bn.): drinking water and sanitation 12, wastewater collection and treatment 5, desalination 1, agricultural irrigation and water management 5, multipurpose water storage including hydropower 20, multipurpose water storage (excluding hydropower) 5, and policy and knowledge 2. While needs in drinking water and sanitation and governance remain more or less constant, annual requirements in water resources infrastructure have increased four-fold in the context of attaining the Africa Water Vision 2025. However, even estimates of drinking water and sanitation costs per year may be updated to more than 20 billion US\$ per year by the Africa Infrastructure Country Diagnostic to be released in November 2009.

Although the above financial totals are described as “costs” they could equally be called “investments” since water infrastructure benefits development in many ways. The WWDR3 presents evidence that such investments can have large payoffs: “Investments in water infrastructure by the US Army Corps of Engineers between 1930 and 1999 yielded returns of \$6 for each \$1 spent”. The benefits of meeting the MDGs for water and sanitation have also been clearly documented: “The overall economic loss in Africa alone due to lack of access to safe water and basic sanitation is estimated at \$28.4 billion a year, or around 5% of GDP”<sup>9</sup>.

The sub-sectors distinguished above will not all be affected equally by the current crisis, and certain of them could even benefit from the revival of lending from the IFIs, stimulus and investment packages in response to the crises, and the opportunities arising from the new sources of finance from Asia and the Middle East. For example, in early 2009, the Government of China announced a package of 10 billion US\$ support to Africa’s infrastructure. Africa’s exposure to food insecurity, and what this implies for land and irrigation development, and the need for storage to mitigate both flooding and droughts, means that all these opportunities need to be seized.

In short, the crisis has affected financial flows to the African water sector. But, compared to other regions, important parts of its financial flows may be cushioned from the worst impacts. Prior to the crisis, Africa’s water was taking a relatively smaller proportion of its finance from the commercial sources most affected by recent events. Hence it has less to lose from the decline in these flows.

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<sup>8</sup> *Africa Regional Position Paper produced for the 5<sup>th</sup> World Water Forum. Bridging divides in Africa’s water security: an agenda to implement existing political commitments. AfDB, 2009*

<sup>9</sup> *both references from UN World Water Development Report 3, p. 8*

In these financially challenged times national and international public agencies are increasingly seen as the natural sources of finance for water infrastructure. Many national governments are constrained by their fiscal position (though others have benefited from strong commodity prices). Meanwhile, public international development banks (World Bank, EIB etc) are now poised to regain market financial share and have increased their capacity to lend more. The African Development Bank is striving to become the ‘lender of choice’ on the African continent, and has undergone significant reform. The Asian and Middle Eastern sovereign wealth funds and publicly sponsored companies are a third and increasingly important source of money for the development of natural resources and infrastructure<sup>10</sup>. These three (public) sources are likely to remain important funders of big infrastructure projects in Africa, though new financial models can urgently be considered, in view of the large amount of capital investment needed and limited public financing capacity. A major challenge lies in matching investment opportunities to those financial channels that have already been set in place.

There are also signs of a new climate of acceptance of greater efficiency, reform, and good housekeeping in water, with the private sector’s main role as contributing efficiency rather than cash. Private companies are still vital to reform, but their role is more likely to be as contractors, and joint-venture and junior partners, seeking lower-risk involvement, with greater comfort supplied by public sponsors.

However, even with the positive trends noted above, the rate of investment and recurrent funding in Africa is unlikely to cover anywhere near half of requirements implied by water security in all its forms. The deficiencies and gaps in the current funding arrangements for water will remain unless action is taken. New solutions and innovation in the sector are needed for finding the resources to support investment in water, particularly involving water users, and – for those countries where this is feasible - local private operators and local capital and credit markets.

## **2.6 Implications for Sida and Swedish development policy**

Looking ahead, water is subject to a number of Drivers of Change<sup>11</sup>. Water faces the urgent need to serve national economic and social development for a growing population, meet the growing global demand for food, meet a different pattern of energy use, and manage growing pressures on the natural environment while adapting to climate change. There is urgent need and great scope for reform, innovation and experimentation in all domains – institutional, policy and technological. Responses by society, governments and external agencies to the current economic and financial crisis should be aligned with these long-term needs.

The current economic crisis, which has overlapped with the food price crisis, has compounded the economic and social damage to a number of poor countries. The policy response of the international community to this food crisis would dovetail with its response to the impact of the crisis of the water sector more generally. In the sphere of irrigated and rainfed agriculture there are opportunities for a “triple dividend”<sup>12</sup> for projects addressing simultaneously agricultural livelihoods, food security and water management.

Chapter 6 of the report contains a number of suggested options for Sida’s consideration founded on the analyses in Chapters 3-5, and on the policy setting of Swedish Development Assistance and of Sida. These options are organised in two categories:

- i) **Countering the impacts of the economic crisis**, focusing on the level and form of external support that would best enable shareholders and stakeholders to counter the effects of the crisis, including adaptation of current assistance strategies.

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<sup>10</sup> *Infrastructure Consortium for Africa Annual Report 2007*

<sup>11</sup> *UN World Water Development Report 3, 2009*

<sup>12</sup> a “quadruple dividend” if adaptation to climate change is included.

ii) **Levers of change** focusing on the strategic areas and sectors where grant financing can make a difference to the longer term and deeper under-funding of water in all its uses.

This report sets out a number of opportunities for policy response across the two categories, summarised in Table 5.1 and 5.2. The options can be considered by Sida as a ‘menu’ of opportunities from which choices can be made. It is assumed that Sida would wish to:

- a) sustain and possibly increase disbursements in water, which may be at risk in the short-term due principally to the shift in focus from MICs and emerging economies and the structuring of assistance towards new priorities in low income countries and fragile states. Increased spending would enable Sida to achieve, and possibly exceed, the DAC average of 8% of total ODA disbursement in water.
- b) respond to the new working modality of decentralised, multi-disciplinary country teams disbursing in line with agreed Country Strategies, backed by effective policy advice and support, and deriving benefit from Sida’s impact through regional programmes and global policy reform and institutions.

Accordingly, suggestions are made (Table 5.3) on how Sida might consider strengthening its own implementation setting in order to pursue these actions in developing countries.

### **3 Impact of the global economic crisis on the water sector**

#### **3.1 Overall impact on developing countries (economic, social & environmental)**

The impact of the crisis is highly differentiated between countries and regions. Its impact on developing countries occurs through seven main transmission channels:

1. Financial (contraction of bank liquidity, declining international commercial lending, “flight to quality” amongst fund managers and investors). There has, for instance, been a decline in stock market price indices in a number of African countries
2. Contraction of trade (lower investment, reversal of inventory building, reduced consumption, growth of protectionism). Amongst African exporters, this has particularly affected producers of oil, copper, coffee, cotton and sugar. International tourism will also be affected, which is of concern to such countries as Egypt, South Africa, Cape Verde, Mauritius, Kenya, Uganda and Morocco
3. Commodity prices (falling, due to declining demand and de-stocking)
4. Foreign direct investment by firms, which will tend to fall, due to the reduced financial status of the firms concerned, and greater economic uncertainties in their partner countries
5. Remittance flows, almost as important as exports to many countries, will be hit by reduced earnings of migrants and unemployment in host countries (especially South Asia, Box 3.1). It is estimated that the crisis will reduce remittance inflows to sub-Saharan Africa in 2009 by \$US 1-2 billion, compared to 2008.
6. Disbursement of aid (ODA) that could be curtailed by the budgetary difficulties in their source countries. The 23 African countries where ODA accounts for more than 10% of GNP are particularly vulnerable. According to the World Bank<sup>13</sup>, donors reiterated their Gleneagles ODA pledges at the London Summit of the G20, but ‘whether donor agencies will be able to hold in line in what are likely to be tough domestic budget negotiations and meet these pledges remain to be seen. While Ireland announced a cut of nearly €100 million (a 10.6 % decline) in its 2009 aid budget, and there were indications that Italy’s aid budget may also be cut, Japan promised at Davos to augment its ODA by about 20 % over the next three years.

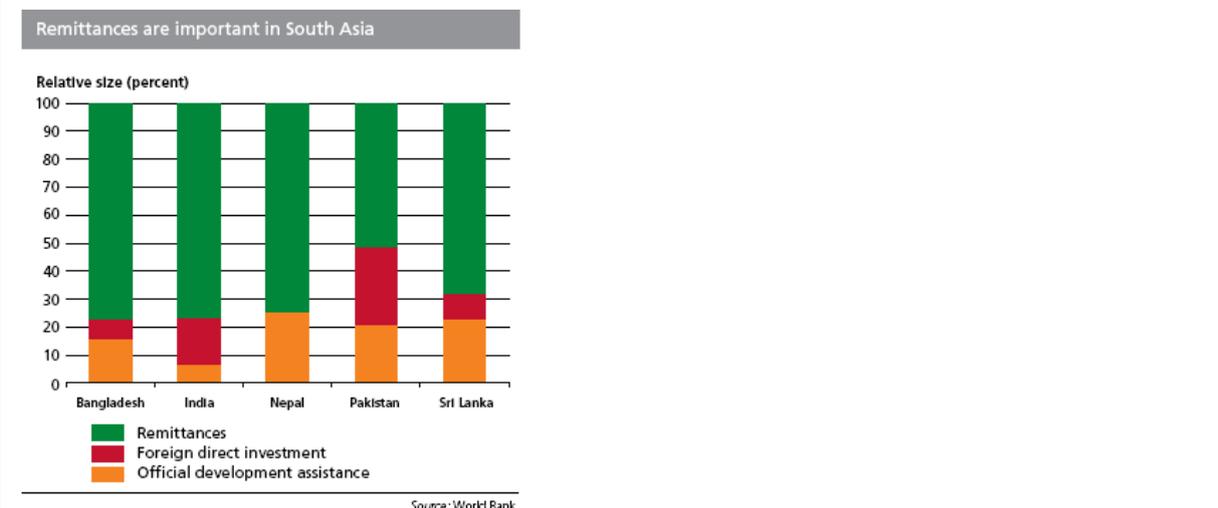
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<sup>13</sup> *Global Monitoring Report, 2009 A Development Emergency, World Bank*

7. Exchange rates. Forces such as those above will manifest themselves in depreciation, which adds to the burden of servicing foreign debts and raises the cost of importing inputs, consumer goods and food. Depending on how macroeconomic policies adjust, this factor can add a further twist to the downward economic spiral.

### Box 3.1 Remittances in South Asia<sup>14</sup>

Remittances are a major financial inflow, far outweighing foreign direct investment and aid in South Asia. The World Bank estimates that remittances will fall by 5–8 percent in 2009 after growing by 15–20 percent per year from 2005 to 2007<sup>15</sup>.



The outcome of these forces, individually and collectively, will differ between countries and regions. The degree to which countries are affected by economic crises that started elsewhere depends on their degree of integration with international markets for goods and services, including financial products. Countries with large current account deficits are particularly at risk, because these deficits are paid for with inflows of private or public capital, such as foreign direct investment, remittances, foreign aid and borrowing. These financial inflows can end abruptly: the 17 largest Latin American economies received US\$184 billion in 2007, which was roughly halved in 2008 to US\$89 billion, and is expected to be halved again to US\$43 billion in 2009. A reduction in net capital inflows implies that domestic consumption must fall and savings rise. For some low-income food-deficit countries (LIFDCs), adjusting consumption may mean reducing badly needed food imports and other imported welfare-related items.

Taking the various transmission channels into account, some countries will even end up as net gainers. All these forces do, however, point in the same negative direction for Africa as a whole. African economic growth is likely to decelerate from an estimated 5.7% in 2008 to 2.8% in 2009, affecting most severely those with lesser economic diversification and with greatest dependence on external finance<sup>16</sup>. Its potential social impact is serious (Box 3.2). According to DFID, on certain assumptions, the financial crisis may have led to up to 50,000 additional infant deaths in 2009 and about 90 million more people living on less than \$1.25 a day by the end of 2010<sup>17</sup>. However, reporting systems are not set up to detect such social impacts in real-time, or subtle enough to attribute rising global poverty to distinct causes.

<sup>14</sup> Source: FAO/WFP Source of Food Insecurity 2009

<sup>15</sup> World Bank Migration and Development Brief 2009

<sup>16</sup> African Center for Gender and Social Development: African perspectives of the global economic and financial crisis, including the impact on health. 2009

<sup>17</sup> DFID Outcomes of the G20 Meeting [www.dfid.gov.uk](http://www.dfid.gov.uk) Sept. 2009

### **Box 3.2 Social impacts of the crisis in Africa**

The predicted impact of the crisis on health outcomes is grim. Increasing unemployment and poverty will lead to less food security and quality of nutrition, leading to growing health inequalities. Some African government are cutting back on already insufficient HIV treatment and care programmes because of the crisis. Child malnutrition and infant mortality might increase by 200,000 and 400,000 additional deaths in 2009. Women, children, the poor and minority groups are expected to suffer disproportionately from the health impacts of the crisis.

*African Center for Gender and Social Development. 2009*

The Middle East and North Africa region is also affected even though it contains higher-income countries and oil-producers. Here, the crisis is transmitted mainly through a decline in the export of goods and services and a reduction in remittances sent back home by migrant workers abroad. There is also the direct effect on the region's financial markets, which is less important overall, though the Gulf countries are suffering from substantial losses of their capital invested abroad<sup>18</sup>.

The impact of the crisis on the environment is very mixed. On the positive side, there is evidence that the global recession in economic activity has reduced carbon emissions. However, the Executive Director of UNEP has stated, "Without doubt the economic crisis has taken its toll on investments in clean energy when set against the record-breaking growth of recent years". A number of emerging markets (including China, Brazil and others less affected by global recession) are continuing investments and other support of renewables<sup>19</sup>. UNEP has reported that about 15% of an estimated \$3.1 trillion in global stimulus funds are "green" (ie 512 billion US\$). On the negative side of the balance, it is likely, based on previous experience, that impoverished farmers and workers will intensify their exploitation of commons, such as forests, wetlands, fisheries and wildlife reserves.

## **3.2 The global food price crisis and energy cost linkages**

The global economic and financial crisis since mid-2007 overlaps a food price crisis that had gathered force since 2006. Although the latter had separate causes<sup>20</sup>, the two crises have compounded the problem for many countries, notably the poorest and most vulnerable.

The 2008 food price crisis came after the downward trend in food prices during the 1980s and 1990s reversed in the early 2000s. World stocks of wheat, maize and rice had dropped to 30-year lows. The fall in stocks, reflecting a lag of production behind consumption, caused inflation in food prices to rise sharply, from 9% in 2006 to 23% in 2007 and 51% between January-June 2007 and January-June 2008.

Africa's cereal import bill (maize, wheat and rice), already high at 20 billion US\$ per year before the crisis, is estimated to have increased by 49% during 2008 compared to rises of 25% in Asia and 31% in Latin America. Food-related demonstrations occurred in a number of African nations during the year, threatening political stability. In response, some countries adopted measures to control or reduce prices and increase access to food, which have worsened fiscal and balance of payments deficits. Other key contributing factors were Australian and southern European drought and the growing demand for biofuels that, according to some sources, reduced availability of cereals on the global market due to market demands in the USA and Europe. The price of fossil-based energy at the same time increased, causing major price increases in agribusiness, particularly fertilizer.

Global food prices started to decline in the second half of 2008. With the onset of global recession, prices started to fall again and, by early 2009, were back in real terms at around 2006 levels. But prices in African countries did not fall by the same margin. In some East African countries, maize

<sup>18</sup> GIGA (German Institute of Global and Area Studies) Leibniz-Institut für Globale und Regionale Studien, Hamburg Focus series on Africa, Asia, Latin America, the Middle East and global issues.

<sup>19</sup> UNEP website, "Economic crisis hits EU and US Clean Energy...", June 2009

<sup>20</sup> Extreme climatic events also played their part in disrupting agriculture and food output. One of the contributing factors to the 2007-2009 price increases was six years of drought in Australia

prices are still 36 percent higher than world levels<sup>21</sup>. In West African countries, cereal prices continued to rise until the last quarter of 2008. In coping with consecutive food and economic crises, poor people in many countries have been forced to reduce their dietary diversity and cut spending on essential items such as education and health care. At such times of hardship the poor draw on their meagre assets even more deeply, creating poverty traps and reducing longer-term food security. Infant mortality and gender inequality are likely to increase.

Recent falls in prices may be a temporary respite: once the industrial economies recover from the recession, both oil and food prices are likely to rise again. The debate leading up to the 2009 World Food Summit has suggested that the long-held consensus of “there being enough food globally, it is only a matter of access” no longer holds. Projections of global food needs for 2050 foresee a need for a major boost to production, with more infrastructure, better control of water at farm level, and development of Africa’s production potential, are key parts of the mix. Aspirations to secure national food supplies, particularly by Asian and Middle East nations, lie behind recent ‘land grabs’ in Africa.

Heads of the G8 convening in L’Aquila were concerned with the impact of global food security, the impact of the global financial and economic crisis and the 2008 spike in food prices on the countries least able to respond to increased hunger and poverty (Box 3.3).

### ***Box 3.3 L’Aquila Declaration of the G8***

In their communiqué, Heads of State acknowledged that commitments to increase ODA must be fulfilled. The tendency to decrease ODA and national funding of agriculture must be reversed. They committed themselves to increase investments in short, medium and long-term agricultural development that directly benefits the poorest and makes best use of international institutions. Commitments were made to a goal of mobilizing \$20 billion over three years through a coordinated, comprehensive strategy focused on sustainable agricultural development, while keeping a strong commitment to ensure adequate emergency food aid assistance. There was a determination to improve the coordination of financing mechanisms, and to catalyse additional funds around country-owned strategies, in particular to increase food production, improve access to food and empower smallholder farmers to gain access to enhanced inputs, technologies, credit and markets. This includes the ‘right irrigation’ to secure gains for farmers.

The World Bank Group has been active in mobilizing investment, setting up the Global Food Crisis Response Program (GFRP) in May 2008 to provide immediate relief to countries hard hit by food high prices. The GFRP also aims to provide short and medium term support for food production by supplying farmers with seeds and fertilizer, improving irrigation and livestock-related activities for small-scale farmers, and providing budget support for government policies, such as offsetting tariff reductions for food and other unexpected costs. More generally, the World Bank is set to triple investments in safety nets and other social protection programs to \$12 billion over the next two years in order to protect the most vulnerable people from the worst effects of the global economic crisis. The African Development Bank has also launched its Africa Food Price Crisis Response with a similar agenda.

### **3.3 Lessons from previous crises**

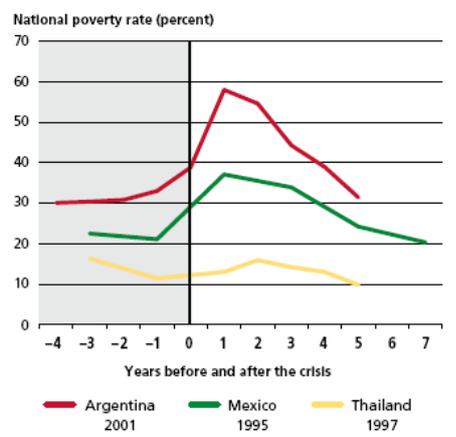
History shows that economic crisis can negate years of development gains, and increase poverty. Table 3.1 tracks rising poverty rates in Mexico (1995), Thailand (1997) and Argentina (2001) in years before and after past economic crises.

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<sup>21</sup> *FAO Food Outlook, June 2009*

**Table 3.1 Economic crises and poverty reduction**<sup>22</sup>

Economic crises can wipe out years of poverty reduction



More specifically, the World Bank's judgment of recent history is:

“...experience from previous crises (such as the 1997 Asian crisis) has shown that infrastructure investments often bear the brunt of shrinking public expenditure at the national and sub-national levels. For the poorest countries, sustainable and predictable flows of government funds to the water sector to finance investments are therefore unlikely to be forthcoming until the recession is over. Reduced funding for infrastructure, while expedient in the short run, can be particularly detrimental in the longer term, however, as infrastructure services are key drivers of sustainable economic growth and poverty alleviation.”<sup>23</sup>

The impact of the East Asian financial crisis beginning in 1997 on the two poorest countries in the region, Cambodia and Lao PDR, is illuminating in this context<sup>24</sup>. Both countries had low incomes per head, poor social indicators, a small industrial base, and heavy dependence on subsistence agriculture. The financial crisis punctured a period of growth and relative macroeconomic stability, though its impact was magnified by the reliance of both countries on export markets, foreign savings and the tax receipts from international trade. The impact was also amplified by weaknesses in the local banking systems, and was rapidly transmitted by substantial currency devaluations, in turn aggravating inflation.

Inflation did the greatest harm in the two countries to rural communities and poorer groups paid in local currencies and to those (e.g. officials) receiving fixed incomes. Severe food shortages arose, partly due to drought, partly to the illegal export of rice to neighbouring countries. Supplementary income-earning opportunities were reduced. Migration from rural to urban areas increased, putting more pressure on limited social and economic infrastructure. Prostitution increased, with associated spread of HIV and AIDS. Disease increased linked to poor housing conditions, poor access to safe water and malnutrition. The costs of school supplies and drugs placed these services beyond the reach of many poor families. Consumer spending patterns adjusted to the more austere circumstances. In both countries, the impact of the crisis was influenced by their respective economic and social policy responses<sup>25</sup>.

<sup>22</sup> Source: FAO/WFP Source of Food Insecurity 2009

<sup>23</sup> World Bank, “Infrastructure Recovery and Assets Platform – a response to support infrastructure during the crisis” April 2009

<sup>24</sup> Okonjo-Iweala, et. al. “Impact of Asia’s financial crisis on Cambodia and the Lao PDR”. Finance & Development, Sept 1999.

<sup>25</sup> The attitude of the Bretton Woods agencies, typified by Okonjo-Iweala et. al. 1999, was critical, though more recent commentary has been more sympathetic to these countries, and more critical of IMF/World Bank attitudes (e.g. Paul Krugman, *The return of depression economics and the crisis of 2008*. Penguin, 2008.)

### 3.4 Impact on the water sector and its financial implications

The general shape of the impact of the global financial crisis on water services, resource management and governance is summarised below and in Box 3.4. The situation is still evolving, and the permanent impacts are unlikely to be known for some time.

#### ***Box 3.4 Overall impact of global financial crisis on water***

The global financial crisis, which was triggered by defaults in the US sub-prime mortgage sector in August 2007, has since spread to all areas of the global economy, affecting real and financial sectors alike. The age of cheap and plentiful credit enhanced by high levels of leverage has abruptly come to a halt. In the medium term, the cost of debt will be higher and demand for risk exposure of any kind reduced, which means that sources of market-based repayable finance for the sector may be severely curtailed. The financial crisis has also extended to the real economy, meaning that revenues for water companies from the 3Ts are likely to be affected. Governments' stimulus packages, which partly focus on green investments (including water and wastewater) and coordinated responses from IFIs and donors mean that the worse impacts from the crisis may be mitigated.

*OECD: Innovative financing mechanisms for the water sector: By Tremolet & Scatasta.2009*

The financial crisis has triggered some positive responses to the negative, impacts for water. A dozen high-income countries and a number of emerging market and middle-income developing countries have incorporated water infrastructure into stimulus packages<sup>26</sup> that are a direct response to the economic crisis (Box 3.5).

#### ***Box 3.5 Water in economic stimulus packages***

- Of the Bt1.06 trillion worth of development projects approved in Thailand, 21% is to be invested in agriculture and water resources (including modernization of irrigation)
- In the Philippines, a 10% increase in the P300 billion package has been targeted to create three million jobs through irrigation modernization and repair, flood control employment, drainage cleaning, and other rural activities
- The Nigeria National Economic Empowerment Development Strategy (NEEDS), at 5.7 bn US\$, includes the development of infrastructure for power, drinking water, and irrigation
- In China, US\$22 bn, or 37.5% of the economic stimulus package, is going to construction of roads, railways, airports, irrigation and other basic infrastructure across the country to help stimulate demand, improve China's overall productivity and to help provide jobs for the tens of millions of workers who were laid off from industries affected by the loss of export markets due to the global economic crisis. As part of a US\$ 54.2 billion programme for investment in rural villages, 14.6 million people have gained access to safe drinking water
- In India, the World Bank has approved US\$150 million for the Andhra Pradesh Rural Water Supply and Sanitation Project, designed to support the Government's infrastructure agenda and bolster its economic stimulus program by improving water supply and sanitation services in 2,600 villages across 6 districts. It aims to provide piped water to 2.1 million people and extend sanitation services to 1 million people who currently do not have access

Other countries are responding in their own way: Peru's private pension fund managers are seeking investments in water transfer and wastewater treatment projects. In Colombia, the President has announced spending of \$US2 bn in drinking water schemes, and the IADB has approved \$US 250 million in rapid-disbursing water loans<sup>27</sup>.

Financing was one of the major themes running through the recent Fifth World Water Forum held in Istanbul in March 2009. The impact of the current financial crisis was addressed by a number of leading financial players, and their key messages are reflected in this report.

<sup>26</sup> Presentation by Carlos Braga at World Bank Water Week, Feb 2009

<sup>27</sup> IRC website

### 3.5 Specific impacts on water financing

This section looks in more depth at the impact of the global economic and financial situation on specific water financial sources, using the “3Ts” categories introduced in Chapter 2<sup>28</sup>.

**Tariff revenue:** The impact so far is largely anecdotal, since tariffs are adjusted infrequently and collections made in arrears. One of the few periodic surveys of tariffs, which Global Water Intelligence conducts in 266 major cities from all regions, records an average tariff increase of 10% between June 2008 and June 2009<sup>29</sup>. This average is, however, dominated by cities in developed and middle-income countries, and there is no obvious trend in the poorer developing countries, including Africa. The latter countries are likely to be hit by the deepening poverty resulting from the global recession. The World Bank has estimated that this will cause 65 million more people to be pushed into “extreme poverty” (using the US\$ 2 per day benchmark). Fewer jobs in the formal sector and a decline in remittances will affect affordability amongst poor households, and water authorities are less likely than before to raise tariffs or improve their bill collection rate.

**Subsidies and fiscal transfers:** During times of social and economic hardship, the fiscal balance tends to deteriorate due to lower tax yields and higher social spending from the so-called “built in fiscal stabilisers”. However, this means that national governments have to respond to calls to increase spending from many quarters, and water has to contend with rival sectors whose claims may seem stronger (e.g. health, social security, education). Some parts of the water budget can be trimmed without immediate loss. Infrastructure investment tends to suffer disproportionately from fiscal retrenchment, since it is postponeable. Governments are also less able to borrow to cover fiscal deficits and sustain their current spending: the index of the sovereign debt of developing countries shows a widening of spreads against US Treasury Bills up to 5-7%, indicating that less creditworthy governments are the first to feel the pinch from tightening market conditions.

Even oil-producing countries are feeling the fiscal pinch. Due to shrinking global demand, the price of crude oil has fallen to US\$ 70 a barrel (at current price level) and this has adversely affected several oil-producing African economies (Nigeria, Angola, Chad and Sudan), having both large populations, and large proportions of their population without access to drinking water and sanitation. The international crisis has also affected tourist income in countries such as South Africa, Tunisia, Morocco and Egypt, which will reduce fiscal revenues available for development and social services.

The IMF is also taking measures to increase its resources for lending to countries in difficulty. On a temporary basis, the New Arrangement to Borrow and the issue of additional Special Drawing Rights (SDRs) have tripled its loanable resources, while a further \$283 billion has been allocated as SDRs, \$110 bn of which will go to emerging and developing countries<sup>30</sup>.

**Official development assistance (ODA):** Immediately prior to the crisis starting in August 2007 ODA to the water sector was trending upwards<sup>31</sup>. Any impact of the current crisis on actual ODA spending will be muted for a while due to the normal delay between aid commitments and disbursements.<sup>32</sup> Some donors have committed themselves to protect their aid programmes despite mounting domestic fiscal difficulties, The UK’s DFID has made commitment of 200 million pounds a year to water in Africa over the next five years, resulting from the promise in 2006 to ‘double, then double again’ the then-levels of water expenditure of around 50 million pounds. A number of the major multilateral development agencies, led by the World Bank, have announced new resources and special facilities to deal with the spin-off from the global downturn on their more vulnerable clients.

**Commercial lending:** The general picture is that the global financial crisis has caused a major re-assessment of risk, leading to large increases in the cost of commercial loans, a move towards “higher

<sup>28</sup> this section draws on the OECD report, *Innovative financing mechanisms for the water sector*, 2009

<sup>29</sup> though this average is complicated by exchange rate movements over the period in question. *GW*, Sept 2009

<sup>30</sup> *Financial Times*, Oct 7 2009, p. 17.

<sup>31</sup> reported by the latest DAC report, *Measuring aid to water supply and sanitation*, Feb 2009.

<sup>32</sup> a recent study by OECD DAC found a typical commitment to the water sector took 7-8 years to fully disburse, with a peak in years 4-5.

quality” debt, and shorter terms for loans. There is less loanable money available, and banks – with their own balance sheet difficulties – are reluctant to lend except at higher interest rates. The World Bank estimates that bank lending in developing countries fell by more than one third between August 2007 and August 2008. This is particularly serious in countries without developed bond markets, where bank loans are more important for financing infrastructure. Foreign banks now have a 40-45% market share of assets in developing countries as a whole<sup>33</sup>; hence problems in their core home markets are rapidly transmitted to others. The upshot is “...private loan finance is currently not in a position to provide meaningful support to investments in developing country water services”<sup>34</sup>.

Project finance, which had been important for many stand-alone water facilities, and for large infrastructure items such as hydropower schemes, has been badly affected by the crisis<sup>35</sup>. Fewer banks than before are now prepared to finance such deals. Microfinance institutions are also affected. Many of these, without their own deposit base, are reliant on short term borrowing, which is now much more expensive. Their loan portfolios are also liable to deteriorate due to more poverty and hardship amongst their borrowers, who tend to be in the poorer strata of society.

**Bonds:** Corporate bonds, issued by utilities or water companies, have been forced to pay higher interest coupons to attract investor interest. Manila Water is one of the few utility companies with a strong credit rating that has successfully made recent bond issues. Corporate issues of below-investment grade bonds are effectively ruled out at present.

Municipal bond issue is confined to a few developing countries (India, Philippines, South Africa, and some Latin American states). Before the global crisis broke, the World Bank’s WSP was grooming a number of African utilities with the aim of giving them access to the bond and commercial finance market<sup>36</sup>. This progress is at risk of stalling. Other negative factors have been the bankruptcy of the leading global bond insurer (AEG), and the reputational risk suffered by the leading credit ratings agencies, on whose judgements bond issuance depends.

**Private equity and PPP/PSP<sup>37</sup> ventures:** Not surprisingly, the global situation has discouraged new private interest in water infrastructure projects, and has also unsettled partners in existing PPP/PSP ventures. Earlier in 2009 the IFC reported that \$200 billion of PSP projects had been postponed or had become “at risk”, 15-20% of which were in water supply and sanitation. The financial climate affected both the supply of risk capital (e.g. equity) and loan capital to finance these concession deals, since liquidity has become scarce, and the problems of international banks have had repercussions on local banks too. Many innovative deals, developed with technical assistance and risk-sharing from donor agencies, are at risk.

The latest reports by the Public-Private Infrastructure Advisory Facility (PPIAF) of the World Bank indicate some recovery since the latter half of 2008, driven mainly by large projects, and projects that meet the more rigorous criteria that financiers are demanding. Many of these projects that were close to financial closure when the crisis broke have survived by switching their sources of funding to local public banks or agencies. Even when the financial crisis abates financing terms for PSP deals in water and other sectors are likely to remain harsh, and will call for more “conservative” project financial structures (i.e. more equity, less leveraging, more risk mitigation).

These developments are occurring against (and reinforce) a gathering trend towards more selectivity in the choice of markets and type of project by the handful of western multinationals that remain in the market for new international water concessions<sup>38</sup>.

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<sup>33</sup> Presentation by Jamal Saghir to MEDEF, Paris, Jan 23, 2009

<sup>34</sup> OECD, *Innovative financial mechanisms for the water sector*, 2009.

<sup>35</sup> Leighland & Russell, 2009

<sup>36</sup> WSP/PPIAF, *How can reforming African water utilities tap local financial markets? 2007, revised 2009*

<sup>37</sup> public-private partnerships, and private sector participation, respectively. In this report the two terms are used interchangeably

<sup>38</sup> Authoritatively described in a new publication of the World Bank, *Public-private partnerships for urban water utilities: a review of experiences in developing countries*. 2009

### 3.6 'Long-run' crises

Many countries have experienced more than a decade of consecutive years of crisis, so the impacts of the economic crisis need to be seen in context. Analysis by the IMF reveals more than 15 nations, predominantly in Africa and Central Asia that have each experienced long-run crises due to human or natural factors (Annex 2). These countries have high vulnerabilities founded in trade, foreign direct investment, ODA or remittances.

On one hand, impacts of the economic crisis may be small in these countries relative to the impacts of other long-running crises. On the other hand, previous crisis may have exhausted coping strategies at the household level, weakening resistance to further shocks, thus magnifying the impact of the current economic crisis in these characteristically fragile states.

## 4 Status and prospects for water financing in Africa

### 4.1 Financial requirements of African water sectors

The Africa Regional Position Paper for the 5<sup>th</sup> World Water Forum estimated the required annual total for spending on all parts of the water sector to be around \$50 billion. The situation in different branches of the water sector is set out below. However, despite a focus of more than a decade on the Millennium Development Goals, and in recent years on economic growth as the engine of poverty reduction, annual financial flows are far from that requirement, and may not even have reached even one quarter overall. Despite the much greater focus on drinking water and sanitation, financial flows are barely half what is required even in that sub-sector.

**Drinking water supply and sanitation.** Financial requirements have been estimated at \$12 bn p.a., including \$2 bn of programmatic costs. This relates to the costs of attaining the MDG coverage targets, plus the cost of O&M for both new and existing networks. Financial requirements are sensitive to the levels of service chosen in the expansion of coverage. Data to be released by the African Infrastructure Country Diagnostic in November 2009 may raise this figure to more than \$20 bn per annum.

Current spending levels are estimated at around \$6 bn. Around US\$2.8 billion is in capital expenditure, of which about half is from national Governments – much higher than previously understood – with the remainder from ODA. Existing spending on recurrent O&M has reached levels of US\$3.5 billion, partly from government budgets and partly from tariff revenues. Around US\$1 billion of the estimated financing gap is accounted for by capital expenditure, while US\$3 billion annually is for O&M, typically due to the failure of tariffs to reach cost-recovering levels.

**Wastewater.** The above figure, like most discussions of the MDGs, refers only to household-level sanitation, where sewage is not collected and treated centrally. With the growth of urban populations there is no feasible alternative to collective sewerage and final treatment, which is expensive. At present this is widely neglected, and the cost of recovering the backlog is immense, preliminarily estimated at US\$ 5 bn per annum<sup>39</sup>. This is a guesstimate of the needs of rehabilitating existing ageing infrastructure and installing new systems to deal with urbanisation.

**Desalination** is an increasingly realistic water supply option for North Africa and other coastal middle-income countries with access to affordable energy sources. Investment requirements may be around US\$ 1 billion annually.

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<sup>39</sup> Almost half (\$70 bn) of the \$180 bn. investment requirements for water estimated in the World Water Vision, and quoted in the Camdessus Report (2003) is accounted for by municipal wastewater collection and treatment

***Agricultural irrigation & water management*** The African Regional Position Paper projects a financial requirement of \$5bn p.a. on a time scale (up to 50 years) longer than for other branches of the water sector. This is due to the low absorptive capacity of the sector and the magnitude of the challenge, given the dominance of farming as the principle livelihood opportunity among the rural poor with few economic alternatives. The projection includes emergency response, the creation of safety-nets and social protection, emerging small-holders as well as investment in commercial, high-value production. Most assessments believe that Africa offers some scope for new irrigation, but that an even greater scope exists for modernization of existing schemes. Much of the financing gap relates to small-scale water control to upgrade rain-fed systems, and O&M and modernization of existing irrigation.

Recently new funding sources from Middle Eastern and Far Eastern sovereign wealth funds and private investors have become available for large-scale agricultural schemes including irrigation. There is an increasing trend in PPPs for small-holder irrigation, including through AGRA and PIDG. One particular feature has been 'land-grab' with developed nations looking to exploit Africa's underdeveloped agriculture to meet their own national food security needs, but placing at risk local poverty-reducing opportunities.

Preliminary estimates<sup>40</sup> are that over 130 dams in Africa are currently under construction or planned. It is forecast that these will yield around 18.5 billion cubic meters of water to the agricultural sector and enable an expansion of irrigation. The current projection of dam construction and plans for development may cover all the needs in Northern Africa; 40% of storage needs in Western Africa, 30% in Central Africa, and 75% in Southern Africa.

The African Development Bank's Business Plan on Infrastructure for Water Storage Enhancement and Agricultural Water Development (2008-2013) aims to increase water storage capacity by 1% per annum for multi-purpose use – to irrigate 76,000 ha and generate 1,200 MW of hydropower. The Bank's planned pipeline of UA 580 million for the period 2008-2010 represents about 12% of the NEPAD-CAADP estimated requirement for investment in improved water control for the 2006/2010 period (CAADP Pillar I).

***Hydropower*** is by far the largest projected requirement, at US\$20 bn per annum, twice the previous demand for drinking water and sanitation and over a much longer timeframe. Opportunities exist for multi-purpose schemes that include hydropower, where the energy sector is likely to be the principal driver. Africa's need of hydropower is open-ended, and the investment rate depends on factors such as the targets for the spread of access to electricity, market responses, the balance between regional production and transmission, the split between thermal and hydropower sources (the latter is likely to increase), trends towards cleaner energy and the management of the social and environmental impacts of large dams. The current level of spending on hydropower is unknown, but is likely to be much less than the target. The financing of a number of major hydropower projects in Africa by China and other sovereign funds is noteworthy, as discussed below.

***Multipurpose water storage (where hydropower is not viable):*** The requirement of US\$ 5 bn per annum is also open-ended, given that Africa has relatively small storage per head, compared to other regions. Greater storage capacity (of all kinds and at all scales) will be an essential part of adaptation to the expected climate change. The demand for water storage will not always be in locations viable for hydropower production - hence this is considered a distinctive area of water management.

## **4.2 Financing prospects for African water infrastructure<sup>41</sup>**

As already noted, it is too early to predict the medium- and long-term impact of the current financial crisis on Africa's water financing. Loans from the international development banks are likely to be

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<sup>40</sup> Africa Regional Position Paper, 5<sup>th</sup> World Water Forum, Istanbul

<sup>41</sup> Infrastructure Consortium for Africa Annual Report, 2009

robust, and even increase, while ODA will continue to be disbursed from commitments made earlier. Government spending will hold up in those countries with export income from minerals and oil, though not in others. Selected countries will also benefit from investments in natural resource development by Middle Eastern and Far Eastern publicly-sponsored investors. In contrast, there is little hope of an early recovery of commercial bank lending or bond issuance, and private equity will remain risk-averse and highly selective in its choice of African partners.

On a continent-wide perspective, the prospects are uncertain, and mixed. Commitments by the members of the Infrastructure Consortium for Africa to the water sector saw a slight decline from US\$ 2,866 million in 2007 to US\$ 2,578 million in 2008. Central Africa's share of support rose nearly three-fold since 2006, with France (US\$228 million) and World Bank (US\$80 million) the most significant donors. North Africa also saw increased support from ICA members in 2008, with France, Germany, Japan, AfDB and World Bank as the major donors with a mix of ODA and non-ODA commitments. Data show little evidence of investment by the private sector in new drinking water and sanitation infrastructure. Evidence at the ICA annual meeting on 'Financing Water Infrastructure for Growth' was that private sector engagement in Africa is increasingly through local private companies rather than multinationals.

China has become an important strategic partner for a number of resource-rich African countries. The World Bank's survey of Chinese assistance for infrastructure in Africa estimates total commitments to be US\$8.4 billion in 2006, US\$4.5 billion in 2007 and US\$ 11 billion in 2008. Chinese finance is channelled through several state agencies and publicly-sponsored companies, and is not reported in a systematic fashion. In early November 2009, Government of China announced a US\$ 10 billion package of support to Africa.

Middle Eastern partners continue to play a significant role in financing African infrastructure (as a whole, including water). In 2008, Arab national and regional development agencies made commitments of US\$2.4 billion, a 10% decrease compared to the previous year, of which US\$ 930 million (38%) was directed into dam construction. In 2008 Sudan was the largest recipient of Arab finance, with total commitments of US\$680 million for two dam projects: the second phase of the Merowe dam project and heightening of the Roseires Dam. Morocco received about US\$400 million for road, dam, and water projects, followed by Egypt (US\$217 million), Mauritania (US\$177 million) and Niger (US\$95 million).

The Arab Funds Coordination Group has been the main mechanism for co-financing since its formation in the early 1970s. In 2008 Arab funds co-financed 9 projects totalling US\$1.2 billion, concentrated in the three infrastructure sectors of water, transport and energy. The Arab Economic Summit held in January 2009 in Kuwait instructed the Coordination Group to scale-up its assistance to Africa during the period of global economic crisis.

It is unlikely that these sources, considered together, will satisfy Africa's water financing needs in the coming years. The following Chapter identifies some of the deficiencies.

## **5 Assessment of current financing of water sector: adequacy, effectiveness, gaps and mismatches**

Water is widely under-funded in all its parts. Much infrastructure is hidden and many governments give it low priority. Maintenance is easy to postpone – and so it is. At first sight, there is a yawning gap between most estimates of investment and financing requirements over the next few decades, and what is currently being spent in the various parts of the water sector. Aid is unevenly applied, creating *donor darlings* but also *aid orphans*. Crucial parts of the water sector are starved of national – and international – funding.

This chapter focuses on a few of these obvious gaps and mismatches. It is divided into two parts, dealing respectively with water services, on the one hand, and water resource management and development, and governance, on the other. Certain basic problems are, of course, common to all these parts of the water sector.

## 5.1 Water services

### *Insufficient overall flow of finance*

There is a basic distinction between *investment* in water, meaning the creation of productive assets, and the *means of financing* it. Much of the work on estimating financial requirements is actually about achieving a specific rate of investment (e.g. in new connections) or activity (e.g. supply of a minimum daily amount of water) set to attain development targets that have been agreed internationally. Where large increases in investment or other spending are required, which is the common situation, it is mistaken to conclude that finance is necessarily the major constraint. Often, there are prior obstacles to raising the rate of physical investment or other activity in local conditions, captured in the term “capacity constraints”. There are many reports from local field workers in the African water sector of unspent budgetary allocations being returned to the central government<sup>42</sup> and concerns over the flow of ‘bankable’ projects.

While the prospects differ by country and sector, for Africa overall the current rate of flow of financial resources into water is insufficient to meet reasonable targets set by national governments and endorsed by the international community. In its 2008 update, the Joint Monitoring Programme of WHO and UNICEF concluded that “For Africa to meet its MDGs for water supply and sanitation the number of persons served must double from 350 million to 700 million by 2015, and that still leaves 200 million unserved.” Its overall conclusion was “while Northern Africa is on track to reach both its drinking water and sanitation MDGs, Sub-Saharan Africa is not on track for either”<sup>43</sup>.

However, finance is not the binding constraint in all cases. Specific sources of finance are relevant to different parts of the investment gap. For example, the need for capital expenditure (CapEx) is more appropriately filled by national governments and development partners, while O&M funding needs to be derived from user charges, with part of the current gap closed by efficiency measures. Finance targeted at ‘soft’ areas such as utility reform, and other areas of governance, can reduce the overall need to mobilise new finance for investment.

### *Geographical imbalances*

Developed and middle-income countries have many more options than poorer developing countries for attracting commercial finance for water, including raising finance from their own capital markets. Much of the agenda of risk-sharing is relevant mainly to these middle income and emerging markets, especially those on the brink of access to commercial funding sources. As already noted, the preference of financiers for less risky outlets has left the poor developing countries even more exposed than before.

Water has always been the least favoured sector for PSP, generally accounting for less than 5% of the value of infrastructure projects involving private participation. Within the water category, a small number of countries, typically in the middle-income range, take the lion’s share of new projects.

The DAC<sup>44</sup> has analysed the flow of aid to recipient countries in 2001-6 in relation to their “need” based on degree of (lack of) access to water supply and sanitation. Over this period (2001-6) sub-Saharan Africa, the most “needy” region on this definition, received 24% of DAC members’ ODA commitments and South Asia, the next most needy, 19%. The top 10 recipients of aid for water per head were Iraq, Palestine, Jordan, Costa Rica, Lesotho, Lebanon, Malaysia, Albania, Benin and

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<sup>42</sup> e.g. WaterAid, *Getting to boiling point*, 2004

<sup>43</sup> AMCOW (2008).

<sup>44</sup> *Creditor reporting system: aid activities in support of water supply and sanitation, 2001-6. OECD/DAC, 2008-9.*

Tunisia. Countries with high levels of need but receiving very low per capital levels of ODA included Angola, Central Africa Rep, Congo, Somalia and Togo.

The correlation between need and aid response is clearly imperfect, though many of the countries least served by the present aid distribution are those in which it is most difficult to use aid effectively. The problem is particularly acute in fragile states, recovering from natural disasters or civil war. There is a difficult dilemma for aid donors faced with a trade-off between aid effectiveness and poverty reduction.

#### *Problems of financing Operation and Maintenance (O&M)*

The neglect and under-funding of maintenance, routine repairs and replacement of obsolete items results in deterioration of infrastructure and its increasing failure to provide the services it was designed for. In rural areas the neglect of operation and maintenance (O&M) budgets and cost recovery are some of the reasons for the high rate of non-functionality observed in many systems. In Ethiopia a recent survey<sup>45</sup> of almost 7,000 rural water schemes found that 30-40% were non-functional: a shortage of finance for wages, fuel, materials and spare parts was an important factor in this.

The deficit in financing O&M costs is a substantial additional item to add to the investment costs of the MDGs. Estimates carried out by the WHO take into account the high costs of sustaining existing systems. Its conclusion is:

“From 2005 until 2014 inclusive, US\$ 72 billion needs to be spent on water and sanitation annually in the [developing] countries included in this analysis, of which US\$ 18 billion is on increasing coverage to the currently unserved population and US\$ 54 billion is on maintaining and renewing existing facilities for populations already with water supply and sanitation coverage”<sup>46</sup>

However, as highlighted by the Africa Regional Position Paper at Istanbul, water utility efficiency in Africa may be worth more than 2 billion US\$ per year.

As sanitation services become increasingly networked during urbanisation, the cost of sewerage and wastewater treatment will also escalate (in a mature networked WSS system, the unit cost of wastewater collection and treatment normally exceeds that of water supply).

## **5.2 Funds for water resource management, development and governance**

Over the last decade progress has been made in improving the architecture of global water finance, following agenda set by the Camdessus Panel and Gurria Task Force. These reports were, however, mainly concerned with household water and sanitation in the context of the MDGs, though the Gurria Task Force extended its enquiries to agriculture too. Current initiatives<sup>47</sup> aim to consider the financing needs of the water sector in its fullest sense, including resource management, governance functions, and users of water services in all sectors. The basic rationale for this wider view on water financing is that all parts of the sector hang – and fall - together, in a financial sense. Under-funding of one part (such as flood protection, pollution prevention or watershed management) can have drastic consequences for water users elsewhere. Feeble agricultural livelihoods, often constrained by water, limit the ability of most rural households to pay for basic drinking water and sanitation services.

The MDG targets set for 2015 have undoubtedly raised the profile of tackling drinking water and sanitation among the water community. However, the contribution to hunger and poverty reduction

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<sup>45</sup> Reported in *Final Sector Review Report of Water Supply, Sanitation and Hygiene, Ethiopia*, by the Ministry of Water Resources and other ministries, Ethiopia, September 2006, p. 18.

<sup>46</sup> Hutton & Bartram, WHO, 2008

<sup>47</sup> e.g. the OECD programme on *Financing Integrated Water Resource Management, building on the GWP paper by Rees, Wimpenny and Hall*, which is a pioneering attempt to tackle this subject. The OECD report *Strategic financial planning for water supply and sanitation* (2009) also envisaged the extension of the approach to the water sector in its wider sense.

through agricultural water management has failed to seize equivalent attention. Similarly, the contribution of hydropower to targets to improve access to electricity has remained untapped. These development contributions are seen as vital to delivering the economic growth that would permit greater government and household investment in basic services. Their profile has been raised by the African Development Bank over the past two years, notably through the first African Water Week, the African Regional Position Paper at Istanbul and Ministerial Declarations from Tunis, Sirte and Sharm-el-Sheikh. Under the auspices of AMCOW, the actions needed to secure broad-based economic growth through water are set out in AMCOW's operational plan, to be released in November 2009.

Since 2000, the problem had mainly been addressed through funding (mainly from external donors) for the preparation of national IWRM plans, usually by external consultants. This is just the start - the sector-wide approach to water financing has to take root with strong national ownership. At present there is strong anecdotal and partial evidence of under-funding of key functions and services, but its true extent will not be clear until countries, with the assistance of the donor community, identify the financing needs of all water functions and services, and how far these are being satisfied at present. An IWRM optic is useful for this, provided that such a lens is focused on national development planning and outcomes for poor people, as a step towards national Strategic Financial Planning (SFP) for the whole sector.

National water financing strategies help to marshal information and throw light on gaps and neglected areas. However, such national exercises would do best to avoid a blinkered vision of finance in an era of global markets for water-intensive items. Many such goods and services are sold in global markets and are able to tap global financing sources. The scale of markets in hydropower has been defined increasingly by regional transmission infrastructure, as currently being advanced by the four African Regional Power Pools. Putting together a financing plan for water means a pragmatic view of what is available, following some general principles, and tapping all available funding sources for the "difficult to finance" parts<sup>48</sup>.

#### *Declining support for information gathering*

It is a matter of serious concern that global water observational and monitoring networks provide incomplete and incompatible data on water quantity and quality – and even existing networks are at risk of further decline. The recent UN *World Water Development Report 3*<sup>49</sup> devoted much space to this problem, citing a widespread loss of hydrological data, at precisely a time when the impact of climate change on water needs to be accurately assessed. Poor cooperation between countries further hampers regional and global policy-making and projects that rely on shared datasets, and policy-relevant information.

#### *Underfunding of regional and transboundary water institutions*

The poverty of regional data on water is part of the more general issue of *underfunded regionalism*, another aspect of which is the weakness of regional water management bodies. Water is a regional or transboundary matter for more than 40 African countries that share rivers or lakes. In developing their water resources, as well as adjusting to climate change, these countries need to have adequate data on these hydrological resources, but also need regional and transboundary institutions to negotiate and implement the agreements required. Unfortunately, with some notable exceptions<sup>50</sup> the development of both these factors has been lagging, partly due to funding problems, but more fundamentally to a lack of conviction about mutual benefits and the "free rider" issue that impairs international cooperation.

However, regional interventions need not be confined to transboundary mechanisms. Swedish institutions have played a leading role in advancing 'benefit sharing' and in analysing water amid the political economy which extends to scales often far 'beyond the basin'. Recent publications by SIWI

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<sup>48</sup> Rees, Winpenny & Hall (GWP, 2008).

<sup>49</sup> *Water in a changing world, UNESCO/Earthscan, 2009, especially chapter 13, "Bridging the observational gap". See also, Winpenny, James, Investing in information, knowledge and monitoring. A Scientific Paper of the World Water Assessment programme, 2009*

<sup>50</sup> E.g. the Nile Basin Initiative and the Southern African institutions within SADC

include the Transboundary Waters Opportunity Analysis and Getting Transboundary Water Right – Theory and Practise. Urgent action is needed to restore international support to regional institutions and their information infrastructure, and for innovation over a broader set of regional water issues. Chapter 6, which follows, includes proposals for overcoming these deficiencies.

## **6 Opportunities for policy response by Sida based on current Swedish development policy**

### **6.1 Not One Crisis, but Three**

The global financial crisis beginning in mid-2007 has damaged economic growth in many developing countries, especially the poorest, and turned a financial into an economic crisis for them. Although its origins are distinct from the earlier global food “crisis”, for many vulnerable countries the impacts of the two crises overlap, are cumulative, and made worse by the increasing costs of energy. The financial and food crises are in turn superimposed on a deeper, less dramatic but even more serious crisis, that of global water. The Headline Figures are familiar, but so serious that they bear repetition:

- More than a billion people, one in every six human beings, are suffering from under-nourishment. Providing food security for the existing global population, and coping with the extra 2 billion or so expected to exist in the next few decades will call for major investment in water for food, both for irrigated and rainfed systems. Doing so is also the best opportunity to lift hundreds of millions of farming households out of poverty.
- Nearly 1.1 billion people (roughly 20% of the world’s population) lack access to safe drinking water. The lack of clean, safe drinking water is estimated to kill almost 4,500 children per day, most of them under the age of five.
- Over 2 billion people are currently without proper sanitation, which diminishes the health and dignity of poorer citizens<sup>51</sup>.

As the 3<sup>rd</sup> World Water Development Report concludes, “Action is required now. Lives and livelihoods depend on water for development. After decades of inaction, the problems are enormous. And they will worsen if left unattended. But while the challenges are substantial, they are not insurmountable.” “Business as usual” has not been a viable option since that message was issued forcefully at the 2<sup>nd</sup> World Water Forum in The Hague in 2000. This Chapter sets out a menu of policy measures for Sida to consider, addressing each of the overlapping crises. It begins by reviewing Swedish policies for development cooperation, in order that future opportunities build on strong Swedish accomplishments of the past.

### **6.2 Sida and Swedish development policy for the water sector**

The overall goal of Swedish development policy is “to contribute to equitable and sustainable development”. It is proposed that this goal should apply to “all policy areas”. The focus of Swedish development policy is on poor people and poor countries, and is founded on the 2002/03 Government bill “Shared Responsibility: Sweden’s Policy for Global Development”. The bill also describes the goal for Sweden’s development cooperation to be “to contribute to an environment supportive of poor people’s own efforts to improve their quality of life. The current Government of Sweden has identified three thematic priorities for development co-operation, namely: a) democracy and human rights, b) environment and climate, and c) gender equality and women’s role in development. Full details from which this analysis is summarized are presented in Annex 3 to this report.

The 2002/2003 Government Bill identified water scarcity, transboundary water management and conflict prevention, access to clean water (especially by women), urban and rural water supply and

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<sup>51</sup> In many societies the lack of toilets in schools also reduces school attendance by girls.

sanitation and health aspects as important if development objectives were to be met. Budget allocations for 2009 identify water as a priority area under the theme of environment and climate change.

In a communication from 2008 on Sweden's policy for global development the present Government addressed the question of how Sweden effectively can contribute to equitable and sustainable development<sup>52</sup>. Six global challenges are identified as priority areas for Swedish support, namely:

- Oppression
- Economic exclusion
- Climate change and environmental impact
- Migration flows
- Infectious diseases and other health threats
- Conflict and fragile situations

The communication brings up water resources as an important aspect in the context of water and sanitation to prevent disease and improve health, shared water as a threat to peace and security, renewable energy use, and through its impact as a natural resource on the livelihoods of the poor.

Sweden has endorsed the Paris Declaration on Aid Effectiveness and is working towards implementing its commitments by 2010. This declaration stresses the importance of donors harmonising and coordinating their programmes with each other, and so far as feasible, aligning their procedures and procurement methods with those of the host country. The increased use of "programme-based aid modalities" has been recommended. Partner countries have agreed to take a greater responsibility for their own development and to strengthen their own systems to combat poverty and strengthen democracy through economic and political reform. Sweden has also endorsed the Accra Agenda for Action (AAA), adopted in 2008, which reflect the strong international support to the reforms necessary to make aid more effective. The AAA builds on the Paris Declaration and identified where further actions are needed.

In the Communication on the Swedish global development policy the government has also stated its intention to draw upon the broad range of expertise within Sweden as part of its contribution to international cooperation on water resources.

The most recent detailed statements on Swedish development assistance on water were set out in Sida's 1999 "Management and use of water resources" and the 2004 strategy for water supply and sanitation entitled "Pure water". "Management and use of water resources" sets the objective for Sida support: "To promote sustainable management and equitable use of water and water related natural resources to benefit people, especially resource poor women, men and children, while safeguarding the environment". The prioritised areas are, *inter alia*:

- Increased participation and improved IWRM planning and management
- Promotion of national and international IWRM policy and legislation development
- Cooperation on shared water resources to prevent conflicts and promote security
- Application of demand management principles
- Prevention and control of pollution of water resources
- Rural and urban water supply integrated with health perspectives
- Ecological sanitation
- Conservation of water in agriculture
- Conservation and sustainable use of wetlands and coastal environments

Setting out the challenges of water supply and sanitation for domestic purposes and industrial use, "Pure water" sets out key areas where Sida focuses its support, namely:

- Water supply, sanitation and hygiene promotion in urban and peri-urban slums

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<sup>52</sup> Global Challenges – Our responsibility, Communication on Sweden's policy for global development, 2008

- Water supply, sanitation and hygiene promotion in rural areas
- Capacity building for industrial water and wastewater management
- Water supply and sanitation in emergency situations
- Wastewater management in urban areas

It is evident that these challenges may have emphasised drinking water and supply and sanitation but failed to give due attention to the development of productive water uses in support of economic growth or the full set of Millennium Development Goals. Indeed, the emphasis on demand management and conservation, also adopted by many other donors, may be considered as an ‘environmental brake’ upon the reasonable opportunities for unexploited water resource development for attaining the full set of MDGs in Africa. Many think that IWRM has failed to make strong enough links between water and development, including the livelihoods of the poor, and that it has not fostered constructive links with key stakeholders outside the “water box”. The First African Water Week in 2008 sought to widen the water agenda to tackle the deficient infrastructure base that has acted as a brake on the continent’s economic growth. In taking a more outcome-oriented approach, DFID’s 2009 updated water policy<sup>53</sup> forges inter alia new connections to the benefits from water (power, food, and agriculture) to enhance economic growth, prevent conflict and reduce effects of climate change.

Sida supports institutional frameworks for the management of water resources and for water supply and sanitation services. During the period 2006-2008 the latter was aimed at reforming and decentralising the sector to build democratic, effective and consistent institutions. Sida is, and has been, able to finance water infrastructure where policies, institutions and practices are appropriate in terms of sustainability, equity, participation, transparency and accountability.

Sida is concentrating its development cooperation on a few thematic areas all working towards poverty reduction. These are:

- Human security
- Empowerment
- Economic opportunities
- Human development
- Environment, climate change and sustainable services

To further focus the work Sida has selected focus areas and high profile issues within these thematic areas where Sida’s engagement, capacity and competence will increase further. Water is in particular mentioned under the main sector of Sustainable infrastructure and services in the thematic area of Environment, climate change and sustainable services. Here Water and Sanitation is a focus area and sustainable sanitation, water governance and transboundary water management are considered high profile issues. Other thematic areas will most likely include elements of water management within the focus areas as well, but in a broader context of for example environment management and integration, climate change and governance of natural resources.

The total budget for Swedish international development assistance is projected to decrease in absolute terms during 2010 to 25.7 billion SEK (excluding reform cooperation in Eastern Europe), while still meeting the government’s target of 1% of GDP. Sida’s budget for disbursement to international development cooperation is SEK 15.8 bn for 2009. Since 2007, Swedish development cooperation had begun to focus on fewer countries in order to increase its quality and effectiveness. Long-term cooperation will focus on twelve countries, of which 9 are in Sub-Saharan Africa, two in Asia, plus Bolivia. In these countries, development assistance will target sectors where the Swedish contribution could have most impact, but no more than three sectors in each country. Sida’s principal themes in its priority countries, namely economic development for poor people, agricultural development, energy,

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<sup>53</sup> DFID Water: An increasingly precious resource, Sanitation: a matter of dignity

and environment/natural resources now present different challenges to the dominance of drinking water and sanitation set in Sida's current water policy.

According to a recent Sida assessment commissioned by the Government on the need of revisions of Sida's development cooperation programmes in the light of the financial crisis<sup>54</sup> most of Sida's country programmes were found to be relevant and adequate in relation to the economic crisis. According to Sida, this is also in line with how other international actors have assessed the crisis and how bilateral and multilateral actors have responded and are utilising their respective comparative advantages.

Sweden will also use its development cooperation to support twelve countries in conflict or that recently have emerged from conflict, including six in Africa, two in Asia, two in the Middle East and two in Latin America. In East Europe Sweden is working on reform cooperation in ten countries. Cooperation is being phased out in Botswana, China, India, Indonesia, Namibia, Viet Nam and South Africa. Strategies for regional cooperation are pursued in Africa, Asia, the Middle East and North Africa, and Latin America. Support to human rights and democracy development is also provided to several countries.

During the period 2006-2008, Sub-Saharan Africa received over 40% of the overall disbursements of Sida finance, with support to global initiatives disbursing over 20%. Apart from Asia and Central Asia (16%), no other region received more than 10% of total disbursement. Regional and global support has been the largest category of disbursement at 37%, followed by long-term development cooperation (26%) and (post-) conflict (16%).

The principal modalities of disbursement have been project support (45%), programme support (16%), humanitarian aid (15%) and contributions to NGOs (12%), the remaining 12% being composed of research, staff support, international training programmes and credits. Sector disbursements show a more even spread, with democracy, governance and human rights (22%) the largest recipient sector, followed by humanitarian aid (15%) and natural resources and environment (13%) and health (12%). Seven other sectors (including budget support for poverty prevention and infrastructure) each disbursed between 8% and 3%.

The average share of water in OECD-DAC members' programmes was 8% in 2006. Sida disbursement to the water sector was SEK 522m in 2008, 3.3% of total disbursement. This is expected to decrease in 2009 due to phasing out of a number of bilateral programmes. These contributions have been mainly through Sida's portfolios in water, infrastructure and sustainable services, and environment and climate change. Main areas of support in Sida's water portfolio during 2006-2008 have been water resources management, water supply and sanitation and capacity building, constituting more than 85% within the water portfolio.

The water sector is also supported through other portfolios. The environment and climate change portfolio, in which water is one of four priority focus areas, is an important sector for Sida. During the last three years about SEK 9 bn have been disbursed to programmes where the environment has been the principal or a significant objective. Environment and sustainable development have therefore been an important aspect in 60% of the Sida funded programmes 2006-2008. Sida anticipates that support to flood management and prevention will increase in coming years in line with the government's priority of climate change adaptation.

### **6.3 Options for policy responses by Sida**

Based on the evidence presented in earlier chapters, this section sets out the authors' assessment of options for policy responses by Sida to meet short, medium and longer term water challenges. These

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<sup>54</sup> Skrivelse angående översikt av biståndets inriktning inom ramen för gällande samarbetsstrategier och förslag till revideringar mot bakgrund av den globala ekonomiska nedgången. Enligt regeringsbeslut III:2, UF2009/38074/USTYR

options are informed by Sida's strategic directions, capacity and experience, its range of instruments and partnerships. The options aim to take advantage of Sida's flexibility and willingness to support innovative solutions, and the influence it can exert within the international community. Two internal objectives of the policy response are:

- a) to sustain, and possibly increase, Sida's disbursements for water. This would be achieved principally through the shift in focus from middle income and emerging economies towards low-income countries and fragile states. Sida could take steps to achieve, and possibly exceed, the DAC average of 8% share of water in total disbursements.
- b) to implement new operational modalities at Sida – strengthen the decentralised, multi-disciplinary country teams working to agreed Country Strategies, backed by effective policy advice and support, and benefiting from Sida's regional and global programmes for the reform of water related policies and institutions.

Policy responses are set out in two general areas, namely:

- a) Countering the impacts of the economic crisis, through adjustments in the level and form of external support. These policy responses would be designed for implementation and disbursement as soon as possible, though some measures would take time to take effect. Actions taken in this area would sustain Sida's disbursements for water.
- b) Levers of change, focusing on strategic areas and sectors where grant financing can make a difference in reversing the poor progress being made in the long-term financing of water in all its uses. These actions would lead to disbursements in the medium term (1-3 years). A feasible target may be for Sida to give water a 10% share of total disbursements from 2012 onwards, to be sustained at that level until further review considering its poverty targeted focus and contribution to overall sustainable economic growth.

The two sets of policy responses should be concurrent and coherent with each other.

### **6.3.1 Countering the impacts of the economic crisis**

There are a number of specific areas where Sida could make deliberate responses to the economic crisis to limit the impacts on the poor. These responses are explained below, and summarized in Table 5.1, differentiated by development assistance channels (bilateral, through Stockholm or country offices, and at the multilateral level). The responses proposed here are linked to the main problems emerging from the account in Chapter 3, namely

- the need for supporting macro-economic stimulus especially targeting affected groups,
- the need for injecting funding at a decentralised level to those deprived of central government allocations,
- measures for sharing the extra risks perceived in financing water, to promote the right kinds of commercial funding (loans, bonds and equity).
- using existing platforms for blending grant with loan finance to compensate for the shortage of commercial funds, and to link with the new lending effort from public international DFIs.
- actions to improve the cash flow and general financial status of water undertakings to make them more efficient and credit-worthy for attracting the kinds of finance they need (from all sources).

A number of these measures also have relevance to the longer-term need for raising funding in the water sector, discussed under the later section, Levers of Change.

**Table 6.1 Summary of Response Options to Counter impacts of the economic crisis**

Response Options	Development assistance channels		
	Bilateral - Stockholm	Bilateral – Country	Multilateral
a) Reinforcing national economic stimulus packages		<ul style="list-style-type: none"> <li>▪ National economic stimulus packages in priority countries</li> </ul>	<ul style="list-style-type: none"> <li>▪ World Bank</li> <li>▪ IFC Crisis Response</li> </ul>
b) Food price crisis response		<ul style="list-style-type: none"> <li>▪ National Programs for Food Security</li> </ul>	<ul style="list-style-type: none"> <li>▪ AfDB, World Bank Food Price Crisis Responses</li> <li>▪ IFAD</li> </ul>
c) Mobilising NGOs and civil society for local operations	<ul style="list-style-type: none"> <li>▪ NGO/ Civil Society Forum. Cofinancing, challenge funds, output-based aid</li> </ul>		
d) Risk sharing instruments		<ul style="list-style-type: none"> <li>▪ Swedfund</li> </ul>	<ul style="list-style-type: none"> <li>▪ MIGA</li> </ul>
e) Blending grant and loan finance	<ul style="list-style-type: none"> <li>▪ Review existing platforms</li> </ul>	<ul style="list-style-type: none"> <li>▪ Leveraging with project/programme support</li> </ul>	<ul style="list-style-type: none"> <li>▪ EIB</li> <li>▪ EUNIF</li> <li>▪ EUAITF</li> <li>▪ GuarantCo</li> </ul>
f) Urgent housekeeping and efficiency measures	<ul style="list-style-type: none"> <li>▪ Utility twinning</li> </ul>	<ul style="list-style-type: none"> <li>▪ PPP eg Performance Based Service Contracting</li> </ul>	<ul style="list-style-type: none"> <li>▪ Water Operators Partnership</li> </ul>

**a) National economic stimulus packages:** Sida might consider a two-tier approach, one multilateral, one bilateral. Working multilaterally, Sida may consider disbursements through the World Bank or IFC Crisis Response, targeting pro-poor safety nets in countries where national economic stimulus packages are in place. A rapid review of national economic stimulus packages could be conducted with the World Bank, identifying realistic opportunities for interventions through water, particularly drinking water and sanitation, labour-intensive schemes in rural development or support to vulnerable groups. Working bilaterally through its country offices in the 24 priority countries, Sida could identify opportunities for short-term increases in disbursements to water projects as part of national economic stimulus and response programmes.

**b) Food price crisis response:** In response to sustained high food prices in Africa impacting upon vulnerable communities, Sida could explore opportunities, bilaterally or multilaterally, to disburse finance through the Food Price Crisis Response of the African Development Bank, World Bank Global Food Crisis Response, IFAD and National Programmes for Food Security. Through these existing multilateral and bilateral channels Sida would seek realistic and rapid opportunities for safety net interventions in partnership with like-minded partners.

**c) Mobilising NGOs and civil society:** Given that the economic crisis has hit the flow of funds precisely to those levels of society where decisions about water are made, and local projects implemented, it is suggested that Sida should urgently review opportunities for co-funding NGOs with whom it has strong working relationships with a view to start rapid-disbursing projects, especially amongst communities hard hit by recent events. The purpose of this review would be to explore opportunities for increasing financial support to drinking water and sanitation and water-based livelihood and nutrition strategies with clear beneficiary groups. The mechanisms for support might include co-financing or challenge fund contributions for civil society bodies working at the grassroots,

sub-sovereign financial support (e.g. risk-sharing), microfinance (e.g. seed finance for revolving funds), or rapid capacity enhancement. Output based aid mechanisms could be appropriate in these situations.

*d) Risk sharing instruments:* Lenders and investors alike are now more risk-averse, and this is particularly damaging for water because of its perceived high risk in developing countries. Many development agencies now have an armoury of risk-sharing instruments (guarantees, equity capital, convertible loans etc) that are under-used for various reasons, and which incur high transactions costs to apply. Sida is, for example, a partner in GuarantCo, an international guarantee agency for local currency lending, which has been very slow to develop a portfolio of water projects. A stronger engagement in the GuarantCo board and in the advising agency by Sida could yield better results. There are signs that the crisis may have revived interest in risk-sharing devices. It is clear that their potential value has not been realised. Now could be the time to persevere with these products, and to redouble efforts to overcome barriers to their deployment and make stronger use of the existing Development Finance Institutions (DFI) such as Swedfund. Help for the creation of national guarantee facilities, as in the Philippines is a promising suggestion. Co-financing with Swedfund – which has just received a new infusion of funds from the Swedish Government – and MIGA of the World Bank are other opportunities.

*e) Blending loans and grants to achieve a more acceptable and affordable package for project finance.*

Opportunities exist to blend grants and loans to improve the terms of project finance and enabling grant element to leverage a larger total volume of funding. The crisis has comprehensively worsened the terms on which developing countries can obtain finance for water projects. In general, donors' response could be to use their grant funds selectively to focus on countries and projects where the need for "soft" funding is greatest. The art of blending is to avoid "crowding out" local and commercial funds, and prevent creating long-term aid dependence. It is suggested that Sida seek opportunities that promote blending of grant and loan funds in the aid "offer", so that the package is affordable, while preserving incentives to nudge the recipient towards the creation of sustainable financing structures. Sida might assess opportunities in the several existing "platforms" (e.g. the EU Neighbourhood Investment Facility, the EU-Africa Infrastructure Trust Fund) whereby donors can contribute to pools of funds including loan sources such as EIB. It is further suggested that Sida progress to a rapid decision on joining the EUAITF. Sida grant funding, either as project or programme support, could be used selectively to leverage commercial finance for those countries with access to financial markets, particularly in the urban drinking water sub-sector, or the potential to do so in the near-term.

*f) Urgent housekeeping and efficiency measures to improve the finances of water services:* Several influential development agencies have drawn the conclusion that the crisis will force water service authorities to become more efficient, reducing their costs, making them less dependent on official hand-outs, and improving their creditworthiness for attracting what funding is still available. There is massive scope for 'Good Housekeeping' in all branches of the water sector, particularly municipal water supply and irrigation. Improving cash flows is also the only sustainable way of creating the resources for adequate maintenance (which otherwise is likely to suffer during the present crisis). Sida could be active in promoting greater efficiency through means such as utility twinning (either bilaterally, or through the Water Operators Partnership), or encouraging appropriate forms of PPP such as Performance Based Service Contracting in its target countries.

### **6.3.2 Levers of change to increase investment in the longer term**

This section describes actions with a longer-term perspective, aimed at the strategic areas and sectors where grant financing can make a difference. Though the perspective for these actions is strategic, actions to initiate them are urgent. Its targets are: creation of the enabling environment; practical action to accelerate progress towards attainment of the MDGs; and the longer-term achievement of water security. These actions would lay the foundation for Sida disbursements from 2011 onwards.

Examples of actions are summarized in Table 6.2, differentiated by development assistance channels and are further explained below.

**Table 6.2 Summary of Response Options to Levers of Change**

Response Options	Development assistance channels		
	Bilateral - Stockholm	Bilateral – Country	Multilateral
g) Supporting African regional organizations and promoting regional integration	<ul style="list-style-type: none"> <li>▪ AMCOW dialogue</li> <li>▪ Regional water agenda ‘beyond the basin’</li> <li>▪ Innovate regional finance</li> <li>▪ Transboundary water initiatives</li> <li>▪ Engage with IFIs, DFIs, &amp; bilaterals on pipeline investments and capacity</li> </ul>	<ul style="list-style-type: none"> <li>▪ Infrastructure of regional importance in existing transboundary settings</li> <li>▪ New opportunities in e.g. Lake Tanganyika, the Nile Basin, Pungwe basin</li> </ul>	<ul style="list-style-type: none"> <li>▪ Engage with IFIs, DFIs, and bilateral agencies on pipeline of investments and capacity building efforts</li> </ul>
h) Building the pipeline of ‘bankable’ projects	<ul style="list-style-type: none"> <li>▪ ICA membership</li> <li>▪ African Water Facility</li> <li>▪ AfDB, WB multi-Donor Water Partnership Programs</li> <li>▪ CADDP</li> </ul>	<ul style="list-style-type: none"> <li>▪ Active identification and support to investments “low hanging fruit”</li> </ul>	<ul style="list-style-type: none"> <li>▪ Make trust funds available to IFIs and DFIs to build pipeline of investments</li> </ul>
i) Co-financing with multilateral agencies	<ul style="list-style-type: none"> <li>▪ Swedfund leverage</li> </ul>		<ul style="list-style-type: none"> <li>▪ Existing framework arrangements, e.g. RWSSI, IFAD, WB or AfDB Irrigation Business Plans</li> </ul>
j) Leverage commercial and private finance	<ul style="list-style-type: none"> <li>▪ Swedfund</li> <li>▪ PPIAF</li> <li>▪ ICA</li> </ul>	<ul style="list-style-type: none"> <li>▪ Stronger enabling environment</li> <li>▪ Swedfund</li> </ul>	<ul style="list-style-type: none"> <li>▪ Engage more with PPIAF, GuarantCo</li> </ul>
k) Pioneering Strategic Financial Planning			<ul style="list-style-type: none"> <li>▪ AfDB Country Strategic Overviews</li> </ul>
l) Transition of emergency support to sustainable water management in Fragile States		<ul style="list-style-type: none"> <li>▪ National food security programs</li> </ul>	<ul style="list-style-type: none"> <li>▪ AfDB Fragile States Facility</li> </ul>

***g) Supporting African regional organizations and promoting regional integration:***

Several African regional organizations deserve recognition and support for having elevated discussion of water policy to a suitable governmental level, and for their promotion of cooperation and common causes. AMCOW is a case in point. During 2008-2009, African Ministers and Heads of State made high-level commitments towards attainment of the Africa Water Vision 2025, and have issued strong messages to the development community to support its delivery, as are being set out in the AMCOW Operational Plan, due in November 2009. The Vision and Plan set out concerted actions for

accelerating progress towards the MDGs, boosting economic growth and development sectors, and evolving distinctive approaches in fragile states. In this process it identifies promising regional organizations that it supports such as SADC, EAC, and the NBI. It is suggested that Sida engage in dialogue with the Chair of AMCOW and its Executive Secretary as an initial step to explore opportunities for support (through multi-year funding commitments) for the implementation of the Operational Plan up to 2015. Continued work with promising regional processes such as NBI/NELSAP and the EAC should be continued in order to strengthen regional integration.

One important dimension is the strengthening of river basin and transboundary initiatives. Sweden is renowned and respected for its promotion of regional integration in water, having been engaged in the early stages of several transboundary initiatives, and support to the establishment of transboundary institutions, particularly in Africa. Sida can consider maintaining its support, particularly where it is already engaged in multi-donor platforms (as in the Nile, Zambezi, Limpopo, Okavango, Lake Victoria, and Lake Malawi), though Sida might seek to carve out a more distinctive niche role in the creation of infrastructure of regional importance, particularly hydropower and multi-purpose projects in basins where Sida is already engaged. As discussed further below, this could include an improved flow of bankable investment opportunities (e.g. through further support for the NELSAP project identification process). A focus also on innovation in the area of financing (capital and recurrent) multi-use, multi-country infrastructure through multi-donor platforms would be valuable.

- a) Another major new opportunity would be to partner the African Development Bank in the development of Lake Tanganyika transboundary management, which takes in five of Sida's priority countries. Consideration might also be given to specific infrastructure support in the Pungwe river basin, shared by Mozambique and Zimbabwe, to complement the relationship and capacity building efforts. These present opportunities to build on Sweden's leadership in 'benefit sharing' and regional collaboration including preparation of guidance on how to operationalise this concept
- b) Developing a broader view of 'regional water' beyond the basin to clarify:
  - the significance and implications for water management and financing of regional markets in the products of water
  - the implications of international trade for water management in both producer and purchaser markets and the importance of 'market pull' in sustainable infrastructure,
  - the 'power base' around trade in food goods (eg multinationals, commodity buyers, food aid) and the distortions that are translated by heavily subsidized imports into the lack of economic viability of irrigation investment.

***h) Building the pipeline of 'bankable' projects:*** Improving the pipeline of 'bankable' projects is key if financial disbursements are to be better matched with progress to attain social and economic outcomes. A number of instruments have already been set in place. With a view to the active identification and support to investments in "low hanging fruit" especially in the regional initiatives in which Sida is already engaged, Sida could facilitate project identification project formulation and transaction advisory services, either directly (e.g. through membership of the Infrastructure Consortium for Africa) or through delegated instruments such as the African Water Facility or the AfDB and World Bank Multi-Donor Trust Funds. This would involve grant funding for pre- and full feasibility studies to build a pipeline of projects. This stage in the project cycle is critical and is often due to perceived high risk by the private sector not financed. Sida may also give consideration to making trust funds available to IFIs and DFIs to build their pipelines of investments. A good pipeline of projects supports both the private and the public sector when making investment decisions.

With the re-emergence of IFI engagement in agricultural water management, it is suggested that Sida seek longer-term interventions in small-scale water harvesting and other opportunities among communities persistently faced with hunger-period food deficits, and livelihoods that are vulnerable to variable climates. National Food Security programmes, and the Sirte portfolio of investment opportunities under the framework of the AU/NEPAD Comprehensive African Agricultural

Development Plan offer best prospects. Such opportunities would complement options elsewhere to provide development assistance to safety nets in response to the food crisis.

*i) Co-financing with multilateral agencies:* In recent years, increasing amounts of multilateral loan finance have become available (e.g. from the World Bank, African Development Bank, European Investment Bank, Islamic Development Bank, Asian Development Bank, IFAD's significantly increased 8th Replenishment, etc). Loan finance, even at preferential rates, often needs to be accompanied by a grant component to produce an affordable project-financing package and to promote and finance ancillary programs with social and environmental focus. This is an opportunity for Sida to use its grant resources for co-financing to allow partner countries to leverage loan finance from IFIs. It could be more efficient, and avoid the high transaction costs of one-off interventions, for Sida to engage in existing framework arrangements, e.g. the AfDB RWSSI, IFAD, or the AfDB or World Bank Irrigation Business Plans. Multi donor trust funds such as the Nile Basin Trust managed by the World Bank for the Nile Basin riparian countries as beneficiaries is an example of how such support could be designed and scaled up.

*j) Leveraging commercial and private finance:* The various measures suggested earlier to help counter the effects on water of the financial crisis, together with the enhanced flows expected from IFIs, Asian and Middle Eastern sources, would still leave large gaps in funding for African water requirements. Commercial lending, bonds and private equity have been the most obvious casualties of the financial crisis, but the need is as great as ever for the expertise, skills and finance that can be provided by non-state entities in water supply and sanitation, wastewater, hydro and irrigation projects. Many of the measures described earlier would contribute to the "enabling environment" for private and commercial involvement in water, while other measures would directly help the creation of a project pipeline and promote specific transactions (twinning and utility reform, project preparation, equity and subordinated loans and grant-loan blending, risk sharing and guarantees, etc). Apart from working more closely with Swedfund, already referred to in other contexts, Sida might also become more closely involved with ICA, PPIAF, PIDG, private sector groups of the IFIs or other partnerships for the promotion of private enterprise.

While these partnerships have a crucial role for larger scale infrastructure, new solutions need to be developed to support water investments at a local scale, involving water users themselves, local private operators and drawing on local capital and credit markets. Creating the "enabling environment" to encourage such sources could entail reforms to regulation and procurement, more support for microfinance (e.g. through the use of Output-Based Aid in conjunction with local banks), using local currency guarantees, co-funding with local NGOs and other devices.

*k) Pioneering Strategic Financial Planning:* In the current financial climate, core capital expenditure on drinking water and sanitation, productive uses of water to stimulate economic growth and the less visible parts of the water sector (resource management and development and governance) are vulnerable to cuts and economies. Sida could encourage their focal countries to take a longer and more coherent view of water finance using the SFP framework developed by the EUWI, GWP and OECD through the AfDB/WSP Country Strategic Overviews. Funds could be offered to support the production of SFPs for target country partners, with the promise of funding of various kinds for their implementation.

*l) Transition of emergency water support to sustainable water management in Fragile States:* Countries in, or emerging from, conflict are a key target for Sida, and require distinctive approaches in the absence of opportunities for disbursing programme and budget support. It is vital that safety nets be sustained where other opportunities are limited. Where there is demonstrable progress in policy-making in these situations Sida may seek to transform its humanitarian aid into long-term development assistance, involving the rehabilitation of water infrastructure for the provision of basic services and economic growth. Engagement to support a road-map on water as part of the African Development Bank Fragile States Facility holds realistic prospects for rapid progress, and would be in line with AMCOW steps to attain the African Water Vision 2025. Food security micro-projects are another

important avenue given that Fragile States are most off-track on MDG attainment and harbour the highest rates of malnutrition.

#### 6.4 Implications for Sida’s policies, processes and structures

This final section considers some of the internal adjustments that Sida may need to make in order to implement the agenda set out in this paper. The two categories of measures – responses to the current crisis, and Levers of Change – are likely to have different time horizons for their results to become apparent. Nevertheless, planning for both should begin soon, and be conducted in parallel.

The implementation actions suggested below (Table 6.3) involve identification of response measures, restatement of policies and financial commitments to the water sector, strengthening and supporting internal services and country teams, forging global partnerships and alliances, maximizing inputs from Sweden’s human resources, and leading the global change agenda on topics of particular Swedish expertise.

**Table 6.3 Summary of implementation actions**

Implementation arrangements	Development assistance channels		
	Bilateral – Stockholm	Bilateral – Country	Multilateral
i) Countering impacts of the economic crisis	<ul style="list-style-type: none"> <li>▪ Consolidate basket of real and costed interventions</li> <li>▪ Assess relative effectiveness and efficiency</li> <li>▪ Focus on target beneficiaries</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify actions with rapid disbursement potential</li> <li>▪ Practical steps to tackle absorptive capacity</li> </ul>	
ii) Comprehensive update of Sida’s water related policies and financial commitments	<ul style="list-style-type: none"> <li>▪ Policy update</li> <li>▪ Financial commitment</li> <li>▪ Annual expenditure report</li> <li>▪ Annual success stories report</li> <li>▪ Annual stakeholder meeting</li> </ul>		
iii) Supporting and strengthening Sida’s internal services and country teams	<ul style="list-style-type: none"> <li>▪ Call-down facility on water expertise and complex Transaction advisory services</li> <li>▪ Water theme in Sida retreat</li> </ul>	<ul style="list-style-type: none"> <li>▪ Outcomes of Paris Declaration</li> <li>▪ Opportunities for rapid scaling-up</li> <li>▪ Fast-track pipeline opportunities in Country Strategies</li> <li>▪ Water content in Country Strategies</li> <li>▪ Improve absorptive capacity in partners</li> </ul>	<ul style="list-style-type: none"> <li>▪ Draw on Sida and MoF seconded experts to IFIs and DFIs</li> </ul>

iv) Forging global partnerships and alliances	<ul style="list-style-type: none"> <li>▪ Review of expected outcomes of global partnerships</li> <li>▪ Alliances with like-minded donors</li> <li>▪ Stronger engagement with existing multi-donor frameworks (eg ICA, AICD, AfDB MDWPP, AWF)</li> <li>▪ Engagement with emerging investors</li> </ul>		<ul style="list-style-type: none"> <li>▪ Cofinancing via existing instruments (eg GFCR, EUIP, RWSSI, CAADP, PIDG, AGRA, Swedfund, GarantCo)</li> </ul>
v) Maximising input from Sweden's human resources	<ul style="list-style-type: none"> <li>▪ Review national capacity and engagement opportunities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Active advocacy for investment opportunities for Swedish actors</li> </ul>	<ul style="list-style-type: none"> <li>▪ Secondments to IFIs and DFIs</li> </ul>
vi) Leading the global agenda on water for development outcomes	<ul style="list-style-type: none"> <li>▪ Water and agriculture</li> <li>▪ Hydropower</li> <li>▪ Climate change adaptation</li> <li>▪ IWRM evolution</li> <li>▪ Innovation in governance through applied research</li> </ul>	<ul style="list-style-type: none"> <li>▪ Identify partner organisations to move innovation agenda with Swedish partners</li> </ul>	<ul style="list-style-type: none"> <li>▪ Engage more actively with seconded specialist staff at IFIs</li> </ul>

*i) Countering impacts of the economic crisis:* Sida, working closely with its country offices, is encouraged to identify actions with rapid disbursement potential, given that the impacts of the economic crisis are already being felt by the most vulnerable. With the possible assistance of consultants, Sida may review and progress each of the opportunities to their pre-disbursement end-point. The principal output would be a basket of real and costed intervention opportunities among Sida's priority countries with detailed disbursement mechanisms. Proposals would include practical steps for ensuring absorptive capacity is in place to achieve impact. Within the overall basket, each intervention would be assessed in terms of their relative efficiency and effectiveness. Each intervention would make explicit the number and composition of primary beneficiaries targeted (including vulnerable groups).

*ii) Updating of Sida's water related policies and financial commitments* It is suggested that Sida update its 1999 and 2004 policy statements on water services, management and development and governance within a single policy document also including aspects of water as addressed in the environment and climate change work and the infrastructure portfolio. The prime purpose of this would be to set out Sida's broad policy principles in order to support numerous country teams in their efforts to meet diverse national and regional goals. The policy would take a broad perspective on water, and make the vital connections to each of Sida's wider policy goals, investment portfolios and to the objectives of Swedish development assistance. Particular attention would be paid to connections to development for water through Sida's themes in its priority countries, namely economic development for poor people, agricultural development, energy, and environment/natural resources. This would mirror the IWRM process underway in many developing countries, evolving water's

contribution to national development plans, and strengthening the engagement of the national water community with other decision makers that are crucial to the future of water. The policy update would reflect the needs of African and other target countries to move towards water security against the background of the Three Crises and the climate change agenda.

It would be desirable for the launch of Sida's updated policy to be accompanied by a political statement on Sida's financial commitment to water up to 2015, including specific commitments on water, sustainable infrastructure, environment and food security, and spelling out priorities to low-income countries and fragile states.

The policy update would also reflect prior analysis in the following areas:

- a full analysis of water interventions involving Sida including disbursement through multilateral as well as bilateral channels, and through DFI instruments such as Swedfund
- stocktaking of lessons learned from past interventions in terms of meeting livelihood outcomes
- strengthening Sida's information systems, where needed, in order to identify past water projects among Sida's diverse portfolios

In support of an updated policy, it is suggested that Sida instigate

- regular annual monitoring and reporting of expenditure on water through the different channels of Swedish development assistance, aiming at first publication in 2011 to report on 2010 expenditures
- instigation of regular annual reports on success stories in water
- an annual meeting of Sweden's water stakeholders to report progress in policy implementation

*iii) Strengthening and supporting Sida's internal services and country teams:* Sida's new decentralized structure of enhanced country teams is central to delivering future successes in water, and deserves full support. The following actions are worthy of consideration:

- Perform a rapid synthesis of all ongoing water projects in target countries, and identify where practical opportunities exist for rapid scaling-up disbursements under existing project implementation building on successful programs and identify exit strategies where necessary
- Assess outcomes of the Paris Declaration and Accra Action Agenda in Sida target countries and any further need for harmonisation of policies and procedures for multi-donor aid to the water sector: specifically, review the implications of the 'up to three sector' engagement rule for its impact on how Sida might assist through water at national level
- Review the effectiveness of past partnerships with national water institutions, assess their absorptive capacity for upscaling of delivery, and identify practical steps for enhancing their absorptive capacity over short and medium-term time horizons. This could involve a specific water target in Sida's international training budget
- Select fast-track pipeline opportunities already identified in Country Strategy Papers for financing (through project or programme support) in target countries, and accelerate their progress, where local conditions permit.
- Provide central support to outposted officers to promote the water content of Country Strategy Papers
- To support these and other actions, establish a backstopping call-down arrangement, enabling country-based officers to call on short-term expertise from broad-based external manpower resources in a flexible manner
- Give Country Programme Managers the opportunity of engaging with senior management in Stockholm in staff retreats or other consultative fora to develop a stronger future water portfolio along lines suggested in this paper
- Draw on the expertise of Sida and MoF experts seconded to IFIs and DFIs

*iv) Forging global partnerships and alliances:* Sida is likely to get mileage and leverage by working through and with the main national and international public agencies. However, Sida has to be clear about the purpose of its investments in global processes, which have constituted a major part of Sida's overall disbursement. Of particular importance will be finding the levers that forge stronger two-way connections between global public goods and Sida's investment work at country and regional scales.

As a first step to inform the way forward, Sida is encouraged to conduct a rapid review of its current partnerships and alliances, and the expected outcomes they are intended to deliver (which could be conducted as part of a policy update process). A forward-looking strategy may embrace for example:

- Forging key alliances with like-minded development partners, such as USAID and DFID
- Co-financing under existing disbursements to share risk, including (as discussed above)
  - Global Food Crisis Response Programme
  - EU-Africa Infrastructure Partnership
  - Rural Water Supply and Sanitation Initiative of African Development Bank
  - Comprehensive African Agricultural Development Program
  - The Private Infrastructure Development Group (PIDG)
  - Alliance for Green Revolution in Africa
- Joining, collaborating and financing activities within existing partnership frameworks, with a special emphasis on Africa including, as discussed above
  - Infrastructure Consortium for Africa
  - African Infrastructure Country Diagnostic (AICD)
  - AfDB Multi-Donor Water Partnership Programme
  - African Water Facility
  - World Bank Multi-Donor Water Partnership Programme
- Engaging with New Investors. In the last few years a class of ‘New Investors’ has arisen, typically sovereign agencies or state-sponsored companies, who are not members of the DAC and have their own motives and modalities of aid. They have become major investors and funders of the development of land and water infrastructure in some of Africa’s poorest countries. This phenomenon offers challenges, but also opportunities for dialogue and constructive engagement for traditional donors such as Sida.

*v) Maximising input from Sweden’s human resources:* Sweden already contributes disproportionately to global water solutions through its research capacity, private sector, civil society, public utilities, consultancies and other human resources. Given its comparatively large capacity, it could, however, contribute even more towards tackling the global water problems identified in this paper by focusing more on implementation. Sida might re-evaluate the national capacity with a view to making the most of what is available for the agenda described here. The review could include, amongst other topics, network arrangements, centres of excellence, procurement procedures, twinning opportunities, and modes of engagement with partner countries and wider international expertise.

*vi) Leading the global water agenda for real development outcomes through applied research and innovation:* Among the international community, the agenda for drinking water and sanitation has benefited from strong leadership from key development partners. However, there are a number of areas where leadership is lacking, which present opportunities for Sida as a well-respected partner to exert influence. Many such topics coincide with the sector priorities in agricultural development, energy, climate change and the environment in Sida’s priority countries. It is not realistic that Sida can ‘take a lead’ in all areas. However, decisions on leadership in one or two areas can be expected to bear influence on the suggested policy reform at global, or regional levels. Alliances with other donors in other areas could allow Government of Sweden to remain engaged and to leverage influence with smaller levels of activity and finance.

Water and agriculture: The root causes of the food price crisis are partly founded in water, and even with concerted action, the timeframe for reducing vulnerabilities will likely run for many years, even decades - certainly longer than the current economic crisis. But agricultural water management is glaringly lacking leadership among donors at the international scale. Entry points may include:

- Advocacy for a stronger longer-term development perspective within the 50 billion US\$ commitments to donor assistance following the L'Aquila summit, which with a 3 year disbursement horizon is targeting food, seeds and fertilizer distribution ahead of installing productive capacity among rural households
- Reviewing and tackling the complex international architecture around agricultural water management
- The new Global Partnership for Agriculture and Food Security offers prospects for building a multi-stakeholder platform, to which Sida can bring its experiences and lessons-learned with the Global Water Partnership
- Assessment of the absorptive capacity in African agricultural development, and forward-looking strategies
- Analysis of impacts of developed countries agriculture, trade and energy on international food prices and availability
- Extrabudgetary resource contributions to FAO, following recommendations of the Independent External Evaluation, and an evaluation of FAO's work on water to be reported in early 2010

Hydropower One specific topic that has been sidelined over the past 15 – 20 years is hydropower development and maintenance. Sweden has a good expertise in this area that could be promoted through various forms utilizing also the Swedish resource base in capacity development, Strategic Sectoral Assessments (SEA), feasibility studies, technical design, and transaction advisory services. As noted earlier there are several channels to utilize for strengthened support in meeting renewable energy through hydropower.

Climate change adaptation and water management There is a major debate about the implications of climate change for water in the context of the 15th Conference of Parties under the Framework Convention on Climate Change, due to meet in Copenhagen in December 2009 (COP15). These implications are far-reaching and there are major opportunities for new 'green financing mechanisms'. However, it is increasingly being recognised that climate change adaptation is evolving as a distinctive discipline, separate from mainstream efforts to improve water development and management. As analysed by UN Water, there is a major opportunity to ensure that adaptation becomes better connected to water resources management. This presents a significant opportunity for advocacy by Sida at Copenhagen and beyond. Sweden is a party to the EU's current formulation of a negotiating "offer" to developing countries at the COP 15: the large sums that are being discussed provide a backdrop to the proposals contained in this report. Water has a huge need for resources for adapting to climate change and focus now should be on post COP15 mitigation and adaptation strategies in with possibly a focus on the water and energy sectors.

IWRM evolution As a traditionally strong supporter and host of the Global Water Partnership, there is an opportunity for Sida to review the progress and future direction of IWRM. Initial steps are being taken in an evolution of IWRM towards wider dialogues and engagement beyond the water sector, and enabling countries to better link water to national development plans, focusing on improving livelihood outcomes that warrant support. The IWRM approach has been formally adopted by a number of countries, and has secured gains, particularly in stakeholder engagement. But it has also been criticised for being too ambitious and utopian, and lacking of the needed sharp development focus and people-centred outcomes. IWRM is now on a better course to make stronger links between water and development, including the livelihoods of the poor, and GWP is embarking on a course to

develop more robust links with key stakeholders outside the “water box”<sup>55</sup>. Sida has an opportunity in its focus countries of evolving IWRM, building on support in Africa under the African Water Facility, starting with the piloting of pragmatic, selective and demand-led processes, which can be scaled up and made more comprehensive as experience unfolds.

*Innovation in water governance through applied research.*

There is a huge need for innovation in the water sector. To reach the MDGs and to tackle the service gap there is a need to identify new forms of water governance. Can water services, and management and development be met in new and innovative ways, previously not considered and adapted to specific developing situations? Further research and applied policy work is needed in this area. Sida could support innovative research to bridge the service gap and through its developing program implement pilots with clients willing to test new forms of water governance.

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<sup>55</sup> DFID's updated water policy in 2009 is interesting in this context, stressing the benefits from water (power and food) to enhance economic growth, prevent conflict and reduce the effects of climate change

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## 8 Annex 2: Countries experiencing long-run crisis<sup>56</sup>

Number of consecutive years with crisis occurrence, by type

Country	Consecutive years with occurrence of some type of crisis <sup>1</sup>	Occurrences of human-made crises <sup>1</sup>	Occurrences of natural crises <sup>1</sup>	IMF overall vulnerability assessment <sup>2</sup>	Main type of vulnerability <sup>3</sup>
Somalia	15	16	15	NA	NA
Afghanistan	15	16	10	M	ODA, R
Ethiopia	15	11	13	M	ODA
Iraq	15	15	9	NA	NA
Eritrea	15	11	12	M	R
Sudan	15	15	8	H	T, ODA, R
Haiti	15	4	14	H	ODA, R
Burundi	15	15	1	H	ODA
Democratic Republic of the Congo	15	15	0	H	T
Liberia	15	15	0	H	T, R
Angola	14	13	1	H	T
Mongolia	13	13	12	H	-
Democratic People's Republic of Korea	13	7	12	NA	NA
Uganda	12	13	8	L	-
Tajikistan	11	9	12	H	R
Georgia	10	11	4	M	-

<sup>1</sup> The sum of columns 3 and 4 can exceed the number in column 2 if countries experience more than one crisis in a given year.

<sup>2</sup> H = high, M = medium, L = low, NA = not assessed.

<sup>3</sup> Type of vulnerability indicates the types of shock to which the country is highly vulnerable: trade (T), foreign direct investment (FDI), official development assistance (ODA), remittances (R). A dash (-) indicates that the country did not receive a highly vulnerable ranking for any of the four types of shock, although medium risks from many different types of shocks can lead to high overall vulnerability; NA indicates that the country was not assessed.

Sources: FAO, GIEWS and IMF. 2009. *The implications of the global financial crisis for low-income countries*. Washington, DC.

<sup>56</sup> Source: FAO/WFP *Source of Food Insecurity 2009*

## 9 Annex 3: Sida engagement in water and related development sectors

### *Government policies*

The foundation for the Swedish development assistance lies with the government bill from 2002/03 “Shared Responsibility: Sweden’s Policy for Global Development”. The bill gives a clear direction to the Swedish ODA. The present Swedish government has identified three thematic priorities for development co-operation during its term in office. These are (I) democracy and human right, (II) environment and climate change, and (III) gender equality and the role of women (Swedish MFA). Under the priority of environment and climate change, “water” is singled out together with four others, as an important area for Swedish support in the government’s budget for 2009<sup>57</sup>.

The current government has set three priorities for the Swedish development cooperation. Under each priority the government has also identified focus areas.

- Democracy and human rights
  - Civil and political rights
  - Institutions and procedures of democracy and the rule of law
  - Actors involved in democratisation
- Environment and climate
  - Adaptation to climate change
  - Energy
  - Environment and security
  - Water
- Gender equality and women’s role in development
  - Women’s participation in politics
  - Women as economic actors
  - Sexual and reproductive health and rights, including HIV and AIDS
  - Women and security, gender-based violence and human trafficking

### **“Policy for Global Development”**

The goal of Swedish development policy is “to contribute to equitable and sustainable development.” The focus of Swedish policy should be on poor people and poor countries<sup>58</sup>. The bill also describes the goal for Sweden’s development cooperation to be “to contribute to an environment supportive of poor people’s own efforts to improve their quality of life. Eight component areas are identified in the policy as being central to Swedish development aid:

- Respect for human rights
- Democracy and good governance
- Gender equality
- Sustainable use of natural resources and protection of the environment
- Economic growth
- Social development and social security
- Conflict management and human security
- Global public goods

The Policy for Global Development presents several water-related issues as important if development objectives are to be met. These include for example mitigating the increasing water scarcity, transboundary water management as conflict prevention, the importance of access to clean water especially to women, urban and rural water supply and sanitation and health aspects of water.

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<sup>57</sup> Swedish MFA, 2008, *Fact sheet on the Swedish Government’s Bill for 2009, presented to the Parliament on September 22*

<sup>58</sup> *Government Bill 2002/03:122 Shared Responsibility: Sweden’s Policy for Global Development, Stockholm May 15, 2003*

### **“Global Challenges – Our responsibility”**

In a communication from 2008 on Sweden’s policy for global development the present Government addressed the question of how Sweden effectively can contribute to equitable and sustainable development<sup>59</sup>. Six global challenges are identified as priority areas for Swedish support, namely:

- Oppression
- Economic exclusion
- Climate change and environmental impact
- Migration flows
- Infectious diseases and other health threats
- Conflict and fragile situations

The communication brings up water resources as an important aspect in the context of water and sanitation to prevent disease and improve health, shared water as a threat to peace and security, renewable energy use, and through its impact as a natural resource on the livelihoods of the poor. The government states that it wants to use the broad expertise in Sweden’s resource base as part of its contribution to international cooperation on water resources. Water is also described as vital for maintaining ecosystems and environmental services, which are important income sources for the poorest, as well as reducing effects of climate change. Water supply and sanitation for urban development are central to the government’s efforts. The government states its intention to support sustainable use of natural resources, preserving biological diversity, ecosystem services and promotion of renewable energy utilisation. The risks associated with increasing water stress on shared water resources to peace and security is also an important area, as well as access to clean water and sanitation services to prevent diseases and increase health<sup>60</sup>.

### **Paris Declaration on Aid Efficiency**

Sweden has endorsed the Paris Declaration and is working towards implementing its commitments by 2010. Sweden will in particular give priority to:

- working with partner countries and other bilateral and multilateral donors to help achieve a better division of labour and concentrate aid to fewer sectors; another option is to delegate part of the cooperation system to other donors;
- making greater use of partner countries’ administrative systems for procurement, reporting, disbursements, follow-up and auditing;
- promoting coordination with other donors where alignment with a partner country’s system is not possible;
- continuing to increase the share of budget support and support to special sectors in countries with acceptable financial systems;
- increasing the untying of aid;
- continuing work to link development results more clearly to the goals set in the poverty reduction strategies and the Millennium Development Goals;
- further strengthening the dialogue with our partner countries and as far as possible base it on the countries’ own strategies and in coordination with other donors<sup>61</sup>.

Partner countries have agreed to take a greater responsibility for their own development and to strengthen their own systems to combat poverty and strengthen democracy through economic and political reform. Sweden has also endorsed the Accra Agenda for Action (AAA), adopted in 2008, which reflect the strong international support to the reforms necessary to make aid more effective. The AAA builds on the Paris Declaration and identified where further actions are needed.

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<sup>59</sup> *Global Challenges – Our responsibility, Communication on Sweden’s policy for global development, 2008*

<sup>60</sup> *Government Offices of Sweden, 2008, Global Challenges – Our Responsibility, Communication on Sweden’s policy for global development*

<sup>61</sup> *Swedish MFA, 2006, More Effective Development Cooperation, UD Info, May 2006*

### **Financial crisis and Swedish aid**

Sida has assessed the need for revisions of its development cooperation programmes in the light of the ongoing financial crisis. The Swedish ODA will decrease in volume for 2010 and this has an effect on how Sida can work to mitigate the effects of the financial crisis. Guiding principles to the Swedish response to the crisis are:

- Do no harm – be predictable and long-term. Standing by commitments and focusing on development issues rather than crisis management reduce uncertainties for vulnerable partner countries and actors, avoid adding to transactions costs and protect the investment in development under way
- Prioritise country programmes in order to preserve predictability and avoid creating uncertainties for partner countries
- Scale up support with more direct mitigation effects. There is a need for some flexibility to mitigate the effect of the crisis on the poor:
  - Social protection needs and measures
  - The support of livelihoods and economic opportunities
  - Infrastructure, including opportunities as regards investments related to climate change and environment
  - Priorities within programmes
- Safeguard programme development cooperation and budget support as it has been programmed in partner budgets
- Sticking to the principles of international development cooperation co-ordination and division of labour.
- Utilise the new loan and guarantee instrument fully where possible to protect crucial investments with financing problems.

Most of Sida's country programmes are in line with development needs to mitigate the crisis and don't need any major changes. According to Sida, this is in line with how other international actors assess the crisis and, bilateral and multilateral actors have responded<sup>62</sup>.

The Swedish government has taken several measures to mitigate the effects of the financial crisis on the poor. Decisions on extra support to the International Finance Cooperation and UNICEF as well as measures to dampen the effects of high food prices have been taken for 2010. More funds have also been added to Swedfund International AB which is a risk capital company specialised in investments in developing countries. These measures will be funded through re-allocations of the existing development aid.

The re-allocations mean a stronger focus on:

- social sectors, such as health and education
- stimulate a favourable climate for trade and productive investments, incl food security
- programme support to developing countries
- intensified work to strengthen political and judiciary framework for owner rights, financial markets and fighting corruption

### **The Swedish International Development Cooperation Agency**

Since 2007 the Swedish development cooperation had begun to focus on fewer countries in order to increase the quality and effectiveness. In the prioritised countries Sweden should work in the sectors where the Swedish contribution could have most effect, but no more than three sectors in each country. The countries where Sweden will work on long-term development cooperation are:

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<sup>62</sup> Sida, 2009. *Implications of the global economic crisis for Sida's allocations of development cooperation. Skrivelse i enlighet med regeringsbeslut III:2, UF2009/38074/USTYR*

<b>Sida Long-term cooperation countries</b>													
<b>African countries</b>	<b>Thematic focus</b>	<b>Asian countries</b>	<b>Thematic focus</b>	<b>Latin American countries</b>	<b>Thematic focus</b>								
Burkina Faso	Democracy and human rights	Bangladesh	Education	Bolivia	Democracy and human rights								
	Environment and natural resources		Health		Education								
	Education and health		Democratic development		Environment and natural resources								
Ethiopia	Democracy and human rights	Cambodia	Human rights										
	Education and health		Democratic development										
	Economic development		Education										
Kenya	Democracy and human rights		Climate change										
	Environment and natural resources												
	Urban development												
Mali	Economic development for poor people												
	Democracy and human rights												
	Environment and natural resources												
Mozambique	Democratic development												
	Sustainable agricultural development												
	Energy												
	Research												
Rwanda	Peace and reconciliation												
	Democracy and human rights												
	Economic development												
Tanzania	Energy												
	Education and research												
	Private sector development												
	Good governance												
Uganda	Democratic development												
	Private sector development												
	Health												
	Research												
	Water and sanitation												
	Energy												
Zambia	Energy												
	Agricultural development												
	Health												

Sweden will also support countries in conflict or that recently have come out of conflict through development cooperation. These are:

- Africa
  - Burundi
  - DR Congo
  - Liberia
  - Sierra Leone
  - Somalia
  - Sudan
- Asia
  - Afghanistan
  - East Timor
- Middle East
  - Iraq
  - West Bank and Gaza
- Latin America
  - Colombia
  - Guatemala

In East Europe Sweden is working on reform cooperation together with the following countries; Albania, Bosnia-Herzegovina, Georgia, Kosovo, Macedonia, Moldavia, Serbia, Turkey, Ukraine and Belarus.

Sweden is also phasing out cooperation with the following countries that are at the moment still receiving support: Botswana, China, India, Indonesia, Namibia, Viet Nam and South Africa.

Sweden works on a regional level and has strategies for regional cooperation for Africa, Asia, the Middle East and North Africa and Latin America. Support to human rights and democracy development is also provided to several countries<sup>63</sup>.

### **Sida water policy**

The Swedish development assistance on water, as well as the assistance to other sectors, operates within the policy frameworks mentioned above. Sida's current strategic documentation on water is a position paper, published in 1999 titled "Management and use of water resources" and a strategy for water supply and sanitation titled "Pure water", adopted in 2004. The departure for both strategic documents is in the overall aim of Sida's development cooperation, which is to improve the livelihood for the poorest groups.

#### *"Management and use of water resources"*

The position paper from 1999 states the specific objective for Sida to support management of water resources as:

"To promote sustainable management and equitable use of water and water related natural resources to benefit people, especially resource poor women, men and children, while safeguarding the environment"

The prioritised areas in the paper are among others:

- Increased participation and improved IWRM planning and management
- Promotion of national and international IWRM policy and legislation development
- Cooperation on shared water resources to prevent conflicts and promote security
- Application of demand management principles
- Prevention and control of pollution of water resources
- Rural and urban water supply integrated with health perspectives

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<sup>63</sup> Sida, 2009. <http://www.sida.se/Svenska/Bistand--utveckling/Detta-ar-svenskt-bistand/Sveriges-bistandslander/>

- Ecological sanitation
- Conservation of water in agriculture
- Conservation and sustainable use of wetlands and coastal environments<sup>64</sup>

*“Pure water”*

The strategy on water supply and sanitation focuses on the challenges of implementing the Millennium Development Goals. It covers water supply and sanitation for domestic purposes as well as water for industrial use. The strategy emphasizes several areas where Sida should focus its support. The key areas are:

- Water supply, sanitation and hygiene promotion in urban and peri-urban slums
- Water supply, sanitation and hygiene promotion in rural areas
- Capacity building for industrial water and wastewater management
- Water supply and sanitation in emergency situations
- Wastewater management in urban areas

It is important that interventions take a holistic view and considers the environmental affects, as well as the interest of all competing water users. Interventions should also be planned and implemented using an integrated catchment approach and be demand driven. The strategy also points to development of institutional and legal frameworks as well as capacity as important aspects to support to promote efficient use of water and to increase water quality. The development and promotion of economic incentives for environment-friendly industrial production and water recycling is also a focus area in the strategy. The strategy supports development of capacity and regulatory frameworks within national and local government for mobilisation of both domestic and international capital to the water supply and sanitation sector. Support can also go to setting up appropriate systems for pricing of water, specifically in urban areas<sup>65</sup>.

The strategy identifies the sector actors and their roles for in the water supply and sanitation sector. The strategy points out government agencies, the civil society and other international donors as of particular importance for cooperation in the sector.

Sida is concentrating its development cooperation on a few thematic areas all working towards poverty reduction. These are:

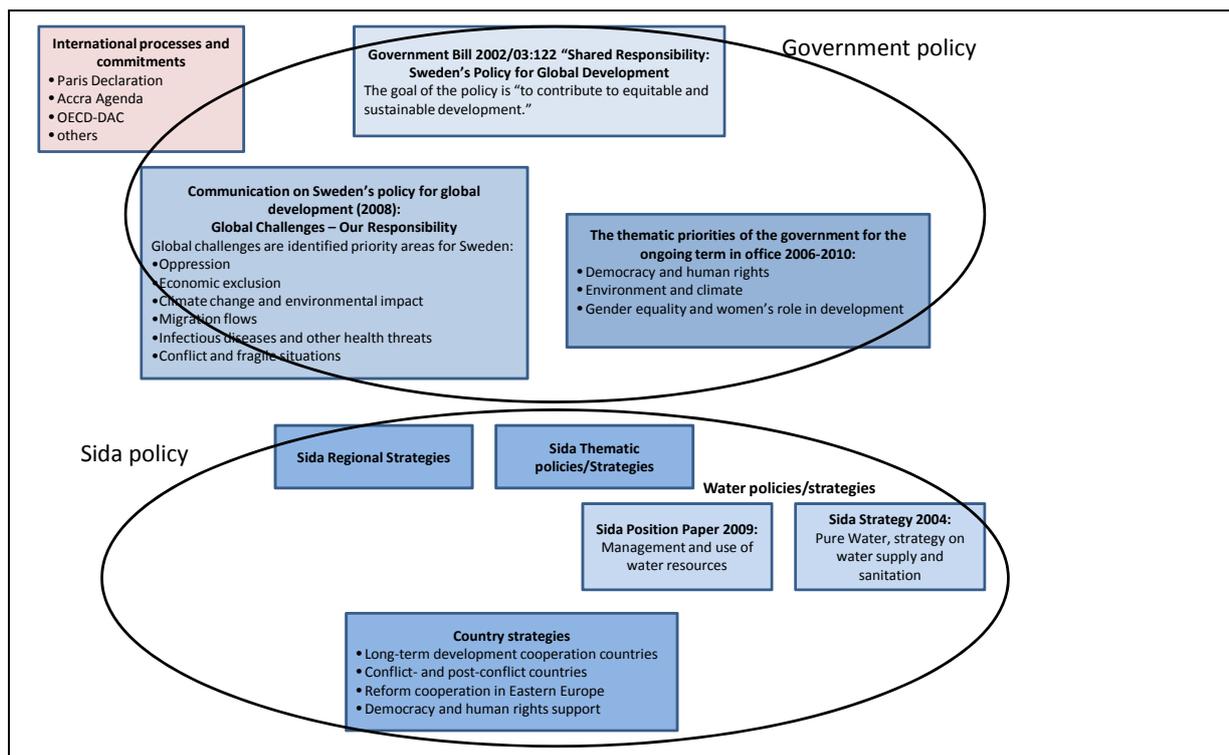
- Human security
- Empowerment
- Economic opportunities
- Human development
- Environment, climate change and sustainable services

To further focus the work Sida has selected focus areas and high profile issues within these thematic areas where Sida’s engagement, capacity and competence will increase further. Water is in particular mentioned under the main sector of Sustainable infrastructure and services in the thematic area of Environment, climate change and sustainable services. Here Water and Sanitation is a focus area and sustainable sanitation, water governance and transboundary water management are considered high profile issues. Other thematic areas will most likely include elements of water management within the focus areas as well, but in a broader context of for example environment management and integration, climate change and governance of natural resources.

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<sup>64</sup> Sida, 1999, *Management and Use of Water Resources – A summary of Sida’s Experiences and Priorities, Position Paper*

<sup>65</sup> Sida, 2004, *Pure Water, Strategy for Water Supply and Sanitation*



### Sida's support to development in water related sectors 2006-2008

Sida's work in the water sector is based on supporting institutional frameworks around management of water resources and water supply and sanitation services. Sida can also provide funding for water infrastructure if policies and institutional set-up, as well as practice, are appropriate in terms of sustainability, equity, participation, transparency and accountability.

The management of transboundary water resources and building water governance capacity and platforms for dialogue between and within countries are seen as important to avoid potential conflicts over scarce resources. Well management water resources are also described as fundamental to climate change adaptation. Sida envisages that support to adaptation and disaster management related to climate change will increase, for example issues relating to floods. The water supply and sanitation cooperation is aimed at reforming and decentralising the sector to build democratic, effective and consistent institutions<sup>66 67</sup>.

### Swedish ODA in figures

The total budget for Swedish international development aid will decrease in absolute numbers during 2010 compared to previous years, but will still meet the government's target of 1% of GNP.

Budget year	Budget for international dev. coop. (not including reform cooperation in Eastern Europe) in SEK
2007	26 656 588 000
2008	26 482 971 000
2009	28 650 519 000
2010	25 741 335 000

(from the Swedish MFA, 2008-2009<sup>68 69</sup>)

<sup>66</sup> Sida, 2009, *Sida's Water Portfolio 2006-2008*, July 2009

<sup>67</sup> Sida, 2009, *Sida's Portfolio in Infrastructure and Sustainable Services 2006-2008*, June 2009

<sup>68</sup> Swedish MFA, 2008, *Fact sheet on the Swedish Government's Bill for 2009, presented to the Parliament on September 22 & Swedish Budget and objectives: International development cooperation*

<sup>69</sup> Swedish MFA, 2009, *Budget and objectives: International development cooperation* (<http://www.sweden.gov.se/sb/d/3102/a/114382>)

### Sida funding and budget framework

Sida's budget for disbursement to international development cooperation is SEK 15 760 000 000 for 2009.

#### *The government's budget for Sida's development cooperation for 2010*

	Budget 2010 (in thousand SEK)
Humanitarian aid and conflict resolution	2 273 000
Information and communication	87 550
Global development cooperation	1 740 000
Support to Swedish NGO's through the civil society	1 158 700
Asia	1 437 000
Middle East and North Africa	410 000
Africa	4 928 000
Eastern Europe and Central Asia	60 000
Research cooperation	800 000
Support to democratisation and freedom of speech	120 000
Environmental loans	200 000
<b>Total</b>	<b>13 789 250</b>

(from Swedish MFA, 2009. Prop. 2009/10:1)

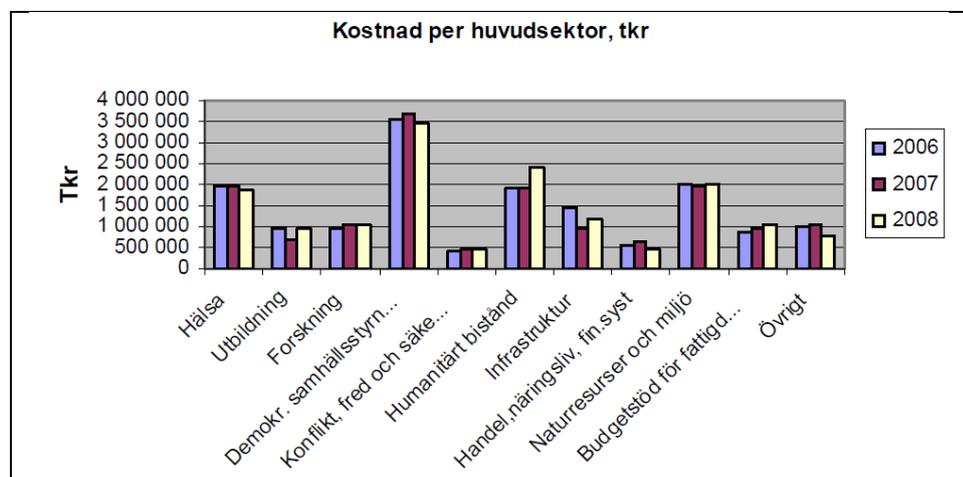
#### **Sida's disbursement 2006-2008 (in thousand SEK)**

Regions and Global	2006	2007	2008
Sub-Saharan Africa	6 234 442 (40%)	6 220 072 (40%)	6 495 467 (42%)
Asia and Central Asia	2 558 732 (16%)	2 242 684 (15%)	2 429 987 (16%)
Middle East and North Africa	629 967 (4%)	698 284 (5%)	788 790 (5%)
Latin America	1 375 802 (9%)	1 402 237 (9%)	1 378 386 (9%)
Eastern Europe	1 546 632 (10%)	1 398 575 (9%)	1 165 189 (7%)
Global	3 305 623 (21%)	3 331 148 (22%)	3 355 337 (21%)
<b>Total</b>	<b>15 651 198</b>	<b>15 293 000</b>	<b>15 613 156</b>

Country category, regional & global	2006	2007	2008
Long-term development cooperation	3 950 935 (25%)	3 696 115 (24%)	4 119 526 (26%)
Conflict or post-conflict	2 016 723 (13%)	2 175 543 (14%)	2 514 920 (16%)
Reform cooperation in Eastern Europe	1 029 603 (7%)	940 092 (6%)	885 678 (6%)
Democracy and human rights	215 240 (1%)	274 709 (2%)	402 010 (3%)
Selective cooperation	938 911 (6%)	756 458 (5%)	620 479 (4%)
Countries to be phased out	1 721 146 (11%)	1 689 252 (11%)	1 355 793 (9%)
Regional & global support	5 778 639 (37%)	5 760 830 (38%)	5 714 752 (37%)
<b>Total</b>	<b>15 651 198</b>	<b>15 293 000</b>	<b>15 613 156</b>

Sector	2006	2007	2008
Health	1 962 846	1 964 828	1 848 429
Education	963 781	677 190	957 138
Research	972 249	1 048 879	1 042 069
Democracy, governance & human rights	3 551 730	3 679 205	3 476 232
Conflict, peace and security	430 490	459 200	438 652
Humanitarian aid	1 907 460	1 885 576	2 419 482
Infrastructure	1 442 105	959 525	1 159 215
Trade, commercial, industrial & financial systems	552 689	626 507	467 451
Natural resources and environment	2 011 084	1 964 413	1 991 372
Budget support for poverty prevention	862 000	966 250	1 027 600
Other	994 764	1 060 427	785 518
<b>Total</b>	<b>15 651 198</b>	<b>15 293 000</b>	<b>15 613 156</b>

Forms of development cooperation	2006	2007	2008
Project support	7 192 003	7 015 390	6 944 750
Staff support (personalbistånd)	658 502	596 675	419 047
International training programmes	296 799	340 733	352 296
Credits	231 608	-132 273	74 512
Programme support	2 125 706	2 249 862	2 508 062
Humanitarian aid	2 204 494	2 102 345	2 384 886
Research	986 395	1 038 062	1 029 113
Contributions to NGO (EO)	1 995 690	2 082 207	1 900 489
<b>Total</b>	<b>15 651 198</b>	<b>15 293 000</b>	<b>15 613 156</b>



(from Sida, 2009. Annual Report 2008)

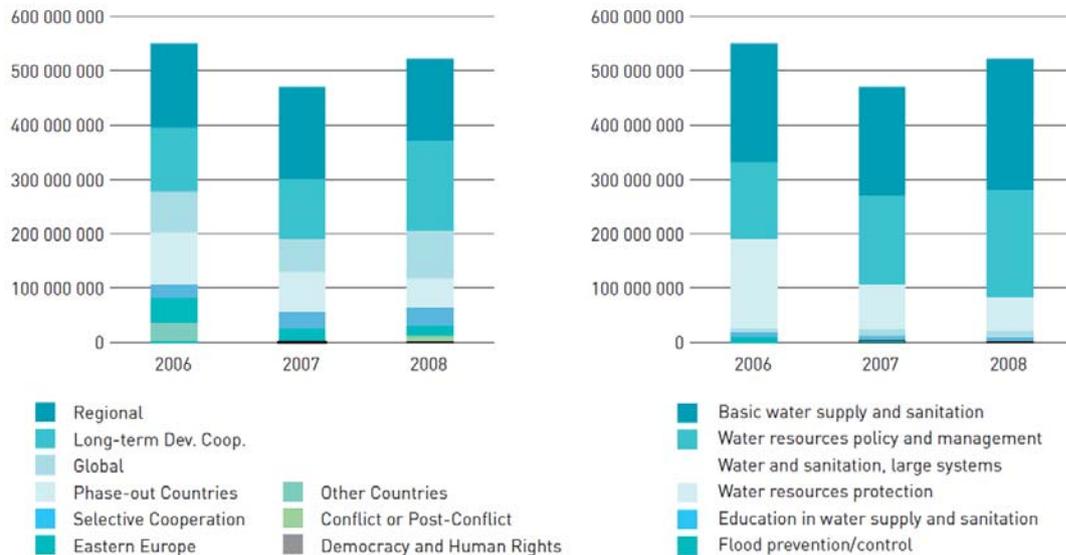
### Sida disbursement by sector portfolio

Disbursement from Sida to the water sectors was SEK 522 million in 2008 and it equalled 3.3% of Sida's total disbursements and this is expected to decrease in 2009 due to phasing out of bilateral country programmes. The average OECD-DAC was 8% in 2006.

The main areas of support in Sida's water portfolio during 2006-2008 have been water resources management, water supply and sanitation and capacity building. The support to capacity building is an integral part of the programme support from Sida and is therefore not visible in the statistics. One third of the support went to regional programmes in Africa and South East Asia and the support to global programmes increased by 18%. Support to basic water supply and sanitation and water resources

policy and management increased to almost 85% of the support within the portfolio, while the support to large systems for water and sanitation decreased by 62%. The portfolio does not include credit or guarantee instruments<sup>70</sup>.

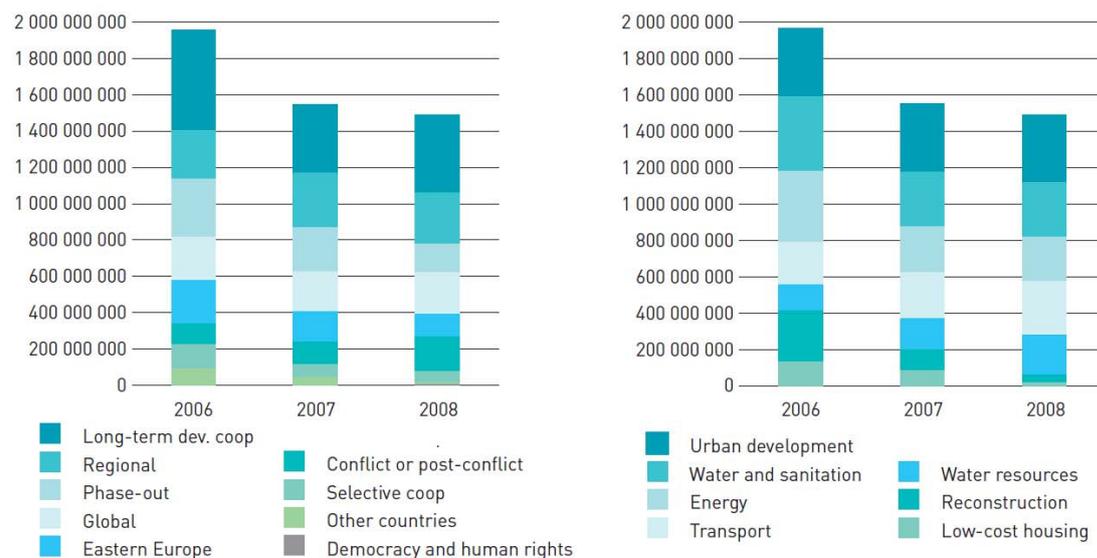
Disbursement Sida's Water Portfolio 2006-2008



source: Sida, 2009

To understand the disbursement from Sida to water related development one must look at several portfolios. Substantial investments in water management and water infrastructure have been made through the portfolio for infrastructure and sustainable services during 2006-2008. Support to water resources management has increased by 55% during the period through this portfolio, while disbursement to sustainable water and sanitation has been variable and has decreasing trends<sup>71</sup>.

Disbursement Sida's Portfolio in Infrastructure and Sustainable Services 2006-2008



source: Sida, 2009

<sup>70</sup> Sida, 2009. Sida's Water Portfolio 2006-2008, July 2009

<sup>71</sup> Sida, 2009. Sida's Portfolio in Infrastructure and Sustainable Services 2006-2008, June 2009

Sida's portfolio for Environment and Climate Change, which is one of the three prioritised areas for the government's development cooperation, includes both contributions where environment and sustainable development was a principal objective and where it was a significant objective. The portfolio disbursed close to 60 % of the total Sida's disbursement in 2008<sup>72</sup>.

### **Review and Analysis**

Sweden has the largest allocated ODA in the OECD in terms of the proportion of gross national income. In 2008 it corresponded to 0.98% of the GDI and the government is committed to spending 1% in 2009 and 2010. The DAC review from earlier this year describes this as an excellent example for the rest of the world, especially in the current economic climate<sup>73</sup>.

The water sector of the Swedish development cooperation has many policy frameworks under which to work. Some of the policy documents are briefly described above, but because of water being an important part of foremost the cross-cutting challenge of "climate change and environmental impact" several other thematic policies should be reviewed in order to see the complete policy framework under which the Swedish cooperation on water related issues functions. The DAC review points to the complex policy environment under which Swedish development cooperation works. As described above, some of the strategy documents related to water are old and therefore do not capture the changing environment in which Sweden and Sida operates.

To alleviate this complex policy environment in which the Swedish development cooperation works, the government came out with a communication (Global Challenges – Our Responsibility) in 2008. This communication, together with the Policy for Global Development, is guiding Sida and other governmental bodies in setting their development objectives. As described above the government have described water as an important factor for achieving the Swedish development objectives, in particular the challenges of sustainable environment and climate change, but also as part of the support to conflicts and fragile situations where effective water governance is seen as part of conflict prevention and as a way to strengthen the role of women.

The support to development cooperation on water issues from the government, as seen in the 2008 communication and in the 2009 prioritisation of the development aid, is too recent to be seen in the portfolio reports from Sida. Sida's disbursement within the water portfolio is expected to decrease from 2009, but this has to do with phasing out of particular bilateral programmes. Because of the cross-cutting role that water has in the Swedish development cooperation the disbursements through the water portfolio doesn't show the whole picture. The environment and climate change portfolio, under which the government has mentioned water as one of four priority focus areas, has for the last three years disbursed close to 60% of the total Sida disbursement. Sida anticipates that its support to flood management and prevention will increase in coming years, which is in line with the government's priority of climate change adaptation.

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<sup>72</sup> Sida, 2009, *Sida's Portfolio within Environment and Climate Change*, June 2009

<sup>73</sup> OECD-DAC, 2009, *Sweden – DAC peer review*