Effectively investing in WATER and SANITATION in ACP Countries

DRAFT FOR COMMENTS

An NGO contribution to the establishment of an EU / ACP Water Fund

Amsterdam, October 2003

Compiled by Danielle Hirsch and Stefan Verwer

Both ENDS

www.bothends.org

Environment and development service for ngo's

Table of contents

SUMMARY

THE EU WATER FUND 5

1 NGO CONCERNS 6

1.1 SOURCE OF FUNDING 7
1.2 DECISION MAKING PROCESS 8
1.3 MANAGEMENT OF THE FACILITY 9
1.4 PROJECT DEVELOPMENT AND SELECTION PROCESSES 10
1.5 FOCUS ON A FLAWED BLUEPRINT MODEL 11

2 RECOMMENDATIONS FOR A NEW EU WATER FACILITY 14

2.1 MANAGEMENT STRUCTURE 14
2.2 PROJECT DEVELOPMENT AND SELECTION PROCESSES 14
2.3 ADD VALUE TO EXISTING MECHANISMS 14
2.4 APPROACH WATER AND SANITATION FROM THE PERSPECTIVE OF PARTICIPATORY AND INTEGRATED WATER MANAGEMENT 18
2.5 QUANTITY, QUALITY AND SUSTAINED FOCUS OF DEVELOPMENT AID 18

3 FOLLOW-UP PROCESS 21

References

The authors wish to acknowledge the following persons and organisations for their contributions to and comment on the paper; Belinda Calaguas, David Redhouse and Dominic Haslam (Water Aid, United Kingdom), Guggi Laryea and Simon Stocker (Eurostep, Belgium), Jane Nalunga (SEATINI, Uganda), Joanne Green (Tearfund, United Kingdom), Marnie Lucas and Luc Coppejans (AEFJN, Belgium), Olivier Hoedeman (CEO, the Netherlands), Paul Goodison (ERO, Belgium), Rebeca Muna (TDDP, Tanzania), and Stephen Muyakwa (ZTN, Zambia).

Summary

The EU Water Fund aims to contribute to solving the problems of water and sanitation in ACP countries. It is a concrete elaboration of the EU Water Initiative, launched at the World Summit on Sustainable Development (WSSD) in Johannesburg in September 2002.

We welcome this initiative as an important commitment from the European Union towards reaching the commitments of the MDG's. However, to assure that the Fund effectively contributes to poverty reduction and sustainable development, attention has to be paid to the following concerns and suggestions, which summarise the views of civil society organisations from EU member states and ACP countries.[1]

- The management of the Fund should be in line with the existing structures related to the Cotonou Agreement. Instead of creating an Executive Agency to manage the Fund, existing EU-ACP institutions, such as the National and Regional Authorizing Officers should be strengthened. In addition to reducing the Fund's transaction costs, strengthening these institutions will have a positive spin-off to other EDF-related processes.

- The eligibility criteria for funded projects should be transparent from the start of the Fund, and should assure that the Facility contributes to poverty alleviation, (gender) equity and sustainable development. Besides using existing standards guidelines such as those defined by IFC and World Bank, and building on the Equator Principles, they should also integrate key recommendations by the World Commission on Dams.

- Instead of setting out to finance blueprint models that have already failed in many less and least develop countries, the Fund should be open tot a wide range of management and implementation approaches. The future Fund

[1] HERE ALL ORGANISATIONS HAVE TO BE ADDED. UNTIL NOW, THE FOLLOWING HAVE BEEN CONTACTED: Water Aid (United Kingdom), Both ENDS (the Netherlands), Eurostep (Belgium), SEATINI (Uganda), Tearfund (United Kingdom), AEFJN (Belgium), CEO (the Netherlands), TDDP (Tanzania), and ZTN (Zambia).

should enhance adequate responses to the wide range of real-time problems faced by the water and sanitation sector. Given the total sum of the Fund, it is suggested that it would be most effective if it would explicitly target initiatives that set out to strengthen the management capacities of local actors, including municipalities, departments of relevant ministries, utilities and local community and other non-governmental organisations.

- The Fund sets out to contribute to attaining the MDGs. As such, it is complementary to other from of development assistance and multi-lateral lending. The MDGs call for a better coordinated, more coherent use of all available funds. In this context, there is the immediate need for clarity on the origin of the proposed E 1 billion.

- As identified in the Cotonou Agreement, the development and implementation of the Fund should be participatory, involving relevant public sector, civil society and private sector stakeholders from EU Member States and ACP countries.

The present document is meant as a direct input into such an open discussion with the Commission. The Paper is prepared by civil societies organisations from EU Member States as well as from ACP countries, and builds on earlier reactions and recommendations presented to the Commission. **These organisations urge the Commission to organise a consultation meeting on the new draft proposal for a EU Water Fund, for which the present document could serve as a basis.**

The EU Water Fund

In response to the widely recognized need for additional investments in the Water and Sanitation Sector, the European Commission presented a proposal for an EU Water Fund in May 2003. The proposed Fund aims to provide technical assistance for the development of resource management policies and projects, as well as to co-finance investments in the water sector of countries in Africa, the Caribbean and the Pacific region (ACP). The importance that was attached to the Fund by Commission was shown by the fact that Romano Prodi, president of the Commission personally called upon the member states to endorse the initiative. In an open letter to the prime ministers of the EU member states he explained that he felt that urgent action was necessary, as 'Africa and especially sub-Saharan Africa, where 40% of people have no access to water, cannot be left to face alone the myriad challenges posed by long-term, water management'.[2]

Prodi and the Commission made haste with the establishment of the Fund, as they hoped to reach an agreement with the member states and the ACP before the annual G-8 Summit, to be held in Evian from 1 to 3 June. They argued that the announcement of such an initiative would 'give it a high profile and could lead to similar initiatives by other participants'.[3]

The Water Fund builds on the EU Water Initiative (EUWI) that was launched during the WSSD in Johannesburg, in September 2002. During this summit the EU pledged to re-channel over 1,4 billion euro from various EU development aid funds into public-private partnerships for water delivery in Africa and the former Soviet Union (Newly Independent States). Later on Latin America has also been added as a potential recipient of funds.

The proposal was welcomed by many as an important initiative to take concrete measures to face the increasing water crisis. However, at the same time it was

---

[2] Letter by Romano Prodi to Heads of State and Government of EU Member States, Brussels, 03-04-2003 D (2003) 1168. http://europa.eu.int/comm/commissioners/prodi/pdf/water_letter_en.pdf.

[3] Ibidem.

felt that the tabled proposal did not meet the expectations that a number of NGO's, both ACP and EU, had with the establishment of a Fund that would effectively deal with the intricate problems of water and sanitation management in development countries. In an article in the European Voice[4] and during a consultation with ACP and EU ministers (May 16th), NGO's voiced their critique on the Commission proposals.

After ACP ministers expressed their doubts with some of the details of the proposals, EU member states requested the Commission during an informal meeting of Ministers of Development to present a new proposal. On the 19-20th of May, Development Council concludes: 'Firmly convinced that water is central to sustainable development, health and well-being, peace and security and the fight against poverty, the Council incites the Commission to propose specific modalities to be discussed by the relevant EU Council Bodies and by the ACP-EC Council of Ministers.'[5]

1 NGO concerns

Financing the Millennium Development Goals (MDGs) for water and sanitation is affordable and achievable, particularly if new investments are well targeted at providing services to the poor and presently un-served. In the context of the widely acknowledged need to significantly increase resources committed annually to the water and sanitation sector, European NGOs and civil society organisations from ACP countries welcome the establishment of an EU Water Fund. However, the effectiveness of such a Fund to reduce the existing lack of access to safe drinking water and sanitation depends on a number of issues. This chapter summarises the main issues of concern raised in reaction to the May proposal by the commission.

---

[4] 'Prodi under pressure over water aid', European Voice, 15-21 May 2003.

[5] Conclusions of the 2509th Council meeting of general affairs and external relations 9379/03 (Presse 138) http://ue.eu.int/Newsroom/makeFrame.asp?MAX=1&BID=71&DID=75857&LANG=1&File=/pressData/en/gena/75857.pdf&Picture=0, page 24.

1.1 Source of funding

The European Development Fund (EDF) is established under the Cotonou Agreement and it's Lomé and Yaoundé predecessors. The Fund is established every five years. The last (9th) replenishment was made in March 2000. Each five years, a limited number of focus areas is identified on the basis of their contribution to reducing poverty and the possibility of the Community action to add value to already existing measures . Focus areas include trade and development, regional integration and co-operation, macro-economic policies, transport, food security and sustainable rural development, and institutional capacity building, particularly in the area of good governance and the rule of law.

In the years of existence, the EDF has attracted a lot of criticism. Its effectiveness was questioned and the capacity of the European Commission to deal with these problems was considered as weak. One of the main problems has been the slow spending of the available funds. This can partly be attributed to the fact that a slow decision making procedure comes with a partnership agreement between 78 ACP countries and 15 EU member states.[6]

Upon the signing of the Cotonou Agreement (June 2000), there was a remaining balance of the 6th, the 7th and the 8th EDF. These remaining funds enabled the Commission to continue its spending until the beginning of 2003, after it indicated that the remaining balances were running dry.[7] In addition the current commitments for the 9th EDF, totalling €13,5 billion[8], of which €10 billion is reserved for long-term development, show that only €876 million remains

---

[6] The slow ratification process of the Cotonou Agreement, signed in June 2000 and ratified by all it's subsidiaries in the beginning of 2003, is exemplary for this.

[7] Due to the slow ratification process spending on the 9TH EDF (the EDF could only commence as of April 2003. The table below shows the balance of the different EDF's.

	6th EDF	7th EDF	8th EDF	Total
No decisions Taken	€332,998,000	€760,474,000	€4,997,033,000	€6,090,405,000
No Implementation Contracts Signed	€570,571,000	€2,151,842,000	€9,548,827,000	€12,271,240,000
Money so far unspent	€692,858,000	€3,015,592,000	€11,364,819,000	€15,073,269,000

Goodison, Paul (2003). '*The question of outstanding balances and special EU initiatives*'. Briefing note by the European Research Office Brussels.

[8] In addition to the €10 billion for long-term development, the 9th EDF allocates €1,3 billion to regional cooperation and €2,2 billion for an investment facility.

unspent. More than €9 billion has already been allocated in the Country Strategy-process.[9]

As yet, it is unclear what the source of the €1 billion for the Water Fund would be. Would it compete with other pending proposals on priority initiatives such as HIPC (€135 million), the AIDS, TBC and Malaria Fund (€230 million)? And how does it related to the ongoing discussion on assisting ACP countries in coping with short term consequences of commodity price instability? In addition, the EDF still has to face the likely costs emanating from the negotiations of Economic Partnership Agreements.[10]

1.2 Decision making process

Partnership is enshrined in the 2000 Cotonou Agreement. The Agreement stipulates different levels of partnership and establishes the importance of participation of local governments and non-state actors in the development process in ACP countries.

As the Cotonou Agreement and the spending of it's resources is subject to joint EU-ACP decision making procedures, the European Commission needs to clarify the way it thinks to involve the ACP in the decision making procedure. It is worrying that the process is until now largely European driven and that the ACP is only marginally involved.

---

[9] Ibidem.

[10] Following the signing of the Cotonou Agreement in 2000, the EU and the ACP decided to start negotiation WTO compatible trade agreements, referred to as Economic Partnership Agreement (EPA's). These agreements aim, through progressively removing all barriers to trade between the EU and individual or groupings of ACP countries, to integrate ACP economies in the world economy. EPA's are essentially free trade agreements and all actors, both at the ACP as the EU agree that their will be significant costs to prepare the ACP economies for free trade.

A simple example is the fiscal impact of EPA's. By moving to free trade with the EU, ACP governments loose a considerable amount of import revenues. This can sometime lead up to twenty percent of the national budget and is in some instances a multiple of the annual amount of development aid that is received from the EU. The EU suggests to these countries to improve the VAT collection (Value Added Tax). Without going into a discussion if this would be reasonable, reforming your tax system or improving your tax collection needs additional funds.

It is widely recognized that ACP countries also need support to improve their trade capacity. The current EDF does not deal with these kinds of costs; less than one percent of all commitments are trade related.

Finally, clarity is needed of the decision making process on the Water Fund in relation to the 2004 midterm review.[11] The effectiveness of the Facility will significantly benefit from the results of the evaluation, and decision making on the Facility should therefore follow the existing evaluation process.

In a partnership agreement such as the Cotonou Agreement, all parties are bound to a joint process. Until now, however, the proposal for an EU Water Fund lacks consultation, particularly with water and sanitation stakeholders from developing countries, and with government and civil society water stakeholders in Europe. In the interest of good governance, wide participation and transparency in decision making -key aspects of water sector reform required of developing countries-, the Commission is urged to call for and facilitate a wider consultation with water sector stakeholders in both South and North on the revised proposal for the Fund.

1.3 Management of the Facility

In the light of the partnership character of the Cotonou Agreement, the question as to how to manage the Fund is crucial. The ACP already indicated that they doubt that the current proposal will deal with their problems effectively. They question the need for an external agency to manage the Fund. It is feared that a new agency would create more bureaucracy and make it even more difficult to coordinate an already overcrowded sector.

An important role in the management of the Fund has been assigned to the European Investment Bank (EIB). The EIB Investment Facility should 'assist projects involving private commercial (public/private) operators or other forms of private intervention. Financial instruments facilitating the intervention of EU operators, such as guarantees, risk insurance, soft loans et cetera, should be provided. Being accessible to the EIB as well as to other institutions of the EU,

[11] Some sources in the member states indicate that the 1 billion has been reserved at the establishment of the EDF, to be spend after the Mid Term Review of the EDF in 2004. The way this decision is made remains unclear and the Commission should clarify this. If the decision is taken as some member states have indicated, the decision to establish a Water Fund should be taken after the Mid Term Review in 2004 (the review is scheduled to take place in March 2004).

the Investment Facility should encourage co-financing and complementarily between these various source of finance and the Fund'.[12]

Although the assignment of such a key role to a regional development bank is a good idea in principle, in practice many of these institutions do not have sufficient links with civil society to be effective in managing a fund designed to support an key area such as the water resources sector.

The EIB operations in general have been criticised to show a lack of professional accountability and oversight in managing projects. Some of the identified problems are: very limited access to information, lack of clear guidelines (the EIB has refused to establish sectoral policies), lack of clear environmental and social guidelines; small and inadequately directed staff; questionable global loans; part-time leadership; no proactive environmental protection lending; and no implementation of environmental objectives. One of the Bank's main problems is very vague status as both an EU institution and an independent entity.

In this framework, it would be more obvious to use current structures and where these structures show weaknesses make necessary improvements. The current resource-absorption capacity at the ACP-side could be improved for example through training in the area of analysis, planning, preparation, project implementation, and aid management. In addition employees of Authorising Officers should be familiarised with EDF procedures and management of dossiers.

1.4 Project development and selection processes

The May 2003 proposal states that the Fund 'should concentrate its activities in countries, which have a sound national water policy and where indicators are being agreed as part of poverty reduction strategies' As such, it is in line with the overall trend that spending in developing countries is increasingly being

[12] Non Paper "An EU Water Fund", Non paper, April 2003. http://www.europa.eu.int/comm/commissioners/prodi/pdf/water_paper_en.pdf

directed by poverty reduction strategies (PRSPs) implemented through Medium Term Expenditure Frameworks (MTEFs).

This overall approach is welcome in principle since it enables integration of strategies and expenditure towards focused goals and targets which have, in theory, been agreed by the governments and their peoples. Used to focus aid and loans, PRSPs and MTEFs can help reduce transaction costs in the provision and reporting on aid and loans. However PRSPs, although supposedly based on public assessments in which water and sanitation are consistently highlighted, do not in fact prioritise these issues. Public involvement in MTEFs has likewise been patchy.

Following this line of reasoning would imply that, since water and sanitation are not prioritised in poverty reduction strategies, in some countries water and sanitation activities should not be supported by the Fund. This reasoning penalises poor people who have consistently prioritised water and sanitation in poverty assessments, for the failure of governments to accurately reflect this demand in the poverty reduction strategies. This is the equivalent of an ill-thought economic sanction that impoverishes the people instead of penalising government leaders for their wrongdoing.

The May 2003 Non Paper does not mention any of the eligibility criteria for initiatives presented for financing. As expressed amongst others by the Camdessus Panel, expectations are that the provision of drinking water – especially in Africa - will call for the construction of a number of large dams. Given the environmental and socio-economic risks involved with the construction of this kind of large-scale infrastructure, the explicit recognition of the guidance provided by the World Commission on Dams is called for.

1.5 Focus on a flawed blueprint model

The May 2003 proposal relies heavily on the Camdessus report, which argues that public aid money should be used for more corporate welfare rather than for the genuine rehabilitation of public/ community run water utilities. The proposal states that many large projects have long term payback periods and high risk, making them unattractive for commercial or even international, multi-lateral financing. It indicates that the intention of the Fund is to provide 'financial instruments facilitating the intervention of EU operators, such as guarantees, risk insurance, soft loans, et cetera.'

Several studies show that the privatisation of drinking water and sanitation services has led to both an increase in charges and an increase in service cut-offs amongst the poorest in developing countries. Meanwhile, other models of water management that are being developed in cities all around the world are proving to be viable alternatives to both traditional public-sector and private-sector models of water management.

The one-size-fits-all mentality disregards the specific contexts – the relative strengths and weaknesses of the domestic private sector in these countries, the capacity of governments to regulate and enforce standards, the strength or weakness of judicial processes that people may use to seek redress against abuses of the private sector, the strength or weakness of capital markets and banking systems that can support domestic private sector growth in these countries. Furthermore, it often invites for large-scale, technology-driven solutions that disregard local knowledge and management capabilities.

Where policies of private sector participation are being pursued inflexibly, research shows that multiple problems are created, not least in further weakening government capacity.[13] More damagingly the single approach ignores the opportunities offered by the local private sector's ability to attract domestic capital and provide services. Privatisation may become a realistic option only when market-structures are well-developed, where rights and entitlements are universally respected, protected and enforced and where sufficient data to inform decision makers exist. Privatisation can only be justified when the legal and institutional framework within which it is implemented guarantees water services and sanitation provision to the poor. However, at the moment these conditions are not met in most of the ACP countries, and changes are enforced with little or no local government understanding or capacity as to their role.

[13] See WaterAid, and Tearfund, New Rules, New Roles: Does PSP Benefit the Poor? Synthesis Report (2003)

2 Recommendations for a new EU Water Facility

2.1 Management structure

Instead of creating an Executive Agency to manage the fund, as proposed in the May 2003 Non Paper, the Commission should consider to strengthen existing EU-ACP institutions, such as the National and Regional Authorizing Officers. Avoiding the creation of a new Executive Agency, reduce the Fund's transaction costs and so ensure that a greater proportion of the available money is spent on development.

2.2 Project development and selection processes

The new proposal for the Fund should include eligibility criteria and indicate a set of guidelines that it will use in order to assess proposed projects. Especially, it should indicate which eligibility criteria will be used to ensure that projects financed by the Fund contribute to poverty alleviation, (gender) equity and sustainable development. In view of the increased attention for the construction of large dams and other large-scale infrastructure, it is of crucial importance that it considers integrating key recommendations by the World Commission on Dams.

2.3 Add value to existing mechanisms

In comparison to the estimated $15 billion per year required to double global water sector funding to reach the MDGs related to water and sanitation, the proposed Fund is a modest amount and, without a clear focus, its potential impact risks being diluted, especially if it is used in pursuit of large-scale international private sector involvement in ACP countries.

The present situation in different regions indicates that there are different barriers to progress, ranging from finance to management capacities, as well as to policy and legal frameworks that hinder local management initiatives. Thus, whereas the mobilisation of a significant level of resources is one of the key factors for the realisation of the MDGs, it will be necessary to apply a flexible approach to management and implementation of the future Fund to respond adequately to the wide range of real-time problems faced by the sector. At the same time the Fund should respond to sound rules of transparency and accountability. The Facility can add significant value to existing initiatives by focusing on:

a) Diversity of management options

The capitalisation of water management by private companies almost always favours expensive projects involving sophisticated technology. This increases the economic dependence of poorer countries and neglects projects that offer greater prospects to sustainability. These are mainly low-cost, decentralised, traditional, historically tried and tested solutions that are more suitable to the requirements and capabilities of the poorer sections of populations in developing countries.

Concentrating capital in (international) private hands also weakens grassroot initiatives, i.e. the development of local economies, the formation of co-operative organisations, solidarity amongst different water users and democratic participation in decision making processes.

The Fund should allow for ample consideration of different types of participatory water management models that are being developed all over the world, such as in Dhaka, Karachi, Tamale and Recife.[14] These models are based on the active involvement of local populations, in prioritising investment decisions, giving communities democratic control over the water utility, and ensuring their ability to hold it accountable to their needs.

The lack of data and of performance management capacity more generally is a key constraint on Governments' ability to drive provision of water and sanitation. In a number of African countries, monitoring systems – both of the water resource situation as well as of water supply and sanitation coverage - have deteriorated over the years of declining investment in the sector.

Governments also need to be able to establish effective mechanisms for regulating the water sector including relevant pricing policies to ensure that

[14] WaterAid and Tearfund, New Rules, New Roles: Does PSP Benefit the Poor? Synthesis Report (2003)

everyone's right of access to water is safeguarded, setting standards and benchmarks for providers and enforcing guidelines.

Community and household-level investments for water supply and sanitation are widely accepted, not just by water and sanitation professionals, but by the public as well – in large part due to difficulties in gaining access to facilities and services run by governments. Affordable and flexible credit to the poor have been shown in India , Bangladesh and Pakistan to facilitate poor people's investment in improving their water supply and sanitation situation.

Problems of affordability and, ultimately, sustainability, emerge where there is little choice of technology options or financing arrangements. To deal with affordability, it is important to go back to the diversity of technology and financing options on offer.

b) Capacity building

There is an urgent need for Governments to develop the capacity to shape policy reform in the water and sanitation sector according to the interest of their citizens, to regulate services, to provide guidance and to guarantee services provision to the poorest people in their constituencies. Equally, civil society, including NGOs, grass root organisations and communities, need to develop the capacity to actively engage in the development of the sector. They are in the best position to monitor activities and generate information, and in some cases can be non-for-profit service providers. Capacity building of the private sector should lead to their serious engagement with civil society and the development of adequate responses to the complexities of poverty.

The Panel on Financing Water Infrastructure recognised the present limitations on private finance in the poorest countries as set out above. So, while recommending reforms to change these prospects for the longer term, the Panel stressed the need now to develop community self-help options. In particular the Panel recommended that "Civil society roles in water provision need to be supported, and their capacity to perform more effectively needs enhancing".[15]

[15] Report of the World Panel on Financing Water Infrastructure. Financing Water for All (2003), p. 34

The Panel suggested that, subject to a feasibility study, "Decentralised Funds for the Development of Local Initiatives" could be created in each of the regional development banks to be drawn on by local groups – NGOs, associations and community representatives – to build capacity though training, hiring advice, creating partnerships and attracting funding.[16]

The Panel stressed[17] the need for building the administrative capacity of water managers at Government, municipal and community levels, and envisaged that this training of public managers within public utilities would complement similar training of managers in the public authorities regulating the utilities.

Experience on the ground – for example the Soozhal community sanitation project in India[18] and the way in which the Ugandan administration has grappled with the increase in water sector funding under the country's poverty Eradication Action Plan (part-funded by debt-relief)[19] - suggests that these capacity-building initiatives would be a way for the EU Water Fund to add significant value. The use of the Fund in this way might be less glamorous but we note the Panel's comment[20] that donors need to be less concerned with large capital projects to which a "flag" can be attached and more with the delivery of capacity-boosting training.

National and local governments as well as water and sanitation utilities in developing countries need support to learn –including technical assistance- from the practices of other developing and developed countries in designing tariff systems for water and sanitation services, as well as financing mechanisms for promoting household and community-level investments in improved water supply and sanitation services.

---

[16] Idem

[17] Report of the World Panel on Financing Water Infrastructure *Financing Water For All* p20 March 2003

[18] Ramsh Sakthivel S and Fitzgerald R, *The Soozhal Initiative: a model for achieving total sanitation in low-income rural areas* WaterAid India September 2002

[19] International Development Consultants *A Study of the Water Sector Conditional Grants* Forthcoming

[20] Report of the Panel on Financing Water Infrastructure. *Financing Water for All*, p. 20

2.4 Approach water and sanitation from the perspective of participatory and integrated water management

Water and sanitation concerns are often fragmented because different ministries and departments have a responsibility within the sector – water, public works, health, agriculture etc. This makes it difficult both for the water and sanitation sector to articulate its needs and demands clearly and thus to integrate management of water in development plans.

Meanwhile, there is increasing evidence that a consultative and participatory approach to planning and reviews in the sector are essential for better sector governance and to making services benefit the poor. Key stakeholders include users who need to be involved in decisions over what services must provide. This will require amongst others, support for strengthening user groups and civil society networks in the sector to work constructively with governments over policy, operational planning and implementation issues.

Water stakeholders therefore agree that meeting the Millennium Development Goals in water and sanitation in developing countries will require the implementation of a policy and institutional reform agenda. In view of the importance of river basin management, the Facility should support efforts to provide assistance for the development of integrated water resources management and water efficiency plans.

2.5 Quantity, quality and sustained focus of development aid

The actual amount of spending required is the subject of much debate. Estimates vary: Some conclude that there is no need for increased spending on the sector, while others claim that current spending should at least be doubled; from the current $14bn per year to more than $30bn . In countries where total investment requirements have been calculated, such as in Uganda and Nepal , the picture is unambiguous: annual funding gaps exist that prevent achievement of targets for water and sanitation.[21] While it is a rough rule of thumb, doubling

[21] UK Water Network. Recommendations to the G8 for financing the water and sanitation Millennium Development Goals (2003), p. 5

resources – as President Chirac advocated in talking at the New Year of his ambitions for the G8 summit – would certainly give a useful impetus to delivery of the water and sanitation goals.

Meanwhile, aid commitments have not emphasised the water and sanitation sector. In fact, aid to the sector has basically been declining since 1996 and presently accounts for about 5% of all aid.

In addition to increasing aid, the quality of aid also needs to improve alongside that of overall spending in the sector. Current spending is not targeted effectively: in Africa only one eighth of spending is on sanitation even though there are twice as many people without sanitation as water; spending in rural areas is one third of that in cities despite the rural population being six times greater; and, spending in Malawi if targeted at the unserved would serve the population in seven months rather than the 32 years it will take using the present, non-needs focused approach.

Recent research has also shown the level of instability in aid spending, which undermines capacity to plan particularly in least developed countries that are substantially dependent on aid for their water and sanitation investments. Research indicates the urgent necessity for aid donors to co-ordinate through sector-wide approaches and integrated water management plans linked to national poverty reduction strategies.[22]

Better targeting of aid towards the least developed countries must also be addressed. ODA should be used to ensure access to water and sanitation services for those least able to afford them.

Some donors have argued that since water and sanitation are not prioritised in poverty reduction strategies, they should not be prioritised in aid budgets. This reasoning is wrong. It penalises poor people who have consistently prioritised water and sanitation in poverty assessments, for the failure of governments to

---

[22] Stoupy, O. and Sugden, S., 2003. Halving the number of people without access to safe water by 2015 – a Malawian perspective. WaterAid Malawi, forthcoming

accurately reflect this demand in the poverty reduction strategies. This is the equivalent of an ill-thought economic sanction that impoverishes the people instead of penalising government leaders for their wrongdoing.

> In Uganda water and sanitation have been prioritised through the combined efforts of a government committed to poverty reduction and a vigilant civil society. Coverage has increased. Total investments in water and sanitation increased three-fold from 97/98 to 00/01. Government investments in water and sanitation grew nearly ten-fold, leading to increased government share to the water sector in the Medium Term Expenditure Framework from 0.5% (1997/98) to 2.4% (2000/01). This level of public spending was matched by donor contributions to the sector, which doubled in the same period.
>
> This resulted in an increase in access of rural population from 44.1% in 1997/98 to 52.4% in 2000/01 and a slight increase in urban population access to water, equivalent to some 2.2 million people newly served overall. Total investment requirements for both rural and urban water supply, were estimated in 2000 at US$1.453 billion to achieve Uganda's goal of universal access by 2015. Despite increased investments from debt relief and aid, a total financing gap of US$126 million in the next five years still needs to be filled.[23] At present, the investment plans are only half-funded. The conclusion is clear: current funding levels reduce the likelihood of Uganda achieving its water and sanitation targets.
>
> Uganda's ability to spend is constrained by the shortcomings of the present debt relief arrangements. Despite Uganda's compliance with the Heavily Indebted Poor Countries (HIPC) initiative, creditors have failed to write off debts totalling £322m. Coupled with the impact of falling prices for its principal export commodity, coffee, Uganda's debt is 219% of its annual export earnings, way above the 150% limit supposedly set under HIPC[24].

The example of Uganda highlights the need to rethink debt relief arrangements. Even where a country has been successful at getting debt relief and using this relief to work towards poverty reduction targets for its people, the fact remains that the investments required are enormous. Governments, like in Uganda, will need total debt cancellation, not just debt relief.

[23] Cong, Richard (2002). Paper prepared for the Regional Workshop on: Water Supply and Sanitation in Poverty Reduction Strategies, held in Nairobi, June 17th-19th 2002. Ministry of Water, Lands & Environment, Government of Uganda.

[24] Uganda debt data from Jubilee Research, http://www.jubileeplus.org/databank/profiles/uganda.htm#4

3 Follow-up process

The proposal to establish a Water Facility is currently circulated between the different DGs in the Commission. EuropAid[25] and DG Development[26] are currently drafting the paper that establishes the Facility. They expect to present a new paper at an External Relations Council in November or the beginning of December and have expressed interest in organise a meeting with NGO's in the period prior to the Council meeting.[27] Meetings of the External Relation Council are scheduled to be held on the 11th and 12th of November and 8th and 9th of December. Given the slow process and the fact that the ACP has to be consulted as well, it is expected that the Facility will be established at the soonest by the 9th of December.

It remains unsure how the European Council will involve the ACP in the decision making process. The ACP ministers meet in Brussels from 24th to 28th of November for the 78th session of the ACP Council of Ministers. The first joint EU-ACP Council meeting is scheduled to be held in Gabarone, Botswana on May 7th, 2004.

The present Position Paper is meant as a direct input into such an open discussion with the Commission. The Paper is prepared by civil societies organisations from EU Member States as well as from ACP countries, and builds on earlier reactions and recommendations presented to the Commission. **These organisations urge the Commission to organise a consultation meeting on the new draft proposal for a EU Water Facility, for which the present document could serve as a basis.** This meeting should include both EU and

---

[25] EuropAid is the agency responsible for the implementation of the external aid instruments of the European Commission, which are funded by the European Community budget and the European Development Fund.

[26] The Directorate General for Development initiates and formulates the EU's development co-operation policy for all developing countries and coordinates the relations with the sub-Saharan African, Caribbean and Pacific countries (ACP) and the Overseas Countries and Territories (OCT). To this end, DG Development programs resources of the European Development Fund and dedicated budget lines of the Commission's budget, prepares strategies for co-operation with ACP countries and Overseas Countries and Territories and monitors their implementation.

[27] Personal communication with the Commission October 7th,2003.

ACP Non-State Actors. This meeting should principally aim at exchanging information on the set-up of the Water Facility. However, it is very important that the Commission will clarify the following issues on forehand:

- How does the Commission plan to finance the Water Facility (the source of the money)?
- How does the Commission plan to involve the ACP in the decision making process?
- How does the Mid Term Review fit into the decision making process around the Water Facility?

References

EU Commission "An EU Water Fund", Non Paper, April 2003.
http://www.europa.eu.int/comm/commissioners/prodi/pdf/water_paper_en.pdf

EU Commission, Commission proposes EU Water Fund worth EUR 1 billion (24/04/2003), http://www.health.fgov.be/WHI3/krant/krantarch2003/kranttekstapr3/030424m04eu.htm

EU, Conclusions of the 2509th Council meeting of general affairs and external relations 9379/03 (Presse 138)
http://ue.eu.int/Newsroom/makeFrame.asp?MAX=1&BID=71&DID=75857&LANG=1&File=/pressData/en/gena/75857.pdf&Picture=0

European Voice, *Prodi under pressure over water aid*, , 15-21 May 2003

International Development Consultants *A Study of the Water Sector Conditional Grants Forthcoming*

Jubilee Research, http://www.jubileeplus.org/databank/profiles/uganda.htm#4

Panel on Financing Water Infrastructure. Financing *Water for All* (2003)
http://www.gwpforum.org/gwp/library/ExecSum030703.pdf

Ramsh Sakthivel, S and R. Fitzgerald, *The Soozhal Initiative: a model for achieving total sanitation in low-income rural areas* (2002)

Romano Prodi, Letter to Heads of State and Government of EU Member States, Brussels, 03-04-2003 D (2003) 1168.
http://europa.eu.int/comm/commissioners/prodi/pdf/water_letter_en.pdf

UK Water Network. *Recommendations to the G8 for financing the water and sanitation Millennium Development Goals* (2003)

WaterAid and Tearfund, New Rules, New Roles: Does PSP Benefit the Poor? Synthesis Report (2003) http://www.wateraid.org/site/in_depth/current_research/

For more background information, a more extensive of used resources, links and the latest news on the Water Facility check out our website www.bothends.org/euacpwaterfacility. On the website you will also find our statement on the Water Facility. To endorse the statement, please contact us through water@bothends.org.