

AFRICAN DEVELOPMENT FUND



Action Plan for Water Sector Operations

(Background Paper #12)

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EXECUTIVE SUMMARY

1. This document outlines the Bank's strategy with regard to the water and sanitation sector, and the outcomes of Bank interventions during the past four years. It also highlights challenges and lessons of experience, in the context of specific actions being undertaken by the Bank and other partners to address these challenges and constraints. The document expresses the view that the challenges are indeed surmountable and advocates for (and quantifies) a scaling up of the Bank's support for water and sanitation during the forthcoming ADF XI replenishment cycle.

2. The need for adequate, safe and reliable supplies of water is central to meeting the challenge of sustainable development on the African continent. Water and sanitation are key to the well being of the population, and the attainment of the Millennium Development Goals (MDGs) for health, gender, education and poverty. It is also a prerequisite for economic growth and in facilitating the development of productive sectors, such as agriculture and manufacturing.

3. Since 2000, the Bank has increased its focus on the water sector. It has adopted a strategy of significantly increasing its interventions in rural water supply and sanitation while continuing to support urban and peri-urban water supply and sanitation and promoting integrated management of water resources. The Bank has also embarked on the development and promotion of regional water initiatives with its partners.

4. There are four main complementary initiatives underpinning the Bank strategy in the water sector. These are: the Rural Water Supply and Sanitation Initiative (RWSSI), the African Water Facility (AWF), the NEPAD Water and Sanitation Program and the Multi-donor Water Partnership Program (MDWPP).

5. Significant progress has been made in implementing the respective initiatives with a five-fold increase in Bank financing for the water sector. However total financing for RWSSI between 2004 and 2007 will only achieve 56% of the target of US\$1.367 billion for the RWSSI, but is expected to reach US\$ 1.259 billion, or 92% of targeted financing, when urban water supply and sanitation activities are considered. This is attributable to a number of factors that are discussed in the document, alongside specific actions and initiatives being undertaken to address these constraints and challenges.

6. The Bank remains of the view that potential exists for a scaling up of its support, in tandem with increased support from other donors, for the water and sanitation sector over the forthcoming ADF XI cycle.

1. INTRODUCTION

1.1 The African continent faces enormous challenges in the water and sanitation sector. Access to water supply and sanitation in Africa was estimated in 2004 to be 62% and 44% respectively which compares unfavourably with corresponding world averages of 83% and 59%. The difficulties in accessing water are particularly acute in sub-Saharan Africa where many countries are unlikely to achieve the water supply and sanitation MDG targets, particularly in rural areas. Only 20% of the irrigation potential and 6% of the hydropower potential has been developed. Water storage capacity is less than 50 m³/person compared to about 3,500 m³/person in Europe, and 6,000 m³/person in the USA. An additional critical challenge is the management of the trans-boundary water resources – about 80 international rivers and lake basins and over 38 trans-boundary groundwater aquifer basins.

1.2 The Bank Group has been at the forefront of many of the global and African responses to the water challenges. It has invested about US\$ 5.8 billion, or 11% of total financing by the Bank, in water supply and sanitation, irrigation and hydropower since 1967. In 2003 the Bank approved the Rural Water Supply and Sanitation Initiative (RWSSI) as the main initiative to address the water supply and sanitation MDGs. A commitment was made to contribute 30% of the RWSSI needs and this helped to secure a 43% increase in ADF X resources to enable it fulfil this commitment for the first phase of the Initiative covering the period 2004 to 2007. This is equivalent to a financing of US\$ 1.367 billion.

1.3 By the end of the ADF X cycle in December 2007, the Bank expects to have approved financing for RWSSI of US\$ 767 million for the period, equivalent to 56% of the target. Although this is far short of the target, the Bank also would have financed an additional US\$ 492 million in urban water supply and sanitation projects (including US\$168 million from ADB resources), bringing the total financing for the sector to US\$ 1.259 billion. This represents 92% of the US\$1.367 billion target. Compared to the average annual lending before 2003, this represents a five-fold increase in lending for water and sanitation.

1.4 This purpose of this paper is to outline the contributions of the Bank Group towards meeting the MDG challenges in the water and sanitation sector, highlighting the outcomes, challenges and lessons learnt. On the basis of the experience to date, an action plan covering the period 2008-2010 is presented for discussion.

2. BANK STRATEGY

2.1 Since 2000, the Bank has increased its focus on the water sector as a way of assisting regional member countries achieve the objective of poverty reduction and economic growth because of its potential for contributing to achieving the other MDGs for poverty, health, education, and gender.

2.2 The Bank has adopted a strategy of significantly increasing its interventions in rural water supply and sanitation while continuing to support urban and peri-urban water supply and sanitation and promoting integrated management of water resources. In line with its Integrated Water Resources Management (IWRM) Policy of 2000 and the 2003-2007 Strategic Plan, the Bank has also embarked on the development and promotion of regional water initiatives with its partners.

2.3 RWSSI is the Bank's most important initiative for addressing the water supply and sanitation MDGs. With RWSSI, the Bank has taken a strategic decision to focus its water and sanitation activities in rural areas where over 65% of the population live. However, taking

into account the high rates of urbanization of most African countries, the Bank's strategy involves continued support for urban and peri-urban water supply and sanitation as well as small and medium towns.

2.4 The Bank's urban water supply and sanitation activities have focused on helping countries to improve the efficiency of use of existing infrastructure through rehabilitation and expansion of water schemes to the poor in peri-urban areas, reduction of losses and unaccounted-for-water, improving technical and financial management through institutional support, technical assistance, and capacity building. The strategy also involves improving cost recovery through use of appropriate tariff structures for assuring long term sustainability of services.

2.5 The Bank's strategy also involves support to sector reforms ensuring the separation of responsibilities for regulation, policy making, service provision and water resources management.

2.6 The urban sanitation strategy focuses on extending sewerage services in high density areas of towns and cities and providing on-site sanitation in other areas as well as addressing storm water drainage and solid waste management.

3. INITIATIVES UNDERPINNING THE STRATEGY

3.1 There are 4 main complementary Initiatives underpinning the Bank strategy in the water sector. These are: the RWSSI, the AWF, NEPAD WSSP and the MDWPP. These are discussed briefly below.

3.2 The RWSSI aims to increase coverage of safe water and basic sanitation to 80% of the rural populations by 2015. Accordingly, access to potable water supply will be extended to about 277 million people and sanitation services to 295 million by 2015. Integral to the RWSSI is a Multi-donor RWSSI Trust Fund to which France, the Netherlands and Denmark have committed US\$113.1 million. The African Water Facility (AWF) is an instrument of the African Ministers Council on Water (AMCOW) for achieving both the African Water Vision and the Millennium Development Goals hosted by the Bank Group.

3.3 The AWF mission is to improve the enabling environment and to strengthen water resource management in Africa in order to attract the massive and appropriate investments necessary for achieving national and regional water objectives. It will mobilize resources to finance water infrastructure and water investment facilitating activities in Africa. Interventions under the AWF focus on achieving the following three main outcomes:

- Improved Integrated Water Resources Management;
- Improved Transboundary Water Resources Management;
- Increased Water Sector Investments.

3.4 AWF also addresses two cross cutting themes: Information and Knowledge; and Monitoring and Evaluation:

3.5 The general objective of the MDWPP is to help operationalize the Bank's IWRM Policy and to create awareness, on and enhance commitment to IWRM among RMCs, Regional and Sub-Regional organizations. Implementation of the WPP commenced in 2003. The initial partnership with the Netherlands government evolved into a Multi-Donor Water

Partnership Programme (MDWPP) in March 2006 when Denmark and Canada joined the programme.

3.6 The NEPAD Water and Sanitation Program provides technical assistance for the development of NEPAD programs in the area of transboundary water resources management

3.7 AWF complements the Bank's investments in RWSSI and urban water supply and sanitation activities by focusing on the financing of facilitation activities in RMCs to create enabling policy and legal environments, build capacity of water sector institutions, develop water programmes, conducts feasibility studies for projects, and finance small demonstration projects. The MDWPP also complements the other initiatives in that it helps build Bank capacity for promoting integrated water resources management in RMCs, raise awareness of and build capacity for IWRM in RMCs, while the NEPAD WSSP develops programmes and projects for transboundary water resources management.

4. OUTCOMES OF CURRENT INITIATIVES

4.1 The Bank's total financing for water and sanitation programs is detailed in Table 4.1 below.

Table 4.1: Water Supply and Sanitation Financing

ADB Group Financing									
<i>Water & Sanitation Sector *</i>									
	1967 - 2002		2003 **	2004	2005	2006	Est. 2007	2003 - 2007	
	Tot. Amount	Yearly Aver.						Tot. Amount	Yearly Aver.
Total Amount approved (USD million)	2,396	67	390	171	288	316	483	1,649	330
Total Non-RWSSI approved (USD million)	2,396	67	354	137	57	82	216	846	169
Total RWSSI approved (USD million)	0	0	36	34	231	235	267	803	161
Total Nb of operations	187	5	7	7	7	8	12	41	8
Nb of RWSSI operations	0	0	2	2	4	5	6	19	4

* These figures include neither hydropower nor irrigation projects nor abandoned projects

** The figures for 2003 include a Sector PBL for Morocco amounting to UA 176 million

4.2 RWSSI

4.2.1 Since commencement of RWSSI in 2003, the Bank has approved 13 RWSSI programmes and projects for a total financing of US\$ 536 million. This is expected to reach about US\$ 803 million by end 2007 for 19 RWSSI programmes and projects.

4.2.2 The projects approved so far will provide safe water to an additional 25 million rural people and sanitation facilities to about 24 million people by 2010. Furthermore, when all planned approvals have been realized by end of 2007, it is anticipated that 32 million people will be served with safe drinking water and that about 31 million people will benefit from proper sanitation facilities in rural areas since the launching of the RWSSI. Following a slow start of the first programmes approved, implementation is gaining momentum. Seven of the 13 programmes approved so far have started disbursing and 600,000 and 102,000 people had been provided with water supply and sanitation respectively by end 2006. The low access figures achieved so far is partly due to the focus on capacity building in the early part of each of the programmes, as well as the low human resources capacity of the Bank and the business

processes. This figure is expected to increase significantly in 2007 as RMC and Bank capacity is improved and the business processes are reviewed.

4.2.3 It should be noted that the Bank made a commitment to contribute 30% of RWSSI financing requirements. For the first phase (2004 to 2007) this is equivalent to US\$ 1.367 billion. As The Bank's approvals for RWSSI for the period are expected to reach US\$ 767 million (or 56%) by end 2007, and therefore not meet the target. As indicated above, a significant proportion of funding not utilized for RWSSI purposes was redirected to fund other water supply and sanitation activities which address the needs of small towns, urban and peri-urban areas. This will increase the Bank's total financing for water supply and sanitation activities to USD 1.259 billion during the period.

4.3 Urban Water Supply and Sanitation

4.3.1 Total Bank Group financing for the 16 urban water supply and sanitation projects approved between 2003 and 2006 was US\$ 630 million. The 6 projects planned for 2007 and will attract Bank Group financing of US\$ 216 million, increasing the total for the sub-sector to USD 846 million over the 5-year period.

4.3.2 The support to sector reforms has resulted in the transfer of the management and operation of urban water services from Government ministries of water and local authority water departments to mainly public and some private water companies in many countries. A number of countries have also established independent regulatory bodies.

4.3.3 The Bank's urban water supply and sanitation activities between 2003 and 2007 are expected to extend services to some 7 million people by 2010 as well as help create an enabling environment for the development of many local businesses and industries.

4.4 AWF

4.4.1 The AWF commenced operations in January 2006, and has so far approved financing for 14 operations comprising projects, strategic regional initiatives and support for river basin organisations, at a total budgeted cost of about Euro 9.0 million. The project pipeline consists of 51 project proposals, 39 of which will be appraised in 2007. Project financing during 2007 is expected to reach Euro 42 million.

4.5 MDWPP

4.5.1 The MDWPP has been instrumental in supporting the establishment of the AWF and RWSSI. In addition, several studies have been undertaken with the MDWPP funds.

4.6 NEPAD Water and Sanitation programme

4.6.1 The Bank-supported NEPAD Water and Sanitation programme developed a Short-Term Action Plan (STAP) for Transboundary Water Resources Management in 2005, which focuses mainly on selected shared basins, namely: Congo and Lake Chad in Central Africa, Nile in Eastern Africa, Okavango and Zambezi in Southern Africa, and Niger and Senegal in West Africa. It is envisaged that other basins will be covered under the NEPAD Medium-to-Long-Term Strategic Framework (MLTSF) under preparation.

5. **CHALLENGES**

5.1 While a significant contribution has been made by the Bank in addressing the many challenges in the water and sanitation sector, it has encountered a number of constraints that have impacted its ability to give full effect to its multifaceted strategy, in particular the targets set for the RWSSI.

5.2 Some of these constraints are associated with the Bank's internal capacity for implementation and delivery, coordination with other development partners in the water sector and weak monitoring and evaluation tools to track progress and results. The on-going institutional reforms are strengthening the capacity of the Bank to speed up implementation through revision of business processes reduce procurement and disbursement time lags as well as enhancing the quality-at-supervision.

5.3 While the challenges are many in number and of varying degrees of complexity, purposeful actions are being taken to address them. Many of the challenges are not unique to the Bank, but faced by other donors as well. Wherever possible, a collaborative approach is being pursued, alongside other donors, in seeking resolutions to the challenges. In this regard, the concepts of partnership and capacity building are central to the RWSSI, the AWF and the NEPAD Water and Sanitation Program. The Bank remains confident that sufficient progress can be made in dealing with the constraints to facilitate the envisaged scaling-up of delivery.

5.4 The key issues and actions being taken are outlined below.

5.5 **Resource Allocation**

5.5.1 **Issue:** Actual allocations of funds towards RWSSI projects did not materialize due to a number of factors, including:

- Competing needs at the country level limited the allocation to rural water supply and sanitation, as RMCs elected to direct available ADF resources to other sectors;
- In some instances, the size of the country allocation was too small to allow a sizable RWSSI programme in accordance with the needs;
- Reduced allocations from 2005 to 2006 for some countries resulted in interventions that could not be financed.

5.5.2 **Actions to address issue:** Factors outside the Bank's manageable interest impact its ability to meet the targets. However, this challenge is being addressed in a number of ways. Firstly, the enhanced country programming and co-ordination processes currently being implemented by the Bank will ensure that water is prioritised in the sectoral priorities agreed with RMCs and incorporated within Country Strategy Papers (CSPs) to be prepared during the ADF XI cycle. In addition, consideration is currently being given to other mechanisms to ring-fence financing for water and sanitation projects. The latter approach raises a number of issues and sensitivities that would require due consideration.

5.6 **Client Implementation Capacity**

5.6.1 **Issue:** Successful implementation of rural water supply and sanitation programmes and their sustainability depends on having adequate capacity both at the decentralised local government level and among communities. This is often lacking.

5.6.2 Capacity issues also impact on the implementation of other programs, including the NEPAD Water and Sanitation Program and urban water and sanitation programs.

5.6.3 **Actions to address issue:** Capacity building is key to the success of water and sanitation programs, and is an integral part of all the programmes developed so far. While building the required capacity takes time, this crucial component will be afforded increased attention by the Bank. In 2007, the field offices will be strengthened with water sector expertise to support client implementation. Countries with RWSSI programmes but which do not have field offices will be provided with technical assistants to support the program implementation agencies. A number of programmes are also supporting technical assistants in procurement and financial management.

5.7 Local Contractor Capacity and Supply Chain Constraints

5.7.1 **Issue:** Local contractor capacity is inadequate in many countries to provide services required by water and sanitation projects, particularly in remote rural areas. This is exacerbated by the limited availability of pumps and spare parts, which impacts on the sustainability of rural schemes. The latter issue has proven to be a significant challenge.

5.7.2 **Actions to Address Issue:** Given the nature of these constraints, there are no ‘quick-fix’ solutions, and these will remain a significant challenge in the future.

5.7.3 Bank-supported programs promote the training and use of local contractors for implementing the simpler schemes and makes use of international contractors and consultants for large contracts. Supply chain issues are dealt with in the broader program context and are expected to be in place during the current year for most of the programs under implementation.

5.8 The Need to Prioritize Sanitation

5.8.1 **Issue:** Sanitation continues to be accorded lower priority by Governments and rural communities. Many Governments still do not have a proper sanitation strategy, and the institutional responsibilities are not very clearly demarcated.

5.8.2 **Actions to Address Issues:** At the global level, the UN plans to declare 2008 the International Year for Sanitation to raise awareness about sanitation issues. The Bank will increase its efforts to promote the sanitation agenda through the country programming process and in RWSSI programs. In this respect the Bank is collaborating with the United Nations Secretary General’s Advisory Board on Water and Sanitation (UNSGAB) on a number of activities to raise the profile of sanitation on the continent. In addition the Bank about to launch a continent-wide study on the state of sanitation in Africa to better prepare its interventions.

5.9 Challenges in Urban Water and Sanitation

5.9.1 **Issue:** The challenges faced in the sub sector are similar to the financing and resource allocation issues faced by RWSSI. In addition, the newly created institutions for policy development and regulation, the new water authorities and companies are generally weak and need to be strengthened. Reducing the very high levels of unaccounted-for-water continues to be a challenge as well as water demand management. Countries which will receive urban

water supply and sanitation support in 2007 include Angola, DRC, Kenya, Mauritius, Djibouti and Swaziland.

5.9.2 Expectations of private sector financing of water and sanitation investments have not been realised and public sector financing continues to be the order of the day for which Governments still depend on bilateral and multilateral financiers.

5.9.3 **Actions to Address Issue:** In line with the urban development policy under development, the Bank will continue to focus on scheme rehabilitation to reduce the very high levels of non-revenue water in urban systems, and expansion works to raise the level of urban services and extend them to the poor slum dwellers. The Bank will also increase the level of institutional support and technical assistance to promote commercial operations and public-private partnerships.

5.10 Bank Human Resources Capacity

5.10.1 **Issue:** The Bank has not fully given effect to the leadership role envisaged in the strategy. In addition, the Bank's ability to deliver on all key water and sanitation programs during the initial 18 months of the ADF X cycle was seriously impacted by inadequate staff capacity. For most of this period the Bank had only 9 water and sanitation engineers supported by 5 financial analysts and sector economists working on the water programmes, approximately half the capacity required. The capacity constraints resulted from inadequate internal organizational arrangements to support delivery, as well as an acute shortage of skilled personnel, both at the headquarters and in the field.

5.10.2 **Actions to address issue:** The institutional reform process has directly addressed organizational structure constraints, with the establishment of a dedicated operational department for water and sanitation. Strengthened country programming arrangements will also ensure enhanced co-ordination, specifically with regard to finalisation of CSPs, and the decentralization process will significantly enhance client interaction and processing turnaround times.

5.10.3 The acute staffing shortage is being addressed with the approval of 12 new positions for the Water Department, which will also improve the skills mix by providing socio-economists and gender experts in addition to water engineers and financial analysts. In addition technical assistants are to be provided by a number of countries like Finland, Denmark, France and United Kingdom. Closer collaboration is being pursued with other units, including Field Offices, which will also be strengthened with water sector expertise, and will improve the Bank's participation in the sector policy dialogue and donor coordination at the country level.

5.11 Internal Business Processes

5.11.1 **Issue:** Some of the RWSS programmes have experienced slow start up as, in some instances, existing business processes are not aligned with the requirements of programs. A case in point is the inability of field offices to approve even the smallest contracts. This is a major constraint to the smooth implementation of RWSSI.

5.11.2 **Actions to address issue:** As part of the on-going reforms the Bank is reviewing its business processes with a view to removing existing bottlenecks to smooth project implementation. This includes much enhanced delegation of authority to Field Offices. This will contribute to improving the implementation progress of the on-going and new programmes as well as improving overall portfolio quality.

5.12 Monitoring and Evaluation

5.12.1 **Issue:** There is a need to develop a systematic basis to measure achievements on the ground to improve water sector statistics and ensure that lessons of experience are captured and incorporated within future projects.

5.12.2 **Actions to address issue:** Monitoring and evaluation systems have been built into the 13 RWSS programmes approved so far, which collect information on RWSS activities in the specific countries, providing real time data. In 2007 the Bank will gradually extend this activity to 6 other countries in the region where new programs will be developed, as its capacity to develop and implement RWSSI programmes both at headquarters and in the field offices increases.

5.13 Need for Flexible and Innovative Financing Instruments

5.13.1 **Issue:** The low level of financing in the sector calls for the development and increased application of new financing instruments.

5.13.2 **Actions to Address Issue:** A number of initiatives such as local currency financing, sub-sovereign lending, and the use of local capital markets to raise investment capital are under development, which need to be promoted. , Increased application of the Bank's guarantee instruments in future will also contribute to increased private sector involvement in the sector.

5.14 Water Storage Capacity

5.14.1 **Issue:** Lack of adequate water storage to buffer the unpredictable rains resulting in frequent droughts and floods continues to cause untold hardships on the continent. The financing requirements for such large storage reservoirs/dams are generally too high to be met from the ADF allocations.

5.14.2 **Actions to address issue:** The Bank will actively pursue the establishment of partnerships to address the funding requirements, but will also seek resources from ADF allocations in order to play a catalytic role in this regard.

6. WAY FORWARD: TARGETS FOR ACCELERATE DELIVERY

6.1 Over the forthcoming three years, the Bank is confident that the interventions discussed in section 5 above will enable it to scale up its support for the water and sanitation sector, and thereby to assist RMCs in meeting key MDGs.

6.2 The Bank's 2007 Lending Programme includes 6 RWSS programmes and studies in Niger, Nigeria, Burkina Faso, Kenya, Mali and Mozambique for USD 267 million, which should provide access to some 7 million people by 2010.

6.3 For urban water supply and sanitation, the Bank plans financing of US\$ 216 million in 2007 and to scale up its financing to access to some 9 million people.

6.4 The AWF set out to raise US\$650 million for its 2005-2009 Operational Programme, but has so far raised only about USD 78 million. Its programme for 2007 includes 52

activities in its 3 core areas of intervention (IWRM, transboundary WRM, pilot investments) estimated at USD 55 million. The Bank's strategy in the medium term is to fulfil its commitment to AMCOW to continue to host the Facility, develop and implement its projects, as well as support them in their resource mobilization efforts.

6.5 The 2007 Annual Programme for MDWPP includes 31 activities estimated at Euro 4,270,000, for support to Bank operation capacity, water information & data management at AfDB, IWRM outreach and knowledge sharing, transfer of best practice and experience, and for programme management. Funding is expected to be maintained at this level in the short term.

7. CONCLUSION

7.1 While the challenges facing the Bank in further accelerating its support for water and sanitation are complex and wide-ranging, a systematic and purposeful approach is being proposed and implemented to address these challenges on a sustainable basis.

7.2 With the institutional reforms underway, which will strengthen the Bank's human resources capacity, strengthen and empower the field offices, and improve its business processes, given adequate resources, the Bank will be in a position to deliver on the ambitious targets it has set for itself in the water sector.