EVALUATION OF SECTOR SUPPORT AND APPROACHES IN THE WATER SECTOR

FINAL REPORT

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TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

ADB	Asian Development Bank
AfDB	African Development Bank
ASAS	Sector Support to the Water Sector (Mozambique)
BWDB	Bangladesh Water Development Board
CAS	Country Assistance Strategy
CDSP	Char Development and Settlement Project
CPIA	Country Policy and Institutional Assessment
CSR	Civil Service Reform
Danida	Danish International Development Agency
DAS	Provincial Directorate of Water and Sanitation (Mozambique)
DEK	Effectiveness and Quality Department
DFID	Department for International Development UK
DNA	National Directorate for Water (Mozambique)
EU / EC	European Union / European Community
GBS	General Budget Support
GDP	Gross Domestic Product
GTZ	Gesellschaft für Technische Zusammenarbeit
GOB	Government of Bangladesh, Government of Benin
GOE	Government of Egypt
GOM	Government of Mozambique
GON	Government of The Netherlands
GOV	Government of Vietnam
GOY	Government of Yemen
HRD	Human Resources Development
ICZM	Integrated Coastal Zone Management
IIIMP	Integrated Irrigation Improvement Management Project (Egypt)
IOB	Policy and Operations Evaluation Department
IWRM	Integrated Water Resources Management
JAR	Joint Annual Review
JMP	Joint Monitoring Prgramme
KfW	Kreditanstalt für Wiederaufbau
LCG	Local Consultative Group
MDGs	Millennium Development Goals
MoF	Ministry of Finance
MONRE	Ministry of Natural Resources and Environment
MOU	Memorandum of Understanding
MTEF	Medium Term Expenditure Framework
MYSP	Multi Year Strategic Plan
NGO	Non Governmental Organizations
O&M	Operation and Maintenance
PAP	Programme Aid Partners
PFM	Public Finance Management
PMU	Project Management Unit
PPP	Public Private Partnership
PRSC	Poverty Reduction Strategy Credit
PRSP	Poverty Reduction Strategy Paper
PSP	Private Sector Participation
RNE	Royal Netherlands Embassy
RWSS	Rural Water Supply and Sanitation
SBS	Sector Budget Support
SWAp	Sector Wide Approach
TA	Technical Assistance
UNICEF	United Nations Children's Fund

UWSS	Urban Water Supply and Sanitation
WB	World Bank
WHO	World Health Organization
WM	Water Management
WSS	Water Supply and Sanitation

INTRODUCTION

The Sector-Wide Approach (SWAp) in Dutch bilateral aid was introduced in 1999. In recent years it has been attempted to gradually transform bilateral cooperation in the "partner countries" in accordance with these principles. In 2004 the Netherlands cooperated with seven partner countries in their water sector: Bangladesh, Benin, Egypt, Indonesia, Yemen, Mozambique and Vietnam. Within the context of the evaluation field visits were paid to six out of the seven water partner countries.

At international level, the sector-wide approach is defined as " a process in which funding for the sector, whether internal or from donors, supports a single policy and expenditure programme, under government leadership, and adopting common approaches across the sector. It is generally accompanied by efforts to strengthen government procedures for disbursement and accountability. A sector wide approach should ideally involve broad stake holders consultation in the design and implementation of a coherent sector programme at micro, meso and macro levels, and strong coordination among donors and between donors and government. The Netherlands' interpretation of the sector-wide approach ties in with this international definition and involves a commitment to long term support for a particular sector"[1]

The specific motivation for the evaluation is the need to obtain greater insight into the potential for applying the SWAp and the Paris Declaration in the water sector.
The objectives of the evaluation are as follows: a) *Accountability*: to obtain insight into the results of the Dutch support to the water sectors and; b) *Policy development*: to contribute to policy development intended to promote the application of the sector-wide approach in the water sectors (see also Terms of Reference, annex 1).
The principle questions to be addressed by the evaluation are: a) What progress has been made to date in implementing the SWAp in the water sector, and what factors account for this and; b) What lesson can be learned from experiences to date and how can these be used in the implementation of the SWAp? These questions have been elaborated in the Framework for Analysis (see Terms of Reference, annex 1).

For the evaluation of progress the following definition will be used:

- Contributions to the strengthening of the water sector in terms of policy formulation and operationalization towards the meso and micro levels, improved public-private partnership and institutional strengthening.
- Intensification of coordination with other donors towards harmonization and alignment.
- Changes in aid modalities in terms of decrease of project aid and a shift to basket funding, pooled funding and sectoral budget support.

Three case study countries were selected: Benin, Mozambique and Yemen. Preparatory desk reviews for the evaluation of the Netherlands sector support to the water sector in these countries were drafted as an input for the field visits by the evaluation team. The 14 days field visits to these countries were conducted by two expatriate consultants together with one local consultant. Discussions were held with representatives of relevant government departments, multi-lateral and bilateral agencies as well as with representatives of NGOs in the water sector. Moreover, a brief field visit was paid to the various provinces for discussions and site visits on water supply projects and for discussions with the provincial government. A summary note with the main findings and focused on the preliminary conclusions has been presented to relevant parties for discussion in all three countries. The draft country reports have been sent for comments to all relevant parties. Comments made, have been incorporated in the final country reports, wherever relevant.

[1] Ministry of Foreign Affairs, Tweede Groeinota 2003, paragraph 2.2

To get a better insight into the macro-meso-micro relations (Central-Province-District-local), an additional field study was conducted in the Inhambane Province in Mozambique by the country consultant and the local consultant. The results of this additional study are attached as annex 5 to the country report Mozambique.
In addition to the three case studies, three day verification visits were undertaken to Egypt, Indonesia and Vietnam to get insight into: i) the specific country contexts; ii) the role and place of the multi-lateral organizations within the Netherlands support to the water programme and; iii) the water management issues as activities in the three case study countries were focused on drinking water. Summary notes for each of these three countries were produced based upon findings. No field visit was paid to Bangladesh.

This draft final report summarizes the water sector policy in Dutch development co-operation in chapter one and describes the situation, issues and contents of the Dutch aid programme in the seven water partner countries in chapter two. Moreover, chapter two provides insight into the different country contexts. Chapter three providers an overview of the Netherlands sector support in terms of funding modalities, funding through multi-lateral channels, the application of the Paris Declaration, technical assistance, inputs in governmental and Non-Governmental systems at various levels and the role of headquarters and embassies in policy implementation. In chapter four the Netherlands contribution to sector strengthening will be assessed with special reference to issues like ownership, policy making, institutional framework and the macro-micro relations. The chapter also contains a risk assessment regarding the Netherlands decision making how to contribute to the water sector development process. In chapter five, in line with the terms of reference, outcome has been defined in terms of improved service delivery in water supply, sustainability of the water supply delivery systems and poverty focus. The outcomes will be assessed for the ongoing activities with special reference to the three case study countries based upon data available. Moreover, perspectives regarding the implementation and anticipated results of newly started major programmes are also included in this chapter. Chapter six provides concluding remarks, while chapter seven provides lessons learnt based upon the analysis made

The evaluation team[2] wishes to express its sincere appreciation for the efficient and effective professional support of the key agencies concerned, the Netherlands Embassies, the key Ministries involved in the water sector and other organizations. The team is most grateful to all representatives of multi-lateral organizations, government organizations, bilateral donors, NGOs, grass root level organizations and research institutes at all levels. They provided much information and considerable inspiration to the team. The team has highly appreciated the preparatory work done by Jaap van der Kloet and Liesbeth Kuyate, both junior policy officers within the Policy Evaluation Department of the Ministry. However, it should be emphasized that only the team can be held responsible for the views expressed in this report.

[2] Bert van Woersem and Jetze Heun (overall coordination); Frank Jaspers, Hamady N'Djim, Pham Ngoc Linh, Cees Vulto, Piet Jan Zijlstra (country visits)

1. WATER SECTOR POLICY IN DUTCH DEVELOPMENT CO-OPERATION

1.1 Dutch water sector policy

The Netherlands has provided aid to the water sector since the early 1970s. This support was not laid down in any sector-specific policy document until 1989. The support was primarily made available in the form of isolated projects, appraised by means of general criteria applying to projects funded under Dutch development co-operation and implemented with technical assistance of Dutch experts.
In 1989 the Ministry of Foreign Affairs produced a sector memorandum on drinking water supply, sanitary facilities, drainage and waste disposal (Ministry of Foreign Affairs, 1989). The memorandum endorsed the integrated approach, in which the improvements in drinking water supply are linked to sanitation, drainage, solid-waste disposal and hygiene behaviour. Furthermore, it emphasised the need for user participation as an essential element for ensuring appropriate technological choices and a greater sense of responsibility among users. Finally, the memorandum underlined the importance of low cost technologies, the principle of local cost recovery and institution building as instruments to enhance sustainability. This policy was reiterated in 1990 in the general policy document A World of Difference (Ministry of Foreign Affairs, 1990).

In 1998 three policy papers were published which referred to the views and principles agreed upon at international conferences (such as Mar de la Plata, Dublin and Rio de Janeiro) and outlined the consequences for Dutch development co-operation policy. The papers dealt with (i) water for the future: integrated water resources management, (ii) drinking water supply and sanitation, and (iii) sustainable irrigated agriculture. (Ministry of Foreign Affairs, 1998a, 1998b, 1998c).
The document on *integrated water resources management* places the emphasis in aid policy on capacity building and support to different forms of water resources management. Capacity building would involve contributing to an appropriate national policy framework, enhancing institutional capacities for integrated water management (especially assistance to local communities to manage their water resources) and human resources development.
The document on *drinking water supply and sanitation* mentions as priority the improvement of existing facilities and a focus on institutional development, user participation, financial management and appropriate technology. The central principle is to design and implement facilities which are desired and can be (co)managed by the users themselves.
The document on *sustainable irrigated agriculture* underlines the major contribution of irrigated agriculture to global food security and the need for environmental conservation in the design of irrigation systems. Priority is given to small-scale irrigation systems and improving water management, starting at the farm level.
In the same year that these sector documents were issued, the then Minister for Development Co-operation announced drastic policy changes in bilateral aid, which included as a main element the introduction of the Sector-wide Approach (SWAp).

1.2 Objectives and characteristics of SWAp.

The ultimate aim of the sector-wide approach is to contribute to more effective poverty reduction. Applying the approach intended to achieve the following results in the recipient country: (i) strengthening of government institutions concerned with formulating and implementing policy; (ii) increased efficiency of aid by reducing transaction costs as a result of donor co-ordination and alignment of procedures with those of the recipient government; and (iii) increased ownership and control of the government of the recipient country.
Sector support was defined as: ‘a coherent set of activities at macro, meso and micro level in defined institutional and budgetary frameworks for which the recipient government has formulated policy’ (IOB, 2006).

The main characteristics of the sector-wide approach were listed in a recent IOB report[3] and may be summarised as follows:

- Aid granted to partner countries should concentrate on a limited number of sectors or sub-sectors: initially three, later reduced to one or two.
- Sector support should be demand driven and be consistent with the recipient country's own priorities and capabilities. The choice of sectors should ideally take place in the framework of a general development plan and a sector policy plan linked with or reflecting a poverty reduction strategy (PRSP).
- The participation of civil society organisations in the development process should be actively promoted within the new policy frameworks.
- The sector-wide approach allows a variety of different financing instruments to be used simultaneously with a preference for sector programme aid. Where possible, project aid should be phased out and be replaced by non-earmarked modalities, preferably general budget support. Project aid may be granted on a temporary basis to contribute to government capacity building, in anticipation of sector support, or in order to strengthen the policy dialogue or encourage innovation.
- More attention should be paid to supra-sector problems at macro level, particularly as regards management of public finance, and cross-sector themes that enjoy priority in Dutch development co-operation: good governance, women and development, institutional development and the environment.
- Applying the sector-wide approach assumes that various donors coordinate their policy (harmonisation) and operate according to rules and regulations of the recipient government (alignment). (IOB, 2006).

In the course of the implementation of the sector-wide approach, some changes have been made to the original idea. In 2003, DGIS presented a policy paper entitled Mutual Interests, Mutual Responsibilities, in which the Millennium Development Goals were mentioned as the preferred way for achieving sustainable poverty reduction. Environment and water were included amongst the priority themes. For the water sector the emphasis was on drinking water and sanitation, whereby most of the funds would be channelled through multilateral organisations. More specifically, the Minister announced to assist 12 African countries in providing access to clean drinking water and sanitation. Although the sector-wide approach as such was not mentioned, it was stated that sector policy within the poverty reduction strategy of the partner country remained the 'organising principle' for bilateral aid (Ministry of Foreign Affairs, 2003). Moreover, the issue of harmonization and alignment as well as the need for a modality mix were explicitly mentioned in the document as well. In 2005, the Minister announced in the Memo 50 million people that the Netherlands would fund activities to provide 50 million people with sustainable access to drinking water and sanitation services.

The most recent policy paper 'Een Zaak van Iedereen' reiterates the focus on the achievement of the Millennium Development Goals and the focus on the social sectors, including drinking water and sanitary services. The policy paper also includes the Paris Agenda, the need for a dialogue with the civil society, private sector and local government as well as an explicit attention for results. Dutch development assistance continues to be focused on a limited number of sectors relevant for the achievement of MDGs and with a certain preference of budget support as aid modality, either at national or at sub-national level (Ministry of Foreign Affairs,2007).

Also the experiences with the introduction of SWAp necessitated some adjustments. In an internal memorandum of the ministry of 2002 the sector approach was defined as an

[3] "From Project Aid towards Sector Support; An evaluation of the sector-wide approach in Dutch bilateral aid 1995-2005", Policy and Operations Evaluation Department, n. 301, November 2006, Ministry of Foreign Affairs, The Hague

evolutionary process that brings together relevant actors around the common denominator of poverty reduction. It focused on enhancing partner institutions' capabilities towards more effective management of funds. A distinction was made between SWAps with sector policy in preparation and SWAp with sector policy under implementation.
This reference to SWAp as a process reflected the views agreed upon in a workshop of embassy and headquarters staff in Geneva in 2002 and laid down in a brochure of the ministry.
'A sectoral approach needs to be seen as an evolutionary process, through which the partner institution's capabilities towards more effective and targeted management of funds and programmes are enhanced.' (Ministry of Foreign Affairs, August 2002).

Recent international debates acknowledge that moves towards SWAps are more driven by donors than by governments and had as a prime objective to raise aid effectiveness. As the ultimate aim is to make sector development processes effective for poverty reduction, however, SWAp should become a domestically owned and driven approach for effective sector development management. Such a perspective offers recipient governments a tool to coordinate sector support in whatever modality it is provided. This implies a shift from an aid delivery to a sector development perspective (Boesen and Dietvorst, May 2007).

1.3. Specific conditions for SWAp in the water sector.

Various reports refer to experiences with the introduction of the sector-wide approach in the water sector. These include the institutional complexity of the water sector, the lack of political will in the recipient country, the weakness of institutions involved in policy implementation, the role of private and public parties in service delivery, and -on the donor side- the fragmentation of aid across a large number of themes and sub-sectors and the reluctance of donors to adopt a sector approach in the water sector (Foster in ODI Working Paper 140, 2000; Brown and others, ODI Working Paper 142, 2001; IOB 2000; Ministry of Foreign Affairs, March 2002).

In the late '90s, one could say that for the water sector, the SWAP came as an eye-opener at a time when it was very much exploring reforms.

In addition, many institutions are characterised by inefficiencies and capacity deficiencies, even within their own mandates including technical skills but also in strategic planning, design of interventions, operation and maintenance of facilities, monitoring and evaluation of performance, aspects of cost recovery and where they were introduced, approaches to participatory development (IOB, 2000, pp. 73-74).

Institutions and resource management
The water sector is special as compared to other sectors. There are hardly standard conditions and solutions. Management of water resources and delivery of water services constitute a complex system of interdependencies and feedback mechanisms. A recurrent theme in policy forums is the concept of "global knowledge, local solutions".
Institutionally, the water sector can hardly be considered as one sector. Maybe the best proof of this is that, while the Dutch have water programmes in 37 countries, the water sector was only identified as an aid receiving sector in the so-called 7 water partner countries[4]. The water sector is typically served by several ministries (Water Resources, Agriculture, Housing, Environment, Electricity, Transportation), municipalities and water users organisations, all with their own interests, policies and budget lines, while their management interventions often are dependent upon each other and influence each other. Water management and services have multiple stakeholders with sometimes conflicting and always interdependent

[4] Mozambique, Benin, Egypt, Yemen, Bangladesh, Vietnam, Indonesia

interests and risks[5]. Governments, water users and private sector all play a role at different levels. Water sector programmes, which address the macro- meso- and micro level show complicated, interwoven sources of funding and budget lines.
Resource management differs from place to place, from year to year and from season to season. The same region may suffer from floods and droughts. There are strong linkages between upstream and downstream uses, between water quantity and water quality, between surface water and groundwater uses, between water use and land use. Economic aspects of resource use are often in conflict with concepts of equity. Increasing scarcity and variability (climate change) of resources has increased vulnerabilities manifold, from which the less-privileged sections of society tend to suffer most.
Service delivery depends upon varying levels of water availability in quantity and quality, with complicated, maintenance sensitive delivery systems. There are relationships between capacity to pay and level of services received, between capacity to manage and services delivered. There are standardized solutions, but no standard situations.

Conditions at the introduction of SWAP
In the late '90s, it became generally recognised that major reforms were needed in the water sector as the sector was poorly performing and insufficiently responding to the challenges of rapid population growth and economic development, leading to scarcity, conflicts and environmental degradation. And although the political will at sector level was there, the multitude of organisations involved were slow to pick up the reform in an operational sense. Of course, many of the reforms considered were far reaching and had a political dimension, not confined to the water sector in isolation: decentralisation, financing mechanisms, private sector involvement in what is considered a public service for a public good. Planning alone typically takes several years, capacity building is a continuing process. Generally it can be said that in most countries the water sector has started to put its act together in around the year 2005, but the backlog is often huge in a varying economic and political landscape, let alone climate change.

It may be concluded that in the early 2000s the water sector was not yet ready for far reaching SWAp approaches, but that by 2005 it is much better positioned. The evaluation testifies this.

1.4 Water and poverty – changing views[6]

The inclusion of water in the Millennium Development Goals (MDGs) show the importance attached internationally to water in the international fight against poverty. Although these MDGs are central in international development thinking, they do not provide a clear insight in what to do and what not to do. This lack of operationalisation is, moreover, also obvious in international IWRM thinking as well as in a recent addition to the debate: the poverty-water nexus. Despite perhaps the lack of scientific backing, nobody disputes the relationship between water and poverty. At the same time, there is wide disagreement about the extent to which this nexus is an automatic one and thus whether it is necessary to undertake specific measures to ensure that water-related activities (in water management and water delivery) are indeed pro-poor.

The Dutch ministry picked up the discussion on poverty and water after the installation of the Water Unit. Whereas in earlier policy papers the link with poverty was mentioned but not further worked out nor placed central, the 2002-brochure more clearly departs from a poverty perspective. Although also this brochure does not provide a clear operationalisation of the

[5] For example: large farmers and smallholders, urban and rural, irrigation and environment, head and tail-end of canal systems

[6] Do all Boats Rise with the Tide", external evaluation of the Netherlands Water Unit Programme 2000-2003, Ministry of Foreign Affairs, December 2003

water policy, it explicitly mentions that efforts at policy, legal and governance level should be geared at securing the rights and access of the poor to water resources and services. At the policy level, the brochure also makes reference to some central poverty issues: securing rights of poor people and actions geared at building local institutions that empower poor people, while the empowerment of women and mainstreaming gender is seen as a key issue in improving pro-poor water governance at community level and above. This reference to the OECD DAC areas of policy development that must be included in any pro-poor policy process implies a firm commitment to enhancing gender equality in all aspects of water management and indirectly in the context of community empowerment, rights and pro-poor governance.

Mostly, however, the poverty-water discussion has been held within the ministry itself. In the internal note *Water and Poverty*[7], water security is explicitly linked to access of the poor to water in all its forms. The paper arrives at several 'dos and don'ts' 'when it comes to developing water programmes that take into account the intimate link between water and poverty', covering such issues as the need for a stakeholder and livelihood analysis, the need to ensure rights and entitlements to water resources for the poor, and the need for an institutional component following the recognition that the 'poor face major barriers to accessing institutions of all sorts'. The latter is further emphasised by stating that solving problems at grassroots level is only possible within a supportive environment. This need for an institutional development focus is in line with earlier water papers where management and governance issues were placed central. At the same time, this also reflects the main findings of the IOB study on institutional development[8].

The internal document on water and poverty poses the question why poor people do not have access to water (in all its forms) and (again) emphasises the central role for good institutions and good governance when looking at the poverty-water nexus. More explicitly then before, the Water Unit here tries to depart from a poverty perspective and not from a water perspective. According to the DGIS policy for poverty alleviation this means in practice that IWRM interventions are based on a gender-inclusive analysis at micro level determining the causes for inadequate access to water resources and (economic) benefits arising from water, whereas the actual interventions will most probably start at the macro level in order to address obstacles in the institutional setting as well as influencing organizations implementing water policies to adopt pro-poor, gender inclusive principles.

Although water is essential for people, the paper acknowledges that not all water activities are by definition of equal importance in the fight against poverty and once again emphasises the need for a thorough poverty analysis. Although this paper shows that thinking within the ministry on the relation between poverty and water has certainly changed, an operationalisation is (still) lacking. This is not an exclusive Dutch problem but in fact a world wide one.

7 DGIS (no date), Water and Poverty, The Hague, DGIS/Water Unit (not published)

8 IOB (2000), Institutional Development – Netherlands support to the water sector 1988-1998, Policy and Operations Evaluation Department, IOB, The Hague.

1.5 Total aid to the water sector; channels of funding and expenditures[9]

In financial terms, Dutch aid to the water sector declined substantially in the early years of 2000. This trend was partly reversed with the special budget addition linked to the Second World Water Forum in 2000. During the Forum the Netherlands pledged an additional 45 million Euro per year for support to improved water management. A further increase of the budget was made in 2005, when the minister announced a special commitment for the realization of the Millennium Development Goals for drinking water and sanitation to the tune of Euro 150 million per annum for the period 2005-2015. The following paragraphs will focus on the period 2004-2006 in line with the terms of reference and taking into consideration the existing data base.

1.5.1 Total Dutch aid and the water sector 2004-2006

The total Dutch aid for the different sectors in the years 2004-2006 is shown in Table 1.1 for all countries and in Table 1.2 for the 7 water partner countries[10] for all channels of aid. It shows that water constitutes about 8.7 % of total development assistance and 15% of development assistance to the 7 water partner countries. Table 1.3 shows the percentage of aid to the water sector for each of the 7 countries.

Table 1.1 – Dutch development assistance 2004-2006 per sector

	2004	2005	2006	2004-2006	2004-2006
Sector	**(€Million)**	**(€Million)**	**(€Million)**	**(€Million)**	**(%)**
Education	252	319	459	1,030	18.3
HIV/Aids, TB, Malaria	275	277	330	882	15.6
Reproductive Health	124	111	112	347	6.2
Environment	195	215	215	625	11.1
Water	117	190	185	492	8.7
Good governance	344	342	294	980	17.4
Private sector Development	414	441	428	1,283	22.8
Total	1,721	1,895	2,023	5,639	100

Source: FEZ, Resultaten Rapportage

Table 1.2 – Share of water in aid to the 7 water partner countries, 2004-2006

	2004	2005	2006	2004-2006	2004-2006
Sector	**(€ million)**	**(€ million)**	**(€ million)**	**(€ million)**	**(%)**
Water	27	39	49	115	15
Other sectors	141	273	243	657	85
Total	168	312	292	772	100

Source: Piramide Database

Table 1.3 – Share of water in aid to each of the 7 water partner countries, 2004-2006

	Bangladesh	Benin	Egypt	Indonesia	Mozambique	Vietnam	Yemen
Share to water (%)	23	38	61	5	11	17	20

Source: Piramide Database

[9] Years 2004-2006: Database Piramide; Years 1996-2003: Database Midas

Piramide is new database since 2004, with different definitions of type of subject (water resources policy, river, flooding, agriculture, etc.) hence sometimes difficult to compare between the two periods, but Piramide provides more information on type of spending such as channel (delegated, central, multi-lateral and type (project, programme, etc.).

Some definitions used in subsequent chapters:

- delegated bilateral: aid which is administered by the Netherlands embassy
- delegated multilateral: aid which is administered by the Netherlands embassy, but put in (earmarked) trust funds at the multilateral donors often as co-funding for loans, and at their decision-making
- central bilateral: aid which is administered by the DG International Cooperation
- multilateral: aid which is disbursed and administered by the multi-lateral donors.

[10] Mozambique, Benin, Egypt, Yemen, Bangladesh, Vietnam and Indonesia

1.5.2 Total aid to the water sector and channels of funding

In the years 2004-2006, the total aid to the water sector involved 311 activities in 37 countries, with a total expenditure of €321.4 million, as shown in Figure 1.1. Delegated bilateral aid involved 200 activities in 31 countries for a total of €201.1 million.

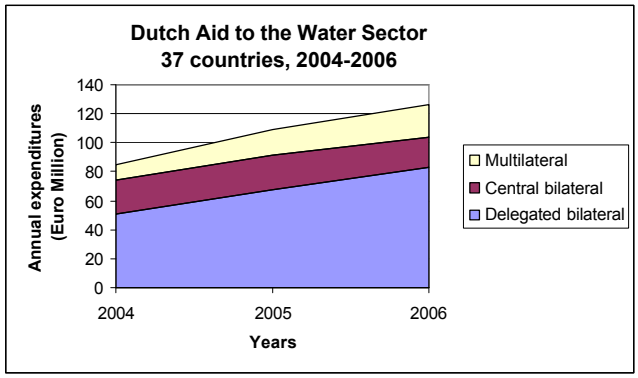


Figure 1.1 – Dutch Aid to the Water Sector

The disbursement through the delegated bilateral increased from €51 million in 2004 to €83 million in 2006. The disbursement through the multilateral channel increased from €11 million to €22.5 million, while the central bilateral aid remained constant at about €23 million.

For the 7 specific water partner countries the aid in 2004-2006 was distributed mainly through two channels: delegated bilateral and central bilateral as specified in the database. However, in a number of countries (e.g. Indonesia, Vietnam, Bangladesh) GON very much uses the multi-lateral donors to disburse the aid, although it is registered as delegated bilateral. Reclassifying the channels of aid accordingly, gives a distribution as depicted in Figure 1.2[11].

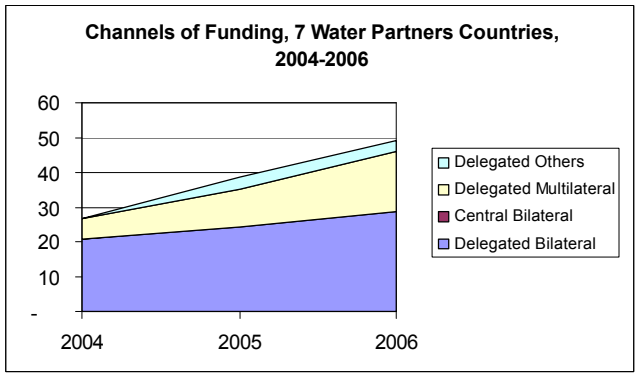


Figure 1.2 – Channels of Funding

The figures show that the volume of aid is increasing considerably since 2004, but it should be recognized that expenditures in the years 2002-2003 were very low indeed. In the 7 partner countries, the aid has almost doubled since 2004. It also shows that the channel of delegated multilateral aid has increased more than the other channels. The figures also show that in the 7 water partner countries, the share of central bilateral aid is low as compared to the other countries. The channels of funding for each of the 7 partner countries shows that delegated multi-lateral channel is especially prominent in the Asian countries and virtually non-existent in Africa.

1.5.3 Expenditures per sub-sector

Data on expenditures per sub-sector are available since 1996. Care should be taken to compare figures of before and after 2004, but the trend as depicted in Figure 1.3 is considered reliable.

Figure 1.3 shows that after a slight dip in 2002/2003, the aid to the water sector has substantially increased to about €50 million per year. The dip occurred in almost all countries except Mozambique and is probably caused by a general shortage of funds for Dutch development cooperation. Especially Bangladesh and Yemen experienced severe budget cuts. The increase can be attributed to i) the new water programme in Indonesia, slowly increasing to €12 million per year, ii) the new water programme in Benin since 2004 with €5

[11] Please note that the vertical scale of Figures 1.1 and 1.2 differ.

million per year and iii) the establishment of the “50 million people programme”, which in some countries is distributed through the delegated bilateral channel (e.g. Bangladesh).

Activities cannot always easily be attributed to one sub-sector as programmes are often multi-purpose, while agriculture and river projects are often complementary. Projects classified as water management and policy making often deal with all sub-sectors.

The increase in spending since 2003 is mainly allocated to the sub-sectors water supply and sanitation and to river development. However, Figure 1.3 does not show the developments of 2007 and 2008. Preliminary estimates show that in those years the share of water supply and sanitation is increasing rapidly.

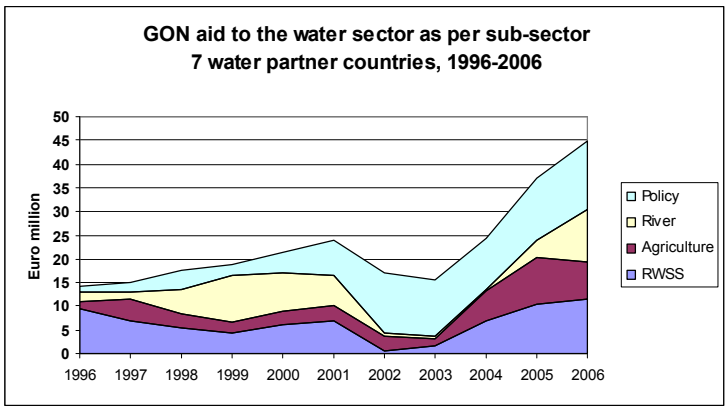


Figure 1.3 – GON aid per sub-sector

It cannot be said that there is a clear change in choosing sub-sectors since the introduction of the SWAp policy. There is a trend that more funding is being spend on water policy setting activities. The increasing attention to WSS after 2003 is clearly caused by the attention to MDGs, but possibly also because opportunities for SWAp are more pronounced in this sub-sector.

1.5.4 Modality of funding

The modality of funding is only recorded since 2004. The database distinguishes Project Support and Sectoral Support. Almost all of the funding is classified as project support, as is shown in Table 1.4 for 37 countries and in Table 1.5 and Figure 1.4 for the 7 water partner countries.

Table 1.4 – Modality of funding, 37 countries, 2004-2006

	Delegated bilateral	Central bilateral	Multilateral
	(€ million) and (%)	(€ million) and (%)	(€ million) and (%)
Project support	173.5 (86%)	68.1 (100%)	52.2 (100%)
Sectoral support	27.6 (14%)	0.0	0.0
Total	201.1	68.1	52.2

Source: Database Piramide

Table 1.5 – Modality of funding, 7 countries, 2004-2006

	Delegated bilateral
	(€ million) and (%)
Project support	92.9 (80%)
Sectoral support	22.8 (20%)
Total	115.7

Source: Database Piramide

However, in chapter 3 it will be argued that many of the projects, which are classified as “project” in the database, actually score much higher on the scale of progress with SWAp than the classification “project” does indicate. Reclassifying the activities in “low, medium and high” regarding progress with SWAp, would give a distribution of modalities as also indicated in Figure 1.4: “low” indicates a typical single donor project approach”, while “high” signifies a high level of pooling funds and sub-sector budget support.

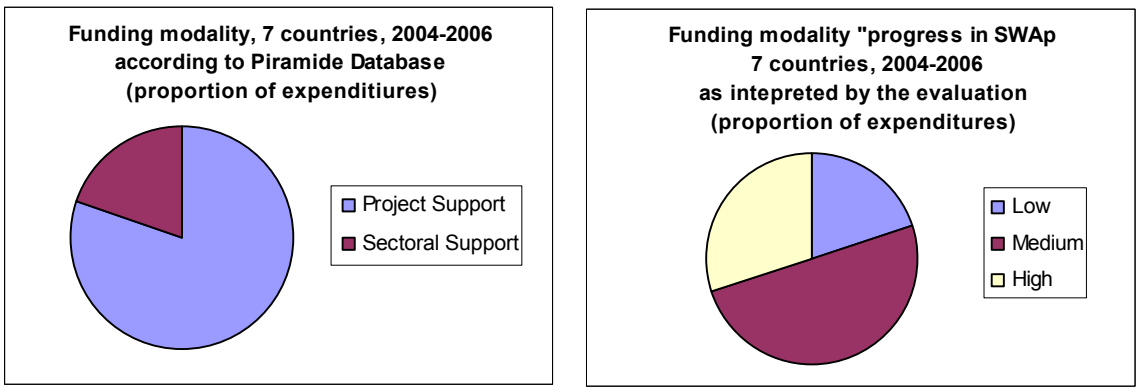


Figure 1.4 – Funding modality according to DGIS database and IOB evaluation

1.5.5 Type of activity

There is insufficient, easily accessible information available on the type of activity, for example technical assistance, investments, capacity building, etc. Consequently, it is also not clear what the trends are since the introduction of SWAp. For the water programme in Yemen, an effort was made to classify the activities, as is shown in Figure 1.6 below. The assessment is based on rather rough and arbitrary estimates, but it confirms the general expert opinion that the current programme has a much larger share of direct investments than before. In Yemen this is linked to the introduction of SWAp and the particular wish to contribute to the achievement of the MDG targets.

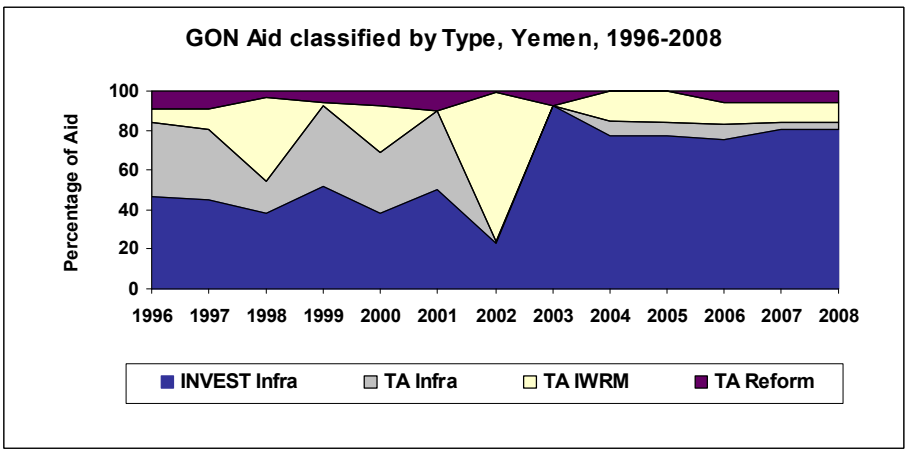


Figure 1.5 – Trend of GON Aid expenditures per purpose

1.6 Organization and management

In the mid-1980s a technical support unit was set-up to advise regional and country units on project implementation. Experts for the water sector became members of this unit shortly after the start of the international water decade in 1980. Their work included assessing and co-signing of project proposals. Organization and management of development aid to the water sector was revised by the 1995 review of foreign policy. The thematic specialists at headquarters in The Hague were clustered in three departments: for irrigation and drainage in the Department of Rural and Urban Development, for drinking water and sanitation in the Department of Social and Institutional Development and for integrated water management in the Department of Environment and Development. In 1998 these specialists set up an

informal task force ("Water Unit") to facilitate policy development and implementation of integrated water management.

The delegation of management responsibility from headquarters to embassies was increased substantially in 1996. Embassies became responsible for project appraisal, approval, supervision, financial management and evaluation in the framework of their annual plans. In annual reports they provide information about the achievement of objectives and use of resources. Annual plans and reports were subject to assessment and approval by headquarters. As part of this assessment, thematic specialists for the water sector comment on the relevant sections of plans and reports. This implies that since this reorganisation experts at headquarters and sector specialists at embassies have no direct formal relationship.

The Water Unit was transferred to the Environment and Development Department in 2003, which then became the Environment and Water Department. In 2005 the department was reorganized and the Water Unit was integrated into three new divisions; the first advised embassies on the integration of water and environment in national policies and programmes of recipient countries, the second focused on water supply and sanitation and the third dealt with ecosystems and water resources management. While maintaining this formal structure, new clusters have been established as from October 2007. One of these is a water cluster, dealing with all aspects of support to the water sector irrespective of sub-sectors, types of activity and funding channel.

The Effectiveness and Quality Department (DEK) provides special support to the implementation of the SWAp through the training of DGIS staff with a special module on SWAps as well as a modular training on PFM and coaching on the job of RNE staff on these issues. DEK is also the focal point with regards to the instrument of Sector Ratings aimed to undertake a systematic assessment of strengths and weaknesses in a given sector. This instrument was introduced in 2002 but hardly utilized as these ratings were not regularly completed by the RNEs.

The reorganization of 2005 reinforced the links between headquarters and embassies. Specialists of the department of national policy participate in the country teams visiting the embassies at regular intervals to discuss the aid programme in the pertinent countries and water sector specialists at embassies come to headquarters annually for a 'water-week' workshop. Since mid-2007 embassies produce new sector track records for priority sectors. These provide a detailed review of the sector and the results of Dutch aid in the framework of overall donor support. The sector track record replaces the sector ratings, which were considered inadequate for monitoring purposes. The sector track records will be written once in every four years, with a yearly light updating, and are considered a crucial input in the embassies' Multi-Year Strategic Plans. (MYSP).

A further aspect of organization and management of the water sector is the use made of advisory services from outside the ministry, primarily for technical aspects. Some of these advisers are employed by universities, others by specialized research institutes, and others again have strong links with consultancy firms. After the delegation of responsibilities to the embassies, the increased workload prompted embassy staff to set up or expand their networks of advisors, both local and from the Netherlands (IOB, 2000). From 2004 onwards, advisory services to the directorate's water specialists at headquarters have been structured through a contract with a pool of experts under a single consultancy umbrella.

The staffing situation in the water sector at headquarters as well as at RNE level did not improve over the last few years although the Netherlands budget for the water sector increased while the issues to be tackled became more complex (e.g. introduction of the

SWAp within a specific country context, the Paris Declaration, the relation between the delegated bilateral and the centrally managed programmes).

1.7 Analysis and conclusions

Analysis
In retrospect the following periods may be distinguished in Dutch aid policies for the water sector:

- 1970-1989: no sector specific policy but aid to the sector based on general objectives of Dutch development co-operation; activities focused on the construction of infrastructure for irrigation and drinking water supply.
- 1989-1998: specification of sector policy, initially for sub-sector drinking water supply and sanitation, later for the entire sector with emphasis on integrated water resources management, institutional development and user participation.
- 1999-present: sector-wide approach in bilateral aid, combined with multilateral aid for achieving MDGs.

After the introduction of the SWAp, aid policy for the entire sector was not worked out in further detail. Such a specification would have to take into account the specific characteristics of the sector and the almost simultaneously presented policy for Dutch development co-operation in the sector. This latter policy was strongly based on the principles agreed on at international conferences on water and environment issues.
For drinking water and sanitation, it was attempted to identify the specific problems of a sector approach in the sub-sector (Ministry of Foreign Affairs, March 2002). This sub-sector paper emphasized the different nature of SWAp in the water sector, due to the multiplicity of stakeholders and the absence of a single institutional home. It mentioned the need for internal sector objectives for Dutch aid and for a country specific aid programme. And it singled out the importance of capacity development at all levels. SWAp allowed to focus on sub-sector level and, therefore, created the opportunity to circumvent to some extent the institutional complexity, characteristic for the water sector. And both SWAp and sector policy agreed on the importance of institutional development and the design of an appropriate national policy framework.

For two other important characteristics of the sector, SWAp and sector policy were hard to reconcile: (i) the adjustment of a sector approach to the multi-sector requirements for integrated water resources management, and (ii) the focus on central government in SWAp with the importance of community management of water resources and water use. Moreover, for the sub-sector irrigation and drainage and to some extent for drinking water supply in towns the role of government vis-à-vis the private sector had to be worked out in detail. In practice, the sector approach in Dutch aid was strongly oriented towards central government agencies, in spite of the emphasis on the macro-micro relationship, whereas water sector documents emphasized decentralization, the role of local communities and user participation in management and maintenance of systems.

The international debate in the framework of the Joint Learning Programme on Sector Programmes reflects the need for a shift from SWAp as an aid delivery instrument to a sector development programme. Moreover, it observes a need for a series of changes including mainstreaming capacity development in the overall sector programme on the basis of a joint donor-recipient dialogue linking SWAp to decentralization and de-linking it from aid modalities and general budget support. The main policy papers on Dutch development assistance do not reflect the main issues in this debate. However, internal notes do reflect the main issues in this debate.

Finally, the sector documents of the 1990s, paid equal attention to agricultural irrigation and drinking water supply in the wider framework of integrated water resources management. In line with these documents, the Geneva workshop stressed that sector support for drinking water supply and sanitation should be developed within a framework of wider water sector planning. The 2003 policy paper Mutual Interests, Mutual Responsibilities, however, reflects a shift towards drinking water supply as a means to contribute to the achievement of the Millennium Development Goals and channelled funding through multilateral organizations. However, issues like harmonization, alignment and the need for a modality mix are also mentioned. The most recent policy paper "Een Zaak voor Iedereen" (2007) emphasizes again the Paris Agenda, but also the need for a dialogue with parties beyond the national government as well as a focus on results.

Conclusions

- The introduction of the sector approach and the priority for MDGs proved hard to be reconciled with integrated water resources management. As a consequence there is a tendency that the emphasis in aid policy for the water sector has shifted to drinking water and sanitation.
- After the introduction of the SWAp, aid policy for the entire sector was not worked out in further detail. Such a specification would have to take into account the specific characteristics of the sector and the almost simultaneously presented policy for Dutch development co-operation in the sector.
- GON played an important role in the international debate in the framework of the Joint Learning Programme. However, the main policy papers do not reflect the main issues of this debate.
- The thinking within the ministry regarding the relation between poverty and water has certainly changed. However, the translation in operational terms is still lacking.
- The organization and management within the ministry changed substantially over the last ten years. The delegation of management responsibilities to the embassies reduced the linkages between the expertise at headquarters and the sector specialists at the embassies. Moreover, the Water Unit was dissolved in 2005. The recent reinforcement of the linkages and the establishment of a water cluster is an effort to improve the situation. There are no signs that the overall staffing situation in the water sector did improve although the budget and complexity of the water portfolio increased.

2. BILATERAL SECTOR SUPPORT IN THE SEVEN PARTNER COUNTRIES

This chapter describes the situation in the seven water partner countries. It gives an overview of the content of the Dutch aid programmes in relation to the issues in water management and service delivery and their position in relation to government and donor policies. The modality choice and changes are briefly summarized per partner country. The final paragraph provides further insight into the different country contexts. The three case study countries Benin, Mozambique and Yemen are covered in more detail in this report as compared to the other four water partner countries: Bangladesh, Egypt, Indonesia and Vietnam[12].

2.1 Case Study Benin

2.1.1 Country characteristics

The total population was 8.7 million in 2006 with an annual population growth of 3% during the last few years, down from 3.4% in the 90s. The total land area is 112,000 sq.km. The GDP per capita is USD 540. Benin ranks 163rd out of 177 on the 2007 Human Development Index. Benin's macroeconomic performance has been mostly on track over the past years, but economic activity has been adversely affected by major external shocks since 2003 with a poor performance of the cotton sector under declining international prices and an intensification of the trade restrictions in Nigeria. The economic growth is slightly recovering since 2006. Despite satisfactory economic performance and improvement in some social indicators, available data suggest that progress in achieving the MDGs is mixed. Progress in achieving the non-income poverty goals is short of targets. The incidence of monetary poverty has slightly decreased from 28.5 percent in 2002 to 27 percent in 2005. The incidence of non-monetary poverty has decreased from 48.9 percent to 39.6 percent of the same period.

2.1.2 Water sector issues

Water resources in Benin are abundant, although there are some regional differences: the coastal regions have ample water while the Plateau regions are less endowed with water Agriculture is mainly rain-fed. In the long term, Benin may face water quality problems certainly in densely populated regions, while groundwater contamination with nitrate already occurs in regions with substantial cotton production. The main issue to be addressed is the delivery of services for water supply and sanitation. The supply is mainly from pump-operated groundwater wells, both shallow wells and deep wells. Groundwater recharge is mostly sufficient. Main issues are i) the implementation capacity at municipal level, ii) the sustainability of service delivery and iii) unsure institutional framework for peri-urban and small town water supply. Benin does not yet have an approved national policy or sector framework for the water sector. A Water Charter is under parliamentary approval while a water policy is expected to be approved in 2008. An IWRM action plan is under preparation.

The recently renewed national strategy on RWSS (Stratégie national de l'approvisionnement en eau potable en milieu rural du Bénin, 2005-2015), provides a unified framework for interventions, based on the following guiding principles: i) decentralization of decision making towards local level based upon demands from users; ii) user participation in funding, management and the operation & maintenance of the facilities; iii) research to reduce investment costs; iv) privatization of construction, management and local level institution building; v) strengthening of the technical and administrative de-concentration process and; vi) the changing role of the national level agencies. For UWSS, a new strategy for the years

[12] Details and analysis are given in the three case study reports on Benin, Mozambique and Yemen as well as in the internal notes for the four other water partner countries

2006-2015 is under approval; it focuses on i) improving coverage, ii) financial sustainability of the systems and iii) access to water for the poor

Challenges

- Due to weaknesses in the local government structure and a lack of financial means, local government still is not in a position to take over responsibilities for planning and implementation. The lack of technical staff to plan, appraise designs and supervise construction of facilities does not qualify them as yet to become fully responsible for the establishment of facilities.
- One of the major challenges for the urban sub-sector relates to billing and financing.
- The sanitation sector encounters a large number of problems. One of the major problems is that the responsibilities for hygiene and sanitation are spread amongst various institutions with none of the institutions playing the role of lead party. The role of donor agencies in the sanitation sector remains limited.

2.1.3 Netherlands support and approach

Dutch aid to the water sector

The Netherlands has a rather small aid programme with Benin, which showed a sharply declining trend during 1999-2002 and a subsequent increase for the years 2003-2006. The support to the water sector is of very recent origin; it started in 2004 with pilot activities in rural and urban drinking water supply. These were also meant for gaining experience and therefore implemented in close co-operation with more experienced donors (e.g. DANIDA and GTZ/KfW). Specific policy reasons for starting support to the water sector as summarized in the MYSP 2005-2008 were i) the Netherlands value added in the water sector through knowledge and experience of the Netherlands private sector and NGOs; ii) the Netherlands priorities as formulated in the AEV policy document and the Benin Government priorities as formulated in the PRSP and; iii) the existing institutional knowledge in the field of de-concentration and decentralization (relevant for the water sector) at the Netherlands Embassy in Cotonou.

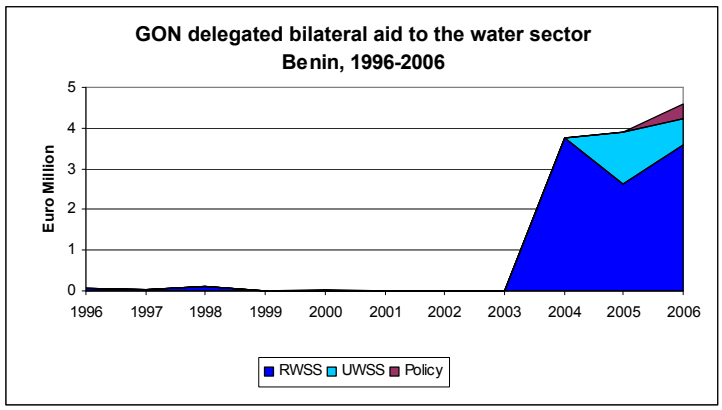


Figure 2.1- GON delegated bilateral aid Benin

Table 2.1 – Major recent and current GON aid programmes in Benin

Name	Sub-sector	Modality	Characteristics
Rural Drinking Water Supply I, II and III; 2004-2008	Rural WS	Project	In addition to investments, the projects paid especially attention to policy development
Urban and small towns drinking water	Urban and small towns	Project	First phase large project and co-funding existing KfW bilateral project
Comprehensive Medium Term Water Sector Support Programme; 2006-2012	All	Programme with pooled funding	Investments, with special attention to improved policy implementation and organisations operation

Sector support strategy
After two years, in 2006 the Netherlands Embassy decided to start a Comprehensive Medium Term Water Sector Support Programme covering rural and urban water supply and sanitation, and integrated water resources management. This was in line with the ideas expressed in the MYSP. The arguments for that early expansion were to contribute significantly to an improvement of access to water supply and sanitation and to IWRM through modalities that strengthen the sector wide approach, the budget support and the de-concentration and decentralization process. The decision of the Netherlands Embassy in Cotonou was based upon the recommendations made and the encouraging results of the pilot projects as described in the 2006 external evaluation report (Aide Sectorielle Neerlandaise au Programme d'Approvisionnement en eau potable en milieu rural 2004-2006, June 2006).

The Netherlands programme is complementary to programmes of other donors. The GON contribution to the achievements of the water MDGs is substantial. However, the contribution to the sanitation sub-sector remains limited. The Netherlands water programme in Benin consists for 100% of delegated bilateral funding. There are no centrally managed or supported water sector activities in Benin. It can be concluded that the GON policy in the water sector in Benin is consistent and clear. The Netherlands programme is innovative in two ways: i) in its efforts to relate to the decentralisation process from the very beginning and consequently focus on the municipal level, and ii) by channelling the funds through the Benin financial systems. Weaknesses in the field of PFM can possibly have major consequences for the implementation of the recently started Comprehensive Medium Term Water Sector Support Programme. GON takes a calculated risk anticipating and, at the same time contributing to an improvement of the PFM system, at national and line agency level.

2.2 Case study Mozambique

2.2.1 Country characteristic

Mozambique's population of 19 million grows annually at about 2.4 percent. It is one of the poorest countries in the world with a GDP of USD 210 per capita. Mozambique ranks 172nd out of 177 countries on the 2007 Human Development Index. In the past two decades the GOM has been implementing a comprehensive agenda of economic and public sector reforms. Economic growth has averaged 8.7% between 1996 and 2004 and absolute poverty decreased. Substantial improvements have been achieved in the health and education sectors. Tax base is very small; the internal revenue only provides about half of government resources, the rest coming from the donors. Mozambique is one of the most aid dependent economies in the world; the aid/GDP ratio is around 15%, almost twice as much as that of the rest of Sub-Saharan Africa.

2.2.2 Water sector issues

The relevance of water for the Mozambican economy and people's well-being is illustrated by the following factors:

- The recurrent natural disasters of floods and droughts make the country vulnerable and require flood control measures and flood preparedness programmes
- Food security is to a large extent depending on irrigated agriculture, especially in the south of the country where crop failure exceeds 50%
- The coverage of drinking water supply is still low with 42% in 2004 and requires major efforts to provide this basic service to the country's population
- Flood and drought mitigation as well as the provision of safe drinking water have a direct impact on the poverty situation of the country's population.

The main source of water is surface water with more than 104 identified river basins. There is a fairly distinct wet season and dry season. Extremes in the flow regime resulting in water shortages and floods are returning events every 10 years. The devastating floods of 2000 in the country's main rivers were the most severe ever recorded. The majority of the surface water sources is shared with neighbouring countries, requiring agreements with these countries for the use and control of the water sources. The potential for groundwater is considerable and lies in the alluvial formations of the various rivers. Groundwater is utilised on a large scale in a number of urban centres for drinking water supply. Hand pump-mounted boreholes and shallow wells are used throughout the country as the main source of drinking water in rural areas.

The National Water Resources Management Policy and Strategy of 2004 still awaits approval. The UWSS strategy is being implemented, but the RWSS and IWRM strategy are still pending. The country also avails of an MTEF. Water is not clearly reflected in the PRSP. Integrated resource management, urban and rural water supply and sanitation fall under the responsibility of the Ministry of Public Works & Housing (MOPH). Most of the institutions in the water sector suffer from insufficient capacity in terms of management capabilities, competencies in planning and policy formulation, technical and academic skills and in terms of the means required for proper functioning of the institutions. There have been many, though scattered, capacity building initiatives. The progress in implementation of the decentralisation process (decentralisation of funds, institutional strengthening at decentralised levels) is very slow.

Challenges
The major challenges for the water sector are to provide safe drinking water in a sustainable manner to the population to achieve the water related MDGs; to improve on water resources management to make the country less vulnerable to disasters of floods and droughts; to provide a proper institutional framework for all sub-sectors including a transparent and clear decentralization policy for the water sector; to build capacity at all levels with special reference to the provincial and district level and to contribute to poverty reduction in a systematic and structured manner.

2.2.3 Netherlands support and approach

Dutch aid to the water sector
Dutch aid to the water sector in Mozambique covers a period of almost 30 years. The nature of the support differed considerably during this period. In the first decade Dutch aid focused on the improvement of drainage and sanitation infrastructure, in the 1990s the emphasis in Dutch aid to the sector shifted from construction of infrastructure to technical assistance for water management, the improvement of urban and rural drinking water supply and low cost sanitation. Subsequently, in 2000 attention shifted to the sector-wide approach, which was formally introduced to the water sector in 2002.

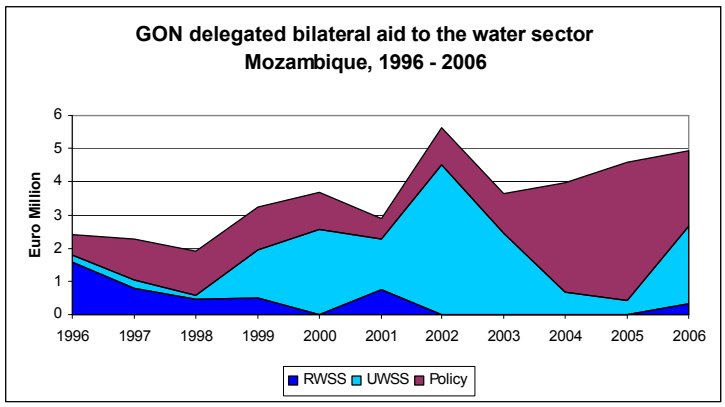


Figure 2.2- GON delegated bilateral aid Mozambique

The Netherlands annual delegated bilateral funding for the water sector amounts to Euro 4 to 5 million (2003-2006). From 2006 onwards, next to the ASAS sector wide programme through sector budget support, two other type of activities were financed; the UNICEF-

Netherlands partnership on water, sanitation and hygiene and the CARE rural drinking water programme. The ORET programme on urban water supply is substantial in Mozambique.

Table 2.2 – Major recent and current GON aid programmes in Mozambique

Name	Sub-sector	Modality	Characteristics
Sector Support Water Sector I, II and III (ASAS); 2002-2008	Rural WSS and IWRM	Sector budget support	Policy support and institutional development
Five Western Towns Water Supply; 2006-2010	Urban WS	Project	UWS in five middle sized towns.
UNICEF-Netherlands Partnership; Water, Sanitation and Hygiene; 2006-2011	Rural WSS	Trust Fund with UNICEF; hardly aligned	Rural drinking water and sanitation in various provinces
CARE rural drinking water and sanitation	Rural WSS	Bilateral project through international NGO, hardly aligned	Rural drinking water and sanitation in various provinces

The sector has two major donors, African Development Bank and World Bank, which together fund 75% of the sector investments. The Netherlands is the third largest donor. Other bilateral donors are very small as compared to the Netherlands. Harmonization at policy level within the water sector is limited, while harmonization at management and implementation level does not take place at all.

Sector support strategy
The 2000 Annual Report of RNE Maputo indicated that project support was going to be replaced by sector support or budget support. The most important criteria for assessing the potential for the sector approach were the confidence in the political will and capacity of the government to implement sector policy. These criteria were assessed as favourable by the RNE. Although the sector was in the middle of an institutional reform process, considerable progress had been made with the delegated management framework, a start had been made with the sector strategy and expectations were that sub-sector strategies would follow soon. In addition, the first PRSP was operational and the water sector objectives were, according to the RNE, properly included in the document. Moreover, the National Directorate for Water (DNA) as leading organization, was assessed positively based on the experiences regarding its performance in the post-2000 flood rehabilitation programme. Finally, it was anticipated that other donors would join. Therefore, RNE appraised that conditions for a SWAp through sector budget support in the water sector were favourable.

The RNE started to provide sector budget support in 2002. RNE decided to channel the funds through DNA, which had received technical assistance from the Netherlands for some 18 years. Although this had resulted in improved technical capabilities, DNA was confronted with a shortage of staff with adequate management and administrative skills. Two years later grave concerns about policy implementation, ineffective flow of funds to provincial level and inadequate financial control led to RNE temporary withholding funds. Funding continued, however, also after a critical appraisal preceding the third phase. RNE continued to consider the budget support through DNA the most effective channel for strengthening the water sector. The Netherlands efforts to involve other donors in the sector wide ASAS programme did not succeed. As a substantial proportion of project aid is off-budget, alignment of donor funding with government rules and regulations is limited in the water sector. The position of the Netherlands is exceptional. It provides non-earmarked sector budget support, leaving ample room to DNA to expend the funds according to its own priorities. ASAS is fully aligned with GOM principles and procedures although some specific aspects are not fully aligned (auditing, reporting and monitoring).

Because of the disappointing results of sector support, from 2006 onwards, the Netherlands diversified its aid to the water sector through direct support for regional programmes for rural drinking water through CARE from delegated funds, through UNICEF from centrally managed funds and through investments in urban water supply through delegated funds and ORET funds.

2.3 Case study Yemen

2.3.1 Country characteristics

Yemen's population of 20 million is predominantly rural. The fertility rate remains among the highest in the world and the increasing population adds to the challenges regarding the sustainability of resources. The GDP per capita is USD 600. About 42% of the population live in poverty. Poverty reduction remains Yemen's most compelling challenge. The oil sector dominates the economy but it does not contribute to employment among the poor rural population. Generating non-oil growth and addressing unemployment are the key to reducing poverty. Yemen ranks 153rd out of 177 on the 2007 Human Development Index. Yemen is a country of deep rooted tradition endowed with limited resources notably scarce water, limited arable land and declining oil reserves.
After a turbulent political period in the late 90s and early 2000s in which it was declared a "fragile state", Yemen embarked on ambitious National Reform Agenda with activities in amongst others the following fields: i) enhancing transparency and fighting corruption, ii) judicial reform and iii) improving performance of the government. The progress of the national reform is often considered disappointing and CPIA indicators did not improve much over the years

2.3.2 Water sector issues

Yemen is a water-scarce country, situated in an arid region with no permanent rivers. The annual per capita share of renewable water resources is estimated to be 125 m3 per capita per year, which is one of the world's lowest: a generally accepted norm is that an availability of less than 1,000 m3 per capita indicates water shortage. The annual consumption is about 170 m3 per capita per year. As a result, water resources are being depleted, which is most obviously evident from the steady and drastic decline of the groundwater tables.
Historically, the population depended upon rainfall, springs, hand dug wells and water harvesting in ponds, and dams of various sizes. Mountain terraces, which cover most Yemeni mountains, are in fact water harvesting structures innovated by Yemeni farmers to retain scarce rainwater along with the precious fertile soil that sweep down the barren mountainsides. Groundwater well depths didn't exceed few tens of meters and their water was lifted, in small quantities, by muscular, animal or human effort. No mechanical drilling rigs or pumps were used until the 1960s.
The opening of Yemen to modern well-drilling technology in the early seventies, coupled with the large cash inflow that followed during the oil boom, led to an extensive expansion of irrigated farming and a rush to drill water wells and buy pumps. In the absence of any regulatory controls on drilling, these developments led to the mining of groundwater aquifers in most water basins in the highland plateaus and in the coastal plains. This mining is still going on.
The symptoms, causes and even the required remedies for the water crisis in Yemen have been diagnosed and became well known since the mid 80s, as a result of numerous studies that mapped the water basins and estimated the rainfall replenishment and quantity of water-use. This did not stop the problem from worsening. That is why the prevailing impression in informed circles about this problem is that the failure lies in implementing the solution measures rather than in diagnosing the causes of the problem and prescribing measures to solve it.

The dominant water sector related institutional issues are: i) the lack of coordination and poor operationalization of policies to address the over-exploitation of groundwater, ii) the capacity of rural water user associations to maintain sustainable water supply services, and iii) the decentralisation, autonomy and capacity of urban water supply companies. Yemen avails of a comprehensive national water strategy and investment plan. The strategy is a truly national document and endorsed by all major donors, which follow common policies and approaches.

Challenges
In Yemen, there are three dominant issues to be addressed in water resources management and service delivery: i) the unsustainable use of groundwater, ii) the lack of sustainable service delivery in rural water supply and iii) the poor service delivery in urban water supply and sanitation. Groundwater is the major source of water.

2.3.3 Netherlands support and approach

Dutch aid to the water sector
In the (late) 90s the Netherlands was a rather prominent donor in the water sector with a total funding equivalent to about €5 million per year. Practically all aid was project based. In 2002, the Dutch aid allocation to Yemen was reduced with 33%. GON indicated that an increase of aid would be based on an improvement of the "governance indicators", which policy was communicated again at the Consultative Group meeting on Yemen in London, 2006. In 2002, GON contemplated to withdraw from the water sector and concentrate on good governance issues, but with the timely policy reforms in the water sector as testified in a favourable Water Sector Institutional Analysis by RNE, GON became a fairly prominent donor in the water sector again in 2005, with an increasing commitment to the present level of almost €5 million per year. At the same time, GON changed its disbursement policy by establishing a programmatic aid modality based on a general Memorandum of Understanding with GOY on Program Aid to the Water Sector (PAWS). The aid is still earmarked for five components of the budget and an annual plan of budget allocation has to be approved by GON. The essence however is that the GOY organizations are fully in control of the implementation with checks afterwards through external audits. The aid is put in a special account at the MOF.

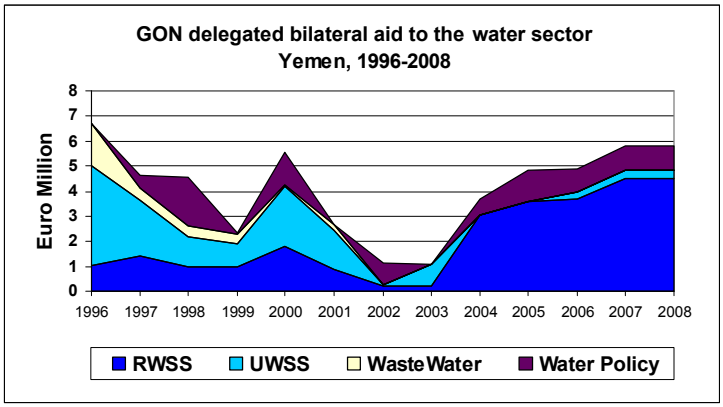


Figure 2.3- GON delegated bilateral aid Yemen

The dependence of GOY on donors is limited: In the RWSS and UWSS sector, GOY takes care of operation and maintenance cost and of about 60% of investments. Maintenance however, is under funded. The GOY contribution to the water sector is rising, but dependent on oil revenues. NGOs play a minor role only.

Table 2.3 – Major recent and current GON aid programmes in Yemen

Name	Sub-sector	Modality	Characteristics
Rural Water Supply and Sanitation (RWSS); 2005-2008	RWSS	Sub-sector support	Focus on investments with facilities for policy implementation and strengthening organisations
National Water Resources Authority (NWRA); 2006-2008	WRM	Sub-sector support	Combination of TA and investments to strengthen Improved policy implementation
Public Private Partnership Ta'iz; 2006-2008	UWSS	Project	Performance based TA contract with Dutch water company for Ta'iz water supply and sanitation corporation; implementation of new policies

Sector support strategy
In applying this programmatic aid modality, the GON is well ahead of other donors in "systems alignment". The decision to go ahead with this modality was based on an Institutional Sector Organization Analysis in 2005, which highlighted the favourable conditions with respect to the enabling environment for policy alignment and the GOY ownership. GON is the only donor which applies a fairly high level of systems alignment without accompanying it with a strong TA component. Other donors use various forms and levels of system alignment, but always accompanied by strong TA and a rather well controlled PMU based project environment, some even in parallel to government institutions. GON makes a different assessment of the capability of General Authority for Rural Water and Sanitation Programme and National Water Resources Authority to manage their affairs as compared to other donors. This is documented in internal reports of different donors[13]. GON is of the opinion that it can manage the risks through the checks built in, such as the Value for Money Audit and the Annual Plan approval process. Moreover, performance indicators are being developed and increasingly monitored and reported upon in the Joint Annual Review.
However, for RNE the main motivation for choosing the high level of systems alignment is the vision that the SWAp as organising principle is the best way to practice capacity building and consequently improve the very conditions needed for upstream aid modalities. It argues that the conditional indicators should not strictly be seen as conditions for applying SWAp, but rather as objectives of SWAp. In this vision, SWAp is put in the broad context of institutional development and capacity building leading to more sustainable interventions and results, improved and sustainable water sector performance and government ownership of activities undertaken. As a concept, the vision is supported by all donors and government alike, but GON has been much more rigorous in applying it. The personal commitment of RNE staff played an important role in moving towards the chosen aid modality.

2.4 Egypt

2.4.1 Country characteristics

The total population is 75 million with an annual population growth of 1.9%. The GDP per capita is USD 1,426. The Egyptian economy continues to grow with a real economic growth of 7% in 2006. Over the last decade Egypt has considerably improved the well-being of its population with improving social indicators for health and education. Yet, poverty remains an issue with 17 percent of the population mainly in Upper Egypt living under or around the poverty line. Although employment is growing, unemployment rates remain around 10% because of the mismatch between the education system and the domestic labour market.

2.4.2 Water sector issues

Water is a determining factor of life in Egypt. From a water and land use point of view, Egypt is the most densely populated country in the world. Being dependent on one source, the River Nile, Egypt is extremely sensitive about securing its resources. At the same time, because of population growth and economic development and the continuing dependence on agricultural development, the country is facing a water scarcity to which it can only respond by becoming even more efficient in using water and changing the allocation of water resources. Population growth and rural urbanisation lead to serious water quality problems. Irrigation water service delivery is well organised, but water supply and sanitation leave much

[13] For example the Institutional and Sectoral Analysis of RNE (2005) and the Yemen Development Policy Review of the WB (2006) differ widely in their assessment of the capacity of GARWSP; other WB documents are cautious but more positive, such as the Country Assistance Strategy of WB (2006) and the Assessment and Readiness for Sector Wide Approaches in the Water Sector, WB (2006).

to be improved. Both in irrigation and water supply, the financing of the investments needed and the maintenance of infrastructure is becoming a serious constraint.
Egypt avails of a comprehensive National Water Management Plan, which includes four main components: i) develop additional water resources; ii) make better use of existing resources; iii) protect public health and environment and; iv) take institutional measures focusing on the establishment of strong water boards for WM and holding companies for water supply and sanitation. Sector coordination is still poorly developed and policy reform is notoriously slow, often not beyond a piloting phase in donor supported programmes.

Challenges

- Irrigation and drainage. The irrigation sector will have to deal with a smaller amount of water available per ha, which means that efficiency of use has to increase, demand has to be reduced, while equity has to be ensured. The appropriate re-use of drainage water and control of water quality require special attention. The management of the extensive distribution system is being reformed in order to be able to respond to the above challenges.
- Water supply and sewerage. The water supply to people and industry requires new facilities for water treatment and distribution and the capacity to manage facilities sustainably. There is an enormous backlog in the provision of urban and rural sewerage and sanitation. Here important and difficult decisions on methodology and prioritisation are required to render interventions effective.
- Financing. The sector requires massive investments, for irrigation improvement, for the expansion of water supply, sewerage and sanitation and for the operation and maintenance of the existing infrastructure. Next to public funding and donor funding, there is an urgent need to increase the contribution of the private sector and improve cost recovery mechanisms, which are all very modest at present.
- Integrated and participatory water management. The need for an Integrated and participatory Water Resources Management approach is generally accepted. This will require new institutional frameworks, mandates and responsibilities, which are slowly developing in a country, which historically has been very centralized, fragmented and sector oriented.
- Strengthen Nile Basin Initiative. As the most downstream country in a river basin which in fact constitutes its only source of water, the developments in and cooperation with the riparian countries is of utmost importance to Egypt.

2.4.3 Netherlands support and approach

Dutch aid to the water sector

Over the years the GON assistance to the water sector shifted from a technical and process management oriented programme to a policy and institutional reform oriented programme, in which the programme has consistently been at the forefront of new initiatives to be explored in the sector. In the early 2000s the GON supported water sector programme was supposed to be phased out in line with the GON policy of withdrawing Dutch bilateral assistance from Egypt. The decision to withdraw from Egypt was revised in 2004. This GON decision making process (withdrawal and revision) has influenced the water programme in the early 2000s.

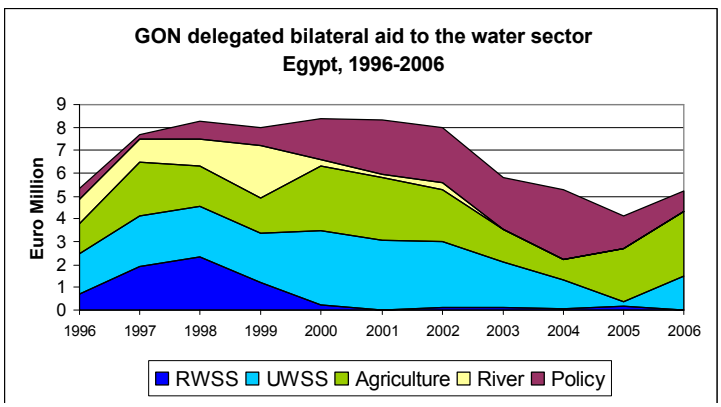


Figure 2.4- GON delegated bilateral aid Egypt

Table 2.4 -- Major recent and current GON aid programmes in Egypt

Name	Sub-sector	Modality	Characteristics
Advisory Panel Project (APP); 2001-2009	IWRM	Project	Policy development and innovation
Integrated Irrigation Improvement Management Programme (IIIMP); 2005-2011	Irrigation	Co-funding with WB and KfW	Sector programme, multi purpose, macro-micro
Fayoum Water Supply and Sanitation; 2000-2012	UWSS	Project	Improved policy implementation
Policy Reform Activities (IRU, IWRM); 2002-2008	IWRM	Project	Policy support

Sector support strategy
The GON programme in the water sector in Egypt was not directly influenced by the introduction of the SWAp in Dutch policy. The programme remained project based but with increasing coherence between the projects. Moreover, the projects were based upon contribution arrangements meant to further increase the GOE ownership of the project activities. The start of the large IIIMP under co-funding with WB and KfW is mainly the result of earlier mainly Netherlands supported pilot and innovative activities in the strengthening of local level participatory water management. The Advisory Panel Project (APP) is a structured Egyptian-Netherlands informal platform to discuss major water issues, innovative ideas and reforms in the water sector. High level professionals as well as high level Egyptian policy makers actively participate in these discussions. APP is Egyptian owned and Netherlands co-funded. GOE has always emphasized that the technical expertise was the value added of the Netherlands support to the water sector.

2.5 Bangladesh

2.5.1 Country characteristics

The population of Bangladesh is 144 million with an annual population growth of 1.9%. The urban population is 26%. The GDP/capita is USD 490 with a with an average GDP growth of 6% during the period 2000-2006. The total land area is 144,000 sq. km. The economic and social gains since the 90s are substantial with a steady economic growth of 4-5% annually, stable domestic debt, interest and exchange rates. This growth performance coupled with an impressive decline in the population growth rate has led to a doubling of annual per capita growth to 3.3% in 1990-2004. This growth record was also accompanied by more stable growth, itself a function of Bangladesh's improved disaster management capacity. The corruption has been the most telling indicator of poor governance in Bangladesh for a long time. The country scores very poorly on the Transparency International's corruption perception index.

2.5.2 Water sector issues

Water and water management are dominant factors in Bangladesh society. As a densely populated country in the low-lying delta of two of the world largest rivers, the Brahmaputra and the Ganges, and situated in a monsoon climate, the country is exposed to extremes: from high river and rainfall floods in the wet season often inundating some 50% of the country to shortages of water for agriculture in the dry season. At the coast there is a recurrent threat of cyclones. Land erosion and accretion along the rivers and coasts cause a continuous shifting landscape and environment. Population growth and industrial development put the quality of the aquatic environment at risk. In addition to that, the deeper groundwater resources, which are important for water supply, suffer from arsenic contamination in a large part of the country. Shallow groundwater, important for the most

profitable dry season rice crop, is fortunately not affected. Although the vulnerabilities are high, especially of the poor, the Bangladeshi population is known for its resilience to cope with the adverse circumstances.

The common approach to that water management consists of a mixture of developing large and small scale water resources management infrastructure, of developing a flood-resistant communication and housing infrastructure and of non-structural measures: "*living with the floods*". However, the extensive water management infrastructure still needed is hard to maintain in a poor country where conditions are often extreme. Water management interventions, both large scale and small scale, almost by definition lead to conflicts between different users and always raise the issue of equity. Currently the proponents for major infrastructure (a Bangladesh Delta Plan) are less successful than the proponents for more small scale interventions, a main reason being that the Government cannot raise the funds for the major infrastructure. The main policy is to concentrate on meso- and micro-level water management and the establishment of local water user organisations in order to address the issues of sustainable operation and maintenance, ownership and equity.

Surprisingly, it is generally acknowledged that the water management situation in Bangladesh has deteriorated during the last 5 to 10 years. Even O&M, essential in the context of water management in flood prone areas is largely insufficient to maintain minimal standards. Apparently, in reality water management has a low priority. This situation is very worrisome. Possible reasons are: i) lack of political commitment from GOB side and consequently limited funds allocation from the national vote and no actions to solve the constraints in the implementation capacity and ii) a lack of donor commitment also in view of the slow reform process and bad PFM situation (corruption).

Policy and planning documents in the water sector are well developed and agreed upon. Roles and mandates of the major parties are properly described. Poverty issues are taken into account. Bangladesh avails of an exemplary Water Policy (2001), a comprehensive National Water Management Plan (2004) and Guidelines for Participatory Water Management. Ultimately the discussion resulted in a fundamental change of the traditional construction bias. Institutional and social issues including people's participation were considered as very important elements in water management.

The water sector involves a large number of ministries and autonomous agencies which partly overlap. The key government player for the water management sub-sector is the Ministry of Water Resources (MWR). The Bangladesh Water Development Board (BWDB) is the semi-autonomous body under MWR responsible for the development and maintenance of the national water resources infrastructure as well as for WRM of polders of more than 1,000 hectares. BWDB still remains a technical organization with hardly any non technical staff establishment posts. The Local Government Engineering Department (LGED) is responsible for water management in schemes of less than 1,000 hectares. It is functioning properly and has been able to overcome the constraints of limited implementation capacity and limited funding. Water supply and sanitation are the responsibility of the municipalities and a host of local level organisations, in which NGOs often play an important role, as is the case in many aspects of Bangladesh society

Challenges

- To increase the Bangladeshi commitment to the water sector at the level of the Ministry of Finance.
- To ensure sufficient funding for operation and maintenance in the water management sub-sector. The sub-sector still lacks sufficient funds for operation and maintenance. In a country where water management is as essential as in Bangladesh, funding for operation and maintenance should get the highest priority. In reality none of the parties involved in sector development gives enough priority to the O&M issue. It is the prime responsibility

of the recipient country, but also donors should not simply focus on additional sector investments but should contribute to a structural solution of these O&M problems.
- To ensure the achievements of the water related MDGs within the context of the arsenic problems in many of the rural areas.
- To ensure an institutional framework for the water sector capable of handling a balanced technical and non-technical approach to sector development.

2.5.3 Netherlands support and approach

Dutch aid to the water sector

The Netherlands approach towards water management in Bangladesh gradually changed from a purely technical one (in the 1970s) into an integrated water management programme (in the 1980s/1990s), in which a socio-economic dimension aimed at improving the living conditions for both farmers and the landless. In the early 2000s, GON withdrew from the drinking water and sanitation sub-sector because of disappointing government follow-up to projects with municipal water utilities. Since then, the GON aid concentrates on policy development, water resource management issues, especially in relation to agriculture. Recently the Netherlands re-introduced a large RWSS programme to be implemented through the BRAC, a large national NGO.

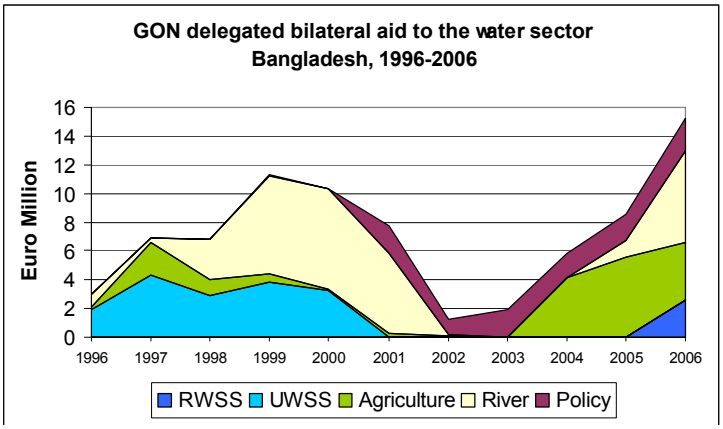


Figure 2.5- GON delegated bilateral aid Bangladesh

The Netherlands aid programme in the water sector consists of a set of comprehensive activities in the field of institutional development, the establishment and strengthening of a water knowledge institutions (Centre for Environmental and Geographical Information Systems, CEGIS and the Institute for water Modelling -IWM)), the strengthening of IWRM education and research at the Bangladesh University for Engineering and Technology and specific projects to directly contribute to poverty reduction. Moreover, the Netherlands contribute to the strengthening of new government institutions as the Integrated Coastal Zone Management organization (ICZM) and the Water Resources Programme Organization (WARPO). The Bangladesh Water Development Board and the Local Government Engineering Department remain the major institutions engaged in water management. The Netherlands involvement in BWDB and its reform process started more than 20 years ago.

Table 2.5 – Major recent and current GON aid programmes in Bangladesh

Name	Sector	Modality	Characteristics
Small Scale Water Resources Sector Development (SSWRSD); 2002-2009	WRM	Trust Fund to ADB Loan	Multi-purpose sector programme; attention to macro-micro relations
Char Development and Settlement Project (CDSP); 2000-2009	WRM	Project	Poverty oriented project with aspects of land settlement and land titling
Integrated Planning for Sustainable Water Management (IPSWAM); 2003-2011	WRM	Project	Multi-purpose sector programme
Integrated Coastal Zone management (ICZM) /Estuary Development	ICZM	Project	Institutional development
Water, Sanitation and Hygiene; 2006-2011	RWSS	Trust Fund with BRAC	Implementation project, limited purpose

Over the years Dutch funding has been mostly through bilateral project aid, although more recently co-financing arrangements with ADB have become the dominant way of funding the water sector.

Remarkably, the number of donors in the water sector is limited, with the ADB, The Netherlands, JICA and Denmark taking the lead, followed by Canada and a host of small donors. The role of the WB has been reduced markedly in the last 5 years. A major reason for donors to be cautious in supporting the sector is the general feeling that the Bangladeshi institutions are too slow in implementing the necessary reforms and improving their performance, both in water resources management and water supply. Progress made in the field of harmonization and alignment is limited

Sector support strategy
The RNE concluded in 2001 that a sectoral programme for water was not realistic and in 2003 it stated that “it would not apply the SWAp”, adopting an institutional strengthening approach. No serious attempts were made to formualte a sector programme for water management because neither the government nor the donors could envisage how such a programme would fit into the government structure. The interest shown in harmonization and alignment amongst all parties is limited, while the institutional reform process in BWDB still moves very slowly. The lack of political commitment in the recipient country remains a major constraint for sector development as institutional reform, staffing problems and sufficient funds for O&M can only be ensured through the highest political level.

2.6 Indonesia

2.6.1 Country characteristics

The total population is 220 million with an annual population growth of 1.4%. The GDP per capita is 1,260. The economic recovery from the financial crisis in the late 90s continues with a growth rate of 5.5% per annum. The transition to democratic governance and decentralization takes shape. The number of people living below the poverty line is 17%. However, a large group of near poor (110 million) still live on less than USD 2 a day and they can easily fall back into poverty through events like economic shocks, harvest failures and sickness. Indonesia has suffered an unprecedented series of natural disasters over the last years.

2.6.2 Water sector issues

Between the 60s and late 80s, development of the resources and infrastructure, including irrigation, was a priority. The implementation of this policy benefited from a centralised government administration, as technical capacities were a limiting factor. It spurred economic growth and reduced poverty. However, in the late 80s and 90s, it became apparent that this supply-driven approach led to neglect of proper maintenance of the infrastructure, and unsustainable use of the resources. In the late 90s the new government embarked on a sector reform. This reform aims at sustainable management of the resources and infrastructure and emphasized a demand-responsive and decentralized service delivery.

Indonesia is performing poorly with respect to drinking water. In 2002 only 18.3% had access to piped water, while the water quality nowhere fulfils WHO standards. The percentage of the population with access to “safe” drinking water was 50%. Most of the municipal water utilities are heavily indebted.

The institutional landscape is complicated and subject to continuing change. The administrative and fiscal decentralization, which started in 1999, has had a great impact on the functioning of institutions, but had not yet matured, and was described as a constitutional and political-economic 'earthquake". The different levels of government and the water management organizations are still redefining their role, responsibilities and mandates.
The formal operational policy documents of the water resources sector all date from before this major institutional reform. The Law 07/2004 on Water Resources lays the foundation for a new approach of integrated water resources management being based on one river, one plan, one management. It sets out the priorities but concentrates on the institutional aspects, such as the water boards, the water councils for the stakeholder representation and responsibilities of technical departments. Through by-laws this Law will be further operationalized.

Challenges

- The high population density on Java and in major parts of Sumatra and Sulawesi leads to an intensive use of water resources and an increasing number of conflicts between water users.
- The quality of both surface and groundwater has deteriorated markedly both because of over-use and the lack of treatment facilities for domestic and industrial waste.
- Rapid urbanization leads to deforestation and consequently to flood management problems and sedimentation of reservoirs, irrigation systems and estuaries.

2.6.3 Netherlands support and approach

Dutch aid to the water sector

Dutch bilateral cooperation in the context of development cooperation with Indonesia was frozen in 1992. Cooperation continued at professional level, such as on the basis of MOUs between ministries and twinning arrangements between municipalities. Since 2001, the Netherlands again has a bilateral programme in the water sector, but it was decided that all delegated bilateral aid would be disbursed through cooperation with the multilateral donors, notably WB, ADB and UN agencies. This policy is maintained to date.

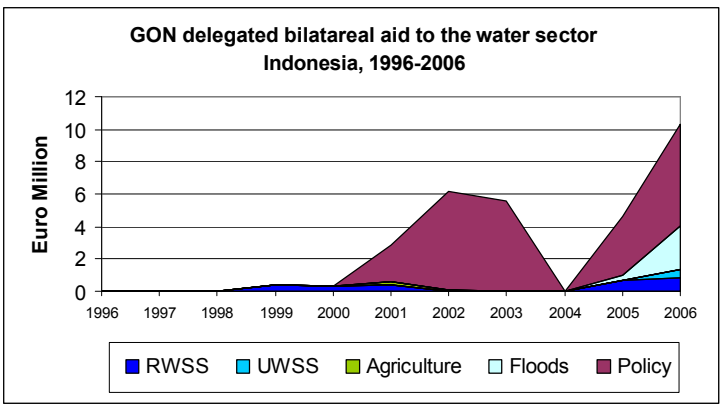


Figure 2.6- GON delegated bilateral aid Indonesia

In the initial years the GON concentrated on the water resources management and irrigation sub-sector in the context of the institutional reforms. The major vehicle was the Water Sector Adjustment Loan (WATSAL) of the World Bank, which GON importantly supported with TA to pilot reforms (Water Management and Irrigation Improvement Project-WIRIP and the Water Resources and Irrigation Sector Management Programme-WISMP). This policy is presently continued with the Participatory Irrigation Sector Project (PISP) with the ADB. Since 2005, GON is also active in the water supply and sanitation sub-sector. Next to the delegated bilateral programme, there is a sizeable programme of non-delegated fund.

Table 2.6 – Major recent and current GON aid programmes in Indonesia

Name	Sub-sector	Modality	Characteristics
Water Management and Irrigation Improvement project (WIRIP);	Irrigation	Trust Fund with WB	Policy development and innovation
Water Resources and Irrigation Sector Management Programme (WISMP); 2003-2013	Irrigation	Trust Fund with WB	Sector programme, multi purpose, macro-micro
Participatory Irrigation Sector Project (PISP); 2003-2013	Irrigation	Trust Fund with ADB	Sector programme, multi purpose, macro-micro
Indonesia Water and Sanitation Programme (WASAP); 2005-2009	All	Trust Fund with WB	Sector programme, multi purpose, macro-micro
Private Sector Participation Development Facility for Urban Infrastructure; 2006-2010	Urban WSS	Trust Fund with ADB	
Community Water Services and Health (CWSHP) Aceh / Nias; 2006-2009	Rural WSS	Trust Fund with ADB	Implementation, limited purpose
Water and Environmental Sanitation; 2007-2011	Rural WSS	Trust Fund with UNICEF	Implementation, limited purpose

Sector support strategy
The dynamic state of the policy framework and institutional setting render it difficult to apply aid modalities beyond dedicated sector programmes, which already suffer from the complicated parallel sources of funds and budget lines, as testified by both the government and the development partners. A window of opportunity for a higher modality SWAp in the form of sub-sector budget financing is offered by the Municipal Water Companies (PDAM), which are obtaining a high degree of autonomy. However, the performance of these companies is considered to be very poor indeed. The PPP arrangements, which the Dutch government is supporting, explore this window of opportunity. The capacity of the many "new" institutions is not yet considered conducive to applying upstream aid modalities, unless accompanied by TA and dedicated capacity building activities. The political interest regarding SWAp and upstream aid modalities is limited. Actually, the GOI values the contribution of specific donors each in their own right.

Most of the loans and trust funds to which the GON contributes may be considered sector loans in the sense that they address and incorporate the institutions and activities at the macro-, meso- and micro level (e.g. WIRIP, WISMP, PISP, see also table 2.6). The implementation of the loans is embedded in the national institutions, be it that TA is still important.

2.7 Vietnam

2.7.1 Country characteristics

The Vietnamese population totals 83 million persons with an annual population growth of 1.3%. Vietnam has achieved remarkable economic growth and reductions in poverty over the last decade, from about 58% in 1993, to 23% in 2004, and an estimated 22.0% in 2005. Gross Domestic product (GDP) per capita increased from USD 288 in 1993 to USD 622 in 2005, with a marginal increase in inequality. Strong economic growth has been accompanied by increasingly rapid urbanization and significant increases in wages and quality of life. However, this growth has included some less positive changes, such as high rural–urban migration, while it is placing heavy pressures on the country's dilapidated infrastructure and fragile natural resource base.

2.7.2 Water sector issues

Although Vietnam is a high rainfall country, averaging 1,940 millimetres per year, it is not rich in water. Increasing competition for reliable water resources may constrain economic growth and the creation of livelihood opportunities. Droughts are frequent and prolonged, and nearly two thirds of the surface water inflows from neighbouring countries are concentrated in the Mekong River delta.
Demands for water resources are growing rapidly, not just for extraction but also to increase hydro-power generation to satisfy the expanding economy and growing population. Groundwater is increasingly used in both rural areas and major urban centres, but groundwater levels are falling dramatically in some areas, resulting in land subsidence and damage to infrastructure. Some groundwater sources have elevated levels of arsenic.
The crucial role of water in the nation's sustainable development, human health, and life has not always been fully appreciated. Its value as a scarce natural resource and economic good has not always been recognized. As a result, the protection and management of water resources has not been given adequate attention.
The Government has made substantial progress in water sector reforms since 1995. Specific reforms include (i) passage of a water law in 1998; (ii) establishment of the Ministry of Natural Resources and Environment (MONRE) in 2002; (iii) establishment of the National Water Resources Council (NWRC), chaired by the deputy prime minister, as the water sector apex body.

Challenges

- Increasing competition for heavily committed freshwater resources
- Increasing pollution of rivers by industrial, municipal, and agricultural sources
- Increasingly severe and frequent natural disasters affecting a rising population living in disaster-prone areas.

These challenges highlight the urgency for the Government to complete sector reforms to separate the tasks of regulation, delivery of services, and policy leadership in the water sector. Ground water is being extracted at unsustainable rates; few water service providers operate in a financially viable way; much of the existing water management infrastructure is in poor repair and needs to be replaced; and most suitable land is already under irrigation with diminishing opportunities for increasing production.

2.7.3 Netherlands support and approach

Dutch aid to the water sector

The Netherlands support to the water sector in Vietnam since its start in 1993 went through the process of changing from a technical / infrastructural focus to a more institutional focus. The 2001 Report of the Policy Mission on Netherlands-Vietnam Cooperation for Integrated Water Management formulated recommendations for future Netherlands-Vietnam cooperation in the water sector. The report emphasized that the focus of Netherlands development cooperation regarding water is on water resources, not on water in sectors which use water. Therefore the RNE has defined integrated water management as including integrated river basin management and integrated coastal zone management. Support to the water sector also includes natural disaster mitigation and other general support activities.

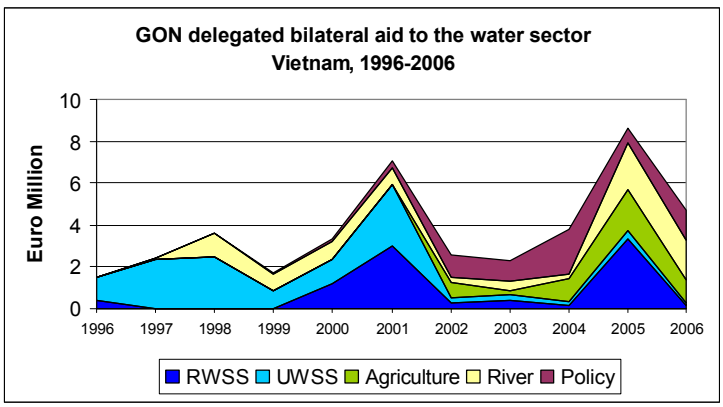


Figure 2.7- GON delegated bilateral aid Vietnam

Table 2.7 – Major recent and current GON aid programmes in Vietnam

Name	Sub-sector	Modality	Characteristics
Integrated Coastal Zone Management; 2000-2005	Coastal Zone Management	Trust Fund with ADB and CIDA	Policy development and innovation
Capacity building IWRM; 2001-2011	IWRM	Co-funding with ADB, AusAid	Policy support
National Disaster Mitigation; 2003-2010	IWRM	Co-funding WB, ADB	Implementation, limited purpose
Sector Programme Support for RWSS; 2006-2011	Rural WSS	Co-funding with DANIDA, AusAid	Improved policy implementation

Sector support strategy
The proposed strategy consisted of four themes: i) integrated river basin management; ii) integrated coastal zone management; iii) natural disaster management and; iv) general sector support with emphasis on flood management. Moreover, three main activities were identified: i) institutional development; ii) capacity development and; iii) supporting studies with overall attention for sector coordination at national and river basin level
Although the Report of the 2001 Policy Mission on Netherlands-Vietnam Cooperation for Integrated Water Management contains a full chapter on the reorientation of Netherlands assistance to the water sector in view of the sectoral approach, the consequences of this approach have not been elaborated in the report. The overall impression is that little has changed in the aid programme after the introduction of the SWAp in Dutch aid. All activities in the sector have been characterized as project aid in the appraisal documents.

2.8 Analysis country contexts

From the description in the previous paragraphs it becomes clear that the country contexts differ largely, not just between the three regions, but also between the individual countries within the regions. What are the similarities and major differences relevant for our analysis.

History in collaboration in the water sector
Four out of the seven countries have a history of more than 25 year Netherlands involvement in the water sector (Mozambique, Egypt, Bangladesh and Indonesia). In Egypt and Bangladesh, two large countries with complex water management situations, the aid programme gradually changed from a purely technical one into a more policy and institutional reform oriented approach. The project activities became more interrelated, but the funding modality remained project aid. Mozambique is the only country in which the Netherlands aid radically shifted in early 2000 towards a sector wide programme with sector budget support. In Yemen and Benin more cautious sector wide approaches started around 2004. In Indonesia the Dutch bilateral aid re-started in 2001 through multi-lateral channels.

Continuity
At first sight it seems that the Netherlands aid programme in the water sector to these four countries was consistent with a lot of continuity. The reality is different. In all countries disruptions took place which distorted the programmes: In Egypt the water programme was supposed to be discontinued, a decision later withdrawn; in Bangladesh the bilateral collaboration with the GOB was frozen; in Mozambique the water programme radically shifted in 2000 and became more diversified again in 2005 and in Indonesia the Netherlands bilateral programme cam to an end in 1992 and re-started in 2001. In Yemen the overall allocation was substantially reduced in 2002. These disruptions and changes probably had a negative influence on the results of the Netherlands supported programme.

Donor dependency in African countries
The two African countries are both very dependent on donor aid in the water sector. However, the two African countries differ in many ways in relation to and relevant for the Netherlands assistance in the water sector: i) Benin is a small country with a reasonable road network and a clear decentralization policy. Mozambique is a large country with a bad road infrastructure and an unclear decentralization policy; ii) The Benin water sector benefits from joint efforts of major members of the bilateral donor community, while in Mozambique the bilateral donor community is hardly interested in the water sector; iii) Mozambique has major water management problems - droughts as well as floods - while these problems in Benin are less evident and severe.
The size and type of the economy in the Asian and Middle East countries greatly differs from those in the African countries. There is much less donor dependency in the other countries, although the donor dependency for investments in the water sector in Bangladesh is substantial.

Type of water issues
In five out of the seven countries the Netherlands supported programme directly relates to the priorities in the water sector in the countries concerned. Except in Yemen and Mozambique, where the unsustainable use of groundwater through the irrigation practices (Yemen) and the water management issues related to flooding (Mozambique) get little or only indirect attention in the Netherlands supported programme.

Water supply and water management
Water supply and sanitation gets attention in all seven countries. The attention for water supply increases at the expense of attention for agriculture and water management.

Channels
All aid in Indonesia and Vietnam is channelled through multi-lateral organizations. In Bangladesh and Egypt multi-lateral channels are also becoming more prominent for Dutch aid. In Africa none of the activities is implemented through multi-lateral channels, although Netherlands co-funding with the World Bank took place in the past. The Netherlands bilateral water programme in Africa has no direct relations with the African Development Bank.

3. ANALYSIS OF NETHERLANDS INPUT IN THE WATER SECTOR

This chapter provides an overview of the Netherlands sector support in terms of financial support, funding modalities, funding through multi-lateral channels, the application of the Paris declaration with special reference to harmonization and dialogues[14], technical assistance, inputs in governmental and non-governmental systems at various levels (macro-micro relations) and the role of headquarters and embassies in policy implementation. Wherever possible, data from all seven countries will be utilized. However, in a number of cases evidence can only be presented based upon data from the three case study countries.

3.1 Public Finance Management

There is a trend towards better Public Finance Management (PFM) in Benin, Mozambique and Yemen. Nevertheless, PFM still has major weaknesses. The modernization of the PFM systems is one of the main areas of public sector reform in these three countries. PFM reforms are often initiated with strong support from the World Bank. The Netherlands contributes in Mozambique by supporting the PFM reform at national level, in Yemen by actively participating in the cross-sectoral PFM working group, and in Benin by playing a prominent role in identifying and solving PFM problems. Both in Yemen and Benin the PFM is tested by channelling nearly all of the programme funding through the national financial system. In Yemen an additional external audit and value for money audit provides a check on the programmatic funding.

The benefits of the modernization of the PFM systems for the water sector still remain relatively limited. The systems improvement is focused on the major national level agencies and has limited impact at the decentralised sub-sector level agencies. The relations between the Ministry of Finance and the line agencies dealing with water issues are complex. A substantial number of water sector projects is still “off-budget”. The modernization of the PFM systems is complicated within the framework of an often not fully operational and transparent decentralization process. The benefits of the modernization of the PFM systems also differ per water sub-sector. Urban water agencies, often with a well defined autonomy on financial decision making, benefit more than the other sub-sectors.

The major weaknesses in PFM as far as relevant for the water sector are delays in decision making regarding annual budget allocation, low budget execution rates, insufficient insight into the bottlenecks related to PFM in the water sector and often an insufficient vote for operational costs. Although most bilateral donors share the vision that improvements take place in PFM performance, few take the consequences and channel funds through the financial system of the recipient country. The Netherlands has the tendency to be ahead of others in channelling funds through the financial budget and expenditures systems of the recipient country using national procedures. However, the Netherlands did “build in” substantial safety nets and checks and balances.

3.2 Financial support and modalities

3.2.1 An overview

The funding modalities range from project and basket funding to pooled funding, from co-financing of sector wide programmes to Sector Budget Support (SBS) and General Budget Support (GBS)[15]., but also depends on specific objectives and political considerations. The choice for a modality is not a purely technocratic process, often depends upon the specific

[14] The Paris Declaration including the issue of alignment, although an output, will be dealt with in this chapter.
[15] For definitions see IOB 301, From Project Aid towards Sector Support, 2006

programme objectives and is also depending upon a large number of contextual factors such as public finance management systems and decentralization policy as well as on factors directly related to the water sector itself like the policy and institutional framework and the capacity of the implementing organisations.

The choice for a project modality can be explained by various reasons like the lack of an enabling environment for other modalities, the innovative or ad hoc character of the project activity or the fact that it concerns support to the private sector or NGOs. The choice for basket or pooled funding is appropriate if there are substantial doubts about the quality of the PFM system. This offers still advantages over individual projects.

The major funding modality in the water sector still remains the project modality (Chapter 1.5). The characteristics of the funding modalities in the seven partner countries are summarized in table 3.1.

Table 3.1 - Characteristic funding modalities of delegated bilateral aid in 7 countries

	Country	Present funding modalities	Changes over time Characteristics process of change	Sub-sectors
1.	Bangladesh	Mainly sub-sectoral programmes, some through co-funding with multilateral agencies	From individual projects towards co-funding, from piloting to mainstreaming institutional reform, such as establishing water user organisations	Mainly water management and recently water supply and sanitation
2.	Benin	Mainly programme funding with elements of project funding included; pooling funds with other donors	From pilot project activities within three years towards programme funding Process facilitated by relatively favourable enabling environment	Mainly water supply and sanitation with some IWRM components
3.	Egypt	Mainly project funding but under contribution arrangements	Towards contribution arrangements and gradually towards major multi-donor Integrated Irrigation Improvement Management Programme. From piloting to mainstreaming establishing water user organisations. Support to PPP in irrigation and to autonomy of water supply organisations.	Water management as well as water supply and sanitation
4.	Indonesia	Mainly sub-sectoral programmes through co-funding with multilateral agencies	Restart of delegated programme in 2001. From piloting reform to contributing to sub-sectoral implementation loans.	Irrigation, water management and recently water supply and sanitation
5.	Mozambique	Sector programme and individual projects	From one sector programme (ASAS) towards diversification with individual WSS projects. Moreover, substantial centrally managed funds invested in water sector. Weak relation between funds.	Water management as well as water supply and sanitation
6.	Vietnam	Mainly sub-sectoral programmes through co-funding with multilateral agencies	Gradual shift towards WRM, but recently tendency to shift back towards WSS. Long standing relation with ADB.	Mainly water management and recently rural water supply and sanitation
7.	Yemen	Sub-sector support in RWSS and WRM, lightly earmarked, with extra value for money audit built in, supported with intensive dialogue,	After a long period of projects (198+ to 2001), GON on the verge of withdrawing from the sector. New initiatives in 2004, consistently with sub-sector budget support in mind. Facilitated by framework MOU with GON and all GOY parties.	Rural water supply and sanitation, water management and limited in UWSS.

Source: Case studies IOB water sector 2007

The country descriptions in chapter 2 as well as table 3.1 show that the project portfolio gradually shifted from isolated project activities in the early 90s to more interrelated project activities in the late 90s.

The shift towards other modalities was gradual in Benin and Yemen starting around 2005 and was radical in Mozambique starting in 2002. In the other four countries there was hardly any change in funding modalities.
More specifically, the following tendencies in financial support and modalities can be observed in the seven countries:

- In substantial shift from the project modality towards basket, pooled funding or sector programme support in the three smaller countries (Benin, Mozambique and Yemen), of which the first two are highly dependent on external aid.
- First signs of a shift from project modality towards co-financing through multi-lateral agencies in large countries with major water management problems like Egypt and Bangladesh.
- Consistent and continued Netherlands support in Vietnam and Indonesia through multi-lateral agencies.
- Within the water portfolio itself a tendency that water supply gains importance in the seven partner countries. In large and small countries alike, mainly through individual projects.

The process of change towards a sector wide programme at the introduction of the policy on SWAp in the early years of 2000 was most radical in Mozambique. However, since 2005 the programme in Mozambique became more diversified in view of the limited success of the sector wide programme within the National Directorate for Water.

Box 3.1: Radical change in Mozambique

This radical change in Mozambique was based upon an analysis made by RNE Maputo in 2002[16] and stimulated by headquarters to "go for SBS'. Mozambique swiftly changed from multiple projects into a single Sector Budget Support Programme (ASAS) with the National Water Directorate (DNA). Due to weak performance of DNA and the lack of progress in (sub)sector reform, RNE Maputo expressed its concern regarding the future of ASAS. This did not lead to a discontinuation of ASAS but to a diversification of the delegated bilateral programme. In its MYSP 2005-2008 RNE Maputo indicated that "there will also be room for direct support of government institutions and involvement of civil society organizations e.g. to enhance institutional capacity, to try-out innovative approaches, to improve targeting and/or the quality of services, or to overcome specific bottlenecks". For instance in water supply and sanitation a few new partners were identified to enhance effectiveness, and improve accountability and service delivery at provincial and district levels. Such additional assistance would be provided within the agreed policy framework and preferably "on plan". Herewith RNE Maputo re-opened the possibility for off-budget funding. This diversification becomes clear in 2006-2007 with (renewed) attention for urban drinking water supply (FIPAG), rural water supply (CARE) as well as for International River Basin Agreements (PRIMA Imcomaputo). Moreover, the Netherlands Partnership Programme for Water, Sanitation and Hygiene sector in Mozambique through UNICEF became a new centrally financed Netherlands support programme to the rural water sector.

From: Evaluation of sector approaches in the water sector, case study Mozambique, IOB, December 2007

3.2.2 Funding through multi-lateral channels[17]

In five of the seven water partner countries the Netherlands co-funded activities with multi-lateral agencies, especially in Indonesia, Vietnam and Bangladesh. More than 50% of the delegated bilateral funds in these countries are channelled through the World Bank (WB) and Asian Development Bank (ADB). No co-funding took place with the African Development Bank. A Partnership with the World Bank got off the ground recently in Egypt within the framework of the Integrated Irrigation Improvement Management Programme (IIIMP) and the

[16] Institutional and organizational analysis of the water and sanitation sector in Mozambique, 2002, RNE Maputo
[17] This paragraph concerns co-funding of activities with WB and ADB under the delegated bilateral programme itself.

West Delta Project. A Netherlands-World Bank Partnership in Mozambique was terminated in 2002.

The GON co-funding through multi-lateral channels can be subdivided into three main categories:

- Piloting with a crucial role of the Netherlands in the preparation and formulation of the sector/programme loan. In such a case the Netherlands activities substantially contributed to the preparation of the loan. The Integrated Irrigation Improvement Management Programme (IIIMP) in Egypt, a WB, KfW, GTZ, Netherlands co-funded programme, is to a large extent based upon experience gathered through Netherlands projects piloting the establishment of Water Boards. Different approaches as followed by various donors in the past were merged into a common approach under this recent WB loan. In Indonesia, the Water Management and Irrigation Improvement Programme (WIRIP) played an important role in testing and shaping the Water Adjustment Loans.
- Contents improvement with an important role of the Netherlands in all phases of the loan preparation and formulation process as well as in the monitoring of the loan performance. In such a case Netherlands expertise was actively involved in all phases up-to the Report to the President of the Bank. The Bangladesh Small Scale Water Resources Sector Development Programme (SSWRSD) co-funded with ADB fits into this category. Through active Netherlands involvement, issues like local participation, gender and monitoring were very explicitly and consistently included into the loan.
- Contents improvement with a limited role of the Netherlands in loan preparation and implementation process. This applies to most of the Netherlands supported ADB and WB loans and grant activities in Indonesia and Vietnam. This limited role of the Netherlands can be a conscious policy to place trust in the multi-lateral organization. However, another reason is that the number of staff is too limited to be actively involved, as is the case in Jakarta.

The co-financing of programmes in larger countries like Vietnam and Indonesia with WB and ADB are explicitly meant to provide effective ways of contributing to major processes of change in the sector. The WB and ADB also see it as an opportunity to include TA in the loan preparation process as well as TA and capacity building during implementation of the loan as recipient governments often are hesitant to include these components in the loans.

Box 3.2: Netherlands policy in Vietnam

Current Dutch aid policy for the sector is specified in the RNE Multi-Annual Plan 2005-2008. The strategic outcome 2008 for the water sector consists of the following two components[18]:

- The institutional, legislative and regional context for the formulation and implementation of water resources management policies has significantly been strengthened.
- The capacity for Integrated Coastal Zone Management and Integrated River Basin Management has significantly improved.

The RNE strategic objectives for 2005-2008 are a strengthened NWRC and RBOs, improved flood management systems and the establishment of a full-fletched Partnership for Natural Disaster Mitigation.

The approach in the Multi-Annual Plan is to achieve the above outcome and results through co-financing of relevant programmes mainly by ADB[19], to a lesser extent by WB and to a limited extent by UNDP. In this way RNE is confident to realize a significant array of activities in support of the institutional and legislative framework for water resources management.

From: Evaluation of sector approaches in the water sector, summary country note Vietnam, , IOB, October 2007

WB and ADB substantially differ with regards to the issue of partnership. WB has substantial expertise in its country offices often with task managers on the ground. The structure is de-centralized as compared to the centralized structure of the ADB.. Most ADB arrangements

[18] Multi-Annual Plan 2005-2008 Vietnam, Royal Netherlands Embassy, 23-12-2004

[19] ADB launched its water policy "Water for All" in 2001. The policy defines ADB's priorities, commitments and strategies for developing Asia's water sector. The poverty issue is an integral part of this policy. The ADB Cooperation Fund for the Water Sector (CFWS) co-funded by The Netherlands includes an activity "Water for the Poor: Partnership for Action". This activity was focused on Vietnam. Progress made in Vietnam with this activity was not as far and fast as might be expected (ADB, external review of Fund Performance, June 2006).

have to be made through the task managers at ADB Manila headquarters. This does not facilitate the relations between the Netherlands Embassy and ADB. Moreover, it can influence the quality of the loan.
In view of the above it can be argued that more involvement of the Netherlands as co-funding partner is needed in ADB co-funding arrangements as ADB has limited staff in its resident missions. It can also be argued that additional expertise within a properly functioning WB country office could prove to be very effective in improving the loan preparation and implementation process.

In the perspective of SWAp, co-financing through multi-lateral channels potentially has the following major advantages: i) co-financing contributes to harmonization; ii) co-financing often contributes to a reduction of transaction costs; iii) co-financing offers an opportunity to participate in a policy dialogue at high level within the recipient country as well as within the multi-lateral organization itself and; iv) a loan is supposed to provide substantial ownership to the recipient country as it is their money. In reality these advantages are only partly being realized. The TA, as a grant component provided by the Netherlands to the loan is not always explicitly discussed and agreed upon with the recipient country itself. The multi-lateral organization often considers the TA as their ownership. Loan preparation is often a long-term process, and the conditionalities imposed by the multi-lateral agencies have the tendency to reduce the feeling of ownership of the recipient country. Notwithstanding these problems co-funding through multi-lateral organizations is a good option to contribute to the water sector development process, specially in the large partner countries.

The funding of water supply and sanitation activities through UNICEF, as takes place in Mozambique and Indonesia, substantially differs from funding through WB and ADB. The UNICEF activities started recently and it is too early to judge the role and place of these activities within the countries concerned. In Mozambique major efforts are made to adopt the “standard UNICEF approach “ to the Mozambique circumstances and to bring it in line with the Netherlands wish to harmonize and align wherever possible. These efforts were partly successful. The UNICEF programmes remain to a large extent centrally managed projects activities which do not facilitate harmonization of activities with others. The integration within the government systems at various levels usually remains limited.

3.3 Harmonization and alignment

Harmonization
The number of major donors in the water sector during the period 2000-2006 increased in Benin, remained stable in Mozambique, Yemen, Indonesia and Vietnam and decreased in Bangladesh and Egypt. A possible reason for the increase in Benin is the positive enabling environment for the water sector. Actually, the Netherlands only became a major donor in Benin in 2004, renewded its aid to indonesia in 2001 after a moratorium of 10 years and increased its aid in Yemen substantially in 2005 after considering to withdraw from the waetr sector in the year before.
Harmonization and donor coordination in the seven partner countries shows the following tendencies: i) The number of donors that exchanged information increased, nearly all donors participate in the information exchange process; ii) the number of donors involved in policy and strategic coordination increased; iii) the number of donors involved in operational coordination in the water sector slightly increased but remains very limited and; iv) the role of the recipient country in donor coordination is limited with the exception of Vietnam, which plays a leading role in donor coordination.

Box 3.3 : Harmonization in Yemen

Harmonisation for GON in sub-sectors RWSS, WRM and UWSS
The number of donors in the water sector is small and most donors have found their specific niche. As such donor harmonisation beyond agreeing on policies and practices is not considered of prime importance. For GON the sub-sectors RWSS and WRM are important and to a lesser extent the UWSS. In UWSS, donors find their niche in different Local Water Supply and Sanitation Corporations, which are operating independently from each other. In NWRA, the different donors find it difficult to collaborate effectively on programme level, one reason being the comparative institutional weakness of NWRA. In RWSS, it is important to harmonise between the efforts of GARWSP, GON and the World Bank RWSS project. The somewhat strained relations have improved with the appointment of a resident sector specialist at the World Bank Office in early 2007, funded by DFID. In September 2007, the World Bank and GOY concluded an Aide Memoire on the establishment of a new Water Sector Support Program[20], with a timetable leading to Sector Investment Loan with donor co-funding in a SWAP framework with sub-sector budget support to be operational in 2009. The GON PAWS, the JAR process and the Donor Core Group activities have contributed to this development.

From: Evaluation of sector approaches in the water sector, case study Yemen, IOB, November 2007

The results of the harmonization process in the water sector greatly differ per country. Only in Benin substantial progress has been made regarding the Paris indicators of harmonization in the water sector[21]. This is mainly due to the fact that four "like-minded Donors" are involved in the water sector all with substantial funding. All four donors play a role in the strengthening of the harmonization process in the urban and rural drinking water sub-sectors. In Yemen the Joint Annual Review of the water sector involving sector performance and policy setting, involving both the donors and all major government ministries, is a major positive development. The Dutch contribution to the harmonization and alignment process in the water sector in three countries is summarized in table 3.2.

Table 3.2 – Dutch contribution to harmonization and alignment in three countries

Country	Role GON in harmonization	Extent of alignment in donor consortium to which GON belongs	Constraints / enabling factors	Aid modality
Benin	Harmonization process ongoing. LCG sub-group functioning well, discussions on basket funding conclusive and positive. Paris indicators on harmonization trends: less missions, joint analysis. GOB harmonization process still donor initiated (through TA within GOB structures).	Full policy alignment specially in WSS sub-sector. System alignment GON nearly 100%, sets example for others. Integration in national budget. Road map for RWSS major stepping stone for basket and pooled funding with four donors.	Balanced bilateral group of four donors , who all four substantially contribute to WSS sub-sector. Commitment from donors as well as GOB parties.	Started with five pilot projects. Aiming at and started with upstream modality (programme support with elements of project funding)
Mozambique	LCG sub-group hardly functioning. Recently improved around RWSS and principles of basket funding. Code of Conduct under preparation with GON and SDC as leading parties. No GOM leadership and ownership of harmonization process.	Full policy alignment, ASAS programme fully aligned with GOM financial and tender procedures. New activities through CARE and UNICEF less aligned. General towards lesser alignment GON programme.	Lack of bilateral donors in sector. No like minded group. GON by far biggest of bilaterals. Lack of involvement multi-lateral donors	From only one ASAS sector programme towards modality mix balancing short and medium term objectives

[20] Source: personal communication from RNE, September 2007.
[21] See also Evaluation of sector approaches in the water sector, case study Benin, IOB, December 2007,chapter 3,

Yemen	GON chairs both the DCG for the water sector and the cross-sectoral PFM working group. GON instrumental in assisting GOY to prepare the JAR.	Donors well aligned in policy of support to National Water Strategy. Donors not aligned in systems alignment.	Lack of capacity of implementing agencies; poor reputation on corruption; low score on governance indicators (IRAI);donors hesitant to release control mechanisms.	GON well ahead in system alignment with sub-sector budget support

Source: Case studies IOB water 2007

Alignment

Netherlands supported programmes and projects in all seven partner countries are consistent with the vision and strategies in the water sector. All programmes and projects support the efforts of the recipient government to attain water and sanitation related goals as articulated in national policies, plans, PRSPs and MDGs. Policy alignment in the water sector takes place. Management or systems alignment takes place to a far lesser extent in all of the seven partner countries. The Netherlands contribution to management alignment is substantial in most countries as the Netherlands usually is ahead of other donors specially with regards to following national tender and procurement procedures, using existing staff, using financial reporting procedures and often also using the financial channels of the recipient country itself.

3.4 Capacity development and technical assistance

In the context of the sector wide approach, donor organizations must consider how best to support local (organizational) capacity within a sector and how this relates to cross-sectoral programmes such as decentralization processes, public sector reform and training programmes. In the 1970s and 1980s the development of capacity mainly took place through the injection of TA from outside often not geared to deepen locally applicable and relevant knowledge. Such TA solely focused on the transfer of knowledge for the implementation of projects and had often little sustainable impact.

In a later phase the Netherlands deployed TA in order to support sector policy development. Within the context of the SWAp in the early 2000s , the Netherlands decided in principle, not to deploy TA any more. However, the reality regarding TA in the GON supported water programme is still complex and can be characterized as follows:

- Major TA support is provided through the co-funding of loans or grants with multi-lateral agencies. TA is being financed with the purpose to improve the quality of the loans (see also chapter 3.2.2).
- Continued TA support in the water programme mainly in Egypt and Bangladesh through individual projects in IWRM.

In line with the “SWAp thinking” no technical assistance was provided in major sector programmes like the Comprehensive Medium Term Water Sector Support Programme (PPEA) in Benin, the RWSS programme in Vietnam, the ASAS sector programme in Mozambique, and the RWSS sub-sector programme in Yemen.

Notwithstanding the overall Dutch approach to move away from TA in its traditional sense, the need for TA remains substantial in most countries. Netherlands TA with special reference to water management expertise is often requested by the recipient country and cooperating donors alike. In Benin, Vietnam and Mozambique the Dutch “can afford” not to provide TA as other donors still do provide the necessary TA. This “Dutch approach” to refrain from TA is not always being understood and appreciated by others donors[22].

[22] Findings based upon informal discussions held with parties concerned in Benin, Indonesia and Vietnam.

Capacity development at regional and local level often does not take place in a systematic manner with special reference to the RWSS sub-sector. All parties follow their own approach, most of the times in relative isolation of governmental services (for details see chapter 4.3).

3.5 Role of civil society

The role of Civil Society in the water sector substantially differs from one country to the other. The role of the Netherlands in supporting Civil Society remains limited except regarding the strengthening of local level water user organizations. Strengthening of Civil Society through Netherlands support takes place in the following ways:

- Strengthening of local level organizations like Water Users Associations and Water Boards through support to individual water sector activities, specifically in Egypt and Bangladesh, but also implicitly in the other water partner countries.
- Support to large national and international NGOs to implement project activities. The best examples are the support to BRAC, an important Bangladeshi NGO and support to CARE International in Mozambique, to implement the Dutch centrally managed programme “drinking water for 50 million people”. Such support is not meant to strengthen these organizations but to accelerate implementation of RWSS activities.
- Strengthening of national NGOs to build up their capacity to enable them to play a more prominent role in the water sector. In this context the Netherlands supports the Global Water Partnership (GWP) from centrally managed funds to initiate the establishment of country Water Partnerships as a neutral platform for IWRM. Such a strengthening took place in Benin and to a limited extent in Vietnam and Egypt.

Box 3.4: Benin Water Partnership (BWP)

The Benin Water Partnership received substantial support from the Netherlands directly through the Netherlands Embassy as well as indirectly through Netherlands central level support to GWP for the preparation and implementation of IWRM plans in seven African countries. The support to the Benin Water Partnership is successful. Till present the Benin Water Partnership achieved the following:

Role in policy influencing: The Benin Water Partnership played and still plays a major facilitating role in the preparation, formulation and awareness creation regarding the Water Charter, the Water Policy and the IWRM action plan. The major result of its role is an improved quality of the Water Charter and an acceleration of the approval process of the water charter.
Parliamentary approval of the water charter is a long process. BWP’s commitment to push it through is very important as WB, AfDB and DANIDA funding in IWRM is held up due to the slow decision making process.

Role in starting up of pilot activities in the field of IWRM: The Partnership puts much efforts in the stimulation of IWRM pilot activities at local level. The Partnership is convinced of the need to demonstrate the importance of IWRM through concrete activities at local level as the IWRM concept as such is not easy to be understood.

Role in awareness raising: Awareness raising activities have been undertaken at all levels, good quality manuals were produced. In view of the above the Benin Water partnership earned a lot of credibility amongst all parties in the water sector. The Netherlands support to the Partnership was important to enable it to play its role.

Source: Preliminary results from the External Evaluation of the Global Water Partnership, Performance Assessment Resource Centre (PARC), 2007

The Netherlands support to Public-Private Partnership is focused on the urban water supply sub-sector through project activities undertaken by Vitens to strengthen the financial and management of water utilities contributing to sustainability and autonomy of the water utilities.

3.6 Role Netherlands embassy and headquarters in The Hague

Responsibilities
The strategic choices of the Netherlands Aid Programme are defined in the Multi Year Strategic Plans (MYSP) of the RNE. At present the funding of the Netherlands programme in the water sector takes place through the following channels: Delegated bilateral budget, multilateral channels, centrally managed funds "reaching 50 million people with water supply", centrally managed funds for PPP, regional funds and ORET funds. It is clear that the decision making regarding a substantial part of the present Netherlands programme activities in the water sector does not take place at the level of the Netherlands embassy but at headquarters level in The Hague. The three case studies showed that the Benin and the Yemen programme water are really steered and managed by the embassy. The situation in Mozambique is more complicated as the Netherlands programme in Mozambique contains major contributions through centrally managed funds.

Box 3.5 : Decision making in Mozambique

The example of the centrally managed UNICEF programme:
The Netherlands government recently promoted the implementation of an accelerated WSS WASH programme through UNICEF. Implementation takes place through UNICEF. Mozambican government structures and decision making processes are partly taken into consideration. Financial management is the responsibility of UNICEF. This means in fact that the Netherlands government (at headquarters level) is of the opinion that the SWAp in the water sector offers no real opportunities at this moment for an accelerated implementation programme. Disadvantages of the project approach are also present under the UNICEF programme .

However, the UNICEF programme also offers opportunities within the context of a sub-sector SWAp for RWSS. Channelling funds through the decentralized government systems should be possible within a few years time. Such opportunities could not be incorporated in the UNICEF programme as of yet. It is not clear whether these opportunities have been seriously analyzed and considered during the programme preparation process.

From: Evaluation of sector approaches in the water sector, Mozambique report, IOB December 2007

The choices made in Benin, Mozambique and Yemen regarding the funding modalities are well documented in embassy policy notes in Yemen and Mozambique as well as in the external evaluation cum appraisal report of the project activities in Benin. There is no clear evidence that these notes have been thoroughly discussed in The Hague. This is surprising with special reference to Mozambique as the conclusions drawn in the policy note prepared at the start of the sector wide support through SBS to the National Directorate for Water are not in line with earlier findings regarding the existing policy and institutional framework in Mozambique.

Indicators
Track records are supposed to play a role in the decision making regarding aid to a specific country. The indicators used are the CPIA/IRAI indicators of the World Bank and the ratings used in the GON/RNE track records, which often resemble the CPIA scores. These track records do not provide insight into the situation in the water sector. Moreover, it is not clear whether and how changes in the ratings at national level have a bearing on the water sector. Since mid-2007 embassies produce new sector track records for priority sectors. These provide a detailed review of the sector and the results of the Dutch aid (see also chapter 1.6).

Changing Policies in the Netherlands Support to the Water Sector in Mozambique
Because of the disappointing results of sector wide support to the National Directorate for Water through the ASAS programme, the Netherlands diversified its aid to the water sector from 2005-2006 onwards. According to the MYSP 2005-2008, there will again be room for direct support through government agencies and civil society organizations to enhance institutional capacity, test innovative approaches, improve the quality of services and overcome specific bottlenecks. This diversification involves rural drinking water support

through CARE from delegated funds, through UNICEF from centrally managed funds and investments in urban water supply through delegated funds and ORET. As a consequence of this return to project aid the role of the national coordinating institution DNA has been reduced.
In this respect, one may challenge the RNE choices for project aid (CARE, UNICEF) in rural water supply. The additional study in Inhambane Province shows that alignment with the provincial water units and harmonization with other donors is possible. Irish Aid and Canadian Aid (CIDA) are supporting these provincial units with budget support and limited technical assistance and are in this way creating perspectives for a provincial (de-centralised) SWAp. Also the DFID supported water & sanitation project in Zambezia was to a great extent aligned with the provincial water unit and contributed to policy development at decentralized level.
One may conclude in the hindsight that the rejection of the RNE proposal by The Hague in 2000 to continue the Nampula regional programme – within the context of a more sectoral approach - has been a lost opportunity. It would have been much more effective and efficient to initiate a water sector support programme at decentralized level in Nampula province where the RNE had a long experience and a good reputation.
It may also be concluded that Dutch aid policy to the water sector in Mozambique has not been very consistent. Although the diversification of modalities is in line with Dutch aid policy after 2003, it also hampers harmonization and alignment and reduces ownership of the recipient government, and as such is less consistent with other objectives of Dutch aid and international agreements signed by the Netherlands.

Staffing
The Netherlands embassy staff in all seven water partner countries includes expatriate water sector expertise. Six countries have local water sector staff (except Indonesia). The quality and role of this local staff substantially differs from one country to the other. A lot of time is spent by the expatriate water sector staff in communicating with headquarters and with other donors. Consequently less time can be spent with the recipient government officials and in conducting field visits. In Indonesia and Vietnam there is an urgent need to "keep in touch" with the multi-laterals. Not just in participating a few days in a review or supervision mission, but more strategically during the whole loan preparation and implementation process. In this context discussions with the recipient government regarding their role and responsibilities in the loan process are crucial. This last issue gets less attention. The time pressure on the embassy staff is substantial.

3.7 SWAp grade: A classification of projects and programmes regarding progress with SWAp"

The Netherlands structural support to the water sector consisted of 311 activities during the period 2004-2006 and is directed through three channels of finance: Royal Netherlands Embassies (delegated bilateral channel[23]), Directorates of the Ministry in The Hague (central bilateral channel[24]), and multilateral organisations (multilateral channel[25]). Almost two-third of these 311 activities, or 200 activities, was financed through the delegated bilateral channel. A

[23] Delegated bilateral has been defined as that part of Netherlands development cooperation that directly benefits partner countries and for which Netherlands embassies are responsible for implementation and financial matters. Support through delegated bilateral can consist of project support, sectoral support and macro support. (Source: Ministry of Foreign Affairs. May 2007. Results in Development 2005-2006)

[24] Central bilateral has been defined as 'that part of Netherlands development cooperation that directly benefits partner countries and for which the Ministry of Foreign Affairs in The Hague is responsible for implementation and financial matters. Support through central bilateral can consist of project support, sectoral support and macro support. (Source: Ministry of Foreign Affairs. May 2007. Results in Development 2005-2006)

[25] Multilateral has been defined as 'Netherlands development cooperation provided as core funding of multilateral organisations (like European Commission, UN and International Financial Institutions) for activities in development countries. These organisations decide themselves in what countries the support is provided, to which themes and in what way the support is provided. All other funding to these organisations for the benefit of a specific theme, country or other predefined aim are not financed through the multilateral channel of finance, but through the bilateral channel (this is both delegated and central bilateral)'. (Source: Ministry of Foreign Affairs. May 2007. Results in Development 2005-2006)

total of 109 activities of these 200 delegated bilateral activities (or 55%) are implemented in the seven water partner countries. This large number of activities suggests that a large number of individual activities still are being undertaken in the seven countries. These 109 activities have been grouped into 26 main activities and categorized per country. To visualize the variety and their "place in the SWAp process" the 26 activities have been situated in figure 3.1 on the following page.

Figure 3.1 illustrates how the main programmes of the Dutch aid in the seven countries can be classified with respect to two major dimensions of SWAp:

1. the level of donor harmonisation and alignment to country systems as depicted on the vertical axis, and
2. the level of sector support in which two types are distinguished, on the horizontal axis:
   a. implementation programmes, which essentially guide and deliver investments, and
   b. policy development programmes, which essentially pilot and promote sector reform policies and practices

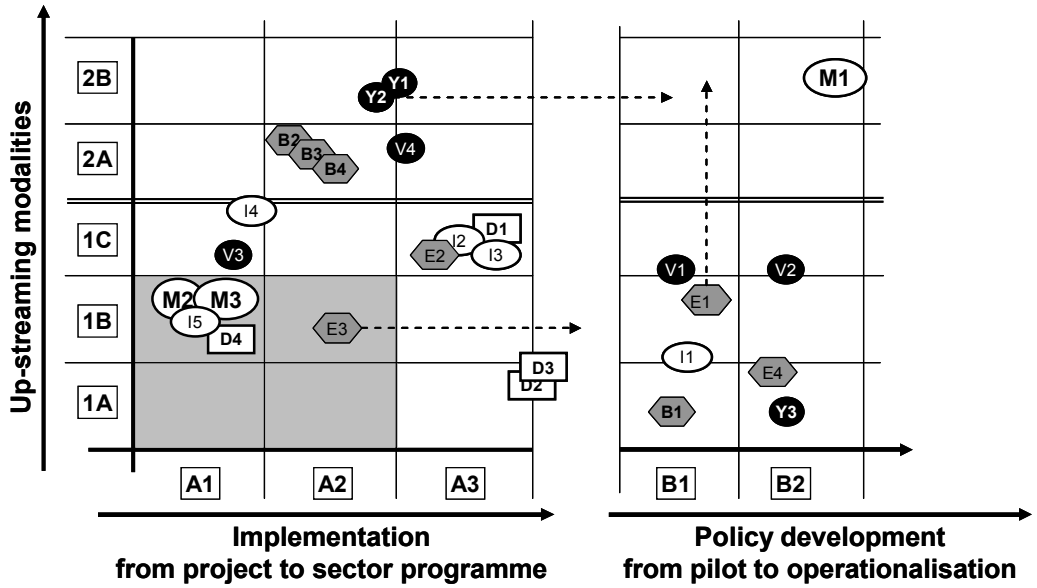
The vertical axis refers to the aid modality and ranges from a "single-donor, project-management-unit managed" project (Class 1A) to the "sub-sector budget support" aid (Class 2B). which currently may be considered to represent the maximum existing SWAp modality in the water sector[26]. The scale represents an increasing level of donor harmonisation and pooling of funds and an increasing use of country systems.
The horizontal axis refers to the content of programmes, which ranges from the limited purpose investment oriented programmes (Class A1) to the multi-purpose sector programmes, addressing the full macro-meso-micro relations in the sector and include both investments and institutional strengthening (Class A3). The scale also depicts non-investment programmes, which play an important role in policy development of the (sub)-sector, often with the implicit aim to improve the enabling environment for SWAp in the sector (Classes B1 and B2). These latter programmes are often innovative and piloting programmes.

Programmes, which are classified to belong to the "grey area" as depicted in Figure 3.1 (classes 1A-1B on the vertical axis and A1-A2 on the horizontal axis), represent the "traditional project" approaches. From a SWAP perspective, it could be said that only programmes that fall in the Class 2 on the vertical scale fulfil the principle criteria of the SWAp policy. Also programmes, which fall in Class B on the horizontal scale may be considered to strengthen the SWAp process.

The policy development programmes are hardly ever carried out by multiple donors, although the donor community supports these programmes. These programmes are most often funded by bilateral donors as they provide grants rather than loans. Typically, the Netherlands takes the lead in carrying out these programmes in many countries, enabled by the fact that it is often the largest of the bilateral donors in the water sector, is considered a very knowledgeable donor and trusted by the recipient country because of its long-standing relationship. Larger, multi-lateral donors often stimulate these programmes as they wish to operationalise these policies in their sector loans. Typical examples are to be found in Egypt, Bangladesh, Yemen, where these programmes have been very influential and in Indonesia and Vietnam, where they have been less influential, but especially were linked to multi-lateral donors.

[26] The "ultimate" SWAp modality of General Budget Support or Sector Budget Support are currently not practiced and hardly relevant for the water sector as argued elsewhere in this report.

Figure 3.1 : Progress with SWAp in 7 Water Partner Countries



Benin
B1 : Pilot projects in RWSS, UWSS and WSS in small towns
B2 : Sector Programme Urban WS
B3 : Sector Programme Rural WSS
B4 : Sector Programme IWRM

Mozambique
M1 : ASAS sector programme support
M2 : Urban Water Supply
M3 : Rural Water Supply

Yemen
Y1 : Rural Water Supply and Sanitation (RWSS)
Y2 : National Water Resources Authority (NWRA)
Y3 : Public Private Partnership Ta'iz (PPP in UWSS)

Vietnam
V1 : ICZM with ADB
V2 : IWRM TA with ADB
V3 : Disaster mitigation with WB
V4 : Rural Water Supply and Sanitation

Bangladesh
D1 : Small Scale Water Resources Sector Development with ADB
D2 : Char Development and Settlement Project (CDSP)
D3 : Integrated Participatory Programme for Sustainable Water Management (IPSWAM)
D4 : BRAC Water Supply and Sanitation

Egypt
E1 : Panel Project (APP)
E2 : Integrated Irrigation Improvement Management Programme (IIIMP) with WB and KfW
E3 : Fayoum Water Supply and Sanitation
E4 : Policy reform activities (NWRMP, WQU, IRU)

Indonesia
I1 : WIRIP
I2 : WISMP and PISP together with WB and ADB
I3 : WASAP trust fund with WB
I4 : CWSHP with ADB, I5 : UNICEF WSS

Description of criteria and scales:

Horizontal axis, referring to the scope and quality of the programmes:
A1 : Implementation oriented, limited purpose (project)
A2 : Improvement of policy implementation and organization operations improvement
A3 : Sector programme, multi-purpose, macro-meso-micro
B1 : Policy development, innovation and reform preparation;
B2 : Policy support and institutional strengthening.

Vertical axis, referring to the modality:
1A : Single donor, limited purpose, PMU
1B : Single donor, multi-purpose, fairly well system aligned
1C : Multi-donor, co-financing, fair level of system alignment (TA/PMU within government system)
2A : Pooled funds, multi-donor to single organization/agency responsible for implementation: delivery side aligned (no donor PMU); donor supply side fairly well aligned/harmonized
2B : SSBS Sub-sector budget support or Apex Agency Budget Support.

In the statistics of DGIS, about 80% of the delegated bilateral water sector activities are still labelled as project activities. These data suggest that the water sector is a traditional sector focused on project activities and that hardly any progress has been made towards SWAp. On the basis of Figure 3.1 it can be argued that the real picture is a very different and varied one and that the current classification of either a “project” or a “programme” (implying on-budget support) is too limited to depict the contribution of the water sector aid to SWAp.

Figure 3.1 shows amongst others the following:

- Hardly any of the Dutch programmes fall in the “traditional project support”. The current programmes classified in this category are mainly the specific investment programmes formulated under the “drinking water for 50 million people” programme in Mozambique, Indonesia and Bangladesh. The Dutch support substantial programmes in the field of policy development and sector reform. These programmes are important for progress with SWAp.
- The Dutch are applying upstream SWAp modalities in Yemen and Benin; these programmes are often sub-sector oriented and the Dutch aid focuses on investments, relying for institutional strengthening upon others.
- Major Dutch programmes fall in the Class 1C and A3, which typifies large scale multi-purpose sector programmes addressing macro-micro relations. These programmes are typically carried out in cooperation with other (multi-lateral) donors (Egypt, Indonesia, Bangladesh and to a lesser extent Vietnam) as these type of programmes require larger investments than the Netherlands can afford as a small donor.

3.8 Conclusions

Public Finance Management

- During the period 2000-2006 progress has been made regarding PFM with special reference to Benin. However, in all of the three case study countries PFM is still considered to be weak. In Mozambique and Yemen accountability and transparency is of concern, while in Mozambique and Benin the low budget execution rate is of concern.
- In all three countries, the donors pay attention to improving the PFM system and donors are aware that only a harmonised effort will yield results. The Netherlands influence on the improvement of PFM has specially been high in Benin and is potentially high in Yemen, in view of the risk taking approach to channel funds through the financial system of the two countries. Other like minded donors in Benin show keen interest to draw lessons for their own future policies and in yemen start to show this interest Additional safeguards have been built in and consist of joint donor monitoring and TA in Benin and of formal value-for-money-audits and stringent annual plan approval processes in Yemen.

Financial support and modalities

- The major tendency is that the project portfolio gradually shifted from isolated project activities in the early 90s to more interrelated project activities in the late 90s. The shift towards other modalities in the early years of 2000 was gradual in Benin and Yemen and more radical in Mozambique.
- About 80% of the delegated bilateral water sector activities are still labelled as project activities. However, the project activities are far from traditional projects and generally constitute water sector programmes, which address sector wide issues. Project activities represent a large variety of type of activities often with a substantial role in improving the enabling environment for SWAp. There is dynamism in the sector.

Multi-lateral channels

- It is generally agreed upon that GON co-financing adds credibility and quality to the loans. However, there is a need to further elaborate the value added of co-financing a loan through a grant27.
- The RNE model of co-financing through WB and ADB provides opportunities to contribute to institutional change. Such partnerships are meant to improve aid effectiveness. However, the Netherlands strategy regarding co-financing is not always clear. Is the Netherlands merely a financier or is it a partner supporting delivery. The following questions have not sufficiently been answered as yet: What results does RNE intend to yield, how active role does RNE want to play in programme/project formulation/monitoring/review/supervision? Does RNE intend to influence/transform WB/ADB programmes or procedures? How strong are the partners (difference between WB and ADB regarding staffing country offices)? These questions need to be answered to ensure an effective strategic partnership with the multi-lateral organizations.
- The Netherlands has never considered providing expertise to country offices of WB or ADB. Such "advisory project staff" embedded in the multi-lateral organization has the potential to generate new research, analysis and evidence that can be owned and shared by the multi-lateral organization, the recipient country and the broader donor community28.

Paris declaration: harmonization and alignment

- The harmonization process in the water sector is a slow process. It has to be noted that there is relatively little interest amongst donors in harmonization except in the sense of exchanging information. The number of "like minded" bilateral donors in the water sector is often limited. Harmonization through joint co-funding of major water sector loans still takes place to a limited extent, although interest in such joint co-funding seems to increase. The Netherlands role in trying to intensify and accelerate the harmonization process differs per country, but can be considered as positive in most cases.
- Policy alignment takes place in all countries. However, systems alignment takes place to a very limited extent. The Netherlands is often well ahead of others regarding systems alignment. Alignment is a complex and consequently probably gradual process, being ahead is good provided that you are not too far ahead as was the case in Mozambique. Systems alignment in Benin and Yemen is less risky as the institutional framework is stable, the organisational mandates and responsibilities are defined, the de-concentration and decentralisation process has been defined and the water sector strategy has been defined to a sufficiently large extent and level of detail.

Capacity development and technical assistance

- The overall Dutch policy is to reduce TA as much as possible, as a matter of principle. On the other hand, partner countries and other donors consider TA, directly provided by the donor at the request of the recipient country still as important. Specific Dutch

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27 ADB states that change is needed to tap the potential of the water sector to reduce poverty, change that is holistic and strategic. Change in how governments deal with the sector, change in the capacity levels of the institutions, change toward partnerships and, the review team adds, change how ADB deals with the sector. Water sector loans face a number of challenges. Typical challenges are: i) loans require cross-sectoral and multi-disciplinary integration, which leads to institutional and conceptual constraints to loan formulation; ii) loans depend upon institutional performance, which is crucial for success and requires capacity building next to investments in infrastructure; iii) loans deal with public services, which often do not have a well-defined financial base, raising policy questions on tariff setting, cost recovery and sustainable operation and maintenance; iv) loans expose trans-boundary issues, often between provinces and frequently between countries; v) loans involve all stakeholders, with a special challenge to be sufficiently pro-poor. Besides this all, the financial investments required for the sector are huge, which means that new modalities of financing have to be sought next to the "standard" loans from development banks and budgets of national governments.
Consequently, water project loans are considered to be comparatively "difficult" to prepare and implement. Within ADB, the broader water sector is not yet formally recognized as a sector nor cross-cutting by ADB, which means that a number of requirements for good quality water loans are not yet mandatory and not part of the standard arrangements for loan preparation and review.

28 DFID has elaborated partnerships with WB along these lines and considers these as effective. See also DFID Country Programme Review Vietnam, evaluation report EV 673, Jeremy Clarke, Julian Gayfer and others, May 2007

programmes piloting sector reforms require TA. Consequently the approach to TA is complex and divers. It varies from substantial TA support to pilot activities and multi-lateral loans to non-TA supported investment funds as part of major sector programmes, sometimes relying on TA of other donors. In Yemen and Egypt limited TA funds are put at the disposal of the recipient government.

- Capacity development at regional and local level often does not take place in a systematic manner with special reference to the RWSS sub-sector. All parties follow their own approach, often in relative isolation of governmental services. Opportunities for systematic capacity development at lower levels have not sufficiently been recognized under the Netherlands programme in Mozambique, Yemen, Bangladesh and to a certain extent in Benin.

Civil Society

- The Netherlands input in strengthening local level water user organizations and local water boards is very substantial and substantially contributes to sector development.
- The Netherlands support to the strengthening of the Civil Society is relatively limited. The Benin experience with support to the Benin Water Partnership shows the potential value added of such support.

Role of Embassy and Headquarters

- In Mozambique the shift towards SWAp was a radical one. Early ideas at RNE to include the regional programme in Nampula province in the SWAp approach were dismissed by the Dutch Minister for Development Cooperation at that time. The recent funding of WSS activities in Mozambique through centrally managed funds has not strengthened the Netherlands policy towards a sector wide approach as these activities do not easily link up with other initiatives.
- In Benin and Yemen decision making regarding the shaping and infilling of the water programme took place at RNE level. There is hardly any centrally managed funding in these two countries.

4. NETHERLANDS CONTRIBUTION TO SECTOR STRENGTHENING

In this chapter the Netherlands contribution to sector strengthening will be assessed with special reference to issues like ownership, policy making, institutional framework and the macro-micro relations. The chapter also contains a risk assessment regarding the Netherlands decision making how to contribute to the water sector development process.[29]

4.1 Policy framework and status of policies and strategies[30]

In the late 90s and early 2000 policy development and plan formulation did take place in the water sector in most countries. Sub-sector, rather than sector reform processes did get off the ground. These processes largely differ in scope, intensity and speed. The status of the policies and strategies in the three case study countries is summarized in Table 4.1:

Table 4.1 – Summary status of policies and strategies in three case study countries

	Policy / strategy, Status and Remarks
1	**PRSP and water in PRSP** Water often not properly included in 2nd generation PRSPs "Water parties" less involved and interested in PRSP process. MTEF for water sector less realistic.
2	**Sector Plan and Strategy** National Water Sector Plan and strategy exist in Yemen, is ready but not yet adopted in Mozambique and is under preparation in Benin.
3	**Road map (sub-sector action plan)** Crucial as a major instrument to bring donors and agencies together in a very concrete context. Exist for rural water supply in Benin and Yemen.

Source: case studies IOB evaluation water sector 2007

The PRSP process, even the 2nd generation PRSPs, still did not properly incorporate the water sector. Usually only the drinking water sub-sector is explicitly incorporated based upon the MDG targets for water and sanitation. The WRM sub-sector is hardly mentioned, PRSP is seen as a crucial instrument for promoting ownership based upon the assumption that the PRSP reflects the priorities of the recipient countries themselves (IOB 301, 2006). From discussions it became clear that the line ministries concerned were often not really involved in the PRSP process.

Box 4.1: Water sector and PRSP

The Water sector is struggling to gain prominence of PRSPs despite its importance in reducing poverty. According to Williamson (ODI, June 2005) the water sector has the following characteristics that influence its role and place in the PRSPs : i) Progress in reform in the water sector is slower than in other sectors; ii) Institutional fragmentation in implementation remains; iii) Little coordination in the implementation of the sector reform processes; iv) Chosen aid instruments in delivering WSS dominated by multiple donor projects with different aid modalities and implemented through different institutions; v) Due to above, poor targeting of investments; vi) Weak and unpredictable public expenditure management systems means that alternatives aid instruments like budget support appears unattractive for donors and; vii) No proper engagement of the WSS stakeholders in PRSP process.

The sector plan and strategy formulation process in the water sector made substantial progress during the last few years. However, the sector planning process remained weak in its elaboration of the capacity development issue. Moreover, the issue of poverty does not get much attention in these plans. Neither in the analytical nor in the strategic sense.

Road maps are considered crucial by all parties. A road map clearly indicates what has to be done, when, where, by whom, with which means and how. The formulation and agreement

[29] This chapter will give special attention to the strengthening in Benin, Mozambique and Yemen as case studies were conducted in these countries. In case the text refers to "three countries" it refers to these three case study countries.

[30] Indicators and criteria used are: progress made in the general water policy, in operational strategies and (sub)sector policies, in (sub)sector action plans and in the broad legal framework, see also detailed evaluation matrix in annex 1

on a rural WSS road map in Benin was the starting point and major incentive for harmonization and alignment in this sub-sector[31]. Road maps also are a major instrument in strengthening the macro-micro relations as implementation is elaborated for the meso and the micro level as well. Moreover, implementation mechanisms are indicated as well.

The *legislative framework* for the water sector improved over the last years. However, the elaboration of this framework in terms of rules, regulations and by-laws is needed. Participatory water management practices through the active involvement of Water User Associations at grass root level is generally agreed to be a cornerstone for the development of the sector. The inclusion of participatory issues in the legislative framework is actually getting shape. Still, major improvements are required in the following fields: i) River Basin Management; ii) consequences of decentralization for the water sector and; iii) Public-Private Partnership.

The Netherlands contribution to an improved policy framework

- A proper IWRM policy framework and related plans are extremely important for countries such as Egypt, Bangladesh and Vietnam. In all three countries the Netherlands played a role in improving the policy framework. In Egypt this role has been crucial, in the other countries the role has been important. In the IWRM planning process in Benin, the Netherlands play a role through their assistance to the ministry concerned as well as through their assistance to the Benin Water Partnership.
- In the preparation and formulation of sub-sector plans and strategies the Netherlands played a limited role.
- In the development of road maps the Netherlands bilateral programme played a limited role in the formulation process, but a major role in stimulating implementation of road maps by encouraging agencies in dialogues to improve road maps and by facilitating and funding implementation in Yemen and in Benin.
- The Netherlands as well as other bilateral donors played no role in stimulating the systematic incorporation of the water sector in the PRSP process.
- The Netherlands played a role in the improvement of the legislative framework for the water sector with special reference to the strengthening of the formal role and responsibilities of local level organizations like Water User Associations and Water Boards in water management in Egypt and Bangladesh.

4.2 Ownership

Ownership refers to who determines policy and strategy and who is responsible for implementation. It also includes political engagement and commitment as well as broad public support. Ownership relates to the consultation and harmonization process as well as to the quality of the dialogue. Regarding ownership and related issues the political commitment is crucial. *In fact political commitment is not just at sector level, but specially at supra-sectoral level, conditional for progress in SWAp.* Major indicators for political commitment are the formal approval of policies and plans, the commitment to implement policies (e.g. water pricing policies), progress for the water sector relevant contextual factors, properly functioning institutions and increased domestic funding of the sector.

Brown et al (Brown, A.Foster, M.Norton, A.Nuchshold, F., 2001)[32] distinguish three types of ownership in the relationship between the recipient country and the donors. These types can be described as follows for the seven water partner countries:

[31] WSP/WB played an important role in the preparation of the road map in Benin. They also started playing this role in Mozambique.

[32] The status of SWAps, ODI working paper 142

- Strong leadership by the recipient government which increasingly determines the decisions made about policy and spending. For the GON water sector programme this applies to Vietnam, Indonesia, Bangladesh as well as to Egypt.
- A coalition of donors with a core group of politicians and technical experts to implement reforms in the sector. This applies to the situation in Benin and to some extent to the situation in Yemen.
- Weak ownership, so donors are the prime bearers and drivers of the reform in the sector. This applies to Mozambique although the 2001 GON assessment of the potential for SWAp was very positive regarding the Mozambique reform process and the ownership of the recipient country. The lack of success of the 2002-2007 ASAS programme shows lack of leadership from the GOM side.

Donors intend to promote the transfer of ownership through the transfer of control, accountability for the development process and aid coordination to the recipient country. The degree of dependence on donor aid in the water sector and the capacity to implement determine the ownership issue to a large extent. In Egypt, Vietnam, Indonesia and Yemen - four out of the seven partner countries - the dependency on aid is limited and consequently these countries own and control their development process. The dependency on aid in the water sector is very substantial in Mozambique and Benin where sector investments are to a large extent funded by donors.

The complexity of the issue of political commitment can be illustrated by the Bangladesh example:

Box 4.2 : Complexity of political commitment; the Bangladesh case

People in Bangladesh have adapted to regular floods caused by monsoon rains and rivers. However, storm surges from the sea and occasional excessive river floods cause considerable loss of life and damage to crops and infrastructure. Specially spring tides and typhoons in the South and flash floods from mountains may have devastating effects. The extent of such damage has increased over the years because of mounting population pressure and the rising value of infrastructure in flood prone areas. In view of the above appropriate water management is essential for the safety and for the livelihood of the population. Specially, the poor are prone to floods and other natural disasters.
Bangladesh has an appropriate policy framework for IWRM with the National Water Policy, the National Water Management Plan (NWMP) and the Guidelines for Participatory Water Management. Roles and responsibilities of the various actors are clearly spelled out. Moreover, the institutional framework for water management is rather clear with core business of relevant organizations well established.

Surprisingly, it is generally acknowledged that the water management situation in Bangladesh has deteriorated during the last 5 to 10 years. Even O&M essential in the context of water management in flood prone areas is largely insufficient to maintain minimal standards. Apparently, in reality WM has a low priority. This situation is very worrisome. Possible reasons are: i) lack of political commitment from GOB side and consequently limited funds allocation from the national vote and no actions to solve the constraints in the implementation capacity and ii) a lack of donor commitment also in view of the slow reform process and bad PFM (corruption).

Commitment from GOB at the Ministry of Finance (MOF) level appears to be lacking for a number of reasons. Apparently, donors including GON as chair of the LCG sub-group on WM and the IFI's have not been able to ensure political commitment till present. Notwithstanding the lack of political commitment, all parties also agree that Local Government Engineering Department (LGED) responsible for water management in schemes of less than 1,000 hectares is functioning properly. LGED has been able to overcome the constraints of limited implementation capacity and limited funding. Why? It is relatively easy to implement a participatory approach in small schemes/polders as compared to large schemes/polders. Moreover, the organization has relatively "recently" been established with representatives at administrative lower levels. LGED is committed and implements a number of projects and programmes amongst which a sector programme co-funded by ADB and GON.
The commitment from the Bangladesh Water Development Board (BWDB) to implement a participatory approach seems to be lacking although the limited implementation capacity and limited funding are often used as an excuse. WB did withdraw from the WM sector for a number of years but came back although conditions regarding reform were not met by GOB.

The issues of people's participation and O&M were already raised in the early 90s and discussed since than. Looking back at the progress made in these fields the conclusion can only be that GOB lacked commitment to

solve the issues. Donor preparedness to contribute to solutions has been there for a number of years although donor coordination and harmonization in the WM sub-sector never took off. The IFIs and large donors like JIBC/JICA each had their own project approach and the only important bilateral donor (GON) moved from individual projects to a mix including bilateral projects as well as co-financing activities within the BWDB together with WB and within LGED together with ADB. So, why coordinate and harmonize?
The following lessons can be learned from Bangladesh:

- A good policy and institutional framework in water management is no guarantee for a successful development effort in the water sector and definitely "not enough" a condition for SWAp.
- A lack of political commitment from the recipient government cannot easily be rectified by the donor community. Neither the LCG sub-group on WM nor the IFIs could play a prominent role in a policy dialogue at the highest level and help to put WM higher on the national agenda.
- WM was not properly elaborated in the MTEF. It is a missed opportunity from the side of the donors. Apparently, donor coordination and harmonization are nearly non-existent and the donor community seems "fast asleep".
- Political commitment exists within the LGED. LGED functions properly and has strong macro-micro linkages. Moreover, the policy framework is of good quality. This creates an enabling environment for a SWAp type of funding to LGED for WM of small schemes/polders. In fact the nation wide Small-Scale Water Resources Development Sector Project (SSWRDP) funded by ADB together with GON moves into the direction of a SWAp type of activity.
- The capacity problems of BWDB are being emphasized. However, the eagerness of BWDB to adapt its institutional framework and to learn lessons from the LGED experience remains limited as well. Still, additional funding for BWDB has been approved by various parties. It is not clear what the reasons are to provide additional funding to BWDB while situation did not improve?

From: Sector track record and other documents

As illustrated in box 4.2 the political commitment to the water sector at the highest governmental level is essential. The process of political commitment cannot directly be influenced by bilateral donors at country level. A high quality dialogue between the donors and the recipient country on crucial water issues at the highest level is the only way to influence the recipient government. This policy dialogue intensified in Benin and Yemen over the last few years. The Netherlands plays a major role in stimulating the policy dialogue in Yemen, but less so in other countries.

Box 4.3 : Ownership in Yemen

GOY ownership of the policies and principle approaches is high. GOY efforts in decentralising water services delivery to rural communities and urban corporations are commendable. GOY is actively engaged in joint annual reviews (JAR) and setting sector performance criteria. GOY has formulated a national agenda for reform including civil service reform and public finance management. GOY still has to prove its commitment to operationalising many of the policies and reforms. The slow follow-up to the recommendations of the JAR, the slow process to improve PFM and to implement CSR, and the hesitance to really tackle capacities in the sector are all considered critical factors for progress. This progress will not only determine how SWAp will be implemented in the sector, but also how much donor funding the sector will be able to draw in the coming years.

From: Evaluation of sector approaches in the water sector, Case study Yemen, IOB, December 2007

Netherlands contribution to ownership and policy dialogue[33]

- Five out of the seven partner countries have substantial ownership over the sector development process. The Netherlands contribution to transfer of ownership mainly refers to Benin and Mozambique. In Mozambique, the ownership of the ASAS sector wide programme within the National Directorate for Water (DNA) was for nearly 100% with the Mozambican government. However, DNA did not show leadership, while the government did not really show political commitment to made progress with the reform process in the water sector. In Benin and Yemen, the Netherlands play an important role

[33] To assess the Netherlands contribution to increased ownership of the recipient country in the water sector eleven elements have been included: 1) stimulating the responsibilities of the recipient country for policy, strategy and implementation; 2) stimulating political engagement in the water sector; 3) contributing to the improvement of the implementation capacity; 4) stimulating broad public support to the water sector through Civil Society, parliament and press; 5) stimulating sector involvement in the PRSP process; 6)contributing to the harmonization and alignment process; 7) contributing to the fulfillment of condition for SWAp through projects; 8) stimulating the water dialogue at all levels; 9) mainstream pilot projects; 10) contributing to increased recipient country water budget and; 11) decreased dependency on expatriate TA

in the transfer of ownership through the channelling of funds through the national financial system and through the "un-earmarked" contribution to the implementation of the road map in RWSS.

- The Netherlands play a prominent, but informal role in the water sector policy dialogue in Egypt through the creation and functioning of an Advisory Panel Project headed by Egypt. In this Panel major policy reform issues are being discussed between professionals and high level politicians within the sector. In other countries the Netherlands play a more limited role in the dialogues.
- The Netherlands role in stimulating the policy dialogue regarding the water sector at the highest policy level is limited. The water sector is usually just supported by a few donors and is therefore not often discussed between donors and recipient country at the highest level. The Netherlands contribution to the highest level policy dialogue on relevant water issues is probably much more important through the Netherlands funding of international organizations, international forums and the special water funds as funded through the multi-lateral banks.

4.3 Institutional framework and implementation capacity

4.3.1 The institutional framework

Within the water sector each sub-sector has its own institutional framework framework[34]. There is no framework encompassing all sub-sectors. Moreover, the responsibilities per sub-sector are often spread over various agencies. In urban water supply and sanitation there is a definite trend towards more autonomous municipal water companies, which are open to public and the private capital market, which learn to pay better attention to cost recovery, at least for operation and maintenance, and which are allowed to practice merit-based staffing policies, while the central government withdraws. Constraints mentioned are the human resources, the backlog in investments, the debt burden at the time of corporisation, and the lack of knowledge of asset management to prioritise investments and operation and maintenance. Nevertheless, more modern water companies offer distinct opportunities for more upstream modalities of funding at sub-sector or sub-sovereign level and for an integrated approach to water services, although the backlog in sewerage and sanitation is often huge. The trend towards more autonomous water companies is clearly visible in Yemen, Indonesia, Egypt, Vietnam, Benin and in Mozambique. GON amongst others has responded by encouraging and facilitating public-private partnerships in urban water service delivery.

In rural water supply and sanitation the main trend is the decentralisation of responsibilities and management as well as the involvement of communities to run their water supply system. Notwithstanding decentralisation efforts, the sub-sector is often still centrally supported because of its scale (large but many small dispersed systems) and scope (financial capacity and level of organisation) and political paternalism. A major constraint is the sustainability of systems and the institutional capacity. In countries where the field is "over-see able" and decentralisation is taken seriously, and where there is a clear responsible agency, there are good opportunities for SWAp, both with respect to upstream modalities as well as with respect to joint comprehensive programmes. Examples are Benin, Mozambique and Yemen at central or sub-sovereign level. In Bangladesh and Indonesia the involvement of specific implementing agencies is still preferred.

[34] Indicators and criteria used are progress made in establishment core business, delimitation of responsibilities, proper mandate at various levels, functional relations with other organizations and the role of civil society, see also detailed evaluation matrix in annex 1

The sanitation institutional framework is very weak in nearly all countries, both for urban as well as for rural areas. This sub-sector lacks more than any other sub-sector, identity, recognition and a clear lead governmental party in most cases.

The water management and irrigation sub-sector, closely linked to agriculture, is characterised by a mix of public and private service delivery and owners, and complex funding mechanisms. Cooperation between the two main ministries (Water Resources and Agriculture) is often constrained. The institutional trends are the establishment of water user organisations, irrigation management transfer and cost recovery, as can be noticed in Egypt, Bangladesh, Indonesia and to a lesser extent Vietnam and Yemen. The sub-sector is generally considered less suitable for SWAp with respect to up-streaming modalities, but is very much suited for comprehensive sector programmes, albeit supported by TA. The sub-sector is most often served by the multi-lateral donors. GON supports the sub-sector in cooperation with the multi-laterals in piloting policy development and capacity building and as such strengthening the conditions for SWAp. Examples are Egypt, Bangladesh and Indonesia.

In water resources policy and management there is often an owner in the sense of a department under the ministry of water resources or a separate authority linked to the ministry. In Vietnam, Egypt, Indonesia and Bangladesh GON together with ADB or others played an important role in the institutional setting of IWRM within the government in the recipient countries. However, this did not always quickly lead to a clear delimitation of the tasks between the various agencies as the Vietnam example shows.

Box 4.4 : Institutional setting of IWRM in Vietnam

In Vietnam major efforts were made to clearly delineate the task regarding IWRM within the GOV. A National Water Resources Council (NWRC) and a Ministry of Natural Resources and Environment (MONRE) were formed in 2early 2000. Other initiatives took more time. The establishment of MONRE was considered by all parties as an important step towards IWRM. However, the responsibilities of MONRE were not clearly defined vis-à-vis the Ministry of Agriculture and Rural Development (MARD). In fact MARD, earlier responsible for the water sector, remained (co)responsible for major IWRM related issues (e.g. river basin management, flood control, international rivers). Altogether, the establishment of MONRE did not lead to clarity about the role and place of this ministry vis-à-vis other ministries and agencies[35].
In 2003 five key donors to the sector produced a joint statement to the NWRC to express at the one hand their appreciation for the steps taken, but at the other hand to express their concerns regarding the lack of clarity about the responsibilities for IWRM amongst the ministries[36]. In this initiative GON played a prominent role. This unusual step did not lead to more clarity/improvements as of yet.[37] This specially frustrates the functioning of MONRE as none of the donors at present seems to show keen interest in supporting MONRE. The institutional set-up remains complicated and hampers SWAP in IWRM.

From: Evaluation of sector approaches in the water sector, internal note Vietnam, IOB, December 2007

Inter-sectoral relations

The relations between the major sub-sectors (rural WSS, urban WSS and IWRM) are limited at institutional level. It should be mentioned that strong linkages are not always needed as they operate independently and may not always compete for resources. The Netherlands inputs in strengthening these relations are only very explicit in Benin where the Comprehensive Medium Term Water Sector Support Programme attempts to bring all relevant sub-sectors under one umbrella within a functional Steering Committee under the Ministry of Finance. It is not sure whether these efforts will be successful as the sub-sectors involved have less direct and real common interest.

[35] For various MONRE functions, staff still to large extent within MARD

[36] Joint Statement to National Water Resources Council for its Fourth Meeting, 9 June 2003 from Asian Development Bank, Australian Embassy, Royal Danish Embassy, Royal Netherlands Embassy and World Bank.

[37] The issues of river basin management, international river issues, flood control and RWSS remain within MARD and/or responsibilities between MARD and MONRE on issues not clarified.

The inter-sectoral relations between the water sector agencies and the Ministry of Finance and the Ministry of Planning are usually weak. The water sector has the tendency to be "inward looking". The need to better relate to the Ministries of Finance and Planning is slowly being recognized by the sector itself. The Netherlands input in strengthening these relations is pronounced in Yemen, but more limited in other countries.

The Netherlands contribution to an improved institutional framework

- The Netherlands contribution to an improved institutional framework for the water sector at national level provides a mixed picture. The Netherlands played an important role in efforts to strengthen the National Directorate for Water in Mozambique. These efforts were less successful. The Netherlands played an important role in strengthening the reform process within the Egyptian Ministry for Water Resources and Irrigation. Progress is slow, but definitely being made. The Netherlands involvement in the institutional strengthening in Bangladesh (WARPO and BWDB) and Vietnam (MONRE) is partly successful.
- The Netherlands played a role in strengthening the inter-sectoral relations in Benin and Yemen with special reference to the relations between the water sector and the Ministry of Finance.

4.3.2 Capacity of implementing organizations

The implementation capacity[38] at meso and micro level is constrained in quantitative as well as in qualitative terms. A systematic increase of the number of staff at lower levels is evidenced in Benin and emerging in Yemen. The increase of the quality of staff at lower levels depends on ad hoc training related to individual project activities. Capacity building is considered an important part of sector support. Capacity building at present is often primarily aimed at policy development, budgetary processes and financial management at national level. The need for capacity building at other levels does get less attention. In this respect it is remarkable that the issue of capacity development has not consistently been elaborated in plans and strategies, while insight into the capacity to implement a policy/plan is crucial. Mainstreaming of capacity development in the sector policy does not take place. This "invites" for a return to (or continuation of) a supply driven TA and training by a lack of a joint capacity development component in the sector programme. A comprehensive training and improvement plan only exists for the rural water sub-sector in Benin.

Box 4.5. Institutional Capacity in Inhambane Province in Mozambique

The Provincial Directorate of Water and Sanitation (DAS) consist of 9 staff members: the head of the department, 4 technical staff and 4 social staff for community training. Based on interviews, work performance and opinion of the development partners, the performance of the DAS is judged positive.
However the capacity is far from sufficient to cope with the existing water problems in the province. According to the DRA Pilot Impact Evaluation and according to the Head of the DAS, the present capacity is sufficient to handle around 70 construction and rehabilitation works per year; furthermore the DAS is expected to provide technical assistance to the District Administrations, to establish the monitoring system and to prepare a provincial water development plan.
The financial management capacity of the Provincial Directorate of Public Works and Housing (DPOPH) seems to be adequate. Interviews with the Head of the financial department (DAF) and the Head of DAS revealed that the DPOPH has had approved audits over the last years. Since 2006, the DPOPH is linked with e-SISTAFE. The utilisation of SISTAFE was reported to have substantially improved the effectiveness and efficiency of the financial management. The problem of low predictability has been solved to a large extent with the introduction of SISTAFE.
At District level, at least one technician for infra-structure (including water) should be present. At this stage only 3 zonal technicians are available for the 12 districts. Furthermore the Rural Water Development Project (PDARI) provided technicians in five districts, who would be absorbed by the district administrations after project termination. However the future of the five technicians paid by the PDARI is not clear.

[38] Indicators and criteria used to assess progress made are inventory of capacities, existence of comprehensive training plan, implementation and organizational strengthening, improvement of execution of works and improvement of monitoring and evaluation, see also detailed evaluation matrix in annex 1.

The institutional capacity at provincial and district level is in sharp contrast with the capacity at national level with around 200 DNA employees.

Source: Additional IOB study macro-micro relations, Inhambane Province, Mozambique, 2007

Improvement in execution of physical works
The execution of physical works in urban WS improved in all three countries. The execution of physical works in rural water supply increased substantially in Benin and to some extent in Yemen. The improvement of the standard and quality of the execution of physical works cannot easily be assessed due to a lack of monitoring data.

Improvement in monitoring and evaluation
The monitoring and evaluation of results is weak in the various sub-sectors. The MYSPs and appraisal documents often do not provide sufficient insight into the expected results and how to achieve these results. The value for money audits vary substantially in contents and quality. Management for results is only slowly getting off the ground. Moreover, the differences in the MDG progress data base are sometimes stunning. Different sources provide different data which could lead to different priority setting in sector policies. None of the parties seems concerned on this issue. Data related to sustainability and contribution to poverty reduction hardly exist. This hampers a serious analysis and priority setting.

The Netherlands contribution to an improvement of the capacity of implementing organizations.
- The Netherlands contribution to organizational strengthening of local level organizations is substantial. The Netherlands played an important role in strengthening of local level organizations in water management in Bangladesh and Egypt, both at policy as well as at implementation level. The Netherlands role in strengthening national NGOs is limited to Benin with the assistance to the Benin Water Partnership.
- The Netherlands contribution to an improvement of the execution of physical works took place through additional funding of the WSS.
- The Netherlands did hardly contribute to the formulation and operationalization of comprehensive training and organizational strengthening plans.
- The Netherlands played a limited role in the improvement of monitoring and evaluation systems: in Yemen sub-sector performance indicators are collected since 2005 and presented in the Joint Annual Review, which is very much supported by GON and interesting efforts, without a proper follow-up, were made in Benin.

4.4 Macro-micro relations

Donors generally agree that current development assistance may focus too much on the national policy and national institutional level, neglecting the macro-micro relations. Local issues only reach the national level and local institutions only benefit from national policies and reform when macro-micro relations function properly. One of the major mechanisms to improve the macro-micro relations is decentralization.

Decentralization
A process of decentralization and de-concentration is taking place d in all seven countries. However, the transparency, speed and context of these processes differ greatly between countries. The roles and responsibilities of various parties change over time as a consequence of the decentralization process with special reference to RWSS activities. Major constraints that hamper the decentralization process is i) the capacity at meso and micro level to take over decision-making and responsibilities for sustainable operation and maintenance, and ii) the lack of operationalization of the legislative framework.

The decentralization process in Mozambique did not bring clarity regarding the funding and decision making responsibilities of various actors involved[39]. This hampered the implementation of the RWSS activities. The decentralization process in Yemen and Benin provided opportunities for the rural drinking water sector. However, the lack of operational legislation regarding decision making responsibilities at local level in Benin still remained a constraint for decentralized RWSS activities[40]. These constraints became "visible" thanks to the Netherlands focus on the municipal level in Benin. There is evidence that rural drinking water supply activities can strengthen the decentralization process itself as well as that these activities can be hampered by a partial, unclear decentralization process.

Box 4.6: Decentralization in Indonesia and Yemen

Indonesia: Pitfalls of Decentralisation
In Indonesia, the administrative and fiscal decentralisation started in 1999, and was implemented with vigour in a short time span. It has a great impact on the functioning of institutions and has also not yet matured. The "Regional Government Law (UU 22/99)" and the "Fiscal Balance between the Central Government and Regions Law (UU 25/99)" have been described as a constitutional and political-economic 'earthquake" (Th. Herman, World Bank Institute, 2005).For the water sector, the decentralisation has had detrimental effects on the short term. The new provincial and district level government were focusing on what they would consider " revenue sectors", while they consider water supply and sanitation as "cost sectors', with which they did not know how to deal. Local legislators find it even more difficult to raise tariffs than national legislators do. The municipal water companies were already in debt with the central government, which refuses to again lend to now decentralised companies. Most water companies are now considered to be broke. Consequently the state of the infrastructure and consequent service delivery has deteriorated even further. Recently, this has triggered new legislation to allow the companies to find funds at the capital markets and the private sector to take a share. As the risks are high, the situation is still very uncertain.

Yemen: Water Sector facilitates Decentralisation
In Yemen, the Government lead by the Ministry of Local Administration (MOLA) is seriously pursuing decentralisation, but the level of organisation at the municipalities is comparatively little developed. To find champions for the case of decentralisation and to find identifiable service organisations, the MOLA is using the existing rural water associations, which typically operate small distribution systems around a groundwater well. This gives a boost to the water user associations established with the help of MoWRE, gives them a voice in the local council and makes them eligible for sharing in local funds to which they contribute as well.

For the water sector in the seven programme countries the focus on the national policy and institutional level is most prominent in Mozambique, where at the start of the SWAp the water programme became completely focused on the National Directorate for Water. In view of the weak linkages between the macro and micro levels within the GOM administration, the Netherlands support hardly influenced the local level reality. The Netherlands missed the opportunity in Mozambique to link the national and local level by terminating assistance to the Nampula regional activities. The RNE in Maputo proposed in 2002 to incorporate the Nampula regional experience in the SWAp in Mozambique emphasizing the need for strong macro-micro linkages. This suggestion from RNE was ignored by the Minister for Development Cooperation at that time.

The Netherlands contribution to improved macro-micro relations
In the seven partner countries the Netherlands programme pays attention to the sub-national level, partly in relation to the national level in the following ways:

- The water programmes in Benin and Yemen fit into the decentralization policy and in fact strengthen this process. Macro-micro linkages are being strengthened through the water programme.
- The water programme is an institutional development programme including policy reform issues related to implementation activities at local level. There is substantial attention to strengthening the macro-micro relations. This is the case in Egypt (Policy reform

[39] See also Country Report Mozambique, 2007
[40] See also country report Benin, 2007

activities - water boards) and Bangladesh (Integrated Participatory Programme for Sustainable Water Management - water user associations), in Yemen by setting up Basin Committees through the NWRA and in Indonesia by piloting irrigation management committees and service fees.
- The water programme is implemented under co-financing arrangements with WB or ADB. These (sub-)sector programmes include national policy and institutional issues as well as implementation activities on the ground. This is the case in Bangladesh, Vietnam and Indonesia. In these cases there is substantial attention for the strengthening of the mechanisms to improve the macro-micro linkages.
- A large number of NGO and related bilateral donor activities still take place at meso and micro level. Linkages between these parties and the regional and local government are often lacking.

4.5 Other actors

Public-private partnership in the water sector did not substantially improve since 2000 with the exception of the UWSS sub-sector where the management of water utilities slowly moves into the direction of autonomous and private water companies.

The Netherlands input in the urban water supply sector relates to the strengthening of the management of water utilities (mainly support through Vitens), which ultimately should lead to the establishment of autonomous and private water companies. The Netherlands support contributes to the creation of an enabling environment for private sector development.

The role of NGOs in the implementation of RWSS is substantial in Mozambique, Bangladesh and to a lesser extent in Benin. The collaboration between government and NGOs only improved in Benin as the complementarity of the role of various parties is recognized and the activities to be undertaken are well defined.

The role of local level organizations is being strengthened to some extent in all seven countries. The strengthening of local level organizations is most pronounced in Egypt and Bangladesh. In both countries the Netherlands played an important role at policy as well as at implementation level.

4.6 Risk assessment; explanation of choices made and consequences

In each country the Netherlands assesses the risks involved in the way they participate in the development process in the water sector. This risk assessment has a supra sectoral as well as a sectoral dimension.

Risk assessment Yemen
The willingness of most of the donors to include a higher level of systems alignment in their aid modalities is hampered by a lingering mistrust in the implementing agencies in three main aspects: i) the capability of the sector agencies to set the right priorities and make the right technical decisions in the funding of investments and in operation and maintenance; ii) the capability to timely implement the planned activities, which is hampered both by lack of capacity and by time consuming administrative procedures and; iii) the poor transparency and accountability of the implementing agencies in their decision-making and administrative operations.

This lingering mistrust is deeply rooted and finds its foundation in the poor performance of the water sector agencies in the past, the general notion of a high level of corruption and a lingering concern for security[41].
GOY has formulated a National Reform Agenda (NRA). The rate of implementation of the NRA (including PFM and CSR) will strongly determine how the conditions for systems alignment will improve in the eyes of the donors. Progress will eventually be expressed in higher CPIA performance criteria. But even then, the recent history will remain to play a role in decision-making for some time to come.
GON subscribes to the general findings above, but draws different conclusions and pursues a different approach. Since 2005, GON is ahead in system alignment as compared to other donors and may seem to operate in isolation[42]. It is justified to do so because of the following risk reducing conditions:

- the institutional arrangements in the sector have stabilised, while GOY and all donors pursue the same operational policies, independent of aid modality; the recipient organisations have a clear mandate
- GON is an comparatively influential donor in the two sub-sectors it has chosen
- the recipient organisations General Authority for Rural Water and Sanitation Projects (GARWSP) and the Ta'iz Water and Sanitation Local Corporation (TWSSLC) and to a lesser extent also the National Water Resources Authority (NWRA), are service delivery and investment organisations with lasting, controllable output on the ground
- GON has built in a fair level of monitoring, evaluation and feedback into the programme.

The choice for a more sector wide approach appears to be high risk, but the risk seems manageable and acceptable. The SWAp approach in the sub-sector of RWSS has potentially high benefits as it highly contributes to the dialogue with the GOY and the ownership by GOY. The SWAp approach consequently is a vehicle for establishing and monitoring sector performance indicators and testing PFM systems. Indirectly it contributes to capacity building of institutions and staff. As GON does not provide TA, most of the funds are used for investments. It remains to be seen whether this also leads to more sustainable investments as compared to a project-oriented approach and whether a good quality of works is sufficiently guaranteed. Careful and joint monitoring, accompanied by an organised dialogue, is essential.
The SWAp approach in the sub-sector WRM with support to the National Water Resources Authority (NWRA) may not have much added value above a project approach as the NWRA is still financed by donors for 80%. The NWRA is generally considered to be weak in capacity. Whether the fact that NWRA is now formally in charge of the programme contributes better to capacity building than under a project approach and will indeed lead to a higher level of ownership, remains to be seen. To be effective, the NWRA requires political commitment in addressing the water resources management issues of Yemen, which are largely caused by operational practices in the agricultural sector. GON has no specific aid programmes in the agricultural sector, but participates in policy discussions during the annual water sector reviews in which the ministry of agriculture is represented.

Risk assessment Mozambique
The most important criteria for assessing the potential for the sector wide approach were the confidence in the political will and the capacity of the government to implement the sector policy. These criteria were assessed as favourable. In retrospection, it must be concluded that it was far too optimistic an appraisal of the actual situation. As pointed out in an IOB report of 2000, policies were insufficiently worked out and an overall strategic sector plan and financing strategy were lacking. Moreover, the institutional framework for the management of water resources was very complex and most, if not all, public institutions were characterized

[41] Yemen's ranking on Transparency International's Corruption Perception List is falling (to the 111th out of 159 countries in 2006) and Yemen is classified as a "fragile state" by DfID since January 2005.
[42] Actually, as recent as October 2007, the WB announced the development of a Water Sector Support Program under a SWAp framework.

by serious human resources constraints manifested in weak planning, budgeting and implementation capacity. The decision for starting and continuing the sector support was not based on a proper assessment of the institutional setting. Insufficient insight in the performance of the sector and of DNA constrained an adequate judgment.

The results of ASAS sector wide support compare unfavourably with project support. The urban WSS projects with special reference to the co-funded project with the World Bank (NWDP II) contributed substantially to policy operationalization at various levels and to public-private partnerships in urban water supply. In addition, it strengthened the institutional framework and facilitated the implementation of urban water supply systems.
The IWRM activities undertaken within the context of the preparation of International River Agreements like the IncoMaputo agreement (PRIMA) are very relevant and contribute to operationalization and implementation of the Southern African Development Community (SADC) and Mozambican policy towards river basin management. However, the Netherlands contribution to WRM is remarkably limited in Mozambique although WRM is a crucial issue.
The rural WSS projects will mainly contribute to increased coverage. These projects do not substantially contribute to policy and institutional development as they are implemented under CARE and UNICEF terms and consequently are less aligned.

Risk assessment Benin
The decision to start the implementation of the Comprehensive Medium Term Water Sector Support Programme in Benin directly funded through the Benin financial system is based upon i) the results of an external evaluation of the pilot projects started in 2004; ii) a positive assessment of the institutional setting and; iii) the opportunities offered through the GOB de-concentration and decentralization process. The decision implies that the Netherlands Embassy is confident that the PFM situation with special reference to the line ministry, will further improve. *In this field the Netherlands Embassy takes a certain, calculated risk by channelling most of the funds through the GOB system.*

The decision of the Netherlands embassy in Benin to continue channelling funds through the GOB system under the new Comprehensive Medium Term Water Sector Support Programme, in spite of the existing PFM weaknesses, can be explained and justified as follows:

- Other major donors also started channelling a part of their funds through the GOB financial system.
- There is keen interest amongst some key donors to intensify alignment in policy as well as in management terms in the water sector. The joint donor initiatives to start Common Funds is evidence of this keen interest.
- The Netherlands approach to channel funds fully through the GOB system provides valuable lessons for other donors as constraints become more visible and the need for solutions becomes more pressing. This (learning by doing) provides valuable information regarding the functioning of the system for the water sector at various levels. The partners in the sector benefit from experience gathered in a very concrete manner.
- TA as provided by other donors will facilitate and enable the Netherlands and others to progress on the road towards sector wide support

The risk assessment of the RNE in Benin anticipates further improvements in the PFM systems. Moreover, RNE intends to play a pro-active role in this context. The weaknesses in the field of PFM can possibly have major consequences for the implementation process of the new GON programme[43].

[43] The extent to which other donors "suffer" from PFM problems depends on the modality and the financial procedures followed (e.g. JICA will not suffer at all as they function completely independent of the existing GOB systems). Activities of other donors like Danita and GTZ/KfW are also substantially hampered by the PFM problems.

Risk assessment Bangladesh
Because of the weakness in the institutions, project aid was the most obvious implementation modality. No serious attempts were made to achieve a sector programme for water management because neither the government nor the donors could envisage how such a programme would fit into the government structure. The RNE concluded in 2001 that a sectoral programme for water was not realistic and in 2003 it stated that it would not apply the SWAp, rather adopting a project approach with strong institutional components. Aid provided by multilateral donors in the water sector was exclusively project aid. In not applying SWAp GON was well in line with other donors.
The choices made by RNE to continue project aid and co-funding with multi-lateral organizations is justified as the interest shown in harmonization and alignment amongst all parties is limited, while the institutional reform process in the Bangladesh Water Development Board still moves very slowly. The lack of political commitment in the recipient country remains a major constraint for sector development as institutional reform, staffing problems and sufficient funds for O&M can only be ensured through the highest political level.

The choice for the project approach in Bangladesh has a positive impact on the results as the conditions for a sector wide approach are unfavourable. The choice for the project approach in Egypt is fully based on the wishes of the recipient country itself with a focus on technical assistance related to sector reform and investments in various forms.

4.7 Conclusions

Policy and institutional framework
- Substantial progress has been made in the formulation of policies and plans at various levels. The operationalization of these plans in road maps is underway. The Netherlands contribution to the improvement of the policy framework is positive. The combination of a strong national policy and a sub-sector roadmap form a best operational framework for and are conditional for upstream modalities like pooled funding.
- The Netherlands played no role in stimulating the structured inclusion of the water sector in the PRSPs.
- The institutional structure of the sector is complex. The Netherlands contribution provides a mixed picture. Progress in the institutional framework at sub-sector level is substantial in the urban WSS sub-sector. The Netherlands contribution to this sub-sector level can be labelled as medium.
- The Netherlands role in strengthening local level organizations is very positive and substantial.
- Capacity building is very important. First of all a clear insight into the implementation capacity at various levels as well as an agreement on the ways and means to improve this capacity are required. In fact such insight and agreement on what to do by whom are conditional for progress in SWAp. Progress made by the sector in this field, as well as the Netherlands contribution, is not substantial, although the processes started up in Yemen are encouraging.
- Surprisingly, capacity building is not consistently being incorporated and elaborated in plans and strategies. Recipient countries as well as donors pay too little attention to this issue although this is an important field for harmonization and alignment of aid.
- The Netherlands attention to the sub-national level, meso as well as micro, is substantial in most of the partner countries. The Netherlands contribution to the strengthening of the macro-micro linkages through improved mechanisms took place in various type of programmes with special reference to multi-lateral programmes. Efforts made in Egypt, Bangladesh and Benin contribute to the strengthening of these mechanisms. However, still much needs to be done in a more systematic and comprehensive manner.

- Progress in Public Private Partnership remains limited although the Netherlands made a substantial contribution in Yemen to accelerate this process. Also in Indonesia, GON pays substantial attention to PPP arrangements in UWSS, albeit through parallel financing channels.

Ownership

- Ownership refers to who determines policy and strategy. Political commitment at supra-sectoral level is conditional for progress with the SWAp. Therefore, a high quality dialogue between the donors and the recipient country on crucial water issues at the highest level is crucial. The role of donors, including GON, in stimulating the water dialogue at his highest level remains too limited.
- The Netherlands contribution to the transfer of ownership of sector development processes to the recipient country refers to Yemen, Benin and Mozambique. Ownership in the other water partner countries is already substantial. In Yemen, GOY is an important investor in the sector, but GON contributed to ownership of aid programmes by programmatic funding through national systems and an active role in the dialogue. In Benin, the Netherlands contribution to the transfer of ownership is substantial with the channelling of funds through the national financial system and through its agreement the "un-earmarked" contribution for the implementation of the road map in RWSS. In Mozambique the Mozambican ownership of the ASAS water sector programme was substantial. However, this did not contribute to sector development due to a lack of leadership, weaknesses in policies and institutional problems.

Poverty reduction

- Poverty reduction is the ultimate aim of the Netherlands aid. At first sight poverty reduction seems high on the agenda through the PRSP process and plans. The water sector is not well represented in the PRSP process. Moreover, the operationalization of the poverty issue, in an analytical sense as well as in strategic thinking, planning and programmes does hardly take place. The role of donors, including the Netherlands, is very limited in this field.

Risk assessment; explanation of choices made and consequences

- In each country the Netherlands assessed the risks involved in the way they participate in the development process in the water sector. This risk assessment has a supra sectoral as well as a sectoral dimension. Supra sectoral issues relate to public finance management, decentralization policies, civil service reform, transparency, corruption issues. Sectoral issues refer to the policy and institutional framework as well as to the donor commitment and the political commitment in the recipient country at various levels. In Vietnam and Indonesia an early choice was made for co-funding through the multi-lateral channels. This is a low risk and high opportunity choice made in these two countries.
- The risk assessments made in Bangladesh, Egypt, Benin and Yemen appear to be logic, traceable and well balanced. The risk assessment made in Mozambique regarding the opportunities to start a sector wide programme through SBS proved to be based upon a too optimistic unbalanced assessment of the policy and institutional framework.
- The choices made regarding the implementation of the sector wide approach are, in each of the seven water partner countries, based upon an assessment of the policy and institutional framework, the political commitment, donor interest and contextual factors. The choices made in most countries are logical within the specific context of the countries concerned. Except in the case of Mozambique, where the assessment made painted a too optimistic picture of the political and institutional reality. This has had a negative influence on the results in Mozambique.

5. NETHERLANDS CONTRIBUTION TO OUTCOME

In this chapter, in line with the terms of reference, outcome has been narrowly defined in terms of improved service delivery in water supply, sustainability of the water supply delivery systems and poverty reduction. Findings in this chapter are based upon existing data and will focus on the three case study countries Benin, Mozambique and Yemen. Perspectives regarding the implementation and anticipated results of newly started major programmes[44] are also included in this chapter. As it is too early too assess outcome, the perspectives for increased effectiveness will be dealt with in the first paragraph of this chapter.

5.1 Perspectives for increased effectiveness

Perspectives on better water sector operations
In general terms, the GON programme contributes to increased effectiveness of operations in the water sector through its contribution to institutional changes, increased implementation capacity and the strengthening of local level organizations. The GON contribution is substantial in Benin and Yemen as GON played an important role in the strengthening of the decentralization process. The Netherlands commitment to channel funds through the national financial systems of the recipient country contributed to creating perspectives for increased effectiveness, both in Benin as well as in Yemen. However, in Mozambique the approach to channel all funds through the National Directorate for Water did not increased effectiveness as the appropriate institutional and policy framework was lacking.

Macro-micro perspective
One of the key elements of the SWAp[45] is the macro-micro perspective. Within the context of "think micro - act macro", the integration of poverty goals into the macro-economic framework as well as the improvement of the PRSP process is important. As shown in previous chapters this integration took place to a limited extent. The poverty issue is hardly translated in operational terms in water sector policy documents. In these fields the Netherlands – and other donors – did hardly contribute to creating perspectives for increased effectiveness.

In chapter 4.4 it is described that the opportunities to enhance macro-micro relations in Mozambique were not taken up, while the sub-sector support in Benin and the sector programmes in some other countries offer this perspective.

Another element of "think micro – act macro" is the issue of getting insight into the reality at local level. Because, at the end, effectiveness can only be shown in reality at local level: do poor have increased access to the services. Donors have insufficient insight in what is happening at local level, the number of local project activities decreased and the TA has been reduced. However, also the national governments in the recipient countries are not well informed due to inadequate monitoring systems or unwillingness to learn lessons from local level experience. The risk of unsubstantiated decisions increases with the lack of insight into reality. Joint efforts to remedy this situation are not sufficiently being undertaken. The issue does not have sufficient priority amongst various parties, including the Dutch. This does not contribute to creating better perspectives for increased effectiveness.

Co-financing provides perspectives for effectiveness
The co-financing of programmes in large countries like Vietnam and Indonesia with WB and ADB are explicitly meant to provide effective ways of contributing to major processes of

[44] Like the Comprehensive Medium Term Water Sector Support Programme in Benin and the UNICEF-GON Partnership on Water, Sanitation and Hygiene in Mozambique

[45] Sector Wide Approach; organizing principle for bilateral development cooperation, version 2, no date, Ministry of Development Cooperation, The Hague, policy note

change in the sector. The WB and ADB also see it as an opportunity to include TA in the loan preparation and implementation process as recipient governments often are hesitant to include these components in the loans.

In the perspective of the SWAp, co-financing through multi-lateral channels has the advantage that it contributes to harmonization and to a reduction of transaction costs. Moreover, co-financing offers an opportunity to participate in a policy dialogue at high level within the recipient country as well as within the multi-lateral organization itself.

The Netherlands co-funding of multi-lateral water sector programmes increases efficiency, while the effectiveness of multi-laterals in pushing the water development agenda in individual countries varies. The Netherlands role varies from being pro-active in one case to being passive in other cases (see also chapter 3).

Short term versus long term perspectives
The overall Netherlands policy in the water sector is a trade-off between short-term service delivery objectives and long-term systems improvement. The choice for the drinking water sub-sector is easily made: the sub-sector is institutionally relatively simple and outcome in number of people served can relatively easily be measured. Consequently, there is a tendency to refocus on earmarked support to lower levels of the delivery system as this is supposed to be more effective in reaching beneficiaries in the short term. Consequently the Netherlands contribution to increased coverage in the drinking water sub-sector is potentially high in countries with a substantial Netherlands financial input through the national government, NGOs and UNICEF. However, there is real concern that these investment programmes, if not properly embedded, actually undermine the development of the planning and management capacity and hence the ability of domestic systems to sustain interventions. With the current knowledge and low level of monitoring, it is difficult to quantify these aspects.

Interrelations and effectiveness at international level
The Netherlands support to the water sector takes place in many different ways and at various levels. The report of the external evaluation of the Netherlands Water Unit programme 2000-2003 ("Do all boats rise with the tide", DGIS December 2003) concludes that the Water Unit programme has been very effective in its contribution to international policy development and awareness creation by: i) putting water high on the international agendas (e.g. World Water Forums); ii) funding key activities in the African water arena (e.g. policy frameworks, conferences of water ministers); iii) supporting regional policies in the field of river basin development (e.g. Nile Basin Initiative) and; iv) operationalization of the water agenda within the Wor;d Bank and regional banks (e.g. through water trust funds). However, the 2003 external evaluation also states that the increased commitment to the international political agenda is not reflected in the national political agenda in many countries. One of the recommendations is to increase the complementarities between the various type of Netherlands co-funded activities in the water sector. This refers not only to the bilateral delegated programme and the centrally managed programme, but also to specific Netherlands supported programmes from international NGOs (like WWF, IUCN, GWP, WSSCC and WSP), research programmes, water trust funds and regional programmes. This will substantially increase the perspectives for effectiveness.

Transaction costs
Sector coordination, harmonization and alignment in the water sector is a managerial challenge. The reduction of transaction costs has never empirically been established, aid delivery is multi-purpose, the reduction of transaction costs remains a "reasonable hypothesis" (Killick 2004, DFID 2006). There is no evidence that programmatic forms of assistance are better suited than project-based assistance to reduce transaction costs. A certain reduction in transaction costs does materialize in multi-donor co-funding of sector

programmes as implemented through the multilateral organizations. The effectiveness of an aid instrument is determined by a series of context-related institutional and political factors

Poverty focus
The World Development Report 2004 (World Bank, Making services work for the poor) states that water services often still fail poor people in terms of access, quantity and quality. Many methods of delivering services have been tried out to make services work for the poor, through targeted interventions as well as through an overall improvement of the delivery systems on the premise that this will also make them work for the poor. The results have been mixed.
It is crucial to get a proper insight into the issue of accountability; how well hold actors each other accountable. Accountability between poor people and providers, between poor people and policy makers and between policy makers and providers are considered to be of utmost importance. The Netherlands contribution to reinforcing the accountability of these three relationships (poor-provider; poor-policy maker and; policy maker-provider) has not been very explicit in its programme.

The World Development Report 2004 also states that policies and institutions in the developing countries often fail for poor people in the following ways: i) public spending focused on non-poor; ii) public funding for poor does not reach the frontline service provider; iii) in case money reaches the front line provider there are no incentives at local level for effective service delivery and; iv) there is a lack of demand from the poor. The Netherlands programme contributes to the solution of the above problems in an ad hoc manner.

The following paragraphs deal with the coverage and sustainability of the delivery systems as well as with the key issue of poverty reduction, the dimensions of outcome as defined in the terms of reference.

5.2 Improved service delivery; coverage and sustainability

Contribution to the achievement of the MDGs for water is one of the objectives of Netherlands development cooperation. To provide drinking water to an additional 50 million persons is a major Netherlands programme. Increasing the coverage is being implemented in different ways; in Benin and Yemen through the implementation of a Water Sector Support Programme through the national government and in Mozambique, Bangladesh and Indonesia mainly through NGOs and UNICEF. The drinking water programmes in Mozambique, Indonesia and Bangladesh are focused on direct results regarding increased coverage, while the programmes in Benin and Yemen are also meant to contribute to policy and institutional development as well as to increased coverage. This implies a clear long term perspective as against a focus on coverage which implies a focus on the short term perspective. It is too early to compare the relative effectiveness of the two approaches.

5.2.1 Coverage

The challenge in drinking water supply[46]
In 2004, a total of 5.3 billion people (83% of the world population) used water from improved sources, up from 78% in 1990. But because of population growth the number of people un-served has not changed substantially since 1990. About one sixth of the world population – a total of 1.1 billion people - remain without access to improved drinking water and 84% of these live in rural areas. These global statistics hide major differences:

[46] Meeting the MDG drinking water and sanitation target, the urban and rural challenge of the decade, WHO and UNICEF, 2006

Coverage and trends in Sub-Saharan Africa
In this region despite progress from 49% served in 1990 to 56 % served in 2004, a great effort is needed to achieve the target of 75% by 2015. In fact the number of people without access increased by 23% over the same period. The current trend indicates that by 2015 the number of un-served people will grow by a further 47 million. Much of the least developed countries, specially in Africa, need to more than double their 1990-2004 rate of increase in order to reach the MDG drinking water target by 2015 amongst which the three case study countries Benin, Mozambique and Yemen.

Table 5.1 – Efforts required to reach MDGs on drinking water supply

Country	Average annual increase in population served		Increase needed by factor of
	1990-2004, Actual	2005-2015, Required	
Benin	147,000	366,000	2.5
Mozambique	230,000	764,000	3.3
Yemen	327,000	1,073,000	3.3

Source: Meeting the MDG drinking water and sanitation target, the urban and rural challenge of the decade, WHO and UNICEF, 2006

The Netherlands efforts to increase the drinking water coverage are substantial in Benin, Mozambique and Yemen. The increase in coverage needed by a factor 2.5 in Benin did materialize during the last few years with special reference to rural water supply. The Netherlands activities play a major role in achieving this acceleration as the Netherlands funds ensure approximately between 25% (in the past) and 30% (perspectives for the coming years) of the annual increase in population served with water supply in Benin[47]. The Netherlands contribution to the achievement of the drinking water MDG in Mozambique is expected to increase substantially from 2006 onwards with major efforts undertaken to increase coverage in rural as well as urban areas through bilateral and central funding to UNICEF, CARE and the Mozambique urban water authority. The total Netherlands support over the period 2002-2010 is expected to contribute approximately 25% of the additional annual requirements to meet the MDGs in 2015[48].

Coverage and trends in the most populous countries
Four Netherlands water partner countries (Bangladesh, Egypt, Indonesia and Vietnam), are amongst the most populous developing countries in the world (with population above 50 million in 2004). The majority of the most populous countries are on track in achieving the drinking water MDG. The situation for the four water partner countries is as follows:

Table 5.2 – Progress towards the MDG drinking water target in four partner countries

Country	Drinking water coverage in %		Required to reach MDG target
	1990	2004	
Bangladesh	72%	74%	80%
Egypt	94%	98%	96%
Indonesia	72%	77%	80%
Vietnam	65%	85%	76%

Source: Meeting the MDG drinking water and sanitation target, the urban and rural challenge of the decade, WHO and UNICEF, 2006

[47] For details see Case study Benin. Coverage data do not always coincide as Benin government data differ from data as JMP used in this chapter.
[48] For details see Case study Mozambique. Coverage data from the case study do not always coincide as Mozambique government data differ from data as JMP used in this chapter.

Table 5.2 shows that Egypt and Vietnam already achieved the 2015 target by 2004, while Indonesia is not too far off track. For Bangladesh the achievement of the drinking water MDG in 2015 will not be easily reached. The Netherlands choice to put emphasis on additional support to the drinking water sub-sector in Bangladesh is in line with the priority requirements as indicated in table 5.2. The Netherlands support to the UNICEF drinking water and sanitation programme in Indonesia can also be explained based upon data in table 5.2. The recent Netherlands choice in Vietnam to provide support to the rural water sub-sector cannot be explained from the data as provided in table 5.2 as Vietnam already largely met the requirements for the drinking water MDG.
The Netherlands support to the drinking water and sanitation sub-sector in Egypt is not merely focused on increased coverage but on improvement of the management practices and improved sanitation.

Urban – rural disparities
Rural areas still lag far behind urban areas in terms of drinking water coverage. Even though rural coverage increased from 64% in 1990 to 73% in 2004, a continuation of this trend would lead to coverage of 80% in 2015, yet leaving 700 million people un-served. The urban coverage has remained unchanged over the last 15 years, while the urban population substantially increased during the same period. An analysis of the urban and rural coverage trends show that most efforts towards achievement of the drinking water MDG will occur in urban areas. The following reasons can be given:

- Governments are prioritizing urban drinking water supply because of hygiene conditions and dangers of outbreaks of diseases as well as for political reasons.
- The institutional framework for urban water supply is usually properly in place (as compared to other water sub-sectors) creating an enabling environment for funding of major programmes For multi-lateral donors there still is the constraint that they are often not allowed to lend directly to sub-sovereign institutions. This reduces the accessibility to funds and increases transaction costs considerably.

However, rural development of drinking water supply still lags far behind urban development. Therefore, efforts need to be intensified. These efforts will contribute to increased effectiveness of aid in the sub-sector drinking water.

The Netherlands support to the drinking water sub-sector is mainly concerned with rural water supply except in Egypt and Mozambique. In Egypt the Fayoum water supply and sanitation project is a long standing project focused on improving the system and the management practices to pave the way for sufficient cost recovery. However, the tariff structure and decision making remains a constraint, although progress has been made during the last two years.
In Mozambique the Netherlands support to the drinking water sub-sector during the period 2002-2006 consisted of sectoral support through the National Directorate for Water (DNA) for rural water supply and support to urban water supply in five towns. The results in increased coverage remained limited as sectoral funds for rural water supply were only to a limited extent used for this purpose. From 2006 onwards the total of Netherlands bilateral and centrally managed programme funding and ORET funding of the drinking water sub-sector increased substantially. The total allocated funds for the period 2006-2010 are approximately Euro 70 million of which 57% for urban water supply to Maputo and five smaller towns.

The challenge to reach the drinking water MDG target does not just require additional funds and infrastructure to provide the services. It also requires action to prevent infrastructure falling into disrepair as a result of insufficient and inadequate institutional arrangements, insufficient cost-recovery, poor O&M and a lack of sound management practices. The issue of sustainability will be dealt with in the following paragraph.

5.2.2 Sustainability of delivery systems

Urban water supply encounters a large number of interrelated problems. Poor governance and low tariffs can be identified as the key problems. Consequently transparent policies, regulatory bodies, the involvement of civil society and a paradigm shift in tariffs are at the core of the solution. Passing laws is just a first step.. The above core problems need to be addressed first. The GON funded urban water supply programmes address these core problems to a certain extent. The issue of tariffs is to be addressed at the highest policy level. Donors can only play a role in putting these issues explicitly on the table during the policy dialogue.

Box 5.1 : Role of politics in the sustainability of delivery systems in Fayoum, Egypt

The Fayoum Water Supply and Sanitation project in Egypt addresses management issues including the management of costs and improved revenue collection. These are building blocks to improve sustainability of the delivery system. The pathway to reform has been slow to emerge in the urban water supply and waste water management sector. The tariffs do not provide a basis for financial sustainability. The tariff issue is a highly political one. Donor pressure to the ministry concerned did not lead to an opening up of the discussion regarding the tariff structure and other related issues. A “break through” occurred when the Ministry of Finance became more and more aware of the increasing losses in the field of urban water supply and sanitation. Only than the things started to improve gradually. The role of donors (amongst which the Netherlands was a prominent donors next to USAID) in such a process cannot easily be assessed. However, a continuous focus of donors on the need for restructuring the urban WSS sector at Governorate level with special reference to the tariff setting possibly has contributed to the “break through”.

The sustainability of rural water supply systems is usually considered to be the responsibility of the users themselves. Community participation and management are the key words, already since the 1980s. In all GON supported RWSS activities the establishment of local level water user organizations is high on the agenda. In this respect awareness raising and training at grass root level get much attention. Still, the sustainability of many RWSS systems remains an area of concern with a large number of non-functioning RWSS systems in many countries. The focus on community participation should remain, but more attention should be given to technical issues like the availability of spare parts and the repair capability and capacity.
The Netherlands financed diagnostic study in Benin provides valuable data on sustainability issues. However, these data are not being aggregated and used in the decision making. Monitoring of the operation and maintenance of newly established water points does not get structured attention from any of the parties involved.

In terms of institutional sustainability the Netherlands contributed substantially to the strengthening of water user organizations with special reference to the water management sub-sector in Egypt, Bangladesh and to some extent in Indonesia and Vietnam.
In urban areas the Netherlands contribution to institutional sustainability has been focused on the strengthening of the organizational set-up of urban water utilities.

In terms of financial sustainability the Netherlands efforts to contribute to the financial sustainability of urban water utilities are substantial. The issue of financial sustainability of water user organizations gets attention as well although in a less structured manner. Issues of sustainability of delivery systems in the drinking water sub-sector get less attention as compared to the issue of additional coverage (quantity).

5.3 Poverty reduction

Sustainable poverty reduction is the key objective of the Dutch Development Cooperation policy. Within the context of the SWAp poverty reduction will be aimed at through influencing

processes to reduce and ultimately eradicate poverty[49]. In line with the DAC Poverty Reduction Guidelines, GON identified five dimensions of poverty: economic, political, social, socio-cultural and vulnerability. Poverty reduction aims at improving the lives of the poor in all these areas. Therefore, actions are required at all levels. Sustainable economic growth and sustainable social development need to be promoted simultaneously. The SWAp tries to achieve this by influencing and supporting the sectoral processes and institutions that reduce poverty rather than funding poverty projects that focus on specific target groups. However, these two approaches are more closely related than suggested in much of the SWAp literature. The effectiveness of such a relationship is shown in one of the innovative Netherlands supported projects in Bangladesh where project interventions have a direct impact on the local poor as well as on the national policies (see also box 5.2).

Poverty issue in the Netherlands water programme

The Netherlands supported water programme in the three case study countries often did not sufficiently operationalize the poverty dimension in an analytical sense (Table 5.3). The issue is also not always high on the donor's as well as the recipient country's agenda. Also in the MYSP the poverty issue is hardly raised in a structured and explicit manner.

Table 5.3 – Summary assessment GON contribution to poverty dimension

Activity	Improved poverty analysis	Improved poverty focus in Water sector policy	Improved focus in operational terms at lower levels	Specific pro-poor approach propagated	Assumption that poor benefit
Benin	None	none/limited*	None / fair*	none/fair*	yes
Mozambique	None	none	Limited in RWSS None in urban WS	none	yes
Yemen	None	limited	none	none	yes

* Qualification Limited and Fair restricted to the urban water supply sub-sector for which poverty issue is explicitly defined as one of the three operational objectives in the 2006-2015 strategy.
Source: various GOB documents

Rural water supply

There is no evidence regarding equal access of the poor to rural WSS in the three case study countries. There are indications that hard core poor in a number of cases have been excluded from access to drinking water for financial and/or social reasons (e.g. Benin). The decision whether a water point will be included in the Provincial Water programme depends on the local contribution which hard core poor often cannot pay for. A poverty analysis is lacking (e.g. to what extent do poor benefit from improved water supply and if so how often do they return to non-improved water points in wet season due to lack of funds to pay for safe water). There is no pro-poor strategy on WSS. The GON supported activities do not have an explicit poverty focus. The general assumption remains that the poor will automatically be included in and benefit from the efforts to achieve the MDGs.

Urban water supply and poverty

There are many links between water and poverty in the urban setting: i) limited access to potable piped water; ii) economic effects of inadequate service (must buy against high price from vendors); iii) high connection fees to be paid upfront limit access; iv) maintain status quo: vested interests are working against the poor (water vending is big business) and; v) the poor and non-connected have no voice[50].

In fact the issue of water and poverty (not only in the urban WSS setting) is all about governance with special reference to the lack of transparent policies to get the poor 24-hour access to piped water. The poor are willing and able to pay for piped water, but the governments are in general unwilling to increase tariffs to a level that would provide the

[49] SWAp, organizing principle for bilateral development cooperation, version 2, no date, DGIS, The Hague
[50] Asian Water Supplies, Reaching the Urban Poor, Arthur C. McIntosch, IWA publishing, 2003

funds needed to invest in connecting the poor. Although the poor are willing to pay, having to pay upfront for connections is too much, while vendors are only interested in the status quo.

A large percentage of urban poor populations are served by a variety of Small-Scale Water Providers (SSWP). They provide competitive and appropriate service to households without access to utility connections. As these SSWPs are closely connected to providing water to the urban poor, the understanding of the role of these providers and the opportunities to cater for the poor has not been sufficiently investigated.
The GON supported urban water supply activities mainly focus on the management of the utility networks and the opportunities to increase tariffs (although the final decisions on tariffs remain a governmental decision). The GON supported urban WSS projects possibly contribute to poverty reduction in an indirect manner. A more direct contribution through an analysis of the water-poverty relations, focus on pro-poor policies and implementation of these policies and advocacy regarding tariff setting as well as directly funding the implementation of pro-poor service provision does not take place.

Examples of pro-poor, innovative projects in the water sector
The Netherlands supports a few pro-poor innovative projects in the water sector. The poverty issue is high on the agenda of two projects in Bangladesh and Vietnam, briefly described below.

1. The Char Development and Settlement Programme in Bangladesh; access of the poor to newly accreted lands
Major institutional development issues like access to land (and capital) disappeared from the RNE agendas within the context of the SWAp (or with the excuse of a start up of the SWAP). The RNE withdrawal from the land campaign in Mozambique and the land issue in Bolivia are examples of this shift in focus. Within a water management programme in Bangladesh In some cases GON still plays a very innovative and structural role in ensuring access to land for the poor as box 5.2 shows[51]:

Box 5.2 : Poverty focused project in Bangladesh

The Char Development and Settlement Programme (CDSP) in Bangladesh is involved in the development of newly accreted lands. The rich and powerful usually find ways and means to get access to the new lands available at the expense of the mainly poor settlers. One of the objectives of CDSP is the sustainable improvement of the economic situation of the poor people in these “char” (new lands) areas. CDSP puts a lot of effort in ensuring that the existing laws and regulations regarding land distribution (which favour the poor settlers) are really implemented. The programme clearly analyses which steps to be taken, which bottlenecks to be solved and which parties are responsible for what and at which stages. Such an analytical, systematic and innovative approach has a high relevance for the issue of access to land for the poor in many parts of Bangladesh. Moreover, CDSP facilitates and ensures implementation of the land distribution programme through the ministries involved.
CDSP was also the first programme in Bangladesh to consider services and infrastructure to the most vulnerable groups still living outside the boundaries of newly established sea-facing embankments. Such services and infrastructure is by definition at risk and requires higher than average maintenance. Till then such services and infrastructure, including cyclone shelters, were only constructed after the completion of embankments, as this would define the notion ”land” and determine eligibility for government services.

The CDSP programme is meant to have an impact on the national policies regarding char development as well as on the implementation of existing land distribution policies in char areas. The broader objectives and partly the broader results make this relatively small, geographically focused activity an effective tool in influencing reforms and policies at national level.

[51] That this approach. to addressing the needs at coastal chars of the people not eligible to regular government services; in 1970 a major cyclone caused a loss of 500,000 people, in 1999 such a cyclone caused the loss of 110,000 people and in 2007 tropical cyclone Sidr caused the loss of less than 10,000 people; still thousands too many, but the Dutch importantly contributed to this comparative improvement through their consistent focus on coastal chars.

2. National Disaster Mitigation in Vietnam

Vietnam has remarkably reduced its poverty over the last decade, from about 58% in 1993 to 22% in 2005. This was achieved through sustained business led growth in economic output and employment, combined with government-led targeted poverty reduction interventions[52]. Poverty in Vietnam is chiefly a rural phenomenon. The majority of the poor in Vietnam live in flood prone areas along the rivers and in the coastal zone and are dependent on smallholder farming. Farming is to a large extent carried out by women.

Dutch aid projects and programmes have been justified for poverty reduction regularly in terms of the project location as an area with a high proportion of poor people. This justification has also been mentioned for projects with a high component of funding for foreign experts or extensive components of training of government officials. Evaluation data with information about the extent to which the poor benefited from the activities are absent.

5.4 Conclusions

The issue of increased coverage through improved service delivery in drinking water supply (one dimension of outcome as defined in the terms of reference) gets much attention in the Netherlands supported programme. The perspectives to reach more beneficiaries and to contribute to MDGs are very positive. However, sustainability and the key issue of poverty reduction have no prominent place *in operational terms* in documents. This raises the question whether development partners really know what they want. Let alone the monitoring of what is happening in reality regarding sustainability and poverty reduction. The focus is possibly too strongly on the generalities with regards to the PRSPs, the policy and the institutional context. There is a need to increase the focus on sustainability and poverty reduction as key issues.

Perspectives for increased effectiveness

The Netherlands programme contributes to creating perspectives for increased effectiveness through its contribution to institutional changes, increased implementation capacity and the strengthening of local level organizations. The GON contribution to creating perspectives for increased effectiveness is substantial in Benin and Yemen as GON played an important role in the strengthening of the decentralization process as well as the national financial management system.

Coverage and sustainability

The choice for the drinking water sub-sector in the three case study countries is highly justified in view of the huge requirements to meet the MDGs till 2015. The Netherlands play an increasingly important role in achieving the drinking water MDG in these case study countries through increased investments. The modality chosen ranges from a type of sectoral support in Benin (and to a certain extent in Yemen) to mainly traditional project support in Mozambique (through CARE and UNICEF). The recent support to rural water supply in Vietnam cannot be explained from the MDG monitoring data as Vietnam already met the MDGs. The Netherlands contribution to increased coverage in drinking water supply is mainly the result of the additional attention given to this subject through individual projects in Bangladesh, Mozambique and Indonesia. There is no evidence as yet which type of approach and modality contributes best to an accelerated increase of coverage. The specific country context is crucial.

In terms of institutional sustainability the Netherlands contributed substantially to the strengthening of the water user organizations and the strengthening of the organizational set-up of urban water utilities. In terms of financial sustainability the Netherlands efforts to contribute to the financial sustainability of urban water utilities are substantial. This issue of financial sustainability of water user organizations gets attention as well although in a less

[52] Vietnam: Country Strategy and Program 2007-2010, Asian Development Bank, 2006

structured manner. The issue of sustainability of delivery systems in the drinking water sub-sector gets less attention as compared to the issue of additional coverage (quantity).

Poverty focus
The issue of poverty reduction is not systematically incorporated in the GON programme in the water sector in the seven countries. The major mechanisms used to look at the issue of poverty reduction are the poverty analysis, pro-poor policies and strategies and the PRSP. The Netherlands plays hardly a role in the poverty analysis and the pro-poor policy making. The issues of unequal access to water, vulnerability of the poor with regards to droughts and floods do not get much attention.

The Netherlands support to the strengthening of local level organizations is substantial. Herewith the Netherlands indirectly contributes to poverty reduction through the empowerment of the local population. On a more ad hoc basis innovative pro-poor approaches are explicitly incorporated in programmes in Bangladesh and in Vietnam.

Input-output-outcome relations
The relations between inputs, outputs and outcome cannot easily be established in general terms. In a number of specific type of Dutch aid programmes these relations are traceable and direct:

- investing in places where comparative small amounts of funds in combination with other funding streams from donors and government can make an impact[53]
- Activities in the field of piloting and preparing for essential sector reform, followed by support to policy implementation. Mainly through complementing multi-lateral investments loans with the necessary institutional support and capacity building Programmes in Egypt (water user organizations), Bangladesh (water user organizations) and Indonesia (decentralization, irrigation management committees, irrigation service fees) started as pilot projects, lessons learnt contributed to an improvement of the policy and institutional framework (outputs) and were implemented within the framework of a multi-lateral investment loans. These activities mainly contributed to an improvement in the institutional sustainability of service delivery systems (outcome). The Netherlands provided financial as well as technical inputs.
- Establishing forefront programmes to reach the poor and less privileged. The Char Development and Settlement Project (CDSP) in Bangladesh is the most prominent example, where the Netherlands activities initiated; i) the start of activities outside the embankments in areas where the poorest live (e.g. governemnt services and cyclone shelters) and; ii) the process of issuing land titles to the poor who initially lived on the lands outside the dykes of the polders. The Netherlands provided financial as well as technical inputs.
- The recently started projects in the rural drinking water sub-sector will probably show a direct relation between the financial and technical inputs and the improved coverage of drinking water (outcome). The relation between inputs and outputs probably does not exist as these activities fit less within the context of improving the road towards SWAp.

Under the first water sector wide programme through sector budget support in Mozambique, the relations between inputs, output and outcome cannot be established. The policy and institutional framework was not clear, while there was no implementation. The contribution of the ASAS programme regarding outputs and outcome is negligible. The recently started sector wide programmes in Benin and Yemen provide more clarity about inputs required and outputs expected.

[53] In particular in rural water supply (and sanitation) in Benin, Yemen, Mozambique, Vietnam, Bangladesh (and to a lesser extent Egypt, Indonesia)

6. SUMMARY AND CONCLUSIONS

6.1 The Netherlands policy at the introduction of the SWAp

After the introduction of the SWAp, the aid policy for the water sector was not worked out in further detail. Such a specification would have taken into account the specific characteristics of the sector and the new policy for Dutch development co-operation, which was presented almost simultaneously. This latter policy was strongly based on the principles agreed on at international conferences on water and environment issues. The international debate on SWAp, in which the Netherlands played an important role, is reflected in internal documents, but not in the main policy papers on Dutch development aid.

6.2 Conditions at the introduction of SWAP and the Netherlands assessment

6.2.1 Conditions

Various reports refer to experiences with the introduction of the sector-wide approach in the water sector. These include the institutional complexity of the water sector, the lack of political will in the recipient country, the weakness of institutions involved in policy implementation, the role of private and public parties in service delivery, and the fragmentation of aid across a large number of themes and sub-sectors and the reluctance of donors to adopt a sector approach in the water sector.
In addition, many institutions were characterised by inefficiencies and capacity deficiencies, even within their own mandates, including a lack of technical skills but also in strategic planning, design of interventions, operation and maintenance of facilities, monitoring and evaluation of performance, aspects of cost recovery and where they were introduced, approaches to participatory development.
In the late '90s, one could say that for the water sector, the SWAP came as an eye-opener at a time when it was very much exploring reforms.

In the late '90s, it became generally recognised that major reforms were needed in the water sector as the sector was poorly performing and insufficiently responding to the challenges of rapid population growth and economic development, leading to scarcity, conflicts and environmental degradation. And although the political will at sector level was there, the multitude of organisations involved were slow to pick up the reform in an operational sense. Of course, many of the reforms considered were far reaching and had a political dimension, not confined to the water sector in isolation: decentralisation, new financing mechanisms, civil service reform, private sector involvement in what is considered a public service for a public good. Planning alone typically takes several years, capacity building is a continuing process. Generally it can be said that in most countries the water sector has started to put its act together in around the year 2005, but the backlog is often huge in a varying economic and political landscape, let alone climate change.
It may be concluded that in the early 2000s the water sector was not yet ready for far reaching SWAp approaches, but that by 2005 it is much better positioned. The evaluation testifies this.

6.2.2 Risk assessment by The Netherlands

In each country the Netherlands assesses the risks involved in the way it participates in the development of the water sector. This risk assessment has a supra sectoral as well as a sectoral dimension. Supra sectoral issues relate to public finance management, decentralization policies, civil service reform, transparency and corruption. Sectoral issues refer to the policy and institutional framework as well as to the commitment of both the donors and the recipient country at various levels. In Vietnam and Indonesia an early choice

was made for co-funding through the multi-lateral channels. This is a low risk and high opportunity choice made in these two countries. The risk assessments made in Bangladesh, Egypt, Benin and Yemen appear to be logic, traceable and well balanced. The risk assessment made in Mozambique regarding the opportunities to start a sector wide programme proved to be based upon a too optimistic unbalanced assessment of the policy and institutional framework.

6.3 Netherlands response to opportunities for SWAp in three case study countries

The conditions for SWAp and the way the Netherlands aid modalities have responded to these conditions are depicted in figures 6.1 to 6.3 (respectively for Yemen, Benin and Mozambique)[54]. The figures show important milestones reached and they also show whether the Netherlands modality is currently "ahead" of the conditions for SWAp or not.

In Yemen, the Dutch aid has responded to the opportunities provided by the restructuring of the water sector which started in 2001 and the formulation of the national water strategy (NWSSIP). In both processes the Netherlands played a modest role. The implementation of SWAP type of programmes started in 2005, with preparatory work in the years before on PFM and in particular the MOU-PAWS specifying the commitments of GON and GOY. Currently, the Dutch aid modality is ahead of "the conditions for SWAP" as the PFM action plan and the MTEF are still not in place. As such the programme is risk taking, GON has introduced specific safeguards in the form of value for money audits and approval of annual plans. Other donors have not accepted this approach as yet, although the World Bank has announced an on-budget Water Sector Support Program in late 2007, to become operational by the end of 2008.

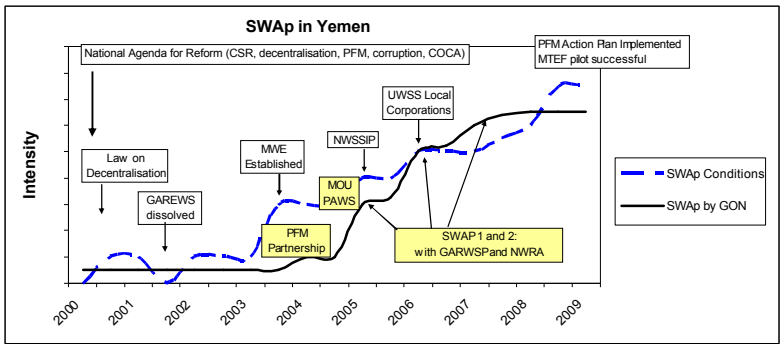

Figure 6.1- SWAp in Yemen

In Benin, Netherlands support to the water sector started in 2003. The preparatory work done by other donors and the possibility to pool funds with like minded donors provided the opportunity for a SWAp type of programme. The modality is considered ahead of the formal "conditions for SWAp" as the PFM systems and the capacity of institutions remains an area of concern.

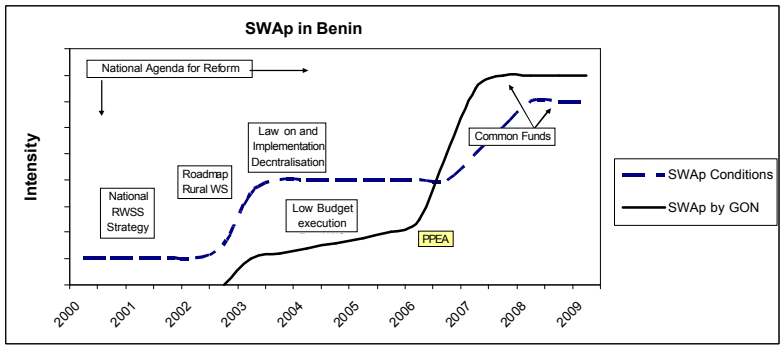

Figure 6.2 – SWAp in Benin

[54] For details see the three case studies in Benin, Mozambique and Yemen

In Mozambique, GON reacted favourably on developments in the early 2000s and established the on-budget support programme (ASAS) to DNA. GON was well ahead of other donors. However, in 2006, it became clear that DNA did not deliver, while a lack of clarity regarding new processes of decentralisation also hampered an effective disbursement of aid through DNA. As a result of this development, GON referred back to a number of project type interventions. Recently the opportunities for SWAp have improved with the establishment of a common fund for the RWSS based on an earlier developed roadmap for the sub-sector.

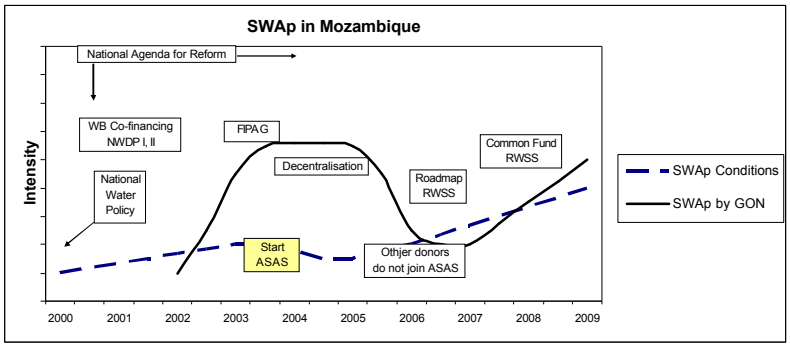

Figure 6.3 – SWAp in Mozambique

The opportunities to make progress with the SWAp with special reference to upstream aid modalities in Bangladesh and Egypt were limited. In Bangladesh, the institutional weaknesses, lack of political commitment and lack of interest from donors. were the main constraints. The choice for the continuation of project aid was a logical one. In Egypt, the national government did not show real interest in SWAp. Still, harmonization and alignment in Egypt gradually improved. The RNE plays a positive role in strengthening the harmonization process. In Vietnam and Indonesia Dutch aid is channelled through multi-lateral organizations. This is a good choice. The opportunities for SWAp in RWSS in Vietnam are substantial as GON can jump on a “riding train” driven by DANIDA. However, the logic of a Netherlands involvement in a new sub-sector in Vietnam, where MDGs already have been achieved, seems less logical.

6.4 Progress made with SWAp

6.4.1 General

In general terms it is noted that the water sector is special as compared to other sectors. Management of water resources and service delivery systems constitute a complex system of interdependencies. A recurrent theme in water policy forums is the concept of “global knowledge, local solutions” There are standardized solutions, but no standard situations. Institutionally, the water sector can hardly be considered as one sector, being served by several ministries and levels of government and private sector. Water programmes typically show a multitude of budget sources. In the late ‘90s, it became generally recognised that major reforms were needed in the water sector as the sector was poorly performing and insufficiently responding to the challenges of rapid population growth and economic development, leading to scarcity, conflicts and environmental degradation. And although the political will at sector level was there, the multitude of organisations involved were slow to pick up the reform in an operational sense, also because many of the reforms had a political dimension well beyond the water sector alone.

Progress with SWAp is expressed in three dimensions: i) the strengthening of the sector; ii) harmonisation and alignment and iii) changes in aid modalities. The progress made regarding these three dimensions is described in this paragraph.

The progress made may be summarized as follows. Substantial progress has been made with the strengthening of the sector and an important role for the Netherlands in various fields. The harmonisation in terms of exchange and coordination of information and

alignment of policies is progressing well. However, harmonization in programme implementation (e.g. pooling of funds) and the alignment to country systems only gets slowly off the ground. The Netherlands is often playing a positive role in efforts to accelerate the harmonization and alignment process. The aid modality changes only gradually in the water sector. In this slow process, the Netherlands is a front runner in some countries.

6.4.2 Strengthening of the sector

The Netherlands programme in the water sector in the seven water partner countries contributes substantially to the strengthening of the sector in terms of policy formulation and to some extent in terms of the operationalisation towards the meso and micro levels, improved public-private partnership and institutional strengthening. Still, there is much to be done with special reference to the sector involvement in PRSP, the strengthening of mechanisms to improve macro-micro linkages and capacity building at sub-national level.

Policy framework

- Water sector policies, strategies and plans do exist in all countries. These are adequate for policy alignment of donors with the national government in Benin, Yemen, Egypt, Bangladesh and Vietnam, but require further elaboration in Mozambique and Indonesia.. The implementation of the plans remains the major challenge. In this context road maps as well as capacity building are two crucial elements. GON played a supportive role in the formulation of sector policies in most countries and plays a positive role in implementing roadmaps for sub-sectors in Benin, Yemen and Vietnam. In operational terms the issue of poverty reduction does not have a prominent place in these strategies and plans.
- PRSP is seen as a crucial instrument for promoting ownership based upon the assumption that the PRSP reflects the priorities of the recipient countries themselves. In the 2nd generation PRSPs the water sector came in a bit more prominently than before because of the inclusion of the MDG. Still, the water sector is not integrated in a balanced way in the PRSPs and pro-poor policies and priority choices are not indicated. Water sub-sectors outside the MDG sub-sectors of WSS are still hardly mentioned.

Institutional framework

- The Netherlands contribution to an improved institutional framework for the water sector at national level provides a mixed picture. Efforts to strengthen the National Directorate for Water in Mozambique were not successful, while efforts to strengthen the Bangladesh Water Development Board have been partly successful. Efforts to strengthen the water ministries in Egypt and to a lesser extent in Vietnam are more successful. Efforts to strengthen urban water supply organizations were more successful.
- The strengthening of grass root level organizations[55] in water management was very successful, both at policy and at grass root level. Civil society organizations were not systematically strengthened.
- The contribution of GON to systems development (legislation, and regulations) is successful in enhancing participatory water management, but remains limited in other fields.
- The Netherlands attention to the sub-national level, meso as well as micro, is substantial in most of the partner countries. The Netherlands contribution to the strengthening of the macro-micro linkages through improved mechanisms took place in various type of programmes with special reference to multi-lateral programmes. Efforts made in Egypt, Bangladesh and Benin contribute to the strengthening of these mechanisms. However, still much needs to be done in a more systematic and comprehensive manner.
- In the field of the strengthening of the implementation capacity the Netherlands play an important role with regards to promoting Public-Private Partnership (PPP)[56] in the urban

[55] Municipalities, water user organizations and water boards in Benin, Egypt, Yemen and Bangladesh

water sub-sector in Yemen, Indonesia and Mozambique as well as in strengthening the implementation capacity in the water management sub-sector in Egypt. Strengthening of the implementation capacity at sub-national level mainly took place through co-funding of multi-lateral programmes in Bangladesh, Vietnam and Indonesia.

- GON pays too little attention to monitoring issues with special reference to sustainability. There is often too much focus on systems and processes in development aid and lack of focus on the reality and consequently on the sustainable results in the sector. The wish to attain MDG targets reinforces this practice.
- Most countries do not avail of a comprehensive capacity building strategy and plan, and the donors do not pursue this. There is a general lack of systematic attention for capacity building at sub-national level. The Netherlands contribution is provided at an ad hoc basis and consequently limited.
- The policy to not provide TA is rather strictly applied in a number of cases, but hardly applied in other programmes.

6.4.3 Harmonisation and alignment

Harmonisation
Harmonisation in the water sector is a slow process. Information exchange takes place in all countries. However harmonisation in programme implementation is not well advanced[57]. In some countries donors have each found their typical niche[58].Generally the record of donor harmonization leaves much room for improvement as is testified by the evaluations carried out by OECD in 2006. The existence of large donor funded projects in the water sector, often with their own characteristics and dynamics, does not stimulate the harmonization and alignment process.

The Dutch play a comparatively important role in advocating and stimulating donor harmonization, albeit with varying success. In 5 of the 7 water partner countries the Dutch are chairing the water sector donor consultative group on water[59], which generally consists of the like-minded donors and to some extent other stakeholders. The increasing number of joint water sector reviews, especially at sub-sector level, are an important element in the harmonization process..

Harmonization at sub-national level, even the exchange of information as a first step towards harmonization, hardly takes place in most countries. Specially in the field of RWSS harmonization at sub-national level is important as a stepping stone towards upstream modalities in this sub-sector.

Alignment
Policy alignment takes place in all countries. Systems alignment varies between sub-sectors and countries. In general it takes place to a limited extent. The Netherlands is ahead of other donors regarding systems alignment. The Netherlands contribution to the realization of the Paris Declaration provides a relatively positive picture in view of the general donor reluctance in making progress in the sector in this field.

In Benin and to some extent in Vietnam the first steps have been taken to co-fund programmes with like-minded donors, and there it contributes to higher efficiencies, effectiveness, and to better policy alignment with the recipient government. In the larger

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[56] Technical assistance is provided mainly through Dutch water companies, based on performance based contracts or companies taken a share in the local utility

[57] Strategic coordination and specially operational coordination only take place to a very limited extent (strategic coordination: e.g. water boards in Egypt and operational coordination: rural drinking water supply in Benin).

[58] Yemen with donors targeting specific sub-sectors and within these specific geographic areas (GON and WB in RWSS; WB and KfW as the main donors in UWSS; WB as main donor in Irrigation); and to a lesser extent in Bangladesh (GON especially pursuing the establishment of WUOs and ICZM)

[59] Or sub-sector sub-groups

countries, the Dutch have "bought influence" by co-funding large multi-lateral loans or by attaching trust funds to multi-lateral initiatives. This has increased aid efficiency. This influence through co-funding is insufficiently being used by the Netherlands.

Relation with multi-lateral donors
In four out of the seven countries co-funding of water programmes from multi-lateral organizations takes place, especially in Vietnam and Indonesia. The Dutch policy towards multi-lateral donors is ambivalent. The Netherlands has not provided clarity for itself and/or for the recipient country and the multi-lateral organization about the positioning of the Netherlands in co-funding. Is the Netherlands merely a financier or is it a partner supporting delivery? GON has never considered to provide expertise to country offices of WB or ADB[60]. The co-funding of multi-lateral loans[61] and attaching trust funds to preparatory and other initiatives are highly valued by the multi-laterals. The Dutch however find it difficult to exercise influence over the application of the funds for two reasons: i) the multi-lateral donor is not always clear and informative on how the fund is used and ii) the Dutch capacity to be involved and keep track is low indeed. The recipient government also finds it difficult to detect Dutch contribution and would often prefer a direct bilateral relationship in order to make specific use of Dutch expertise.

6.4.4 Changes in aid modalities

In a number of countries[62], the Dutch tend to be ahead in systems alignment and upstream aid modalities. Important driver is the concept of considering system alignment as the best way to build capacity in the sector. The GON provides checks and balances by including specific audits and approval of annual plans. There are indications of other donors following suit. Generally it is too early to state success of the approach of being ahead in systems alignment. In Mozambique, the choice for SWAp through the ASAS sector wide programme was ill-timed as i) the other donors did not follow suit and ii) the institutional framework was not yet sufficiently well established. The move towards sector budget support was poorly monitored and consequently it failed. As an over-reaction Dutch turned to well defined projects. In Yemen, the move towards a type of sub-sector budget support seems more balanced, also because of the lessons learnt in Mozambique. Consequently the perspectives in Yemen are positive.

Project aid is still the major aid modality in the water sector. Funding modalities change gradually. However, the project activities are far from traditional projects and generally constitute water sector programmes, which address sector wide issues. Project activities represent a large variety of type of activities often with a substantial role in improving the enabling environment for SWAp. There is dynamism in the sector. The Netherlands programme contributes to changes in aid modalities in terms of a decrease of project aid and a shift towards basket and pooled funding and sub-sector budget support. This is a slow process in the water sector.

6.5 Netherlands contribution to the strengthening of the sector

6.5.1 Outputs

The Netherlands contribution to results in terms of improved outputs is substantial in a number of fields (policy and institutional framework, harmonisation and alignment) as summarized in paragraph 6.4, but has not necessarily lead to upstream aid modalities. This

[60] Such project staff, embedded in the multi-lateral organization has the potential to generate new research, analysis and evidence that can be owned and shared by the multi-lateral organization, the recipient country and the broader donor community.
[61] Bangladesh, Egypt, Vietnam
[62] Notably in Mozambique and Yemen, and to a lesser extent in Egypt

positive contribution can mainly be attributed to projects and co-funding of multi-lateral loans. Only a minor part of this contribution can be attributed to the sector wide approach with sector budget support as this approach was not successful in Mozambique. The approach just started in Benin and Yemen around 2005. The approach in Benin and Yemen is less far reaching than the sector budget support in Mozambique. In Yemen, the SWAP is implemented at sub-sector level. There are indications that in Benin and especially in Yemen, the SWAp approach has contributed to a better sense of ownership of the programmes by the implementing organisations and that it has contributed to a more equitable dialogue. Moreover, it leads to a better insight in the PFM processes and sector performance. Consequently, the implementation of sector reform and the long-term performance of the sector is expected to improve.

In Yemen, the GON experience with and advocacy of SWAp has stimulated the WB to take an important step towards a SWAp in the water sector. In Egypt a different and more cautious approach has been chosen with respect to stimulating sector reform and government ownership[63]. This is only slowly leading to more upstream aid modalities of the Dutch, but has already led to substantial sector budget support of the EU. This careful approach in Egypt also stimulated co-funding activities with WB and KfW.

Under the first water sector budget support programme, ASAL in Mozambique, the relations between inputs, output and outcome cannot be established. The policy and institutional framework was not clear. There was no implementation plan indicating which outputs to realize with which inputs required and outcome to be achieved. The contribution of the ASAS programme regarding outputs and outcome is negligible.

Activities in the field of piloting and preparing for essential sector reform are typically carried out in Bangladesh (water user organizations) and Indonesia (decentralization, irrigation management committees, irrigation service fees). These activities started as pilot projects. Lessons learnt contributed to an improvement of the policy and institutional framework (outputs) and were implemented within the framework of a multi-lateral investment loans. The above activities mainly contributed to an improvement in the institutional sustainability of service delivery systems (outcome). The Netherlands provided financial as well as technical inputs.

6.5.2 Coverage, sustainability and poverty reduction (outcome)

The Netherlands contribution to results in terms of outcome can only be expressed in terms of: i) improved service delivery and sustainability of the delivery system in the drinking water sub-sector and; ii) poverty reduction[64]. From documents it becomes clear that the issue of increased coverage of drinking water gets much attention. The issues of sustainability and poverty reduction do also have a place in the documents. However, these issues have no prominent place *in operational terms* in these documents. Monitoring of what is happening in reality regarding sustainability and poverty reduction often does not get enough attention. The focus is possibly too strongly on the generalities with regards to the policy and the institutional context.

The Netherlands contribution to improved service delivery in the drinking water sub-sector has been limited during the period 2000-2005, but is substantially increasing over the last few years and becomes substantial. The contribution in the coming years ranges from 10-30% of the MDG targets in the different countries. This increase in coverage is directly related to the Netherlands centrally managed policy to explicitly contribute to the

[63] Intensive equitable dialogue through the Advisory Panel Project in Egypt and innovations through pilot projects, which were subsequently mainstreamed in multi-lateral sector programmes and national policies.

[64] Focus as indicated in ToR

achievement of the drinking water related MDGs through the programme “drinking water for 50 million people”. This specific programme does not really encourage SWAp approaches.

The sustainability of the service delivery systems should be sub-divided in institutional and financial sustainability. In terms of institutional sustainability the Netherlands contributed substantially to the strengthening of the water user organizations and the strengthening of the organizational set-up of urban water utilities. The Netherlands efforts to contribute to the financial sustainability of urban water utilities are embedded in the PPP approaches, which are more and more advocated and practiced. Short-term indications are positive, but it is much too early to assess even mid-term success rates, as PPPs co-funded by GON only started around 2005. The issue of financial sustainability of water user organizations has received attention already since the 1990s, but long-term success is difficult to measure and to monitor. Generally, the issue of sustainability of delivery systems in the drinking water sub-sector gets less attention as compared to the issue of additional coverage and service improvement.

Despite perhaps the lack of scientific backing, nobody disputes the relationship between water and poverty. At the same time, there is wide disagreement about the extent to which this nexus is an automatic one and thus whether it is necessary to undertake specific measures to ensure that water-related activities are indeed pro-poor.

An internal note in the Ministry on Water and Poverty, explicitly links water security to access of the poor to water in all its forms. The need for an institutional development focus is emphasized. However, the attention for poverty reduction in the GON water programme is not systematic and varies widely per country and per sub-sector: It varies from major urban water supply programmes, in which the issue of poverty reduction is not mentioned to innovative, forefront programmes like the Char Development and Settlement Programme in Bangladesh where reaching the poor and less privileged through providing access to land and other services with an institutional development focus is the core business.

Relation between water and poverty reduction is very direct: a lack of access to water specially reduces the health situation and agricultural production. Bad WRM also increases the risks of flooding and drought. Risks to which the poor are most vulnerable and from which they suffer most. There is no real evidence that the Netherlands consciously and consistently made pro-poor choices in its programmes and consequently contributed systematically to more effective poverty reduction.

The issue of poverty reduction should get much more attention in the Netherlands aid in the following fields: i) poverty reduction high on the agenda for the dialogue; ii) poverty analysis studies to be conducted by local institutes; iii) the operationalization of poverty reduction in policies and plans; iv) proper monitoring and evaluation.

6.5.3 Ownership

SWAp brings about processes, which lead to a more intensive dialogue between all parties. In this context is it crucial that the water dialogue is brought to a higher policy and decision making level. Dialogues at water sector level already exist for a long period. Dialogues regarding water issues at higher policy level are meant to be stimulated through SWAp. The quality of these dialogues remains limited.
Ownership is substantial in five of the seven partner countries. Ownership is limited in Benin and Mozambique mainly through their large dependency on external aid in the water sector. Nevertheless, also in Egypt, Bangladesh and Yemen, the donors and their specific technical assistance play an important role in policy development in the water sector. Ownership does not automatically imply leadership as the ASAS Mozambique sectoral budget support experience shows. The Netherlands water programmes in Benin and Yemen contribute to

increased ownership by channelling all funds through the financial system and by major steps towards “un-earmarked” support to the road map for RWSS.
It remains to be seen whether and how increased ownership leads to more sustainable investments and operation and maintenance.

6.6 Collaboration with other donors

The Netherlands development programme in the water sector is generally the largest of the small donors and is often modest as compared to large countries like UK and Germany. Dutch aid is really modest as compared to the multi-lateral development banks, the EU and a country like Japan and sometimes USAID, but in most of the seven water partner countries[65] the Dutch are a dominant bilateral donor in the water sector. Notwithstanding the fact that GON is a relatively small donor, looking at the total of actual programmes of Dutch development aid in the seven water partner countries, a picture arises of a programme, which is influential in the water sector.

6.7 Institutional support mechanisms

In the three case study countries only Mozambique shows a complicated decision making process on policy issues between headquarters in The Hague and the embassy. Both at the introduction of SWAp in 2000 as well as in the recent past through substantial project based support to the water supply sub-sector from centrally managed funds. Headquarters overruled the embassy in both instances. This hampered a balanced policy towards SWAp in the water sector in Mozambique.
The water sector staffing situation at the embassies is cumbersome with special reference to the variety in the quality and role of the local staff. Local staff is crucial in properly understanding the local reality and in having access to key information from various stakeholders. In view of the work load and specially in view of being “on top of the agenda” in the water sector the staffing situation at embassies as well as the role of others (local consultants and local research institutes) has to be reviewed within the context of a business plan as described in Chapter 7.8.

The type of expertise required to facilitate and accelerate processes of change, to choose the best strategy to improve dialogues, to stimulate decision making amongst all stake holders and to get commitment from the highest policy level is different from the expertise water specialists usually possess. International advocacy organizations are usually better trained and equipped in strategic thinking and acting than water experts. Lessons can be learnt from these advocacy organizations.

6.8 Relevance Netherlands development assistance in solving key water problems

In the eyes of both the recipient country and the partner donors, the aid has added value through the specific knowledge and expertise the Dutch have on water issues as well as through the typical characteristics of Dutch aid of being flexible and prepared of risk-taking. In five out of the seven water partner countries[66], the Netherlands supported water programmes are fully placed in the priority needs of the water sector. Not in Mozambique and Yemen as water resources management in the Netherlands programme gets less attention although water resources management problems are major ones[67].

[65] Egypt, Bangladesh, Benin, Mozambique and to a lesser extent in Indonesia, Yemen and Vietnam
[66] In Benin, Egypt, Bangladesh, Vietnam and Indonesia
[67] In Mozambique the RBOs and irrigation policies and practices in Yemen

6.9 Relation between SWAp and perspectives for effectiveness

It is too early to draw definite conclusions on a relation between SWAp and aid effectiveness as compared to former approaches. SWAp in the water sector is only practiced in earnest since recent years, the introduction of SWAp is a gradual process and the effectiveness of approaches depends very much on the context.

Nevertheless, the study shows that there are definite indications of higher aid effectiveness. Effectiveness of the Dutch aid increased through its contribution to institutional changes, increased implementation capacity and the strengthening of local organizations. In all countries the ownership of aid programmes has increased and SWAp approaches have undoubtedly forced the dialogue with the recipient government. The co-financing with multi-lateral organizations has provided better perspectives for effectiveness as complementary funding has lead to upscaling and implementation of piloted sector reforms and to Dutch participation in programmes which address sector issues in a broader sense. SWAp approaches have increased the insight in the complementarities between the various Dutch interventions in the water sector. A better insight into the reality at micro - and meso level and a better balance between short term (the MDGs of coverage of water supply and sanitation) and long term results of sustainable service delivery to the poor and water management for reduced vulnerability of the poor is required to further increase the perspectives for effectiveness. SWAP approaches have not necessarily lead to programmes with a higher degree of poverty focus.

There is little evidence that programmatic forms of assistance are better suited than project-based assistance to reduce transaction costs.

7. LESSONS LEARNT

7.1 Specific country context

The specific country context is crucial for understanding actions. This includes many aspects like size, geography, population, donor involvement, size and type of economy, state of affairs in sector, political commitment, etc. The importance of the context becomes clear from the analyses of the Netherlands involvement in the water sector in the seven countries. Progress with SWAp is substantial in Benin, where several like minded bilateral donors are making progress in harmonization and alignment, where a RWSS road map is agreed upon by all parties, where the decentralization process gets shape and where TA at various levels starts to increase the implementation capacity. Although the PFM system in Benin still shows weaknesses at national but specially at sectoral and sub-national level progress can be made with SWAp.
The same applies to Yemen, be it that the difference is that the Netherlands is well ahead with a SWAp upstream aid modality for the RWSS sub-sector and the National Water Resources Authority as compared to the other donors.
In Bangladesh, less progress has been made with SWAp as the institutional framework is weak, as the political commitment is lacking and as donors show no interest in substantial harmonization.
In Mozambique, the sector wide approach started with the ASAS sector budget programme within the National Directorate for Water although the policy and institutional framework still was weak, other donors were not interested in participation in the SWAp and harmonization did not get off the ground through a lack of “like minded” donors with substantial support to the water sector.

7.2 Opportunities and constraints to introduce SWAp

Interest of recipient government in SWAp
The interest of the recipient government in SWAp and especially the interest in upstream modalities and donor harmonization differ between large and small countries. In large countries[68], where the national government is a main investor in the sector, the interest in SWAp is low. Donors are valued for their specific added value, which for the Dutch is often the specific expertise, which leads to requests for technical assistance and capacity building. In small countries[69] the government is interested in harmonisation because it is overwhelmed by the donors. However, governments themselves never drive the harmonisation efforts. The interest shown in the recipient country largely differs amongst ministries, stakeholders and various levels of the administration.

Interest of donors in SWAp
Generally there is high interest in policy alignment, low interest in system alignment, fair to high interest in harmonisation of policies, practices and dialogue, little interest in harmonisation of funding. Overall, there is too little interest in upstream modalities of funding: too often fiduciary risks are quoted, too often there is a wish of own identity, there are too many different rules, regulations and management arrangements, expecting recipient government to adapt rather than to adapt as a donor. Probably the best way for the Dutch to have large scale influence and contribute to progress with SWAP is to join the multi-lateral development banks as these programme are often sector wide and address to some extent the macro-, meso- and micro-relationships. These macro-micro relations are essential in these countries, but often poorly developed. However, as indicated earlier the policy of the GON with respect to the multi-lateral donors is ambivalent and there are drawbacks to co-

[68] Indonesia, Vietnam, Egypt, and to a lesser extent Bangladesh, in future Yemen
[69] Mozambique, Benin, currently Yemen

funding as well. Also recipient governments do not always favour it as compared to direct bilateral project relations.

7.3 Revisiting SWAp and indicators

Initial focus of SWAp: sector budget support
In the first years, presentations and discussions on SWAp focused on the newest element of the policy: the aid modality of sector budget support (SBS). One premise was, that the decision to apply SBS would be a logical one based on a number of indicators, which describe the conditions for the "readiness" to SWAp[70]. The proportion of aid disbursed through SBS was considered the best indicator for the extent to which the SWAp policy was practiced. In this respect, the health and education sectors scored quite well on progressing with SWAp as compared to the water sector. This gave the water sector the reputation that it was "old fashioned" and consequently "that their programmes were no good". The current evaluation above all shows that the conclusions of "old fashioned" and no good" are not correct.

Revisiting the role of the indicators: from conditions to objectives
Over time it was also realized that conditions, opportunities and objectives were so different from place to place, that indicators could not logically prescribe the SWAp process and aid modality to be chosen. The indicators lost their practical value for decision-making on SWAp. In this respect there are two main schools of thought: indicators signifying *objectives* and indicators signifying *conditions* for SWAp.

The first one embraces the SWAp as organising principle to be the best way to build a strong, sustainable, self-reliant water sector. In this case the indicators serve as *objectives* to be reached. The second school sees the indicators as *conditions* to be fulfilled in order to be able to practice SWAp, especially the more upstream modalities. As long as these conditions are not met, project type of aid is warranted.

The Dutch aid essentially harbours the first thought. As such the Dutch aid is risk-taking. The other smaller donors and the UN agencies tend to agree with this view, but only partly take the consequences for aid modalities and still provide extensive technical assistance to safeguard risks. Most larger donors, and especially the large multilateral development banks, agree with the principle, but are not prepared to take the consequences, citing fiduciary risks and lack of absorption capacity of local organisations, both in quantity and quality. This divergence of views is one of the most important reasons for lack of donor harmonization in implementation of programmes in a number of countries[71]. At the same time there seems a trend towards more acceptance of the "Dutch" view[72].

7.4 Which factors are crucial for progress with SWAp?

Contextual factors
PFM systems are important, but possibly the best way to test and monitor the validity of the PFM system is to channel funds through the system itself. Provided that the i) PFM systems meet minimum requirements; ii) that all parties are keen to support efforts to channel funds through the financial system of the recipient country and; iii) that these processes are properly monitored. In combination with extra audits[73], capacity building and systems improvement facilities, the fiduciary risks can be contained.

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70 Notably the CPIA/IRAI scores and the Dutch Track Record scores. Indicators basically describe the state of affairs with respect to a transparent, accountable and effective disbursement of aid, including capable organizations (quality and absorption)
71 Notably Mozambique and Yemen, to a lesser extent Egypt and Bangladesh;
72 For example: Yemen, Egypt
73 For example the extra Value for Money Audit applied in Yemen

Decentralisation is one of the major building blocks for SWAp through the notions of participatory water management, good governance, autonomy in service delivery. In that respect, an operational policy is important but not conditional to progress with SWAp.
Civil service reform is considered essential for sector reform processes in order to create capable implementing organisations. One of the most important elements for SWAp is the autonomy of service delivery organisations, both with respect to human resources policies and financial operations. Civil service reform in the water sector cannot be seen in isolation from national policies.
These contextual factors are very important for progress in SWAp, but none of these contextual factors is conditional for progress in SWAp.

Policy framework
A clear national water policy is needed to specify the priorities to be set and to allow major decisions on issues such as water pricing and, mandates of water using organizations. Such a clear water policy, formally accepted by the national government, prevents that programmes get stuck in fundamental policy debates.
National Water Resources Strategy Plans are often extensive exercises taking several years. The process leading to the plan is often valuable and important as it confronts all stakeholders with the water sector issues in a comprehensive manner. As such they are needed for consensus building. However, in practice the plans most often end up as a too ambitious listing of all possible management interventions without much priority setting and too weak a link to actual financing. Moreover, the sheer size of the plan leads to low flexibility of adaptation to changing boundary conditions.
In view of the above, road maps are crucial as these are operational tools. The roadmap defines the targets and performance criteria to be achieved and the roles and responsibilities of all parties concerned. The roadmap implies that there is good information and understanding of the sector.
The combination of a strong national policy and a sub-sector roadmap are conditional for progress with SWAp, especially if upstream aid modalities are pursued.

Institutional framework
A proper institutional framework is essential for progress with SWAp. A clear mandate and a transparent and workable delimitation of responsibilities with other organizations at various levels are of utmost importance for sector development. Moreover, a clear insight into the implementation capacity at various levels as well as an agreement on the ways and means to improve their capacity is also essential for sector development.
The above institutional factors can be considered to be conditional for progress in SWAp. Progress with SWAp cannot be made without a clear mandate of the institutions concerned and insight in how to improve the implementation capacity.

The private sector fulfils an important role in the water sector in many respects, especially in service provision, both at micro level[74] and at macro-level[75]. The water sector often does not have a clear policy of involvement of the micro-level service providers, seeing them as competitors rather than partners. At water utility level and also in irrigation service provision, the private sector increasingly takes up a variety of roles, but in many countries the enabling environment to make best use of the opportunities is insufficiently developed. Private sector participation is not essential for introducing SWAp, but establishing management autonomy for the service delivery organisations, voicing the concept of “public owners, private business” are essential for applying the principles of SWAp in the support to these organisations and subsector.

[74] private wells, water tankers, small scale treatment plants,
[75] private sector taking a share in municipal water services

Ownership and political commitment
Communication, dialoguing, political commitment and ownership are important factors influencing progress with SWAp. These factors refer to relations between the recipient country, donors and civil society as well as to internal relations within the recipient government and relations amongst donors themselves.
In most recipient countries the water sector has a low priority in terms of investment and O&M funds available from national budgets. A crucial problem is that the political commitment at the level of the Prime Minister as well as at the level of the Minister of Finance (and Planning) is often limited as compared to the commitment at sector level. In fact political commitment at the highest political level is a major conditional factor for progress with SWAp.

Mystery factors
Mystery guests are unknown till they arrive. Mystery factors are the same. They cannot be predicted, it just happens that persons meet and go along very well, that a minister arrives and preaches SWAp, that the individual is a believer and bases trust on non-traceable factors.

7.5 Water and PRSP

A systematic and comprehensive inclusion of water in the PRSP did not take place in most countries. Such an inclusion is very important as it ensures political commitment at the highest level and increases ownership of the recipient country. No comprehensive inclusion of all water sub-sectors as well as the most evident interrelations between sub-sectors in the PRSPs means less attention and less funding for the sector at the level of the ministries of finance and planning. GON could play a much more pro-active role within the donor community and amongst other stakeholders in ensuring a better and more comprehensive integration of water in the PRSPs. This could also be a first step towards an explicit poverty reduction strategy.

7.6 Long-term versus short-term perspectives

In fact the overall Netherlands policy in the water sector is a trade-off between service delivery objectives and systems improvement objectives or between short and long term results. The choice for the drinking water sub-sector is easily made: the sub-sector is “hot”, relatively simple institutionally and outputs in number of people served can be easily measured. Consequently, there is a tendency to refocus on earmarked support to lower levels of the delivery system as this is supposed to be more effective in reaching beneficiaries and delivering results in the short term. This might undermine the development of planning and management capacity and hence the ability of domestic systems to sustain interventions. There is an urgent need to find a proper balance between providing means and incentives to improve systems but also ensuring the necessary investments and service delivery. A better focus of attention at sub-national level is an important step in this perspective.

7.7 Co-funding through multi-lateral organizations

In SWAp perspective co-financing through multi-lateral channels potentially has the following major advantages: i) co-financing contributes to harmonization; ii) co-financing often contributes to reduction of transaction costs; iii) co-financing offers an opportunity to participate in a policy dialogue at high level within the recipient country as well as within the multi-lateral organization and; iv) a loan is supposed to provide substantial ownership to the recipient country as it is their money. In reality these advantages are only partly being

realized. The ownership issue of the TA (grant component) to the loan provided by the Netherlands is not always explicitly discussed and agreed upon with the recipient country itself. The multi-lateral organization often considers the TA as their ownership. Loan preparation is often a long-term process, and the conditionalities imposed by the multi-lateral agencies have the tendency to reduce the feeling of ownership of the recipient country. Notwithstanding these problems co-funding through multi-lateral organizations is a good option to contribute to the water sector development process, specially in the large partner countries. The Netherlands could play a more pro-active role in dealing with the multi-lateral organizations in the water sector.

7.8 A business plan for SWAp

The water sector is special. Improving policy and institutional frameworks, increasing harmonization, alignment and ownership cannot be reached overnight. To understand where you stand in the sector development process in the country, what the opportunities are for progress with SWAp, where you want to go, what priority actions are required and who and how to undertake these actions, all within the specific context of the recipient country requires an operational business plan per country. Such a business plan (or road map) as meant to provide the strategy and operationalization regarding the question “how to make progress with the SWAp within the specific context of a country”. The plan includes concrete steps to be taken (and by whom, when and how) as agreed upon by donors as well as the recipient country and other stake holders. Such a plan should be based upon a sound knowledge of the reality. In this context the new sector track records are a good starting point. Continuity and proper monitoring are required.

7.9 Modality mix and technical assistance

In view of the problems within the sector (e.g. institutional complexity and lack of implementation capacity) Sector Budget Support (and GBS) will in most instances at this moment in time not contribute to an acceleration of the sector development process in the seven countries concerned.
A reality based modality mix including specific TA activities as well as innovative pilot projects next to “upstream” aid modalities at sub-sector level wherever possible, remains essential. In this context the wishes of the recipient country should be taken very serious.
Technical Assistance is often essential to contribute to the processes of change in the water sector. The opportunities for TA within the Netherlands policy should be strengthened.

In large less aid dependent countries the GON contribution to the water sector could be further strengthened through a more pro-active role in the co-funding of loans through the multi-lateral channels as well as through a flexible input in innovative project activities and in technical assistance in well defined fields as indicated / requested by the recipient country itself.

7.10 How to accelerate progress with SWAp at sub-sectoral level

Drinking water
Acceleration of the progress with SWAp is possible in the drinking water sub-sectors; urban as well as rural. In urban areas through pooled funding and sub-sector budget support to water authorities as the institutional set-up in this sub-sector improved considerably over the last years.

In rural areas sub-sector support can be provided through the provincial (meso) level and/or within the framework of a comprehensive RWSS road map as agreed upon by all parties.

Netherlands efforts to accelerate pooled funding in the drinking water sector should include reorientation of the newly started drinking water projects under the “drinking water for 50 million people” policy as these activities have started too much in isolation.

Acceleration of the progress with SWAp at sub-national level with RWSS is possible in most cases and has the advantage that part of the macro-micro problems can, at least temporary, be overcome. Harmonization at sub-national and sub-sector level offers major opportunities for progress with SWAp through pooled funding.

Water Resources Management
The WRM sub-sector is complicated. The institutional framework often does not exist (ICZM and RBOs) and/or contradicts with existing administrative structures. WRM as a concept is popular. However, the operationalization of the concept is complicated as elements are embedded in many different organizations. Consequently, WRM tends to get less attention in PRSPs as well as from donors and national governments. Institutional strengthening is mainly focused on the local level through the strengthening of water boards and water user organizations. In this context up-scaling is the major challenge. Moreover, support to multi-lateral organizations can be further intensified provided GON clarifies its own role.

7.11 Poverty reduction

In general terms it should be emphasized that attention for poverty reduction starts with a clear insight into the poverty situation and its dynamics, often well known by local research institutes, followed by a comprehensive inclusion of the water sector in the PRSP including poverty reduction issues and priorities, to be further elaborated in strategies and plans. Moreover, the policy dialogue can better focus on poverty reduction issues and priorities, while a simple and effective monitoring and evaluation mechanism should be agreed upon and get off the ground under the responsibility of local research institutes. All stakeholders should be actively involved in and commit to the process as described above.
In all these fields the Netherlands could play a more prominent role provided manpower is available to promote this process. The possible consequences of giving poverty reduction a more prominent place should be accepted by RNE. The process is not per definition a process that only yields results after a long time. On the contrary, providing a more prominent place for poverty reduction in the water sector just requires nerves.
The focus is often on water supply service delivery. However, poverty is often related to water management issues like variability of resource availability (droughts) and flooding. Disaster mitigation programmes with specific attention to the most vulnerable groups provide evidence that specific attention to poor groups is essential. That it helps is best illustrated by the Netherlands support to the most flood prone coastal areas in Bangladesh. A more systematic Netherlands attention in all seven water partner countries with an explicit water programme as well as in Netherlands partner countries with a “hidden” water programme to the issue of vulnerability through innovative projects, technical assistance as well as through support at policy and institutional level will contribute to poverty reduction and will be able to make use of specific Netherlands expertise in these fields.

7.12 Water management as core business

Not only from a poverty perspective as described above, but also from a broader and long term perspective of sector development and water resources availability, it is essential to pay attention to water resources management. Renewed attention to water as a production factor for food, for energy, for environmental services and the prevention of water pollution testify this. As all donors tend to focus on drinking water, the Netherlands has, according to many parties in recipient countries, value added in IWRM. This should be taken into consideration in making policy choices. In the field of IWRM there is an urgent need, not just to formulate

policies and plans, what actually is being done, but a need for innovative action on the ground. IWRM is a complicated concept, not easily understood unless it is made clear to all parties what IWRM means and what it can do and mean in reality (e.g. conflict resolution at local level). Civil society and local government are the natural lead parties in this exercise.

Moreover, with the renewed attention for the productive sectors, water management specially with regards to irrigation and drainage will become more interesting through its importance in the fields of increased production, more crop for a drop and equitable distribution of benefits amongst farmers.

ANNEX 1 : TERMS OF REFERENCE FOR THE EVALUATION OF SECTOR SUPPORT IN THE WATER SECTOR.

1. Background information

1.1. Sector-wide approach in Dutch bilateral aid

The sector-wide approach has been developed as a response to the criticism of project-aid as inefficient and ineffective. The underlying principle is that donors jointly offer long-term support for the creation and implementation of policy for an entire sector or sub-sector, with the partner country taking the leading role. The aid is, moreover, embedded as much as possible in the partner country's own budgetary processes and administrative frameworks. Harmonisation and alignment are to be considered as the main activities to promote ownership by the aid recipient government. Most donors have committed themselves to increase harmonization and alignment of their assistance at the High-level Forum on Harmonisation held in Rome in February 2003 and reaffirmed during its second Forum in Paris in March 2005 during which a set of indicators was developed to track progress.

Sector-wide approach in Dutch bilateral aid was introduced in 1999. In recent years, it has been attempted to gradually transform bilateral cooperation in the "partner countries" in accordance with these principles. Since then, the trend is to replace project aid by support to the central government's sector programmes and in a growing number of countries by budget support.

The definition of a sectorwide approach that the Netherlands has used is: *a coherent set of activities at macro, meso and micro levels, within clearly defined institutional and budgetary frameworks for which the government has formulated a specific policy*.
In the international literature the most common definition of a sector programme is "all significant funding for the sector supports a single sector policy and expenditure programme, under government leadership, adopting common approaches across a sector, and progressing towards relying on government procedures to disburse and account for all funds." [76]

The progress achieved with these policy intentions has been reported in various documents: for example, the IOB evaluation of the sector-wide approaches "From Project Aid towards Sector Support" and "Results in Development". The sector-wide approach has contributed to improvements at the macro policy level as can be observed in increasing policy coherence and planning capacity, improved links of (sector) policies to budgets and the increased quality of public finance management. It has also been possible to greatly expand the provision of public services, particularly in education, though it is difficult to attribute this directly to the sector wide approach. Yet, despite progress made, these evaluations also point out that the *quality* of service delivery improved little and getting sector policy to focus more on the poor and on poverty reduction remains problematic. In response to the IOB report, the Minister for Development Cooperation states that that processes of structural sector reform take time to translate in improved outcomes at community level but has also acknowledged that improved service delivery at local level should become a key focus of sector support in the coming years. For the near future linking national level reform to institutional changes and dynamics at lower levels is considered to be one of the main challenges for sector support.

1.2. Dutch Sector support to the water sector

[76] Foster.M. 2000, New approaches to development cooperation: What can we learn from experience with implementing sector-wide approaches? Centre for Aid and Public Expenditure, ODI, see also IOB evaluation report No. 301)

In 2004 the Netherlands cooperated with seven partner countries in their water sector: Bangladesh, Benin, Egypt, Indonesia, Yemen, Mozambique and Vietnam. Additionally, water-related activities were supported in the bilateral programmes of sixteen other partner countries. In total, €103 million was spent in the partner countries during the period 2002–2004. Almost 70% of this was given as project or programme funding; the remaining 30% was budget support.

Table 1: Basic data water sector in seven water partner countries (for details see annex 2)

Partner country	Budget 2002-2005 (Euro millions)	Involvement	Characteristics aid	Sub-sectors
Bangladesh	23.6	Long	Mainly project aid	Mainly water management and water supply and sanitation
Benin	8.9	Recent	Towards sectoral programme aid	Mainly water supply and sanitation
Egypt	19.6+	Long	Shifting away from project aid	Water management as well as water supply and sanitation
Indonesia	11.6+	Recent	Through multilateral channels	Water management as well as water supply and sanitation
Mozambique	16.9	Long	Mixture including sectoral programme aid	Water supply and sanitation and water management
Vietnam	12.5	Long	Mixture including sectoral programme aid	Mainly water management and recently water supply and sanitation
Yemen	17.4	Long	Mainly project aid	Water management as well as water supply and sanitation

Source: Resultaten in ontwikkeling and various Netherlands governmental reports en piramide +2005 not included

For more background information on the bilateral aid to the water sector, readers are referred to the sector and country overviews in the publication “Results in Development: Report 2004” of the Ministry of Foreign Affairs/Department for Effectiveness and Quality and also to the DGIS/Environment and Water Department document “Mainstreaming Environment and Water in Development”. Both documents are available on the Ministry’s website: www.minbuza.nl

These documents of the Ministry of Foreign Affairs note that by comparison with the social sectors, only limited progress has been made in applying the sector-wide approach to the water sector. In evaluations and other publications several reasons are mentioned to explain this:

- Institutional complexity, because of the diversity of topics, the multiplicity of actors, the often conflicting interests within the sector and –in particular- the lack of clear-cut roles for the public and private parties. Consequently, the appropriate policy and institutional framework for a sector-wide approach often does not exist.
- Fragmentation of aid across a large number of themes and sub-sectors, including water supply and sanitation, integrated water management, coastal management and irrigation and drainage.
- Weaknesses in institutions in policy implementation in the sector.

- Lack of political will among donors as well as within the recipient countries, which has resulted in a predominance of stand-alone projects, limiting alignment and harmonization.
- Insufficient political commitment at the highest level and consequently a low priority for the water sector in the government budget.
- An important role for private parties in service delivery and related expenditures, which has not been made operational in government plans and strategies.

In spite of these limiting factors, there are specific opportunities for SWAp in the water sector in the following fields that need to be explored:
- A growing worldwide interest in Integrated Water Resource Management (IWRM) due to water scarcity and flooding problems leading to increased political willingness and commitment.
- Ongoing Public Sector Reform processes with special reference to decentralization and improved public finance management.
- Improved dialogue amongst various actors in the sector

2. Objectives of the evaluation

The specific motivation for the proposed evaluation is the need to obtain greater insight into the potential for applying the sector-wide approach and the Paris Declaration in the water sector.

The objectives of the evaluation are as follows:
a) *Accountability*: to obtain insight into the results of the Dutch support to the water sectors
b) *Policy development*: to contribute to policy development intended to promote the application of the sector-wide approach in the water sectors.

3. The questions to be addressed

The central questions on accountability are:
1. What progress has been made with the implementation of the SWAP in the bilateral support for the water sectors in the countries, and what factors account for this?
2. To what extent has the application of the SWAP in Dutch bilateral sector aid in these countries contributed to the achievement of the outcomes envisaged and of the poverty allevation objectives that the Netherlands subscribes to?

The forward looking questions are:
3. What lessons can be learned from experiences so far and in what degree are SWAPs a useful approach in the support to the water sectors?
4. What actions/ improvements are required to improve the implementation of the SWAP in the water sector and maximize the impact on policy achievement?

For the evaluation of progress the following definition will be used:
1. Contributions to the fulfillment of the conditions for SWAp in terms of policy formulation and operationalization towards the meso and micro levels, improved public-private partnership, institutional strengthening and streamlining of the project portfolio towards sector support.
2. Intensification of co-ordination with other donors towards harmonization and alignment.
3. Changes in aid modalities in terms of a decrease of project aid and a shift to basket funding, pooled funding and sectoral budget support.

The principal evaluation questions have been further elaborated in the following specific questions, which have been summarized in schedule 1 (page 7, framework of analysis) and have been elaborated in more details for guidance of the study in annex 1 (Detailed evaluation matrix IOB water sector study):

- *Evaluation of the progress made in implementing sector-wide approach*

Context
1. In which way and to what extent are perspectives for the SWAp in the water sector being influenced by contextual factors?

Conditions recipient country:
2. To what extent are main conditions for SWAp in place in the recipient country?

Inputs donors: Dutch policy (and other donors)
3. In which manner and to what extent does the GON together with other donors apply the SWAp in the water sector?

Outputs
4. How did progress in the implementation of the SWAp in the water sector with special reference to the Dutch contribution affect/change the achievements of the outputs aimed at?

Outcomes
5. Insofar SAWp has been applied: how did this affect/change the achievements of the outcomes envisaged in the fields of better service delivery and the sustainability of the delivery systems as well as in the fields of poverty focus and poverty reduction?

- *Lessons for future policy*

6.. Taking into consideration the analyses and assessments made under the previous research questions, which are the opportunities and obstacles to make further and faster progress in organising Dutch aid according to the SWAp principles?

3.3 Framework for analysis

The assumption behind SWAp is that progress with SWAp will lead to more effective aid and ultimately to sustained poverty reduction. This means that with progress in SWAp also outcomes would improve. Therefore, the dimension of outcome is included in this evaluation in clearly defined terms as better service delivery, sustainability of delivery systems and greater focus on poverty reduction (see also framework of analysis point 5 and evaluation matrix in annex 1).

The questions as formulated under paragraph 3 are summarized in the following framework of analysis:

Schedule 1: Framework of Analysis

	Main Questions	**No.**	**Key issues**	**Lessons to be learned**
Context	1. In which way and to what extent are perspectives for the SWAp being influenced by contextual factors (country and sector	1.a	General governance situation	6a. Which are the opportunities and obstacles to make further and faster progress in organizing Dutch aid in the water sector according to the SWAp principles ?
		1.b	Public Sector Reform (civil service reform)	
		1.c	Public finance management	
		1.d	Decentralization	
		1.e	PRSP	
		1.f	Institutional landscape of the sector; its actors and agendas	

	Main Questions	No.	Key issues	Lessons to be learned
	level context)?	1.g	Place and role of sector vis-a-vis other sectors	6b How can the opportunities be maximized and the obstacles be minimized to enable an accelerated and broader application of the SWAp? 6.c What are the indications that an accelerated application of SWAp will lead to or substantially contribute to higher outcome of aid objectives in the water sector with special reference to better service delivery, sustainability of the delivery systems and the poverty focus? 6.d What lessons can be learned from giving SWAp support at sub-sector level? 6.e. Which concrete suggestions and recommendations can be made for future policy, taking into consideration at the one hand the Dutch wish to speed up the SWAp process and at the other hand the opportunities and obstacles in the water sector with special reference to the three case study countries?
		1.h	Water sector budget and external funding.	
Conditions Recipient Country	2. To what extent are main conditions for SWAP in place in the recipient country?	2.a	Existence of sector policy and quality	
		2.b	Operationalization sector policy	
		2.c	Sector Investment Plan	
		2.d	Institutional framework and sub-sectoral and external coordination mechanisms	
		2e	Scope, quantity and quality of Public-Private Partnership	
		2.f	Summary assessment regarding conditions for SWAp in the recipient country	
Inputs donors	3. In which manner and to what extent does the Government of the Netherlands (GON) together with other donors apply the SWAp in the water sector?	3.a	Netherlands contribution and modality mix	
		3.b	Focus on sub-sectoral or sectoral approach	
		3.c	Contribution to Technical Assistance	
		3.d	GON contribution to harmonisation	
		3.e	GON contribution to alignment?	
		3.f	Decision making on aid modalities	
		3.g	Differences between GON and other donors	
		3.h	GoN interpretation and actions regarding opportunities and obstacles	
		3.j	Reduction of transaction coststst	
Output	4. How did progress in the implementation of the SWAp in the water sector, with special reference to the Dutch contribution affect/change the achievements of the outputs aimed at.	4.a	Improved policy operationalization and implementation	
		4.b	Improved institutional development	
		4.c	Improved implementation capacity and (sub)sector management	
		4.d	Improved Public Private Partnership	
		4.e	Increased leadership and ownership of recipient country	
		4.f	Improved quality of the dialogue with the recipient country	
Outcome	5. Insofar SWAp has been applied: how did this affect/change the achievements of the outcomes envisaged in the fields of better service delivery, sustainability of the delivery system as well as the poverty focus and poverty reduction?	5.a	In which manner and to what extent did SWAp contribute to the outcomes in the fields of service delivery and sustainability of the delivery systems?	
		5.b	Increased poverty focus and better prospects for poverty reduction ?	

The detailed evaluation matrix in annex 1 is the operational basis for the evaluation of sector support in the water sector. Major research questions, verification criteria indicators and the approach to verification to answer the main questions have been elaborated. This detailed matrix will be further elaborated and improved during the evaluation exercise if need arises.

Contextual questions (schedule 1 under point 1) will be answered based upon the analysis of existing documentation. To a limited extent verification can take place in the field. The

evaluation itself will focus on answering questions in schedule 1 as mentioned under points 2, 3, 4 and 6. It should be emphasized that the questions related to outcomes (schedule under point 5) are focused on better service delivery, sustainability of the delivery systems and the poverty focus. These questions can only be answered to a limited extent and even then only in broad terms.

4 . Set-up of the evaluation

The following two principles will guide the set up of the evaluation:

- The evaluation will build as much as possible on existing information and insights in order to focus the evaluation research as much as possible on specific issues and information gaps which are necessary to answer the main evaluation questions.

- Though the general evaluation framework will be the basis for the evaluation methodology, it must be adapted to the concrete context of the countries in which sector support is provided. In this sense it serves an instrument and check-list, but it should not be used as a questionnaire. It is important to evaluate from the perspective of the specific context of the countries where sector support is provided.

The study will comprise the following components:

a) *A desk study* on Dutch support to the water sector. This study will provide an overview of activities and expenditure patterns in the water sector, an overview of the general Dutch water sector policy as well as its implementation in the seven sector-countries. This study will be carried out by inventorying as much of the existing documentation as possible, as well as by interviews with members of DMW and (by phone and e-mail) collecting information and documentation from the Embassies. This will also reveal how other donors give sector support in both sectors. This study includes an overview of Dutch aid to the water sector five partner-countries (Bangladesh, Benin, Yemen, Mozambique and Vietnam) where the water-sector (as a sector) is being supported.

b) *Three case studies and two desk studies*.
Three case studies will be carried out in order to add depth to the desk study and analysis. They will make it possible to position Dutch policy in the context of sector and country, and to arrive at explanations for the findings. These studies will be carried out in: Benin, Mozambique and Yemen. For Bangladesh and Vietnam short desk studies will be carried and if possible and necessary, followed by a short verification mission.

The reasons for selecting these specific countries are:
a) Representing different stages in experience with SWAP
b) Representing different subsectors
c) Maintaining a geographical spread.
Annex 2 presents details on every individual country.
Each case study will be preceded by a desk study that will serve as the basis for the fieldwork in the countries concerned. A report on the desk study will be sent to the mission concerned, for comments. The report and the reactions to it will enable the priorities for the field trip to be firmed up
.
c) Analysis and final report
The findings of the desk study and the case studies will form the basis for the production of the final report. The central focus of the final report will be on answering the main evaluation questions.

In addition to this study, IOB envisages a series of impact evaluations of Netherlands support to drinking water and sanitary facilities. The purpose of these impact evaluations is to get insight into the nature and magnitude of effects of programmes for water supply and sanitary facilities. In 2006 a pilot impact evaluation of a Netherlands supported programme in Tanzania was undertaken, in 2007 a similar evaluation will be carried out in Yemen and in the coming years also in Mozambique and Benin. One key issue to be addressed in these studies is the assessment how far institutional conditions explain the achievement of results and impact of water and sanitation programmes. The question posed is to what extent the policy and institutional strategy adopted contributed to sustainable results in the drinking water and sanitation sector. This issue fits very well with some of the key issues in the SWAp evaluation. For this reason, the planning and implementation of both evaluations will be coordinated as much as possible. In Yemen the intention is to carry out the institutional analysis part of both evaluation exercises jointly. The results of the impact evaluation will be very helpful in evaluating the SWAp objective to contribute to more effective assistance to the water sector.

5. Scope Remit

The study focusses on delegated bilateral aid to the partner countries in which water is being supported as a sector as well as an assessment of the general sector policy of the Netherlands with special reference to the water sector. The evaluation will primarily examine developments in the selected case-study countries. The evaluation will focus on the period 2003–2006. However, relevant information regarding the period 1999-2002 will be taken into consideration wherever possible. Though the country studies will initially examine the sector in the broad sense, the evaluation will, if necessary, be limited to one or a few sub-sector(s), in order to provide more depth.

Project funding remains a very substantial part of the total funding in the water sector. To get a proper insight into sector support these project funding activities will also be part and parcel of the evaluation exercise itself. Therefore, the study will include all delegated bilateral activities in the water sector, those ones labelled as project, programme, SWAp or Non-Swap activities. Moreover, relevant non-delegated funding activities in the water sector in the three case study countries (e.g. funding of WSS activities through UNICEF) will be included as well, as far as these activities are relevant in answering our research questions.

6. Organisation and execution

The evaluation has been requested by the Environment and Water Department (DMW) and the Department for Effectiveness and Quality (DEK), both of the Dutch Ministry of Foreign Affairs. It will be carried out by the Policy and Operations Evaluation Department (IOB) of that Ministry, under the guidance of a steering group. The content will be supervised by a reference group led by the Director of IOB and will comprise two external experts and one representative each from the Environment and Water Department and the Department for Effectiveness and Quality, plus the accountable inspector from IOB.

The IOB inspector will be accountable for the execution of the research; the evaluation will be funded from the IOB budget.

The selection of the consultants for this study has been made via a European tendering.
The study will be implemented by a contracted chief consultant and each country study will have a contracted country consultant. The chief consultant will be accountable for the preliminary study and for composing a working plan for the country studies. The chief consultant shall take part in at least two of the three country studies.

7. Planning

The study will start in January 2007. The first draft of the final report is expected to be available in December 2007 (for details see annex 4).

8. Products and feed-back

The following products are foreseen
a) The publication of three country documents
b) The publication of the evaluation report
c) Workshops with the direct stakeholders in each of the case study countries
d) Presentation of the evaluation results in the “DMW terugkomdagen” in October

ANNEX 2 : LIST OF DOCUMENTS CONSULTED

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