

**Financing water and sanitation
Key issues in increasing resources to
the sector**

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SUMMARY

Water and sanitation struggle to receive funding in the developing world, where governments are pressed with struggling economies, huge debts and a host of other socio-political problems. Most often, they have to prioritise other basic social services, such as education and health, over water and sanitation. In general developing countries spend anywhere between 1% and 3% of government budgets on low cost water and sanitation.

This report looks at the different sources of finance available for the global water and sanitation sector and how the financing gap can be filled to achieve universal access.

Currently, it is estimated that some US\$27-30 billion is spent annually on the water and sanitation sector in developing countries. Of this amount, close to 70% come from the domestic public sector. A further 20% come from international aid flows, and the remaining 10% come from international private sector and community/household investments.

However, these current levels of spending are woefully inadequate. It has been estimated that if international development targets of halving the number of people without access to water and sanitation are to be met by 2015, a further US\$25 billion each year is needed on top of what is already being spent. Of this amount, sanitation needs to be prioritised, taking as much as US\$17 billion, with the rest going to water supply. The financing problem therefore, can be stated as: How can current levels of spending at US\$27-30 billion for water and sanitation at the global level be sustained, while securing an additional US\$25 billion per year, of which sanitation gets the priority?

This problem is mainly an international problem and not just a problem of the concerned developing countries. For instance, a most important measure to address the problem is debt relief – it can provide governments in Africa, some of which spend up to 60% of their national budget on foreign debt service payments, with already available funding. On the other hand, official development aid from member countries of the OECD Development Assistance Committee amounts on average to only 0.24% of their combined GNP. If these donors can meet the UN agreed target of providing aid amounting to 0.7% of GNP for only two years, it will eliminate the US\$245 billion debt of all 41 Highly Indebted Poor Countries. There are a range of other sources of financing – from private sector financing (bank loans and direct investments) to the reallocation of current government expenditures and to household and community financing. These are solutions that the international community needs to focus on. The political will necessary to get a tight grip on the problems and implement the solutions needs to be developed.

This report argues that contrary to current thinking, the private sector cannot fill the investment gap. The solution lies in the following three areas: 1) efforts should be directed towards Northern governments, which should be lobbied to provide more official aid. 2) Southern governments should be lobbied to increase their financial allocations to the water and sanitation sector. 3) Further effort should be directed to both Northern and Southern governments to recognise the investments that are currently (and will continue to be) made by communities and householders.

Also, this report argues that where financial resources are available, a restructuring of public sector expenditure is needed in order to improve delivery and coverage. In some instances, the problem has less to do with the absence of financing than with issues of how to spend available funds more wisely and sustainably. This, again, is a matter of political will and of improving the governance of the sector.

This briefing paper is one of a series which analyses policy issues that impact on the water and sanitation sector. Other papers in the series are:

A human rights-based approach to water, sanitation and hygiene

A poverty-reduction approach to water, sanitation and hygiene programmes

A gender and development approach to water, sanitation and hygiene programmes

Boiling Point: Issues and problems in water security and sanitation

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List of Acronyms

ADB	- Asian Development Bank
CSD	- Commission on Sustainable Development
DAC	- Development Assistance Committee (of the OECD)
DFID	- Department for International Development, UK
ESAF	- Enhanced Structural Adjustment Facility
FfA	- Framework for Action
GDP	- Gross domestic product
GEF	- Global Environmental Fund
HIPC	- Highly Indebted Poor Country
IMF	- International Monetary Fund
NGO	- Non-government organisation
NPV	- Net present value
O&M	- Operation and maintenance
ODA	- Official development assistance
OECD	- Organisation for Economic Co-operation and Development
OPP	- Orangi Pilot Project
PPI	- Private participation in infrastructure
PRSP	- Poverty Reduction Strategy Paper
PSP	- Private sector participation
SSIP	- Small-scale independent provider
UNDP	- United Nations Development Programme
UNFPA	- United Nations Population Fund
UNICEF	- United Nations Children's Fund
WB	- World Bank
WCD	- World Commission on Dams
WHO	- World Health Organisation
WSS	- Water supply and sanitation
WSSCC	- Water Supply and Sanitation Collaborative Council

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I. Introduction

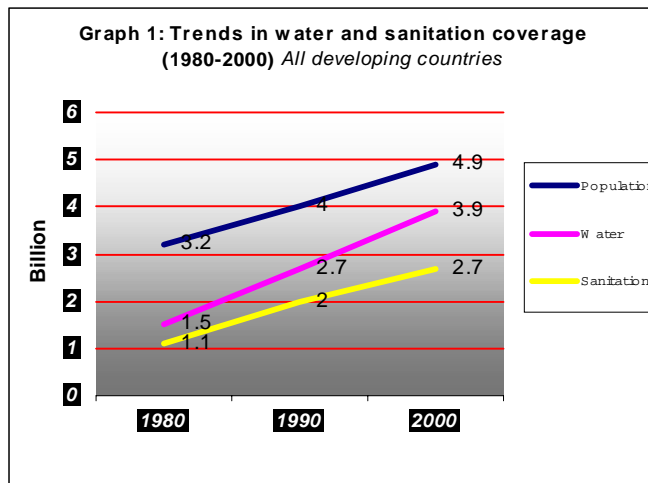
The financing gap is a real and perhaps most immediate problem working against the realisation of universal access to water and sanitation. A sustainable financing strategy is needed, one that will increase resource allocations to the sector, improve the efficiency and effectiveness of existing resources wherever they are found, and tap the potential of alternative financing mechanisms. But huge obstacles stand in the way of such a strategy. Aid flows to developing countries for the water sector has not kept up with population growth, and are largely fragmented. Developing countries, in general, do not prioritise spending on the sector – *low* cost water and sanitation receive only between 1% (Sub Saharan Africa) to 3% (Latin America and the Caribbean) of government budgets (Paris21, 2000). Water and sanitation budgets struggle for allocations, especially where basic social services as education and health are prioritised. Lagging economic growth, structural adjustment difficulties and growing pressures to reduce government expenditures further compound the difficulties.

This paper critically examines the different sources of financing available for the water and sanitation sector at a global level, and outlines the key issues in filling the financing gap. The paper argues that universal access to water and sanitation cannot be achieved without increased resources to the sector, and that contrary to donor sentiment, the private sector cannot solely fill that investment gap. What is needed are efforts directed towards Northern governments to lobby for increased official development assistance (ODA), efforts directed towards southern governments to increase government allocations, and further efforts directed to northern and southern governments to recognise and facilitate the investments currently being made by households and communities.

Over the past two decades, a number of declarations have sought to improve access to safe water and sanitation services. The UN International Decade for Drinking Water and Sanitation (Water Decade) heightened global awareness to the severity of the problem, created innovative solutions to the provision of water and sanitation, increased financial commitments to the sector and improved the absolute number of people with access.

But what it did not necessarily do was increase the pace of progress. At the start of the UN Water Decade in 1981, 1.9 billion people lacked access to safe water and some 2 billion lacked adequate sanitation. Nearly two decades later, in 2000 more than 1.1 billion still lacked access to safe water and nearly 2.5 billion people lacked adequate sanitation (World Health Organisation 2000). UNICEF figures from the same period, show that investments to the sector were close to US\$13 billion in 1980s, with estimates in the range of US\$25 billion two decades later. The irony is that lack of access to water supply and sanitation (WSS) incurs far greater costs than providing full coverage. This is especially true when one considers the health costs associated with water borne diseases, the increased costs from increased water treatment as groundwater sources become contaminated, and the economic costs of unproductive poor workers. To resolve this situation, one part of the broader financing strategy needs to focus on a renewed impetus for greater resources to the sector, and the other part should focus on increasing political will to ensure commitment towards achieving the targets for universal

access by 2025. Aid resources and government budget allocations remain the primary resource for development and an important test of commitment to poverty eradication.



II. Financial flows to the water and sanitation sector

From existing analyses in the field, the following profile of the water and sanitation sector can be reconstructed. Data inconsistency between countries, sectors and sources has resulted in different approaches to estimations of water-related infrastructure investments. However, the convergence of data patterns from these different approaches lends some credence for the analysis of breakdown of water and sanitation flows by sector that is derived in this paper. The profile reveals that the total flows to the WSS sector are converging to a figure of US\$27-30 billion (Sunman 1999, Briscoe 1998, GWP 2000).

The task of understanding where the money for water and sanitation comes from is complex. Water and sanitation sector components are embedded within overall water sector expenditures (including drainage, irrigation, hydro power investments etc.) and within health or infrastructure investments. Furthermore, reports on water and sanitation investments do not necessarily differentiate between investments made to improve existing (largely urban) water and sanitation infrastructure and services, and investments to provide facilities and services to populations currently unserved (largely in rural areas and in urban poor areas). The water and sanitation sector is under the authority of municipal, central and regional decision-makers and expenditures are made at all levels. This makes the task of tracking investment decisions and actual expenditure difficult. However, a number of general observations can be made:

- ◆ Financial flows in the water sector are derived from a large range of sources including overseas development assistance, loans, grants, international private sector investments, investments by the domestic small-scale private providers, public sector expenditures and individual household and community investments. But the dominant sources still remain the public sector and external aid flows.

- ◆ The traditional breakdown of 90% domestic to 10% external sources for infrastructure financing is shifting. It would appear that the trend is moving away from domestic sources to external; but the external funds are not from aid but from the private sector. This is slightly misleading as there is possibly large unaccounted domestic investments that have never been considered in the investment picture. These domestic household investments will be discussed in greater detail later in the paper. Furthermore, international private sector investments concentrate on improving services to those already serviced and less on expanding services to those unserved.
- ◆ Finally, the sector also has significant local investments generated informally by small independent water providers, individual households and communities. Indeed, domestic private flows (including household, community, SSIPs, water vendor etc.) have been estimated, perhaps conservatively, at between 3% to 8% of total investments, a figure that is roughly comparable to the contributions made by international private sector investments. This challenges the current assumption that the international private sector will fill the financing gap. Most of these local investments, largely ignored in current literature and analysis of flows, are made in time, in kind as well as money. Domestic private flows are the forgotten element in the equation.

Table 1: Financial flows to the WSS sector, 1996 US\$ billion

Source	US\$ billion	%
<i>International</i>		
External Aid Flows	5	20
International Private Flows	2-2.75	7 –11
<i>Domestic</i>		
Public Sector Investments	18 -22	70-75
Private Sector Investments*	1 - 2	3.0 - 8.0
Total	\$27 - 30 billion	

* *Domestic private sector defined as SSIPs, household, and community investments.*

Source: Sunman 1999, Briscoe 1998

Investments in water-related infrastructure in developing countries

In 1996, total infrastructure investments to developing countries for electricity, road, telecommunications, and including water, was in the order of US\$230 billion. (Sunman 1999 and Briscoe 1998). Of this figure, some \$25.3 billion went to water and sanitation. This roughly translates to 0.4% of GDP¹ of developing countries, a figure often quoted in various reports. Over the decades, water and sanitation investments as a proportion of GDP has increased, from 0.25% in the 1960s to 0.45% in the 1980s, levelling off slightly in 1990s.

Briscoe (1998a) presents a break down (see table below). Sunman's analysis (1999) yielded a slightly higher estimate for water and sanitation expenditures of US\$30 billion, arrived at by building up from the average percentage share of GDP figure.

¹ Analysis from Sunman (1999) and Briscoe (1998)

Table 2: Developing country investment in water-related infrastructure, 1996 US\$bn

Sub-Sector	Total (US\$ billion)
Irrigation and Drainage	15
Water and Sanitation	25
Hydro Power	25
Water Resources Management	N/A
Total	65

Source: Briscoe (1998)

The critical point, however, is the increasing scepticism as to whether these investments are successful in delivering for the poor and un-served. It is difficult to see from these accounts whether low-cost water and sanitation projects target unserved poor rural and urban areas are getting the financial support they need.

International Aid and Credit Flows for WSS

Aid flows to the developing world as a whole have been declining over the last two decades. Fortunately, in the water sector the decline has not been so evident, but with increasing population growth and increasing urbanisation, the total investment needs of the sector are rising. The investment gap is growing and it is unlikely that international aid flows will fill it. In order to understand these flows and influence them, one needs to examine where the aid flows originate from.

In 1996, international aid flows to the water and sanitation sector amounted to US\$5 billion, (roughly 15-20% of total financial flows to the sector of US\$25–30 billion). The major donors in the water and sanitation sector were the World Bank (WB), Asian Development Bank (ADB), and the Inter-American Development Bank. Bilateral donor funding through the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee (DAC) transfers also represents a substantial proportion of the total international flows. Using a rough estimate², aid flows from other donors (UNICEF, GEF, UNDP) would approximate to US\$121 million. The table below (Major donors) demonstrates the distribution of total international contributions to the WSS sector in 1996.

² Other multilateral donors include UNICEF, GEF and UNDP, for which breakdown of WSS flows were not available. Instead the author estimated based on Sunman's analysis of average aggregate share of WSS aid flows of Total Water sector aid flows to be 40%.

Table 3: Major donors (US\$ million, current prices, 1996 figures)

Donors	Total Water Investments ³	Water & sanitation Investments	WSS as a % of Total Water Investments	Investments WSS as a % of Total Aid
Total ODA from DAC members (1)	4695	3034	64.7%	6.6%
World Bank	1682.6	366.1	7.8%	1.7%
Asian Development Bank (2)	1313	609.2	45.8%	11.3%
European Union (1995)	249	89.2	35.8% (3)	-
Inter-American Dev't Bank (1998)	820(4)	820	-	-
UNDP	}	192	40%-	-
Global Environment Facility	} 121.2	39.6	40%	-
UNICEF	}	75	40%	-
TOTAL	9066.2	5039.7	56%	

1. Source: OECD DAC Member Water Supply and Sanitation - Total ODA 1986-1996, OECD/DCD/DAC.

2. Source: data extrapolated from Asian Development Bank, "The Bank's Policy on Water", 1998.

3. 1995 WSS share extracted from 1980-1995 period share % presented.

4. Sanitation only lending.

5. Source: Extrapolated from Sunman (1999), pp 5-8.

6. Source: All other data from Sunman (1999) Table 1.3

The World Bank, bilateral ODA and Asian Development Bank contributions represent the largest proportion of donor funding at 85% of total donor flows to WSS accounting for between \$4-4.5 billion. The largest bilateral donors to water and sanitation are Japan, the US, France and Germany⁴. Sixty percent of DfID's expenditure on water related projects (£50 million in 1998/1999) went into urban and rural water supply and sanitation. In 1998, that amounted to approximately £30 million (some \$46 million).⁵ Despite current trends, ODA could possibly rise with a greater push for additional aid to meet the highly indebted poor country (HIPC) II initiative financing requirements (see *later sections*). Though documented, donor flows to the water and sanitation sector are fragmented and must be treated with some caution as they also have been disaggregated and averaged using broad share percentages over various time periods.

OECD and WB analyses of aid flows show that total official development assistance declined during the 1990s but that flows to the water and sanitation sector rose. Table 4 (See Appendices) illustrates how average donor flows to the WSS sector, as a percentage of *total* water sector flows, marginally declined over the period of 1990-1997 from 58% to 54% while average WSS flows as a percentage of total aid flows increased over the same period from 5% to 10%.

³ Includes investments in water supply, sanitation, drainage, irrigation, hydropower.

⁴ Japan, Germany, France, the Netherlands, Finland, Denmark consistently allocate between 4% - 9% of their ODA on water and sanitation over the years. In comparison, the UK government allocated on average only 2.4% of ODA to water and sanitation throughout the 1990s. (DAC statistics)

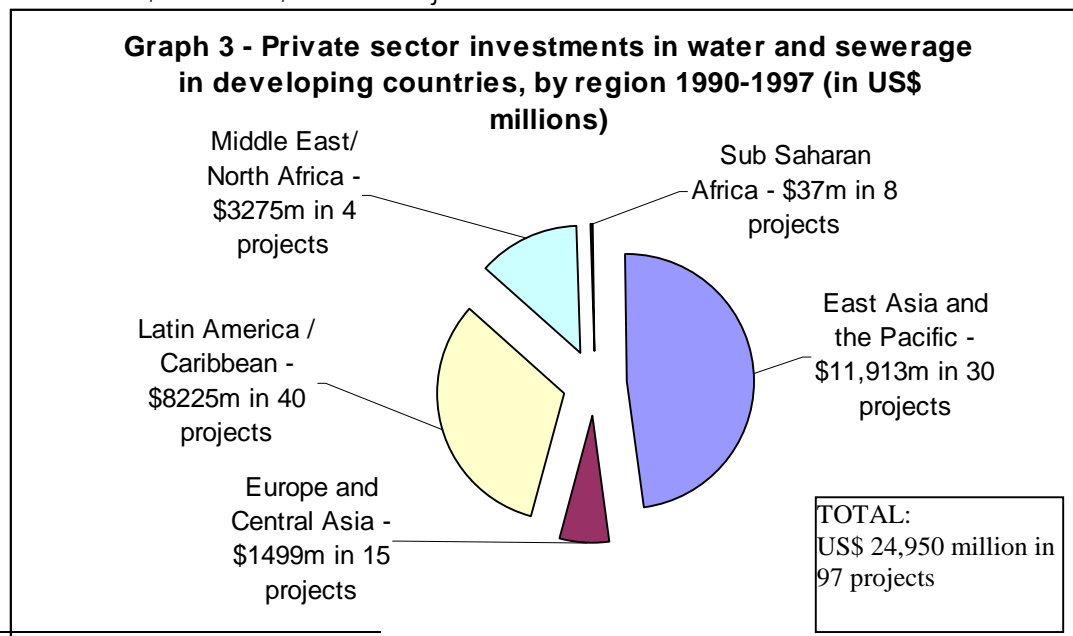
⁵ Government of UK, Statistical Service, 'Statistics on International Development 1994/95 - 1998/99'. This figure includes project aid, technical co-operation expenditures, aid and trade provision, grants and other aid in kind, and Common Development co-operation (CDC investments). Aid and trade provision was ended in 1997 by the Labour party government, but the carry-overs from the previous year was still included in this figure for 1998/99.

Though overall bilateral OECD DAC aid flows declined from \$58 billion in 1990 to \$44 billion in 1997, the share of WSS increased from 2.2% in 1990 to 6.6% in 1997, suggesting that WSS fared better than other water sub-sectors. World Bank support to the WSS sector has declined steadily throughout the same period from 4.5% to 3.8% of total WB flows, congruent with the decline in WB support for all water sectors.⁶ For the ADB, the share of WSS declined in the face of increasing aid flows. EU patterns of spending in WSS are also consistent with that of the World Bank. Sunman (1999) and Briscoe (1995) contend however, that though public sector spending and aid flows declined over the first half of the 1990s, international private sector investments increased over the same period, thus the total spending on WSS from all sources remained at 0.4% of GDP.

International private sector flows

There has been a marked increase in the level of corporate private investments in the WSS over the past two decades. However, large proportions of these investments have been to middle-income countries rather than the developing countries that are most in need of investments (see Graph 3). Sunman (1999) demonstrates that between 1984 and 1990, only US\$297 million was invested in 8 WSS World Bank contracts in the developing world. Between 1990 and 1997, this increased to US\$24.9 billion covering 97 contracts⁷. These investments were made primarily in Latin America and East Asia. Only 8 contracts valued at \$37 million were in Sub Saharan Africa, which is a negligible share of the total investment. These contracts include all types of private sector investments (management contracts, leases and concessions)⁸. Of these, concessions are the most common arrangement of private sector participation (PSP) both in terms of number and size of investment.

Source: Silva, et al 1998, from PPI Project Database



⁶ 1998 figures are not shown for the multilaterals, preliminary scans of available data show a marked decline in overall total aid flows in that year for all three agencies.

⁷ Data obtained from World Bank Private Participation Infrastructure (PPI) Project Data Base only

⁸ Large discrepancies exist between what is constituted as private sector investments and World Bank's contracts in WSS in their PPI database. It is unclear whether there is double counting from World Bank flows to the sector and lending to the private sector.

In 1996, private investment in infrastructure amounted to US\$ 25 billion, accounting for 15% of *all* investment in developing countries' infrastructure (Briscoe 1998b). Of this amount, only 11%⁹ or US\$2.75 billion were invested in the WSS sector.¹⁰

The World Bank's agenda for the water and sanitation sector promotes private sector involvement as a means of improving efficiency and closing the investment gap. The role of the private sector in operating and financing water and sanitation facilities will deepen and mature in coming years, but its impact on poorer developing countries is yet to be seen. What is certain is that currently, the international private sector has invested primarily in middle-income countries in East Asia and Latin America where the enabling environment exists for higher profitability and reduced risks.

Domestic public sector flows in water supply and sanitation

As Table 1 shows, public sector flows are estimated to be between 70% and 75% of total investments in the WSS sector. This is estimated to be in the order of US\$18-22 billion. National governments therefore remain as the chief and most important source of WSS financing. Further analysis needs to be done on how this money is invested, and what percentage of these investments go to improving services to those already served against expanding services to those unserved. Many of these governments, while providing for these amounts are under tremendous political and economic burdens. It is not unusual to find national governments in sub-Saharan Africa allocating up to 60% of their national budgets for debt service payments. These governments need to be supported, and enabled, as they will remain to be the key investors and principal players moving water and sanitation projects on the ground.

Domestic private flows: formal and informal

Water and sanitation services have traditionally been seen as the domain of the public sector and public finance. However a new model is now emerging with changing roles for the public sector, and new emerging institutions. The recognition that public utilities are failing to meet their social goal of universal access has prompted the search for new solutions. In this context, the role of the domestic private sector (small scale independent providers, water vendors, public tankers) and household and community investments, largely ignored by the policy makers, is starting to attract attention and scrutiny from policy analysts. Previously, water vendors, public tap managers, and public tankers were seen as part of the informal economy, but in some cases they are now being recognised as legitimate players within the service delivery arena. In most developing countries, the informal sector is servicing more than 50% of the overall market (Solo 1998). Examples of their investments to the sector are rare and most studies use localised case studies to extrapolate widely.

⁹ Source: <http://www.worldbank.org/html/fpd/water/projectlending.html>

¹⁰ This figure is in the ballpark of both Sunman's and Briscoe's figures.

Case Study: Low Cost Sanitation model replicated in Faisalabad, Pakistan

The Orangi Pilot Project's model for low cost sanitation in Karachi has often been cited as difficult to replicate due to mitigating geographical factors in Karachi. However, in Faisalabad, with some adjustments, the Anjuman Samaji Behood (ASB), was able to replicate the model of low cost sanitation piloted by the OPP. This model necessitates communities to be responsible for mapping, building and paying for lane sewers on the one hand (what the project terms as internal work) and for these sewer lines to connect to trunk sewers that were the responsibility of government (termed external work).

ASB pursued negotiations with the Faisalabad Water and Sanitation Authority, as well as conducted social mobilisation work with the communities. Unlike Karachi, Faisalabad was on flat terrain, thus it was necessary for a collector sewer to be constructed. This increased the costs to the households to twice that in the OPP project. ASB extended further credit to the households to continue to pump-prime their involvement. With the successful construction of the first lane sewers, households from other lanes took interest and approached ASB for loans to build their own lane sewers.

Communities, with ASB's help, have now installed 52,120 feet of sewerage lines, connected to trunk sewers of FWASA, serving 2,578 households at a cost to the community of Rs7,182,137 (£81,615). (Zaidi, A. 2001)

For example in Burkina Faso where 50% of the countries' water supply has been "concessioned" to private operators, water vendors invest up to US\$500 for animal drawn water carts and US\$150 for hand-drawn ones. The formal sector of small private operators also invests significantly in diesel engines, pump equipment, and pump repairs for their enterprise.¹¹

Parts of domestic private investments in the sector are made by individual households; either in community-managed and constructed facilities or individual household investments in WSS. For example, many rural water supply and sanitation projects have aspects in their project design that mobilise community investments in kind, in time, or cash. (See case study on the ASB in Faisalabad, Pakistan)

These investments are rarely included in most investment measures, but are seen to be a sizeable component in water infrastructure investments. In Jakarta, 53% of the households rely on private wells and 32% on water vendors. Household investments in septic tanks alone are estimated at \$400 million¹². Extrapolated over all the other major cities in Indonesia, and over all developing countries, these investments amount to a significant proportion of overall infrastructure investment in the sector. However, in Indonesia as in most countries, the financial flows to the sector do not normally contain estimates of these investments. Globally, Sunman (1999) provides a crude estimation of the value of these investments at US\$800 million a year for urban households. This probably underestimates the value of the private informal sector and does not include the investments made by households in private wells and septic tanks in both urban and rural areas.

¹¹ Collignon, Bernard (1999).

¹² Briscoe (1998a)

While there have been serious efforts to bring in formal private sector investments into WSS, little has been done internationally to recognise such contributions, especially those made by poor people themselves, in solving their water and sanitation problems. The ASB experience in Faisalabad, Pakistan shows that this can be organised at a large scale, and lead to very promising results.

III. Future financing needs to meet targets for universal coverage

The Framework for Action (FfA) report estimated future financing needed for the sector. It suggested that an additional US\$8 billion per year for water supply and US\$17 billion per year for sanitation¹³ was needed in addition to the estimated US\$30 billion currently being invested in the sector (GWP 2000). Other estimates within the 20/20 Initiative (*see later section*) place the future financing needs at US\$16 billion for both water and sanitation. The figures in the FfA were derived by using estimates per beneficiary for rural and urban populations without water supply and sewerage and networked sanitation, each representing a quarter of the total investment needs. The rural per-beneficiary cost estimates were drawn from Water and Sanitation Collaborative Council (WSSCC) estimates in Vision 21 and are for low-cost technology solutions¹⁴. By all accounts, these global financing estimates need to be refined and supplemented by country-specific targets and investment needs.

The critical assumption used in the FfA calculations is an increase in real costs for water supply and sanitation as a result of increased population, increasing urbanisation, increasing water scarcity, decreasing renewable water resources and decades of mismanagement. Studies have shown that for some cities, costs per capita will be as much as three times the current cost levels when these effects are compounded.

Agenda 21 (*see later section*) estimated the additional cost of achieving water security at US\$56 billion per year, while the World Bank suggests that between US\$600 and US\$800 billion is needed over the next 25 years for universal water and sanitation needs to be met.

Mobilising resources - misconceptions and truths

For universal water and sanitation needs to be met the task ahead is enormous. Recent statistics published by WHO reveal that to improve access to drinking water an additional 1 billion people need to be served, while an additional 2.4 billion people need access to adequate sanitation. Despite heavy efforts in the 80s and 90s, coverage is still woefully inadequate. When one considers that spending in basic social services (primary education, health, water and sanitation and nutrition) still amounts to only 13% of government budgets¹⁵ it is clear that the political will is still lacking.

¹³ These estimates were modelled using assumptions for urban/rural population growth, rate of urbanisation, existing coverage levels for WSS and a host of cost assumptions for urban and rural water supply and sanitation schemes.

¹⁴ Costs of urban supply and sanitation provision ranged from \$300 per person for new sewerage systems to \$25 per person for basic pit latrine. For urban water supply, costs ranged from \$50 per person for standpipe to \$200 per person for household connection. Rural figures for sanitation and hygiene were estimated at \$10 per person and for potable water \$15 per person. O & M costs were capped at 15% capital cost per year.

¹⁵ UNDP, et al (1998)

Broadly speaking, obtaining resources for the water and sanitation sector is similar to many of the social sector agendas or environmental agendas except for a few differences:

- ◆ Water and sanitation delivery is entering into a new era, an era where the prolonged inefficiencies in government-run utilities, quality of services, coverage and environmental impacts are creating a pressure to change the institutions governing the sector.
- ◆ These inefficiencies are manifested in increasing numbers of small private operators, water vendors, and community managed and built systems. The surge in international private sector activity and public-private partnerships and public-private-community tri-sector partnerships has also made way for new operating and financing arrangements.
- ◆ Under decentralisation and privatisation, the public sector role is being transformed to one of regulation and facilitation of an enabling environment and policy-making.
- ◆ Unchallenged in this new scenario is the fact that water and sanitation are basic needs, essential to life and development and that the association between poverty, ill-health and poor water supplies and sanitation is firmly embedded in popular conceptions within developing country stakeholders.¹⁶

The challenge for financing mechanisms is to marry the new policy directions and its implications with the fundamental goal of universal access to water and sanitation.

IV. Meeting the financing gap

What are the prospects for each of the proposed solutions for increasing and mobilising resources to the sector?

Mobilising bilateral aid

The challenge of closing the gap is unlikely to be met through bilateral aid, although the potential for increases are enormous. For example, lobbying donor countries to achieve the target of 0.7% of GNP for official development purposes would generate roughly US\$100 billion per year. The reality is that in 1998, only the Netherlands and the Nordic countries reached or surpassed the UN target.¹⁷ In the same year, the average effort of all Development Assistance Committee (DAC) members was only 0.24% of GNP, far short of the UN target.

Though a decade of lobbying to encourage increases in bilateral aid have failed so far to stop the decline in aid, in the UK, overall development assistance has started to slowly rise since 1998. What is important, however, is to make sure that allocations towards WSS do not decline, but instead increase. On a positive note, the World

¹⁶ Nicol (1999)

¹⁷ They have now been joined by Luxembourg. Five other countries have already set timetables for achieving the 0.7% of GNP target.

Bank/International Monetary Fund's (IMF) HIPC Initiative, with its poverty reduction focus, may provide a new impetus for financing WSS as long as committed aid does not simply get re-channelled towards meeting financing requirements for HIPC. In fact, if donor countries met the UN target for just two years it would eliminate the \$245 billion debt of all 41 HIPC countries. (Woodward, 1998) Relieved of debt servicing, developing countries would then be in a position to allocate more resources to basic social services including water and sanitation.

Reallocation of public sector resources

The unfavourable external financing environment facing developing countries (especially the poorer ones) makes domestic resource mobilisation and effective allocation of these resources all the more important for achieving water and sanitation targets and other social and sustainable development agendas. This means, apart from aid and debt relief, increased fiscal revenues through more effective taxation and efficient revenue collection, and increased exports.

In some countries, although there may not be adequate resources for the social sectors to achieve their development targets, the problem could be lessened through better governance and appropriate intra-sectoral allocation of resources. Channelling more resources towards basic social services and basic WSS depends on strengthening the fiscal capacity of national governments. This entails the following:

- ◆ **Good governance:** To quote from Cagatay *et al* (2000), "Good governance is the 'missing link' between anti-poverty plans and poverty reduction." Ensuring accountability and transparency may require: (1) improving financial accountability through social auditing by citizens' movements, auditors, press, and democratically elected parliaments. (2) Democracy in action: participatory budgeting where budgetary powers are decentralised to the municipal or village levels, a process that is ongoing in India and Brazil.
- ◆ **Tax reforms:** Strengthening the revenue collecting mechanisms in developing countries and determining ways of broadening tax bases.

On its own, strengthening the fiscal capacity of developing country government won't ensure increasing resources for water and sanitation. This will only be assured if spending on basic social sectors become the priority of government. This may pave the way for both inter-sector and intra-sector reallocations.

- ◆ **Inter-sector reallocation/social sector spending.** The recent push for poverty reduction strategic plans and national strategies for sustainable development provide an opportunity for governments, civil society, and private sector to prioritise social sector spending and ensure that new development policies prioritise social spending.
- ◆ **Intra-sector reallocation.** In practice inter-sector reallocation means shifting resources from lower efficiency to higher efficiency programmes such as investments that promote human development. For example moving expenditures out of high-capital intensive projects to low-cost technology options or restructuring subsidies to be pro-poor.

There are two broad views on reallocation of public sector expenditures. One suggests that the composition of total government expenditures should be restructured to promote human capital formation (water and sanitation, basic health and nutrition, education and training) and reduce budgets earmarked for non-development contributions. The second suggests that it is not enough to earmark expenditures for social sectors, instead it needs to be further disaggregated into greater shares for basic social sector spending. The basic premise behind these strategies is that the social rate of returns on investment in human development or basic social sector expenditures should increase both efficiency and the growth rate of personal incomes.

For example, the UNDP suggests that "some policies deserve priority because they facilitate the successful implementation of other policies. Providing access to potable water, for example, is important in its own right and also because it has "multiplier" effects on such things as a person's ability to maintain good health and engage in productive activity".

Intra-sectoral and inter-sectoral allocation of resources towards greater social sector spending that promotes human development is likely to achieve the greatest impact in terms of achieving water and sanitation development targets for many of the developing countries.

These inter-sectoral and intra-sectoral reallocations pose the question of what areas of public expenditure should bear the burden of substantial reduction. This question cannot be answered in the abstract since the details of government spending will vary from one country to another, but areas worth investigating are subsidies for the non-poor, debt repayments, military expenditures, and internal security. Public sector expenditures that are targeted in a manner which promotes spending in basic WSS will place the poor at the centre of development and achieve poverty reduction.

International private sector

International private sector is estimated to contribute between 8 to 10% of developing country WSS flows. Currently, the private sector is estimated to reach 5% of the global population. Further estimates reveal that 35% will be reached by the year 2015. Private sector estimates on the increase of private sector finance needed to bridge the investment gaps are in the order of US\$20-35 billion per annum. Such financial commitments will not be in place unless adequate investment conditions exist. These expectations are further misleading precisely because the future of private sector involvement is so dependent on these conditions. Private sector involvement in infrastructure investments during the 1990s showed that compared with other sectors such as telecommunications, power, gas, and hydro, the water sector lagged behind in international private investments. The main reasons are (1) returns on investment is lower than in other infrastructure and (2) high capital intensity means that the payback periods are longer making the investment vulnerable to political risks¹⁸.

Apart from these, there are other reasons to believe that the international private sector is unlikely to fill the financing gap. The prospect for private sector investment in the WSS

¹⁸ The private investor success factors will be looking at potential profitability and return on capital, manageable risks (concerning contracts, regulations, foreign direct investment (FDI) regulations, etc), political risk, economic risks (exchange rates etc.) and confidence in cost recovery structures.

is conditional on many factors. The nature of the water industry itself is different from other major infrastructure environments in that it is highly capital intensive, has low profitability associated with a relatively competitive industry, and has low returns to assets associated with a mature, low-risk industry. In terms of obtaining project financing, the implication is high debt-equity ratios. Therefore, future growth in this sector comes down to debt financing (Briscoe 1998a).

The problem with commercial financing of infrastructure development in the South is that for poorer countries international financing is relatively expensive in foreign exchange terms when compared to other forms of capital. As a result, these investments will require a continual and increasing supply of new capital flow, resulting in a rapid build up of foreign exchange debt.

These forms of capital are also strongly skewed away from poorer countries and efforts to compete for foreign direct investments (in the form of tax concessions, easing restrictions on profit remittances etc.) may reduce overall benefits to the host country (Woodward 1998). This suggests that with the current structure and a history of being substantially under-priced, heavily subsidised, capital intensive and with long payback periods, the water sector has very little scope for attracting private capital especially to the poorer countries. Whether or not the involvement of the international private sector would be key to providing equitable, affordable and sustainable services to the poor and unserved is another matter that is beyond the scope of this paper.

International private sector investments in WSS are likely to increase over the next decade but expectations of it filling the financing gap to achieve universal access may be misplaced. Growth in international private investment is unlikely in the poorer countries where the government's own fiscal situation and returns on investment are low.

Debt relief

The seriousness of the debt problem in low-income countries has dragged on for more than a decade. The 'debt hangover' of many developing countries and particularly of the heavily indebted poor countries has not been resolved despite important efforts and measures adopted by creditors at the national and multilateral levels¹⁹. The servicing of debt²⁰ absorbs budgetary and foreign exchange resources, hampering a government's ability to fund its social expenditure programmes including the water and sanitation sector. In 1996, 30% of long term debt for the highly indebted poor countries was owed to multilaterals, 45% to bilaterals, and 16% to domestic private sources (UNDP 1999).

¹⁹ The seriousness of the problem was realised by the creditor community in 1987 when the Paris Club of bilateral creditors first decided to apply for more concessional rescheduling terms to the low-income debtor countries in Africa (Venice Terms). This meant that debtor countries were allowed to reschedule their debts on a continued concessional terms basis (lower rates of interest than commercial loans), but the debts were not written off. In subsequent years, more and more of the debts were rescheduled on concessional terms.

²⁰ The nature of problems in repayment of debt may vary from acute balance of payment difficulties requiring immediate action to structural, financial and transfer of resources problems requiring longer-term measures. These problems have been categorised as instances of liquidity and insolvency. A liquidity problem may arise because of a bunching of debt obligations at a particular time, which cannot be fulfilled due to revenue shortfalls. In the case of insolvency, the inability to make payments results from a structural problem. Distinguishing between liquidity or insolvency problems is very difficult.

The Highly Indebted Poor Country (HIPC) Initiative was launched in 1996 and represents a step forward in the international community's efforts to relieve poor countries debt burdens. The HIPC process was envisaged to take 6 years to complete and 41 countries were initially identified as HIPC countries²¹. The Enhanced HIPC Initiative was launched in 1999 to provide faster and deeper debt relief and was linked to poverty reduction. The total costs for the HIPC Initiative are now estimated at US\$28.2 billion in 1999 net present value (NPV) terms, but commitments from the creditors have not matched this amount. The total external debt of the HIPC countries was US\$200 billion in nominal or face value terms at the end of 1997. Thus, there are continuing calls for deeper debt relief. At present, Uganda is the only country that has benefited from debt relief at completion point, while 9 others have reached decision point²². Uganda will channel US\$2 billion of debt relief into poverty reducing measures including the water and sanitation sector, which is expected to receive a five fold increase in public expenditures in the first year alone.²³

It is a matter of concern that the implementation process of the enhanced HIPC Initiative has been so slow²⁴. Eligibility conditions are too stringent. There are also concerns surrounding the limited number of countries to be included in the HIPC category.

And finally, debt relief will remain just that, temporary relief. Unless there is some fundamental structural change both within the economies of poor countries and the global economic relations between rich and poor countries, poor countries will not achieve debt sustainability which could enable them to continuously invest in their basic social services.

Debt relief, on the face of it sounds like the solution for increasing resources to the water and sanitation sector for many of the poorest countries. However, there are challenges associated with debt relief. It will be important to ensure that the countries' poverty reduction programs associated with the HIPC initiative effectively prioritise water and sanitation needs.

Household/community financing

Household financing in the water and sanitation sector includes personal investments in septic tanks, hand-dug wells and latrines. On the other hand community investments refer to investments that the community as a whole makes towards a collective scheme. Studies have shown that local communities place water supply and sanitation among

²¹ Of which only India, Nepal, Pakistan, Nigeria, and Bangladesh of the countries in which WaterAid works are not HIPC Countries. There are discussions on modifying the definition of inclusion of HIPC countries, which would then make Bangladesh eligible for HIPC status.

²² Decision point is the point at which a country is deemed eligible for debt relief. The Enhanced HIPC process requires the implementation of 2 consecutive enhanced structural adjustment facility (ESAF) (now restructured as the Poverty Reduction Growth Facility), a debt sustainability analysis followed by a decision point for eligibility. If successful, this is followed by a second stage of interim debt relief and then completion point and full commitment of creditor's resources.

²³ The increase in resources is welcome. But without addressing the government water and sanitation agencies' capacity to absorb the increase in resources, this may result in a range of inefficiencies and ineffective spending.

²⁴ In addition, the process requires a draft Poverty Reduction Strategic plan (PRSP) developed nationally to ensure that debt relief is linked with national priorities and the poverty reduction needs of their people.

their highest priorities. Comparative country priority studies in Senegal, China, Tanzania, Colombia and Malawi have also revealed similar evidence showing 40% of community budgets expended in water and sanitation activities over health (7%) and education activities (14%) (Klugman 1994). This indicates that as long as local community priorities differ from central and local government priorities, community investments in the sector will rise accordingly.

New innovative ways of community financing are also being developed for community and self-help initiatives. Some of these, for example the Grameen Bank, are now well established as a provider of credit, providing small loans for income generating activities. They have proven that one of the first uses of net income from income-generating activities is the payment of capital costs for water supply development. Similar examples of this can be found on WaterAid projects in India and Bangladesh. In one example a partnership with a micro-credit partner NGO resulted in the combination of micro-credit provision with community-managed water supply and sanitation. Other models have consisted of revolving funds for covering capital costs where a portion of the contributions were given by NGOs or donors and the remainder by communities or local water authorities. An example of this can be found in Honduras where the community decided how quickly the payback to the revolving fund would be made (Ghosh and Nigam 1998). The scope for using alternative credit mechanisms is growing, as they can play a crucial role in increasing access to the single greatest hindrance for poor communities, access to finance and the inability to pay for services in the absence of municipal coverage.

This paper is not advocating that communities bridge the financing gap, but it does advocate for greater recognition of community and household investments as significant in the overall investments in the sector. This recognition of these investments implies the inadequate public provision of water services. It could be used as a measure of comparative efficiency between developing countries.

V. Global initiatives towards financing basic social services

The 20/20 Initiative

The 20/20 Initiative was initially conceived in 1994, by UNDP, UNESCO, United Nations Population Fund (UNFPA), UNICEF and WHO. It was established as a pragmatic way of accelerating the mobilisation of resources from national and external sources by calling for the reallocation of 20% of the total government budget and 20% of ODA to basic social services. It was endorsed²⁵ at the World Summit for Social Development in Copenhagen in 1995 and provides a framework for translating the need of increased investments in basic social services - basic health, basic education, low-cost water and sanitation, and nutrition programmes into reality. It also aims for greater efficiency and equity in the use of these resources. Current estimates reveal that that ratio is roughly 13/10²⁶.

²⁵ It was reaffirmed in Beijing in 1995 at the World Conference on Women

²⁶ Targets are based on government budget expenditures and ODA instead of GNP because of the ability of governments to control the size of their budgets through parliament.

The basic tenet of the compact is that access to basic social services not only forms the core of development and poverty reduction, but is increasingly recognised as a human right. It also distinguishes between government spending on social services as opposed to basic social services to encourage greater pro-poor spending and greater distributional equity.

Putting this commitment into practice has not proved easy. The data required for verifying commitments are often lacking. Monitoring mechanisms for both government and ODA expenditures is fragmented and ill-documented for basic social services. For these reasons, the 20/20 initiative has not gained political and actual momentum.

Financing water supply and sanitation under Agenda 21

The World Summit on Sustainable Development in 2002 will review the progress of Agenda 21, which is the global plan of action on environment and development. Chapter 18 of Agenda 21 deals primarily with managing and protecting freshwater. Freshwater issues are expected to be one of the key areas of focus and review for this next summit. The growing concern over the freshwater crisis will highlight the inequities in water and sanitation coverage.

Agenda 21 has called for specific increases in resource needs for water and sanitation and water resources management in general, amongst other priorities. These resource allocations are to be prioritised under the framework of national strategies for sustainable development. It was hoped that supporting the formulation of NSSDs will provide additional commitment to the financing agenda and is likely to increase resources to the WSS sector (Serageldin 1994), as the costs of inaction of poor WSS from an environmental point of view are greater than the promotion of its sustainable development. However, nearly 10 years after Agenda 21 was agreed, only a tiny minority of countries have formulated NSSDs. Furthermore, the promised financing from industrialised countries has failed to materialise.

Global innovative mechanisms

There are individual case examples of new ways of generating public and private resources. Some including the use of debt swaps (nature for debt), have been used on a case by case basis. The feasibility of tradable water permits and the use of water markets have been successful in California and other individual pockets of the world but have yet to be examined as mechanisms which can be appropriately scaled up. The impact of voluntary contributions both from corporate and private individuals (NGO financing) are likely to grow as corporate social responsibility takes its course within the international private sector companies in developing countries and as development awareness and education rises. At present, it is estimated that nearly 10% of development aid come from voluntary contributions. Other less tried global mechanisms such as water bonds and guarantees need to be explored.

VI. Recommendations

Further analysis of available data, including work towards dis-aggregating data to determine WSS expenditure is clearly needed to improve our understanding of financing in the sector. On the basis of what is presented here, however, we can pull out the

following recommendations to increase financing in the sector towards achieving universal access to WSS:

1. Reverse the decline and increase development assistance to the agreed UN target of 0.7% of GNP, and prioritise WSS within aid increases and expenditure.
2. Promote reallocation of public investments so that these prioritise basic social services, including WSS.
3. Promote reallocation of WSS investments so that these start to prioritise expanding services to reach the unserved, whilst improving existing services so that the needs of the under-served are also addressed.
4. Ensure that private sector investments in water and sanitation serve the poor.
5. Recognise and facilitate individual and community investments in WSS, for example, through micro-credit schemes, and other fiscal instruments.
6. Investigate revitalisation or creation of new global initiatives to achieve universal access to WSS.
7. Promote inclusion and prioritisation of WSS within poverty reduction strategies, local agenda 21 plans, and other national planning and development frameworks.
8. Encourage and ensure participation of poor communities and civil society organisations in decision-making over priority spending in water and sanitation.

Conclusions

The intention of this paper was to build a picture of financial flows for the water and sanitation sector in developing countries. It set out to demonstrate the gaps in the sector in terms of future investment needs and to analyse the potential for each of the sources of financing to achieve universal access to WSS.

The financing gap is huge, but not unbridgeable. But to ensure that the investment is put towards achieving sector targets, and prioritising within those targets services for the poor and unserved, much restructuring and reallocation of investments is necessary. Fundamentally, this is a matter of political will, improving governance of the sector, and ensuring participation of the poor and unserved in investment decisions, development and infrastructure plans. Water sector stakeholders and unserved communities have responsibility for creating that will and ensuring participation. This will require WSS sector stakeholders:

- ◆ Entering into the global discourse on financing for development, for example as part of the UN process.
- ◆ Increasing their awareness of both micro and macro-economic issues in WSS and relating this to national macro-economic issues, for example, public sector expenditures, debt, trade.
- ◆ Getting involved in the process of national budget debates to ensure that WSS is duly prioritised, as part of the democratic process that takes into account the real needs for development.
- ◆ Understanding how bilateral and multilateral aid is spent, allocated and decided, and getting involved in trying to influence those decisions.

- ◆ Understanding the status of debt relief in their country, PRSP processes in those countries where the HIPC initiative is active and participating in the processes of deliberation, implementation and monitoring.
- ◆ Doing original documentation, research and analysis on the makeup of investments in each of their own countries, on the trends in bilateral aid, the direction of aid and other sources, in collaboration with other agencies engaged in this analysis.
- ◆ Monitoring private sector activities in the sector to ensure that the process involves stakeholders and provides access to the poorest.
- ◆ Concerted, intelligent, co-ordinated lobbying of governments and relevant donor officials on issues relating to financing of the sector.

This is an enormous task for WSS stakeholders and will take us beyond our usual boundaries. It will require building relationships with other sectors and actors who work on these issues, and helping these other sectors and actors to understand water and sanitation realities.

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Appendices

Supporting Table for Aid flows from major donors 1990-1997 (US\$ million)

	1990	1995	1996	1997
<i>OECD DAC</i>				
WSS	1508	2552	3034	2907
Total Water	2569	4227	4695	4756
Total DAC lending	57758	50208	53767	44254
<i>WSS as a % of Total Water</i>	58.7%	60.4%	64.6%	61.1%
<i>WSS as a % of Total</i>	2.6%	5.1%	5.6%	6.6%
<i>World Bank</i>				
WSS	931.8	1039.5	366.1	829.8
Total Water	1545.6	1629.5	1682.6	2025.1
Total WB lending	20701.7	22521.8	21520	22000
<i>WSS as a % of Total Water</i>	60.3%	63.8%	21.8%	41.0%
<i>WSS as a percentage of Total WB lending</i>	4.5%	4.6%	1.7%	3.8%
<i>Asian Development Bank</i>				
WSS	211.1	454.3	609.2	397.2
Total Water	455	979	1313	856
Total ADB Flows	3933	5394	5372	9369
<i>WSS as a % of Total Water²⁷</i>	46.4%	46.4%	46.4%	46.4%
<i>WSS as a percentage of Total ADB lending</i>	5.4%	8.4%	11.3%	4.2%
TOTAL ALL SOURCES				
WSS	2650.9	4045.8	4009.3	4134
Total Water	4569.6	6835.5	7690.6	7637.1
Total Flows	82392.7	78123.8	80659	75623
Average Donor WSS as a % of Total Water	58.0%	59.2%	52.1%	54.1%
Average WSS as a % of Total	5.5%	8.7%	9.5%	10.1%

Source: Sunman (1999) and author's analysis.

²⁷ Author's assumptions based on ADB percentage shares for previous years.

Appendix 1

Key Definitions

[Aid](#)

The words "aid" and "assistance" in the report refer only to flows which qualify as [Official Development Assistance](#) (ODA) or [Official Aid](#).

The OECD's [Development Assistance Committee \(DAC\)](#) is the principal body through which the Organisation deals with issues related to co-operation with developing countries. The DAC is one of the key forums in which the major bilateral donors of 29 countries work together to increase the effectiveness of their common effort to support sustainable development.

[Multilateral Operational Agencies](#)

In DAC statistics, these are international institutions with governmental membership which conduct all or a significant part of their activities in favour of development and aid recipient countries. They include multilateral development banks (e.g. World Bank, regional development banks), United Nations agencies, and regional groupings (e.g. certain European Union and Arab agencies). A contribution by a DAC Member to such an agency is deemed to be multilateral if it is pooled with other contributions and disbursed at the discretion of the agency.

[Private Flows](#)

Consist of flows at market terms financed out of private sector resources (including direct investment) and private grants (i.e. grants by NGOs, net of subsidies received from the official sector. However it is not easy to obtain these statistics so it is not clear to what extent NGOs have contributed to the sector). In presentations focusing on the receipts of recipient countries, flows at market terms are shown as follows:

[Official Development Assistance \(ODA\)](#) Concessional (aid) and other loans provided mainly for developmental purposes by the 22 member countries of the OECD Development Assistance Committee. These countries include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, Luxembourg, Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the USA.

Grants or [Loans](#) to countries and territories on Part I of the DAC List of Aid Recipients (developing countries) which are:

- undertaken by the official sector;
- with promotion of economic development and welfare as the main objective;
- at concessional financial terms [if a loan, having a [Grant Element](#) of at least 25 per cent].

[LLDCs: Least Developed Countries](#). Group established by the United Nations. To qualify for admission, countries must fall below thresholds established for income, economic diversification and social development. The DAC List is updated immediately to reflect any change in the LLDC group.

The DAC List of Aid Recipients ²⁸
Used for 1997, 1998 and 1999 flows

Part I. Developing Countries and Territories
(Official Development Assistance)

Least Developed Countries (LDCs)

Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, Democratic Republic of Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Laos, Lesotho, Liberia, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Sierra Leone, Solomon Islands, Somalia, Sudan, Tanzania, Togo, Tuvalu, Uganda, Vanuatu, Yemen, Zambia

Other Low Income Countries (OLICs, per capita GNP <\$765 in 1995)

Albania, Armenia*, Azerbaijan*, Bosnia and Herzegovina, Cameroon, China, Republic of Congo, Cote D'Ivoire, Georgia*, Ghana, Guyana, Honduras, India, Kenya, Kyrgyz Republic*, Mongolia, Nicaragua, Nigeria, Pakistan, Senegal, Sri Lanka, Tajikistan*, Vietnam, Zimbabwe

Lower Middle Income Countries & Territories (per capita GNP \$766-\$3035 in 1995)

Algeria, Belize, Bolivia, Botswana, Colombia, Costa Rica, Cuba, Dominica, Dominican Republic, East Timor, Ecuador, Egypt, El Salvador, Fiji, Grenada, Guatemala, Indonesia, Iran, Iraq, Jamaica, Jordan, Kazakstan*, Democratic Republic of Korea, Lebanon, Macedonia, Marshall Islands, Federated States of Micronesia, Moldova*, Morocco, Namibia, Niue, Palau Islands, Palestinian Administered Areas, Panama, Papua New Guinea, Paraguay, Peru, Philippines, St Vincent & Grenadines, Suriname, Swaziland, Syria, Thailand, Tokelau, Tonga, Tunisia, Turkey, Turkmenistan*, Uzbekistan*, Venezuela, Wallis and Futuna, Federal Republic of Yugoslavia

Upper Middle Income Countries & Territories (per capita GNP \$3036-\$9385 in 1995)

Brazil, Chile, Cook Islands, Croatia, Gabon, Malaysia, Mauritius, Mayotte, Mexico, Nauru, South Africa, St Lucia, Trinidad and Tobago, Uruguay

(Threshold for World Bank Loan Eligibility - \$5295 per capita GNP in 1995)

Anguilla, Antigua and Barbuda, Argentina, Bahrain, Barbados, Libya, Malta, Montserrat, Oman, Saudi Arabia, Seychelles, Slovenia, St Helena, St Kitts and Nevis, Turks and Caicos Islands

High Income Countries & Territories (per capita GNP > \$9385 in 1995)

²⁸ Source: <http://www.oecd.org/dac/htm/dac1st97.htm>

Aruba, French Polynesia, Gibraltar, Republic of Korea, Macao, Netherlands Antilles, New Caledonia, Northern Marianas, Virgin Islands (UK)

Part II. Countries and Territories in Transition
(Official Aid)

Central and Eastern European Countries and New Independent States of the former Soviet Union

Belarus, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Russia, Slovak Republic, Ukraine

More Advanced Developing Countries and Territories

Bahamas, Bermuda, Brunei, Cayman Islands, Chinese Taipei, Cyprus, Falkland Island, Hong Kong – China, Israel, Kuwait, Qatar, Singapore, United Arab Emirates

Notes:

* Central and Eastern European countries and New Independent States of the former Soviet Union (CEECs/NIS)