There can be no sustainable economic development without investment in water management and infrastructure.

The neglect that we’ve seen in the past must be reversed, and the case for a new approach made at the highest and most influential levels. That is why development agencies have a crucial role to play: they have the financial means, the know-how, and the political and moral authority to help drive many of the changes proposed in the 2009 UN World Water Development Report.
Development agencies have a vital role

This message is aimed at members of the development community with the financial resources to support the activities highlighted in the World Water Development Report. These include official bilateral development agencies, international financial institutions with a development mission, NGOs active in developing countries, philanthropic foundations, and companies and international investors with a development mission or corporate social responsibility policy.

The water sector depends largely on public investment and budgetary support, particularly in poorer parts of the world. Poorer countries also rely heavily on external support from donor countries and agencies, NGOs and development banks for their capital investment, and in many cases recurrent spending is also bolstered from aid flows. Development agencies also play a crucial role in underwriting research, planning, policy-making and knowledge transfer. Many of these functions might otherwise be neglected and under-funded.

A downward trend in aid to water supply and sanitation (WSS) that started in the mid-1990s began to reverse in 2003. Statistics from the Development Assistance Committee of the OECD show a sharp increase in bilateral aid to WSS in 2005, rising to $4.5 billion from $3 billion in 2004. On top of that, commitments from multilateral donors amounted to $1.4 billion in 2005. Figures based on five-year moving averages show that aid to the water sector is now back near the peak reached in the 1990s. Yet while the dollar figures have increased, WSS as a proportion of total official development assistance has remained stagnant. Furthermore, the monies allocated for non-WSS sub-sectors of water, such as irrigation, hydroelectric power, and navigation, have remained unchanged in dollar figures and their percentage of the total has decreased.

It is clear from WWDR3 that external support would benefit from becoming more relevant, more user-friendly and more focused on mutually agreed outcomes. It needs to impose fewer burdens on the administrations of development partners and to comply with the principles laid out in the Paris Declaration. Above all, donors must lend their considerable financial and moral authority to promoting water within national agendas and to encouraging the internal reforms necessary to achieve the results to which all parties are committed.

As well as the question of water management, there are issues such as flood control, navigation and irrigation, and many of these have their own financing needs.

There are also intangible issues such as data collection, monitoring and regulation. Sanitation is different again. Water is so essential that it cannot be dealt with simply by subsuming its needs under those of other sectors or institutions.

Donors must make their aid more clearly targeted. Yet this is increasingly difficult because development agencies, in pursuit of the Millennium Development Goals (MDGs), face competing choices between different countries and even different social groups. There is a clear case for international support for areas that would otherwise be under-funded, such as research, data collection and monitoring, and transboundary and regional co-operation. Likewise, there is a real need to support sound water management as it struggles with continuing reform.

1 www.oecd.org/dac/stats/cris/water
**Messages**

There can be no development without water

Investment in water capacity and infrastructure is essential to development and can generate high economic returns. By contrast, shocks from high water variability are disastrous for economic growth (Box 1). In recent decades, multi-purpose projects, such as those aimed at flood control, drought alleviation and power generation have been neglected. However, such multiple benefits are likely to be increasingly valuable in the future. And at a time when governments are drawing up anti-recession programmes, the role of water infrastructure as a catalyst for development and employment in areas of deprivation should not be overlooked.

Investing in water not only contributes to the achievement of the drinking water and sanitation targets that are part of the MDGs, but has a strong influence on the achievement of all the other MDGs as well.

**Box 1. Macroeconomic impact of water variability**

A World Bank study in Ethiopia estimated the effect of high water variability on growth and poverty so that the government could attempt to reduce the impact of water shocks. The study found that water variability reduced projected rates of economic growth by 38% per year, and increased projected poverty rates by 25% over a 12-year period. Furthermore, the variability of rainfall significantly increased the value added by water investments in projects such a such as irrigation, which reduces vulnerability to rainfall.

Donors should use their considerable financial and moral clout to increase support for water among national governments and other key players. Finance Ministers are vital interlocutors since they decide on the allocation of annual budgets and capital and currently tend to shorten the water sector. Donors can help by promoting research on the benefits of water investment and disseminating the results among key decision-makers.

Safe drinking water and improved sanitation are special cases

Clean water has a particular importance that must be acknowledged. It lies on the boundary between social and economic infrastructure. Compared with other networked public services, water is capital-intensive, under-financed, less profitable and less appealing to private capital and commercial finance. The financial risks inherent in WSS, and its strong external benefits for public health, the environment and the macro-economy, make it a strong candidate for public financial support.

Sanitation is different again. Demand and willingness-to-pay for sanitation both tend to be less than for water. In peri-urban and rural situations the largest part of funding comes from householders themselves. However, networked systems are required for collection (sewerage) and wastewater treatment, entailing major outlays by municipalities or water authorities. Compared to water supply, the benefits of which are largely private, the safe disposal of human waste and household waste water has large external benefits to society.

Aid must become more user-friendly

Donor agencies are committed to working within the parameters of the Paris Declaration, which aims to make aid more effective, to reduce ‘aid friction’, and to achieve higher disbursement rates from a given volume of commitments.

**Box 2. The Paris Declaration on Aid Effectiveness**

In March 2005, development ministers and heads of multi-lateral and bi-lateral agencies signed a Statement of Resolve to make their aid more effective, demand-responsive, streamlined and accountable.

Donors committed themselves to:

- Respect the recipient partner country’s ownership of programmes
- Align their strategies with those of the host
- Harmonize their programmes with those of other donors based on a division of labour and mutual collaboration
- Minimize their demands on the administrative capacity of recipient partners

Donors and partners were to be mutually accountable for development results. Indicators of progress towards these aims were set out, and a programme of monitoring put in place.

Source: Paris Declaration on Aid Effectiveness. OECD, March 2, 2005

However, alignment, co-ordination and harmonization should not be at the expense of variety and diversity, where these are necessary to produce results. Regions and localities within countries differ in their needs, expectations and capacities. Different models of aid and service-delivery may be appropriate in different cases and should not be suppressed for the sake of uniformity.

Agencies should adapt their programmes to the growing need for maintenance and the replacement of existing water infrastructure. In some developed and transition countries, the deterioration of assets is reaching a critical point. In developing countries that are still expanding coverage, the cost of maintaining new systems will be a growing financial burden.
Donors should adopt a programmatic approach

As part of the quest for effective aid, donors are increasingly urged to adopt a programmatic approach. Such an approach is led by the host country or national organization, with a single comprehensive programme and budget framework. It entails formal donor co-ordination, and harmonization of procedures for reporting, budgeting, financial management and procurement. In water, as in health and education, this approach increasingly uses the Sector Wide Approach to planning (SWAp).

In a SWAp, all important investments should be consistent with a Sector Investment Plan (SIP). Donors are encouraged to harmonize with each other, to relate their activities to the SIP, and to move towards common channels of finance and common procedures to deal with key issues such as procurement and technical standards. SWAs aim to progressively attract aid in programme form rather than in project form.

Achieving the MDGs for safe drinking water and improved sanitation will require donor agencies to be flexible, pragmatic and results-oriented in their use of aid. This should be accompanied by a systematic effort to address the other water sub-sectors that are important for all of the MDGs. In some cases, this may call for aid to be channelled through national budgets for recurrent cost-support. Output-based aid is a promising way of leveraging other sources of finance.

Donors face tough dilemmas and conflicting pressures in ‘fragile states’ and in countries lagging behind their MDG targets. On the one hand, there are pressures from their constituents and partners to maximize the number of people with access to water and sanitation, and to improve disbursement rates, as the MDG target date of 2015 draws nearer. On the other hand, there are voices urging them to use aid where it is most urgently needed, in the poorest states and poorest groups. A balance also has to be struck between water and sanitation, infrastructure and capacity building, and other difficult policy options.

Aid is vital to sustain international and regional ‘public goods’

A public good is a product or service that benefits the whole of society rather than specific individuals. Their benefits are enjoyed collectively. It is impossible to exclude anyone from these benefits, and one person’s use of them should have no effect on their availability to others. Because of these features, private funding of public goods is not feasible, and the cost of public goods falls on the State or the international community. In the water sector, examples of public goods include data collection and monitoring.

There is also a strong case for the development community to support international river basin management and other forms of trans-boundary water co-operation. Individual countries tend to skimp on their contributions to such co-operative endeavours in the hope that others will make up the deficit. Also, where waters are shared, hydrological information becomes a sensitive political matter, and data may be withheld or manipulated for political reasons. External donors can usefully compensate for this ‘under-funded regionalism’.

Aid is important for building managerial capacity in the water sector

In many countries, water institutions are weak and badly managed. They need to be strengthened to cope with the challenges for reform that they now confront. Specifically, there is a need to promote integrated water resources management (IWRM) and to develop skills in financial management appropriate to water.

Development partners should also give their backing to the various forms of international peer-group support.

Development finance agencies are being hit by the global financial crisis. Against this background, WWDR3 argues that the water sector is going to need increasing amounts of finance from all sources. National governments will have to justify their aid budgets in competition with a growing number of other claimants. We must ensure that water, in all its forms, has a powerful claim on the financial and professional resources of the donor community.

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*Wipppenny, J. 2009 WWDR3 Side paper, Investing in Information, Knowledge and Monitoring*