Water Supply and Sanitation Sector Business Strategy

July 2003
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AfDB</td>
<td>African Development Bank</td>
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<td>AFR</td>
<td>Africa Region</td>
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<td>APL</td>
<td>Adaptable Program Lending</td>
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<td>BNWP</td>
<td>Bank Netherlands Water Partnership</td>
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<td>BOT</td>
<td>Build Operate and Transfer</td>
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<td>CAP</td>
<td>Country Action Plan</td>
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<td>CAS</td>
<td>Country Assistance Strategy</td>
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<tr>
<td>CDD</td>
<td>Community Driven Development</td>
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<td>CDS</td>
<td>City Development Strategies</td>
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<tr>
<td>CWRAS</td>
<td>Country Water Resources Strategy</td>
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<tr>
<td>DEC</td>
<td>Development Economics</td>
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<tr>
<td>DfID</td>
<td>Department for International Development</td>
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<td>DHS</td>
<td>Demographic Health Surveys</td>
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<td>EAP</td>
<td>East Asia and the Pacific</td>
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<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>ECA</td>
<td>Europe and Central Asia Region</td>
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<tr>
<td>EIB</td>
<td>European Investment Bank</td>
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<td>ENV</td>
<td>Environment Department</td>
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<td>EU</td>
<td>European Union</td>
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<td>HD</td>
<td>Health Department</td>
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<td>HIPC</td>
<td>Highly Indebted Poor Countries</td>
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<td>HR</td>
<td>Human Resources</td>
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<tr>
<td>IADB</td>
<td>Inter American Development Bank</td>
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<td>ICR</td>
<td>Implementation Completion Report</td>
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<td>IDI</td>
<td>Institutional Development Indicators</td>
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<td>IFC</td>
<td>International Finance Corporation</td>
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<td>IFU</td>
<td>Implementation Follow-up</td>
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<td>IFI</td>
<td>International Financing Institutions</td>
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<td>JBIC</td>
<td>Japanese Bank for International Cooperation</td>
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<td>JICA</td>
<td>Japanese International Cooperation Agency</td>
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<td>JMP</td>
<td>Joint Monitoring Program</td>
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<tr>
<td>KFW</td>
<td>Kreditanstalt für Wiederaufbau [German Development agency]</td>
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<tr>
<td>LICUS</td>
<td>Low Income Countries Under Stress</td>
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<td>LCR</td>
<td>Latin America and the Caribbean Region</td>
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<tr>
<td>LSHTM</td>
<td>London School of Hygiene and Tropical Medicine</td>
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<td>LSMS</td>
<td>Living Standards Measurement Survey</td>
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<td>MDG</td>
<td>Millennium Development Goals</td>
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<td>MFG</td>
<td>Municipal Finance Group</td>
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<td>MICS</td>
<td>Middle Income Countries</td>
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<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency</td>
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<td>MNA</td>
<td>Middle East and North Africa Region</td>
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<tr>
<td>MNRE</td>
<td>Ministry of Natural Resources and Environment</td>
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<td>MTEF</td>
<td>Mid Term Expenditure Framework</td>
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<td>NEPAD</td>
<td>New Partnerships for African Development</td>
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<td>NGO</td>
<td>Non Governmental Organization</td>
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<td>OBA</td>
<td>Output based approaches</td>
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<td>Acronym</td>
<td>Full Form</td>
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<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>OED</td>
<td>Operations Evaluation Department</td>
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<tr>
<td>PAD</td>
<td>Project Appraisal Document</td>
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<tr>
<td>PAHO</td>
<td>Pan American Health Organization</td>
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<td>PHRD</td>
<td>Policy and Human Resource Development</td>
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<td>PIP</td>
<td>Project Implementation Plan</td>
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<td>PPI</td>
<td>Private Participation in Infrastructure</td>
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<td>PPP</td>
<td>Public Private Partnership</td>
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<td>PREM</td>
<td>Poverty Reduction and Economic Management</td>
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<td>PRSC</td>
<td>Poverty Reduction Strategy Credit</td>
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<td>PRSP</td>
<td>Poverty Reduction Strategy Program</td>
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<td>PSD</td>
<td>Private Sector Department</td>
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<td>PSI</td>
<td>Private Sector and Infrastructure</td>
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<td>PSIA</td>
<td>Poverty and Social Impact Analysis</td>
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<tr>
<td>PSP</td>
<td>Private Sector Participation</td>
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<td>PSR</td>
<td>Project Status Report</td>
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<td>QER</td>
<td>Quality at Entry</td>
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<td>REDI</td>
<td>Recent Economic Developments in Infrastructure</td>
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<td>RD</td>
<td>Rural Development</td>
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<td>RMT</td>
<td>Regional Management Team</td>
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<td>RWSS</td>
<td>Rural Water Supply and Sanitation</td>
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<td>SAL</td>
<td>Structural Adjustment Loan</td>
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<td>SASIN</td>
<td>South Asia Infrastructure Sector Unit</td>
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<td>SIDA</td>
<td>Swedish International Development Agency</td>
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<tr>
<td>SIF</td>
<td>Social Investment Fund</td>
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<tr>
<td>SIL</td>
<td>Specific Investment Loan</td>
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<tr>
<td>SSP</td>
<td>Strategic Sector Paper</td>
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<td>SWAP</td>
<td>Sector Wide Approach</td>
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<td>UD</td>
<td>Urban Development</td>
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<td>WBG</td>
<td>World Bank Group</td>
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<td>WHO</td>
<td>World Health Organization</td>
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<td>WHS</td>
<td>World Health Survey</td>
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<tr>
<td>WRM</td>
<td>Water Resources Management</td>
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<td>WSP</td>
<td>Water and Sanitation Program</td>
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<td>WSS</td>
<td>Water Supply and Sanitation</td>
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<td>WSSCC</td>
<td>Water Supply and Sanitation Collaborative Council</td>
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<td>WSSD</td>
<td>World Summit on Sustainable Development</td>
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The international development community has recognized the importance of water supply and sanitation for reducing the multiple dimensions of poverty in the developing world. Access to improved water supply and sanitation are explicit targets of the Millennium Declaration adopted by the United Nations in 2000, and have since been a central focus of international cooperation, including the Monterrey Financing for Development Conference, the Johannesburg World Summit for Sustainable Development, and the Kyoto Third World Water Forum.

The growing awareness of policymakers, in both the developing and industrialized worlds, that improving water and sanitation services is key to achieving broader poverty reduction goals has been accompanied by calls for more concerted efforts and additional resources from all stakeholders, including the World Bank Group. In this context, the Water Supply and Sanitation Sector Board has elaborated a business strategy which identifies key areas on which the Bank should focus, strategic priorities at the regional and sub-sectoral levels, and operational choices in terms of instruments, levels of future World Bank assistance, and associated resource implications. The strategy is an internal document intended to guide the Bank’s assistance to the water and sanitation sector over the FY03-07 period.

This Water Supply and Sanitation Business Strategy draws on broad thematic and corporate policies and strategies, including those related to water resource and environmental management, urban and rural development, and private sector/ investment climate, as well as Operations Evaluation Department evaluations and recent World Development Reports. It also draws on a series of background notes that assess progress in implementation of sector reforms, historical access rates and capital flows, and case studies of successful programs. The business strategy integrates these broader frameworks with Region-specific operational experience in terms of business priorities and constraints, preferred instruments, and opportunities to leverage development impact through partnerships.

This document is organized as follows: Section 1 briefly discusses the multi-faceted role of water and sanitation services in poverty reduction and Millennium Development Goal challenges; Section 2 summarizes emerging lessons from global experience in improving and sustaining water supply and sanitation services; and Section 3 assesses trends in Bank assistance in response to those challenges. Section 4 identifies the principle areas on which water supply and sanitation assistance will focus in the coming years: serving the urban poor, increasing sustainable WSS access in rural areas, managing water resources, and building sustainable utilities; Section 5 describes how these priorities will be implemented, indicating key instruments and specific partnerships to build synergies across the World Bank Group and with external partners; Section 6 discusses management of resources to support implementation, such as staffing and performance measurement; and Section 7 identifies accountabilities and risks attendant to execution of the strategy. Synopses of Region-specific sectoral business priorities are provided in the annexes.
EXECUTIVE SUMMARY

Safe drinking water and adequate sanitation are central to the lives of billions of poor people. It is currently estimated that 1.1 billion people lack access to safe water, 2.4 billion are without adequate sanitation, and more than 4 billion do not have their wastewater treated to any degree. These service shortfalls have many consequences: increased prevalence of water-related disease—contributing to high child mortality rates; lower school enrollment—children, particularly girls, do not attend school when sanitation is lacking; and degradation of the water resource base—on which the poor depend most heavily for their livelihoods. The impact of poor services falls most heavily on women and children who bear the burden of daily water collection to meet their households’ most basic needs. Sustainable access to water supply and sanitation services is therefore key to making progress in health, education, gender equality and environmental sustainability.

For this reason, access to water supply and sanitation is an explicit target for the Millennium Development Goals. The global target is to halve the number of people without sustainable access to safe drinking water and basic sanitation by the year 2015. Based on official statistics, reaching these targets would require 1.5 billion people to be provided with access to safe water—one billion in urban areas and 0.5 billion in rural areas. About 2 billion people—1.1 billion in urban areas and 0.9 billion in rural areas—would need to be provided with basic sanitation. Current trends indicate that no more than 1 in 5 developing countries and less than 1 in 10 low income countries are presently on track to meet these targets. These global estimates understate the access gap as they are based on proximity to a physical installation and therefore do not account for water quality or reliability of service.

Closing the access gap is not merely a matter of spending more on infrastructure. Sound policies and effective institutions are essential for ensuring improvements in service quality and expanded access, especially for poor people. Experience gained in the developing world over the past few decades, indicates that where sound policies have been pursued and supportive and sustainable institutions created, remarkable progress has been made in expanding the reach of water and sanitation services. Key lessons are:

- Well-functioning service providers are essential for sustaining improvements in the quality and reliability of WSS service;
- Specific attention and targeted interventions are essential for successfully extending services to poor households;
- When offered a choice of service level, and a voice in the design of service delivery and financing mechanisms, rural communities are often willing to pay for and manage WSS services;
- Sustained access to adequate water supply requires better water resource management and improved sanitation and wastewater management is essential for environmental protection;
- Expanding and sustaining WSS services requires clear, consistent financial policies for which the extent and manner of cost recovery is central.
Over the past decade, World Bank assistance has incorporated these lessons, drawing on a number of approaches to improve the affordability and sustainability of water supply and sanitation services. Assistance has shifted from a narrow focus on physical infrastructure to the creation of operationally and financially sustainable service delivery systems. Lending for WSS in multi-sectoral operations has increased significantly (now 39 percent of the WSS portfolio) reflecting a growing recognition of the importance of WSS for achieving broad development goals. Urban water supply (and sanitation to a lesser degree) comprised the largest share of lending. However, lending for rural water supply and sanitation increased ten-fold, but from a very low base in the early 1990s—much of this increase was through multi-sectoral operations. Lending volumes have typically been higher in regions with greater numbers of IBRD countries (LCR and EAP), where institutional and financial capacity is greatest and IDA lending ceilings have not been a factor.

Overall lending for water supply and sanitation has declined in recent years, due in part to emphasis on ensuring quality at entry, greater complexity of operations—requiring longer project preparation timeframes; and in part due to the secular shift in the Bank-wide portfolio toward adjustment and social sector operations. Correspondingly, the emphasis on upfront reform, and more rigorous project preparation has led to improved effectiveness of Bank assistance. The share of closed projects with satisfactory performance rose from 58 percent in the 1980’s to 64 percent in the 1990-2001 period, and further improvement is expected as projects initiated in the latter 1990s are completed. Going forward, more attention will be paid to economic regulation and cost recovery, better tracking of service levels and quality of service through strengthened monitoring and evaluation; improving incentives for operators to serve poor households through better targeting of subsidies and linking operator remuneration to service delivery to poor households. For rural operations, longer-term involvement of social intermediaries is needed to foster the changes in attitudes and behavior necessary to sustain services.

The challenges outlined above call for a credible strategy for assisting member countries reach their goals. The Bank will exercise selectivity in defining sectoral assistance priorities, approaches, instruments, and working arrangements. Bank assistance for water supply and sanitation will focus on those countries where the potential for impact is highest, where the corporate objective of supporting countries to achieve the MDG targets is matched by country commitment to sound policies and institutions. The appropriate mix of instruments, ranging from analytical and advisory assistance to investment lending to partial guarantees, will be determined on the basis of specific country needs and as an integral part of a country wide prioritization and resource allocation effort (e.g. PRSPs, CASs, SWAPs).

The business strategy draws on broad sector strategies, recent corporate initiatives (e.g. IFU7 and the Infrastructure Action Plan) and region-specific operational concerns, to identify key areas in which the Bank will focus its efforts. Assistance for WSS will focus on supporting client countries in four areas: (i) extending WSS services to the urban poor; (ii) improving operator performance; (iii) increasing rural access to WSS; and (iv) better managing the water resource base. Across each of these lines of business the Bank will work with client countries to address a core set of policy and institutional priorities—strengthening governance, ensuring the financial
sustainability of WSS schemes, strengthening service delivery mechanisms, targeting interventions to the poor, and improving health outcomes—all of which are essential for achieving sustained improvements in sectoral performance and broader poverty reduction goals. Within this framework, the Bank’s Regional WSS units, have prepared business scenarios which provide an indication of the volume and types of assistance required over a five year period (FY03-07). Under the base case scenario, lending volumes would increase slightly to $1.2 billion per year while in the high case, total commitments would increase to $2.6 billion per year. Achieving the high case is predicated on a larger number of countries putting in place effective policies and institutional arrangements, and better and more extensive treatment of WSS themes in sectoral and multisectoral AAA and lending operations.

Delivering on these levels of assistance will require cost-effective deployment of the Bank’s human and financial resources, through: (a) alignment of staffing with business priorities, (b) strong internal and external partnerships, and (c) improved monitoring and evaluation. Actions underway to align the skills mix with business needs include: (i) increasing staffing levels in core business areas, (ii) strengthening expertise in strategic areas (e.g. regulation, sanitation), and (iii) enhancing integrative skills to undertake more joint work with other practices (e.g., public finance, decentralization, environmental management, municipal service delivery).

To leverage the impact of the Bank’s modest resources for the sector, the WSS practice will work with, and draw on, the resources of partners, both internal and external to the Bank. The WSS practice will step up collaboration with other networks within the World Bank Group to deliver sectoral and multi-sectoral WSS programs in undertaking analytical work, lending operations, advocacy and knowledge sharing. The Bank will also work closely with select external agencies at global, regional, and country level to share knowledge, leverage resources, build consensus on effective policies and practices, and support programmatic approaches. Over the past decade, cooperation has increased markedly with private operators, financiers, academia and civil society and with regional development banks.

Measurement of results to assess and improve the effectiveness of development assistance is a priority, and at the project level, tools and templates will be deployed more consistently to measure outputs and outcomes for distinct types of operations (rural/urban/peri-urban, water/sanitation). Better measurement of sectoral performance, utilizing common metrics across countries and meaningful, consistent indicators of the impact of Bank assistance in client countries will be an integral component of country-based work.
1. DEVELOPMENT CONTEXT AND CHALLENGES

WATER SUPPLY AND SANITATION IN POVERTY REDUCTION

1.1 Safe drinking water and adequate sanitation are central to the lives of billions of poor people in the developing world. The impacts of poor water supply sanitation (WSS) services are broad: diarrhea is one of the primary causes of child mortality and morbidity in the developing world. In the year 2002, about 1.7 million deaths worldwide were attributed to unsafe water, sanitation, and hygiene, mainly through diarrhea. Nine out of ten such deaths occur among children, and virtually all of the deaths were in developing countries. The burden of illness weighs most heavily on the poorest members of society.

1.2 In addition, many children, particularly girls, do not attend school because they must fetch water from distant, often polluted sources. In some cultures, girls are not permitted to attend schools that lack latrines out of concern for their privacy and modesty. Studies in Asia indicate that girls’ enrollment rises with the provision of latrines in schools. And higher enrollment of girls has a positive impact on child morbidity and mortality—the education level of mothers has been shown to be a strong determinant of water and excreta-related diseases in children.

1.3 Improved water supply and sanitation are closely linked to progress in health, education, gender equality, and environmental sustainability. Progress in expanding access and improving the quality of these basic services requires a supportive, enabling environment and cross-sectoral interventions in areas such as water resource management (see Box 1), land management, fiscal decentralization, and public health, among others.

Box 1. Water Resources Management – Enabling Improved WSS

Improving access to WSS requires broad reforms to (i) establish mechanisms for better allocation of water resources among users; (ii) increase the use of economic incentives and instruments to manage demand and conserve scarce resources; and (iii) reform local institutions to enable them effectively manage and develop water resources at the basin level. In some circumstances, water storage infrastructure will need to be developed to serve water supply, irrigation, energy and other users. In addition, arresting the decline in ambient water quality will require more attention to liquid waste management and proper sequencing of associated investments—in line with local financial and institutional capacity. (See Water Resources Sector Strategy, World Bank, 2003).

1.4 Poor sanitation and the absence of minimal wastewater disposal facilities in many areas contributes to the degradation of groundwater, rivers, and coastal resources, on which the poor are heavily dependent for their livelihoods. In densely populated urban and peri-urban areas, poor sanitation translates into squalid living conditions and high vulnerability to environmental hazards (flooding, landslides, drain overflows). Improved wastewater disposal and drainage

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would improve health outcomes and human productivity, by reducing the prevalence of water-related infections and parasitic diseases (e.g. roundworm, hookworm and schistosomiasis).

**CURRENT ACCESS LEVELS**

1.5 In the developing world, approximately two out of every ten people are without access to safe water supply; five out of ten have inadequate sanitation; and nine out of ten do not have their wastewater treated to any degree. 3 In absolute numbers, an estimated 1.1 billion people lack access to safe water and 2.4 billion are without adequate sanitation. 4 The share of access varies across regions and between urban and rural areas (see Table 1).

<table>
<thead>
<tr>
<th>Region</th>
<th>Improved water (%)</th>
<th>Improved sanitation (%)</th>
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<tbody>
<tr>
<td></td>
<td>Urban</td>
<td>Rural</td>
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<tr>
<td>Africa, Sub-Saharan</td>
<td>83</td>
<td>44</td>
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<tr>
<td>Middle East/</td>
<td>95</td>
<td>77</td>
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<tr>
<td>North Africa</td>
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<td>South Asia</td>
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<td>East Asia/</td>
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<td>Europe/ Central Asia</td>
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<tr>
<td>Developing Countries</td>
<td>92</td>
<td>69</td>
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Source: WHO/UNICEF JMP

1.6 However, even these estimates understate the extent of the access gap since they are based on proximity to a physical installation rather than on the quality or reliability of service. In many countries, there is often no water in the pipe, the water is unsafe to drink, and sanitation facilities are overloaded, in disrepair, or unused. Many households cope with unsafe drinking water by boiling it or by purchasing small quantities from vendors, but this is costly for poor people and only partially reduces exposure to pathogens.

**THE CHALLENGE OF THE MILLENNIUM DEVELOPMENT GOALS**

1.7 Targets for improving water supply and sanitation were set under the Millennium Declaration, and further elaborated during the World Summit on Sustainable Development. The targets aim to reduce by half the number of people without sustainable access to safe drinking water and basic sanitation by the year 2015. To achieve these goals, by 2015 about 1.5 billion people will have to be provided with access to safe water – one billion in urban areas and 0.5 billion in rural areas (see Figure 1). Over the same period, about 2 billion people – 1.1 billion in urban

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3 “Safe” water includes household connections, public standpipes, boreholes, protected dug wells, and spring and rainwater collection. “Adequate” sanitation includes connection to a public sewer or septic system, or possession of a pour flush, simple pit, or ventilated improved pit latrine.

areas and 0.9 billion in rural areas – will need to be provided with basic sanitation.\(^5\)

1.8 These global estimates mask large regional and country disparities in current access rates for water supply and sanitation services, and closing this gap is an important part of the challenge. At present rates of service expansion, about 37 percent of the developing world is on track to reach the water supply target and about 16 percent to reach the sanitation target. When viewed on a country basis, however, the picture is more dire: no more than 20 percent of countries, and fewer than 10 percent of the lowest-income countries, are increasing access at the rate needed to meet the targets.\(^6\) To achieve the Millennium Development Goal (MDG) targets for water supply and sanitation, annual investments would need to double from the historical level of US$15 billion per year to US$30 billion\(^7\) (see Figure 2).

1.9 These estimates assume good maintenance of existing assets and efficient investment. In the absence of which, investment needs will be much higher. Moreover, these estimates do not include the cost of wastewater treatment, nor do they include the cost of infrastructure for water storage to address the problems of rapid urbanization and growing climatic variability. The latter has already emerged as a major issue for some cities in relatively arid regions, where population growth has progressed to the point beyond which freshwater supplies can be tapped solely from local sources. For countries facing this situation, hydraulic infrastructure for water storage and conveyance must be developed and maintained, and the cost of this infrastructure often far exceeds the cost of basic WSS infrastructure.

1.10 In summary, the magnitude of the access gap and the costs of closing it are considerable. Taking into account the limitations of global statistics on access rates, the actual gap is probably wider than that presented here, and the challenges in closing that gap are correspondingly greater.

1.11 Closing the access gap is not simply a matter of more money. Higher levels of investment in infrastructure are surely required, but this will not be sufficient. Sustainable access to safe drinking water and adequate sanitation requires a focus on: service quality and

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sustainability; tailoring services to meet the needs of unserved; and sound environmental management. Common to each of these is the need for better management of existing infrastructure where networks are already developed, and for greater productivity from infrastructure to be built in areas where it is currently undeveloped. Doing so requires action along four fronts:

- Adopting policies that provide incentives to invest and operate efficiently and ensure that services reach the poor;
- Building and strengthening local institutions to permit scaling up service quality and access;
- Creating and disseminating knowledge of what works in local circumstances – to set priorities and use resources to maximum advantage; and
- Securing the necessary financing to rebuild infrastructure and expand service coverage and quality.

1.12 Sound policies and responsive institutions require creation or adaptation of knowledge and ideas about what works and what does not. Knowledge is key to helping countries institute reforms, and helping service providers to improve WSS services. Government has a central role to play: setting policies, creating an enabling environment through institutional reform, safeguarding the interests of consumers and investors, and generating and disseminating knowledge. At the same time primary responsibility for water supply and sanitation services lies at the local level. Local governments, civic organizations, and NGOs will play a key role in delivering these services or empowering and supporting communities to manage water and sanitation services. Public intervention at both national and local level will be necessary to mobilize financing for WSS, particularly when payback periods for major infrastructure investments far exceed commercial debt tenors, and the cost of obtaining basic levels of service is too high for poor households. International development agencies, including the World Bank, will continue to play an important role in assisting governments with these efforts.

2. RESPONSES TO THE CHALLENGE

2.1 Where developing countries have forcefully pursued sound policies and created supportive and sustainable institutions, they have made remarkable progress in expanding the reach of water and sanitation services. However, where these challenges have not been addressed in a consistent and determined manner, funding for the sector has had very limited and only temporary benefit.

2.2 The MDGs follow several earlier international initiatives that established WSS access targets, for which significant international support was (initially) forthcoming. The most notable was the International Water Supply and Sanitation Decade, or “the Drinking Water Decade”, in the 1980s (see Box 2). The lessons of that endeavor are relevant to current international initiatives embodied in the Millennium Development Goals. The first lesson is that in translating global goals into quantitative targets at the country level, care must be taken to avoid the “performance by target” syndrome, in which time-consuming and often politically difficult processes (such as realigning policies and institutional roles to achieve sustainable improvements in service quality and access) are bypassed in an effort to quickly show results, and thereby make
the case for increased domestic budgetary resources and concessional aid. The second and related lesson is that the policies and programs of the recipient countries will determine whether sustained progress can be made. Third, it is critical to focus, from the beginning, on capacity building at the local level, and on the identification of specific poverty groups to be served, with a clear understanding of their preferences, willingness to pay/contribute, and the best mechanisms for reaching those groups.

2.3 Since the start of the IDWSSD (1980s), much has been learned about what it takes to sustainably scale up WSS services, based on the success of a number of developing countries in addressing the challenges outlined above. Indeed the principal challenge of the MDGs is to scale up such successful programs at the country and global level. The following paragraphs highlight some key lessons from the experiences in each region.

2.4 Well-functioning service providers are essential to realizing sustained improvements in WSS services. In rural and urban areas alike, efficient and effective water supply and sanitation services are essential for good health, social well being, and economic development. Currently, many urban water supply utilities operate with levels of unaccounted-for water in excess of 50 percent, and collection efficiencies below 70 percent. As a consequence, only about one third of the water produced generates revenue, leaving many service providers without the means to operate, maintain, and expand systems in response to growing consumer demand. Perhaps less well understood is how to sustainably improve service provision in small towns, which lack the potential economies of scale present in larger urban centers. Similarly, in rural areas, where households are even more widely dispersed, poor management of both water resources and water supply has rendered many systems inoperative – in some countries, unused hand pumps are a common sight. Improving performance requires that service providers in towns, cities and rural areas be given clear incentives to reduce costs and improve quality. The World Development Report 2004 notes that an important starting point is to ensure that service providers are accountable (downward) to users rather than (upward) to government. As demonstrated in recent programs in Senegal, Colombia, and Bolivia, policy, institutional, and regulatory reforms are often required to address service failures. Priority actions include: (i) establishing suitable legal frameworks, and appropriate regulations and standards; (ii) creating incentive-based frameworks for service delivery; (iii) establishing cost-recovering tariffs and providing transparent and targeted subsidies to poor households; (iv) promoting service delivery arrangements (including public-private partnerships) that respond to the preferences and economic means of different

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Box 2. Development by Target – Some Lessons from the Drinking Water Decade

The International Water Supply and Sanitation Decade (IDWSSD), proclaimed in 1977 in Mar del Plata, aimed at providing water supply and sanitation service to all by the end of the 1980s. Notable progress was made, but the IDWSSD fell short of the targets. On the global level, roughly 350,000 people per day were provided access to some form of improved water supply, and 200,000 additional people gained access to improved on-site sanitation. However, many of these gains were short-lived, since the focus was on rapid installation of hardware, with insufficient attention to policies, institutional roles, and incentives for better performance in order to sustain progress.

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classes of consumers; and (v) strengthening governance at local /sub-sovereign level in order to mobilize resources for sustaining and expanding much needed WSS infrastructure.

2.5 Extending services to the urban poor requires specific attention and targeted interventions. Traditional monopoly service providers have often been deaf to the needs of low-income households, perceiving them as illegitimate customers that are costly to serve and unable to pay their bills. However, the urban poor often have unique and differentiated service demands, which can not be met through standard (one-size-fits-all) approaches. When standards are either too rigid or set too high, WSS services may become inaccessible or unaffordable to the urban poor. As demonstrated through recent pro-poor initiatives in Paraguay, the Philippines, and Burkina Faso, responding to the needs of the poor requires: (i) better study and mapping to more clearly identify target groups; (ii) adapting service delivery arrangements to suit local requirements and circumstances; (iii) legitimizing and promoting specialized service providers (e.g., small-scale private sector) to serve diverse market segments; (iv) improving mechanisms for communication and participation, to ensure greater voice and acceptance by poor communities; and (v) identifying and removing administrative and legal barriers that the poor face in connecting to water supply and sanitation networks.

2.6 Rural communities are often willing to pay for and manage WSS services, if offered a choice of service level, and a voice in the design of service delivery and financing mechanisms. Providing safe water and adequate sanitation in rural areas often presents significant challenges associated with financing and delivering services to dispersed communities comprised of households with very low incomes. Despite significant investments made by users themselves—through community groups/water user associations, or by the private sector and NGOs, currently, only 7 out of 10 rural dwellers have access to improved water supply, and only 3 out of 10 have adequate sanitation. In countries as diverse as China, Ghana, India, and Uganda, these challenges have been overcome through a combination of actions: (i) using demand-driven approaches to inform sector development and ensure the sustainability of services; (ii) establishing financing arrangements that expedite the flow of funds from central agencies to communities, based on clear (and measured) performance criteria; (iii) vesting responsibility for, and ownership of, assets with communities themselves, to motivate their contribution to construction, operation, and maintenance; (iv) providing communities a strong voice through establishment of water user associations, and often explicit control, in managing both water supply and water resources; (v) involving women in the design and operation of systems, as they stand the most to gain from improvements; and (vi) ensuring that local government agencies, NGOs, and entrepreneurs/ artisans support communities in the design and management of their WSS systems.

2.7 Sanitation and hygiene are critical to achieving positive health outcomes and improving living conditions. Realizing health benefits from improved water supply and sanitation depends on a three-pronged strategy: (i) access to sufficient quantities of water; (ii) sanitary disposal of excreta; and (iii) sound hygiene practices. In many countries, on-site sanitation (which is the primary excreta disposal method) is considered a private/household responsibility. However, as improved sanitation yields important public benefits, greater public support—financing, policy, technical on-site sanitation, may be warranted. Household demand

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for improved sanitation often lags behind the demand for improved water supply, and is driven by perceptions of other benefits (e.g. privacy, convenience, dignity). Achieving, comprehensive sanitation is a long-term undertaking often requiring a phased approach. Recent interventions (e.g., the Global Public-Private Partnership for Handwashing\textsuperscript{10}) have led to a better understanding of the links between improved hygiene behavior, adequate sanitation, and health. Experience in Ghana, India, and Vietnam illustrates how governments can work with the private sector and non-governmental organizations to promote sanitation and hygiene, and develop and manage sanitation infrastructure. Recent work on sanitation in schools (e.g., Focus Resources on Effective School Health - FRESH\textsuperscript{11}) demonstrates the importance of interventions to integrate sanitation and hygiene promotion with health education programs, particularly for children.

2.8 Public-private partnerships are key to scaling up water supply and sanitation service delivery. While the public sector is still the principal provider and largest financier of water and supply and sanitation services, and remains accountable for ensuring their delivery, other players—the private sector, communities and civil service also play a vital role in delivering and/or financing these services. In rural areas, the involvement of NGOs and local entrepreneurs is a common feature of many WSS programs, and over the past three decades, many developing country governments have partnered with and supported these actors. Partnerships with the international private sector are a more recent development. Their role in managing large-scale WSS services has only emerged over the past 10 years (see Box 3), and although private sector financing still comprises a small share of total sector financing (5-10 percent, by most estimates), in absolute terms, the volume of funding from private sources has grown remarkably, from a few hundred million dollars per year in the late 1980s to roughly US$4 billion per year in the late 1990s.\textsuperscript{12} Given the scale of financing requirements, reliance on the private sector alone will not be sufficient to guarantee scaling-up of infrastructure service provision. Public-private partnerships (PPP) are therefore evolving, to accommodate a broad range of arrangements tailored to country specific needs.

2.9 Expanding and sustaining service requires clear, consistent financial policies for which the extent and manner of cost recovery is central. Irrespective of whether services are provided by public or private operators, costs must be recovered if services are to be sustained. In practice, a mix of three approaches has been used: (i) user charges; (ii) generalized subsidies financed by taxpayers; or (iii) deferring expenses necessary for sustaining service, with the consequent deterioration of infrastructure. Under the latter approach, consumers wind up paying coping costs to compensate and the poor pay most (e.g. to water vendors), relative to their income, and through disease and inconvenience. The relative weight of the three options has far-reaching economic consequences: reliance on user charges to recover costs offers the best prospects for aligning service with demand when the operator’s remuneration is tied to revenues; generalized subsidies financed by tax receipts have often led to supply-driven investments, diluted provider accountability to consumers, and bypassed the unserved poor; simply cutting expenditures (rather than costs) perpetuates unsatisfactory service and ultimately widens the access gap.

\textsuperscript{11} Focus Resources on Effective School Health (FRESH), UNESCO, UNICEF, WORLD BANK, 2000
\textsuperscript{12} Private Participation in Infrastructure (PPI) Database
Box 3. Public-Private Partnerships in Water Supply and Sanitation

The number of large scale PPPs in water supply and sanitation grew from a handful in the 1980s to about 200 worldwide over the 1990-2001 period. These arrangements serve cities with an estimated aggregate population of more than 300 million people, not including contracts with the local private sector issued in small towns and rural areas, nor the multitude of small-scale providers working with and through local governments and utilities. Over this period, several notable trends have emerged: (i) the entry of private sector operators has challenged the idea of permanent, unregulated, public monopolies and stimulated better performance among all operators; (ii) more transparent impartial regulation has improved access to and disclosure of information; and (iii) private sector operators have demonstrated that marked improvement in performance, over extended periods is possible.

The key lesson from 10 years of experience with PPPs is that success in bringing sustained benefits to consumers depends on appropriately allocating and managing risks and responsibilities between the government and private sector, as in the Senegal lease contracts (see Box 4). A partnership means that risks and rewards are shared. Only the public partner, government can manage political risk, including setting clear rules for adjusting tariffs. On the other hand, the private partner must fully bear performance risks if taxpayers and consumers are to benefit from the partnership. To do so, the private partner must be provided the leeway to increase investment and operating efficiency, guided by appropriate incentives. To this end, regulation and oversight should be grounded in outcomes rather than inputs. Well-structured PPP has clear goals and targets, which are made explicit in contractual arrangements, thus allowing public scrutiny and improving accountability.

These principles of sound public-private partnerships are not limited to large cities, but are also relevant to districts, small towns, and rural areas. They apply to all types of private providers – large and small scale, for profit and non profit. Building on this experience, the scope and nature of private sector engagement is evolving to accommodate new players (such as local and small-scale private providers) and new types of partnership arrangements.

1Source: Private Participation in Infrastructure Database, 2003

2.10 Financing, and by extension pricing policy must take into account wide variations in payment capacity, distinguishing among urban, peri-urban, and rural consumers. A number of urban utilities have achieved full cost recovery for water supply systems13, even though peri-urban systems have required a partial subsidy of investment costs. For rural water supply and sanitation systems, the very low levels of household income often precludes recovering more than a small portion of investment costs. However, across all regions, rural communities have demonstrated that they can and will cover operations and maintenance costs when they are empowered to make critical decisions, given ownership of the scheme and a role in managing local water resources. The financing of sanitation and wastewater investments presents particular challenges because costs cannot be easily recovered from users and least of all from low-income households, despite relatively high economic returns. To keep subsidies at manageable levels, community involvement in all phases has served to ensure that service levels are in line with what people actually want to use, and to which they are prepared to contribute. Consumers’ willingness to pay is greater for wastewater collection and for sanitary excreta disposal as these services represent a tangible improvement of living conditions in their immediate vicinity. In

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contrast, recovering the costs of conveyance and treatment is more problematic because consumers do not readily perceive the benefits of such investments and because they are significantly more costly.

2.11 The foregoing indicates that while user contributions are critical to sound financing, affordability concerns and public externalities for certain types of WSS services requires public support as well. But such support must be provided in a manner which does not dilute service provider’s incentives to perform. Keying public funding to achievement of explicit improvement in service delivery is one means of doing so, through variants of “output based approaches” to public financing. Public financial support (and by extension development assistance) has also proven important for mobilizing private financing for both public and privately managed WSS systems. Such support includes joint public/private investment arrangements (eg. Colombia, Senegal), and partial guarantees to mitigate policy and regulatory risks that hinder long term private financing, and backstop sub-sovereign undertakings (eg. Mexico, Poland). The need to address sub-sovereign risks has grown as local governments are increasingly responsible for water supply and sanitation services. In response, a number of developing country governments and aid agencies are exploring new ways of catalyzing local financing resources. These approaches, highlighted in the report of the World Panel on Financing Water Infrastructure will need to balance resource needs for scaling up WSS services with sub-sovereign debt capacity.

2.12 **Better water resource management and environmental protection are essential for ensuring sustainable access to adequate water and sanitation.** In arid regions and those subject to high climatic variability, the costs of obtaining adequate sources of raw water are rising rapidly. The development of basic hydraulic infrastructure will therefore be a key factor in determining whether broader social and economic objectives can be met. Water must be shared among domestic, food production, industry, hydropower, and other users. Given limitations in resource availability, cooperation among users is critical in order that resources are properly allocated and protected from overexploitation and degradation. Experience from the Nile Basin highlights the importance of establishing common policy frameworks for managing and developing resources at the basin level (within or across several countries); while experience in Yemen, where groundwater is an important factor, shows that stakeholder participation at the local level is key, as this is where users converge and the impact of bad management is more apparent.

2.13 With respect to environmental degradation, currently only 10 percent of the wastewater generated in urban neighborhoods worldwide is safely collected, and only 10 percent of existing wastewater treatment plants operate reliably and efficiently. Furthermore, the reduced flow of untreated effluents brought about by treating municipal wastewater often produces only marginal environmental benefits, because on-site wastewater and excreta disposal account for a large share of pollution loads. Experience in Brazil illustrates: the importance of integrated approaches to water quality management and pollution control in urban river basin settings; the need for prioritizing investments in a resource-constrained environment; and the value of developing

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*Water Supply and Sanitation Sector Business Strategy*
appropriate institutional and legal frameworks, involving municipal, state, and federal players, for the sustainable management of the river basin. Mechanisms, including the establishment of tradable entitlements, should be designed so that users take into account the opportunity costs of water and so that water can voluntarily be reallocated to higher-valued uses (usually including municipal users). It is essential that prices cover the costs of operating and maintaining existing infrastructure and building new plants and distribution systems.

2.14 These lessons drawn from international experience highlight the way in which developing countries have responded to the challenges of scaling up WSS services. They confirm the importance of local commitment, and of policy and institutional reform for sustainable sector development, and placing development agencies in a supporting role – responding to local demand and complementing local initiative.

3. WORLD BANK ASSISTANCE – AN OVERVIEW

DRAWING ON GLOBAL EXPERIENCE

3.1 Over the past three decades, World Bank assistance has incorporated many of the lessons outlined above, drawing on a combination of approaches in order to improve the affordability and sustainability of water supply and sanitation services. These include: (i) incorporating community preferences regarding service levels, delivery modalities, and management arrangements; (ii) building local capacities to support communities in expressing their needs and managing services; and (iii) broadening the scope for public-private partnerships in service delivery, to improve responsiveness to users and operating efficiency.

Box 4. Successful Public-Private Partnership in Senegal Water Sector Projects

Senegal has made remarkable progress in increasing access to water supply and sanitation services, particularly in low-income areas in Dakar, and in secondary cities. The Senegal Water Sector Project, invested about US$230 million in the period 1996-2002, supported by an IDA credit of US$100 million and leveraging US$20 million more from the private sector under a ten-year (affermage) contract. A private operator was brought on board to improve services through modern management methods. As a result, it became possible to balance the budget for the first time in decades. In a second phase of the program, the Senegal Long-term Water Sector Project (US$248 million), early achievements are being scaled up through (i) further institutional and regulatory reform; (ii) increased water production and distribution capacity; (iii) rehabilitation of sewerage networks; (iv) demand-driven and community-based on-site sanitation services; and (v) technical assistance to, and capacity building of, sector agencies and communities. The program has successfully connected about 60,000 low-income households under a comprehensive program of public standpipes and economical house connections. It has also reduced unaccounted for water from 31 percent in 1996 to 22 percent in 2001, and improved water quality.

3.2 These lessons have influenced the nature of World Bank assistance for WSS. For example, urban WSS projects such as those recently undertaken in Senegal, are now incorporating public-private partnerships to increase the efficiency and effectiveness of services, while providing access to the poor (see Box 4); and in India experience from several (see Box 5),
Box 5. The Demonstration Effect of India’s Rural Water Supply and Sanitation Program

The World Bank-assisted Swajal project (1996-2002) is based on community development and demand responsiveness. The project has established full cost recovery for operation and maintenance, and partial recovery of investment costs – major departures from the norm in both the urban and rural WSS sectors. Swajal stresses health education, women’s development, and non-formal education, undertaken by village committees, NGOs, and a project management unit. Swajal was the first major rural project to decentralize procurement to user communities by transferring the funds and empowering them to procure materials, services, and works by themselves. Sustainability of built schemes is estimated at 97 percent, and the usage of latrines remains high. Village Water and Sanitation Committees, established with the help of NGOs, have emerged as strong local institutions that operate and maintain the systems and collect user fees. The Swajal principles have now been adopted as the norm for India’s national rural water supply and sanitation program.

EVOLUTION OF WORLD BANK ASSISTANCE

3.3 The level and composition of the Bank’s lending and economic and sector work (ESW) has evolved considerably over this period. The assistance paradigm of the 1970s and 1980s relied on lending for infrastructure development through state-owned WSS agencies. However, the development impact of those operations was generally poor. In many cases, projects failed to achieve sustainability, due to insufficient focus on sound policies and institutional capacity building. A new assistance paradigm emerged in the 1990s, with a focus on interventions to transform traditional state-owned monolithic water companies into more modern service delivery systems that emphasize operational and financial sustainability. In many urban operations, some form of private sector participation in service provision was introduced as a means of improving efficiency, transparency and greater responsiveness to consumers, in combination with measures to strengthen sectoral oversight and regulatory capacities. According to a recent evaluation of World Bank assistance for WSS\textsuperscript{15}, three out of four operations promoted public-private partnerships, seven out of ten included an institutional development component, and one out of ten sectoral urban water supply projects introduced regulatory reform. In rural operations, there has been greater emphasis on demand-based approaches, local government support, and community driven development. And in both rural and urban areas, lending for sanitation remained low, although progress made during this period was partly obscured by the growing number of multi-sectoral projects (e.g., social protection, environment, and slum upgrading) that included sanitation components.


rural WSS projects is being brought to scale through local government initiatives to expand service coverage by adopting the principles of community development.
Table 2. Sectoral and Multi-sectoral Water Supply and Sanitation Lending, 1990–2001

<table>
<thead>
<tr>
<th>Sector</th>
<th>No. of projects</th>
<th>No. of projects as share of total (%)</th>
<th>Commitments (constant US$ million)</th>
<th>Commitments as share of total (%)</th>
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</thead>
<tbody>
<tr>
<td>Dedicated WSS</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Urban Water Supply</td>
<td>52</td>
<td>17.1</td>
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<td>Sewerage</td>
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<td>8.6</td>
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<td>13.7</td>
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<td>12.3</td>
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<tr>
<td>Other WSS</td>
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<td>5.3</td>
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<td>8.6</td>
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<tr>
<td>Rural WSS</td>
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<td>Total Dedicated</td>
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<tr>
<td>Non-Dedicated WSS</td>
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<td>Urban Development</td>
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<td>Total Non-dedicated</td>
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<td>Grand Total WSS</td>
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<td>100.0</td>
<td>13,292</td>
<td>100.0</td>
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</table>


3.4 The composition of lending over the 1990-2001 period is shown in Table 2. While lending for urban water supply (and sanitation to a much lesser degree) comprised the largest share of total lending throughout the decade, the volume declined as a proportion of total commitments. Lending for rural water supply and sanitation increased ten-fold from a very low base in the early 1990s, and the composition of support for rural WSS services shifted to non-dedicated or multi-sectoral projects (see Figure 3). Rural water supply lending through social protection projects accounted for 50 percent of the total rural WSS portfolio – 91 percent of social protection projects have a WSS component.

3.5 Two thirds of projects with water supply and sanitation components are multi-sectoral operations managed by different networks (see Table 2). Across all regions, the number and variety of multi-sectoral operations with WSS components has increased over the past decade – the number of such operations is twice that of sectoral operations, although in terms of commitment amounts, sectoral projects still account for the majority of financial support to the sector.

3.6 The trend toward addressing WSS through multi-sectoral operations is likely to continue, with the ongoing Bank-wide shift toward programmatic lending. This can be seen as a positive development, reflecting increased recognition of the importance of WSS to the broader goals these multi-sectoral interventions support. At the same time, this shift raises a series of operational challenges in terms of how to foster consistent approaches to addressing financial and operational sustainability across the Bank’s groups of practice.

3.7 In absolute terms, the volume of lending for water supply and sanitation has declined in recent years. World Bank lending for water supply and sanitation reached a peak in 1995, after

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16 Dedicated operations are defined as those mapped to the Water Supply and Sanitation Sector Board, and non-dedicated operations are those mapped to other sector boards.
which total annual IBRD/IDA financing commitments for WSS declined from an average of US$1.6 billion in the 1995-97 period to US$1.0 billion in 2000-02.

Figure 3. Annual WSS Lending, FY92-02 (US$ millions)

![Graph showing annual WSS lending from FY92 to FY02 with a decline from FY95 to FY02.]


3.8 The downward trend in new commitments since 1995 can be attributed in part to increasing emphasis on quality at entry and to:

- Increased environmental and fiduciary safeguards, higher quality-at-entry standards, and longer project preparation timeframes, to meet the requirements of more complex operations and upfront country reforms;
- Lower IDA allocations for WSS lending in low-income countries – IDA allocations to the sector fell from 3 to 2 percent of total IDA commitments from FY92 to FY02;
- The overall decline in IBRD/IDA investment lending in favor of adjustment lending, and, within investment lending, away from infrastructure toward support for social sectors;
- Financial crises in Asia (1998), Europe (1998), and LCR (1995 and 2000), which resulted in lower levels of borrowing in IBRD countries.

3.9 Other factors which also contributed to the decline include: lack of clarity on the roles of the private and public sector in infrastructure service provision; under-investment in country-level infrastructure diagnostic work; high preparation costs; risk aversion among management; and a shift towards programmatic lending. These factors contributed to a reluctance to take on WSS projects and to under-representation of WSS in Country Assistance Strategies (CAS) and Poverty Reduction Strategy Papers (PRSPs).17

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Figure 4. Loan Commitments by Region, Sectoral, and Multi-sectoral Lending, FY98-FY02
(US$ million in current prices)


REGIONAL DISTRIBUTION OF LENDING

3.10 Trends in World Bank Assistance vary substantially across Regions (see Figure 4). Lending volumes have typically been higher in Regions with greater numbers of IBRD countries (LCR and EAP), where institutional and financial capacity is greatest and IDA lending ceilings are not a consideration. Lending in WSS has been constrained by limitations in the availability of IDA funding, critical capacity constraints, or slow policy and institutional reform (SAR, MNA, and AFR). The greater institutional capacity in IBRD countries is reflected in the share of Regional lending for operations that involve public-private partnerships. More than 70 percent of the PPP programs that received financing from the World Bank Group over the past 10 years were in LCR and EAP. Lending for environmental projects, focusing on wastewater management and pollution control, was also higher in those Regions. With its large populations and unmet demand for service, the low share of lending commitments in South Asia is striking. While lending for rural water supply in South Asia has been steady, if modest, assistance for urban water supply and sanitation has declined to an all-time low because of limited progress on policy and institutional reforms— which illustrates the tensions faced in balancing the painstaking and often time-consuming work of establishing policy and institutional reforms with the desire to scale up financial support.

DEVELOPMENT IMPACT

3.11 Increased selectivity, more attention to knowledge generation and the higher priority accorded to upfront reform have led to better-designed operations. The 2000 OED evaluation points out that World Bank assistance has become more effective, in spite of the greater
complexity of operations. Based on OED project ratings, the performance of water supply and sanitation projects has improved since the early 1990s. Fifty-eight percent of the projects that closed in the 1980s had a satisfactory outcome. This share rose to 64 percent for projects that closed in the 1990-2001 period, and further improvement is expected as projects initiated in the latter 1990s are completed. This positive trend is also reflected in quality-at-entry, which was rated satisfactory for 91 percent of the water supply and sanitation projects in the FY 97-01 period, as compared to the Bank-wide average of 88 percent. During the same period, supervision quality was rated satisfactory for 75 percent of the projects in the sector, as compared to the Bank-wide average of 78 percent.

3.12 The improvement in urban WSS assistance is due in part to the Bank’s increasing focus on utility reform. While the performance of all projects that focused on utility reform improved, the increasing prevalence of private participation has generally resulted in better financial sustainability, cost recovery, and service coverage. OED rated 86 percent of closed projects with private sector participation as having a satisfactory outcome, as compared to 60 percent for projects without private sector involvement. The improvement in sustainability is also higher – 71 percent – for projects with private participation, as compared to 35 percent for projects without. Although the share of closed (dedicated) projects rated as likely to achieve sustainability rose from 32 percent in the 1980s to 40 percent in the 1990-2001 period, further improvements are expected as projects initiated in the later 1990s reach closure. OED has identified several actions to improve the development effectiveness of Bank assistance, including more attention to economic regulation and cost recovery; better tracking of service levels and quality of service through strengthened monitoring and evaluation; improving incentives for operators to serve poor households through better targeting of subsidies and linking operator remuneration to service delivery to poor households.

3.13 OED’s evaluation of rural WSS projects indicates that in many Bank operations, communities play a key role in the preparation, implementation, and operation of projects, thus ensuring higher sustainability of investments. However, the review also identifies the need for a longer-term presence of social intermediaries (such as NGOs) in order to leave behind an organization that can maintain the constructed system, administer the water scheme in a financially responsible manner, and handle routine operations and maintenance. The changes in attitudes and behavior required in communities and government often cannot be achieved within the short timeframe of a Bank project (typically five years). In a separate report, OED questions the sustainability of water supply and sanitation components financed under multi-sectoral projects such as social investment funds. While social funds constitute an important vehicle for financing WSS sector investments, the sustainability of investments in water supply and sanitation has lagged behind the sustainability of other components in such projects because less emphasis is placed on policy and institutional reforms at sectoral level.

3.14 **Sectoral Impact of Multi-sectoral Assistance.** Ratings of outcome, institutional development impact (IDI), and sustainability are not readily available for water supply and

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sanitation interventions financed under such multi-sectoral projects. Sub-components within multisectoral projects are not individually rated, and therefore overall project ratings are the only way to assess the likely impact of individual sub-components. The recent OED evaluation sampled 41 implementation completion reports (ICRs) for multi-sectoral projects over the 1990–2001 period, and estimated that 46 percent had an outcome rating of “satisfactory” compared to roughly 60 percent for sectoral projects. Only seven percent of multi-sectoral projects were rated “substantial” for IDI, compared to 32 percent of the sectoral projects; and 24 percent of the multi-sectoral projects were rated as having a “likely” sustainability, compared to 40 percent of the sectoral projects. This divergence in sectoral outcome ratings reflects the fact that multi-sectoral operations have only recently begun to incorporate sectoral development objectives and policies such as cost recovery, policy reform, private sector participation, and regulatory reform.

**PORTFOLIO PERFORMANCE**

3.15 At present, the Bank’s WSS portfolio is more than US$ 6 billion–61 percent of which is dedicated operations and 39 percent non-dedicated. Thirty one percent of the current portfolio under supervision is IDA funded. The sub-optimal performance experienced in the early 1990s has improved significantly. Overall, the level of “commitments at risk” for sectoral operations declined from 49 percent to 10 percent in the latter part of the decade (see Figure 5). This was due in part to increased emphasis on quality-at-entry, and on early closing of non-performing projects.

![Figure 5. Percentage of Total Commitment at Risk](image)


3.16 These measures were formalized in the FY00-FY02 portfolio improvement plan (PIP), a collective monitoring effort by all Regions, put in place by the Water Sector Board to tackle risk

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21 The World Bank does not collect ratings of outcome and impact for individual components of multi-sectoral operations.
and quality issues in the portfolio in a more concerted and targeted manner. The PIP called for stronger portfolio leadership from the Sector Board, through the establishment of (i) annual risk targets that each Region committed to meet; and (ii) regular and more in-depth monitoring of the portfolio, through quarterly reviews of Regional portfolios and project performance; and (iii) the use of project clinics and Quality Enhancement Reviews (QERs) to bring practice-wide expertise to bear on individual projects.

3.17 Implementation of the PIP resulted in a drop in the WSS portfolio's risk indicators, bringing the proportion of water and sanitation projects at risk from 28 percent in FY00 to 14 percent in FY02, and the proportion of water and sanitation commitments at risk from 24 to 10 percent

**IMPLICATIONS FOR FUTURE ASSISTANCE**

3.18 Trends in the World Bank’s assistance for WSS, and the global lessons outlined in Section 2 above, call for a credible strategy for assisting member countries to accelerate progress toward the Millennium Development Goals. The World Bank will pay particular attention to:

- exercising selectivity in countries and operations. Not all countries are prepared to implement sector reform, and the Bank would do better to concentrate on those countries willing to pay the political cost of reform, in return for improved project outcome and sustainability;
- investing more in knowledge generation, policy dialogue, and upfront economic and sector work. At a minimum, sector work should inform policy changes necessary to improve the quality of WSS interventions, as well as ensure fiscal balance and build sustainable financing mechanisms;
- ensuring greater policy consistency across all WSS operations (sectoral and multi-sectoral) in response to the growing prevalence of multi-sectoral programs; and
- providing lending assistance beyond the current three-year business planning horizon, since more time may be required to prepare and implement complex projects. A series of investments spread out over several years may be necessary to achieve the desired impact.

4. **A BUSINESS FRAMEWORK**

4.1 The foregoing highlights the magnitude of the challenges – in term of households to be served and likely costs of doing so – and the policies and programs developing countries themselves have pursued to effectively provide their populace with these essential services. The broad lessons are clear: sound policies, and capable institutions need to be put in place and strengthened, in order for resources to translate into improved service. Because WSS is predominantly a local responsibility, national governments and by extension international development agencies are focusing their efforts on strengthening local government capacities to engage a broader range of service providers, objectively monitor and oversee service provider performance, and achieve higher levels of creditworthiness.
4.2 Country circumstances vary widely and addressing obstacles to sustainable service delivery requires distinct approaches in a range of settings – cities, peri-urban, towns and rural. Moreover, making rapid and sustained progress often requires concerted attention to broader policies in such areas as city governance and finance, water resource management, and public health, to create an enabling environment for sectoral initiatives to proceed. Work across sectors will therefore be important in supporting the expansion of access to WSS through health, environmental, urban, and rural development operations. Moving forward, the World Bank will focus on several strategic areas aimed at responding to these challenges within the context of broader country assistance strategies and programs.

**Figure 6. The Four Business Lines for WSS**

**THEMATIC FOCUS OF WORLD BANK ASSISTANCE**

4.3 The World Bank will work in four main thematic areas, which for purposes of discussion are identified as WSS business lines (Figure 6). These business lines (inner circle) draw attention to key approaches that the WSS practice will follow, and sets them in the context of broader thematic priorities and country-wide assistance strategies (outer circles). The four business lines are: extending services to the urban poor; improving operator performance; increasing access to rural water supply and sanitation; and managing water resources effectively.

4.4 **Extending Services to the Urban Poor.** The preponderance of population growth in the developing world over the next two decades is projected to occur in urban areas. And the bulk of new households to be served will reside in urban settings. Many will live in small and medium towns and a growing number will be poor. Reaching poor households requires both targeted interventions and broader actions at the municipal level. Key elements include: (i) offering communities a menu of service options, with differentiated costs reflecting their willingness to pay (see Box 6); (ii) establishing appropriate tariffs, subsidies, and incentives for reaching the poor; (iii) expanding the range of service providers to include small-scale operators; and (iv) increasing the emphasis on both the hardware and software elements of sanitation. To address
urban poverty more comprehensively, advisory and analytic assistance (AAA) and lending activities will focus on strengthening the capacity of local institutions to extend services to the urban poor, through demand assessments and poverty mapping, targeted subsidy mechanisms, piloting of output-based approaches, and the reform of regulations and standards. Much of this work will carried out jointly with other networks such as UD, PREM, HD, and PSD. Among the vehicles for introducing these interventions are: broad urban poverty-oriented activities such as slum upgrading initiatives (e.g. Brazil); city development strategies (e.g. Johannesburg); and community-driven development programs.

Box 6. Low-Cost WSS in El Alto, Bolivia

The city of El Alto, with 600,000 inhabitants now has improved water and sanitation, due to the support of the government, the Swedish International Development Agency (SIDA), the Water and Sanitation Program (WSP), and a private concessionaire. As stipulated in the contract, the operator, Aguas del Illimani, has the incentive to connect as many households as possible. Through the use of “condominial” low-cost technology that had earlier been piloted in Brazil, investment costs were reduced by laying small-diameter pipes at shallow depths within sidewalks and yards rather than streets, and drawing communities into all phases of planning and execution. The concessionaire was successful in connecting all households in El Alto, and the government subsequently modified its sewerage standards to allow condominial technology that is affordable for low-income households. Condominial systems have proved to be cost-effective compared to conventional water supply and sewerage technology, as well as affordable and desirable for poor households.

1. When combined with community inputs (labor, cash contribution), these can lead to significant cost reductions.

4.5 Improving Operator Performance. Well-functioning and financially viable utilities are essential for upgrading services and extending access to poor communities. An ongoing challenge across Regions is to transform monolithic state-owned water companies into more responsive service delivery agencies that address the needs of consumers. Policy, regulatory, and institutional reforms that create incentives for service providers to be more accountable, commercially oriented, creditworthy, and customer focused are central features of most WSS programs. Building on the efforts a series of roundtable meetings with private sector operators organized by the World Bank in 2001, and on subsequent deliberations of the World Panel on Financing Water Infrastructure, the Bank, IFC and MIGA are assessing the effectiveness of existing risk mitigation and credit enhancement instruments, and exploring options for expanding local currency and sub-sovereign lending. In parallel, options for more effectively engaging both public and local small-scale private sector operators are being studied, and a series of pilots on the application of output-based approaches (OBA) has been initiated. Support for the development of regulatory capacity in LCR, AFR, and SAR is also ongoing. Given the wider implications of several of these reforms for infrastructure development as a whole, the WSS sector is increasingly working within the broader context of programs to strengthen municipal finance and intergovernmental fiscal systems, develop local capital markets, and promote decentralization and local government reforms.

4.6 **Increasing Rural Access to WSS.** Scaling up rural WSS requires a demand-driven approach that gives communities control over the design, operation, and maintenance of their services, while instilling accountability for service delivery. Scaling up also requires working beyond sectoral boundaries to support broader local governance and address environmental and livelihood development considerations. Key elements of scaling up include (i) community contracting – user groups manage investment funds and directly contract goods and services from local suppliers; (ii) focusing capacity-building efforts on local agencies and entrepreneurs rather than centralized ministries; (iii) channeling central government/donor financing to local governments, based on their performance, to support scaling up of community-managed schemes (see Box 7); and (iv) involving communities in water resources management at the local level. Rural water supply and sanitation interventions are increasingly being implemented through multi-sectoral Initiatives such as social funds; rural development and natural resource management operations; and fiscal decentralization programs (e.g., Poverty Reduction Strategy Credits), in which the principles of community-driven development, initially piloted in RWSS projects, are increasingly being adopted.

**Box 7. Programmatic approaches to WSS Sector Reform - The Uganda Case Study**

Since 2001, the World Bank has extended the Government of Uganda several Poverty Reduction Support credits to support implementation of the Poverty Eradication Action Plan (PEAP). The PRSCs partially finance grants to local governments and sector institutions – conditional on performance – in the context of the government’s three-year budget framework. Activities are funded “on budget,” allowing government to plan against a predictable flow of resources, delegate spending to local governments, and expedite program execution by eliminating the multiplicity of donor-imposed procedures.

PRSC funds are released on a quarterly basis against approved work plans, signed MOUs, and performance contracts with each district. Joint government and donor performance reviews form the basis for continued funding. In FY01-02, the government met all policy benchmarks and service delivery targets, with 90 percent utilization of budgeted resources. More than 3,000 rural water points were improved, reaching 1.5 million people in all 56 districts; urban water and sewerage authorities were established in 46 small towns in which private management arrangements are also being introduced; and many more poor families were received improved services.


4.7 **Managing Water Resources More Effectively.** Water scarcity is a growing concern for countries with rapidly increasing urban populations, as well as those subject to extreme climatic variability. Competing demands for water have brought water resources management to the forefront of the WSS agenda in a number of countries in AFR, MNA, and SAR. In EAP, ECA and LCR, arresting the decline in ambient water quality is increasingly receiving priority. Recognizing the interdependence of WSS and water resource management, the WSS practice is working jointly with the Water Resources Management Group to prepare Country Water Resource Assistance Strategies (CWRAS) that address allocation, water quality, pricing, and other issues in specific countries (see Box 8). Significant progress has been made at the regional level (e.g., the Nile Basin Initiative), and work on sanitation and waste management is expected.
to grow. Collaboration across networks, particularly environment, urban development, and rural development, is key for effectively scaling up work on water quality management and pollution control, using instruments such as performance-based contracting for sanitation, and phased approaches to sewerage, and effluent standards. EAP, LCR, and MNA are increasingly lending for environmental sanitation and wastewater management, including flood control and water reuse.

**Box 8. Urban Water Quality and Pollution Control Projects in Brazil**

Bank funded projects in São Paulo, Curitiba, and Minas Gerais represent a first generation of urban water quality/pollution control (PQA) projects in Brazil. The projects introduced an innovative approach to cleaning up of some highly polluted urban water bodies in Brazil, demonstrating the importance of adopting an integrated approach to water quality management and pollution control in urban river basin settings. Integration is essential for prioritizing investments in a resource-constrained environment, and for developing appropriate institutional and legal frameworks for the sustainable management of the river basin, with the involvement of municipal, state, and federal players. Through these projects, an approach to urban river basin management was piloted, and technical and legal instruments developed. The projects also supported slum upgrading. Inadequate sanitation infrastructure contributes to pollution of the water courses in question.

4.8 The Regions have identified a number of countries in which WSS activities associated with the four business lines are already underway or planned (see Table 3).

**Table 3. Illustrative Engagement by Business Line**

<table>
<thead>
<tr>
<th>Business Line</th>
<th>AFR</th>
<th>EAP</th>
<th>ECA</th>
<th>LCR</th>
<th>MNA</th>
<th>SAR</th>
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<tr>
<td><strong>Extending Services to the Urban Poor</strong></td>
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<tr>
<td>Angola, DR, Mozambique, Nigeria, Tanzania, Uganda, Zambia</td>
<td>Cambodia, Indonesia, Philippines, Vietnam</td>
<td>Armenia, Albania, Azerbaijan, Bulgaria, Kyrgyz, Russia, Ukraine, Turkmenistan</td>
<td>Bolivia, Brazil, Colombia, Honduras, Guyana</td>
<td>West Bank &amp; Gaza, Yemen</td>
<td>Afghanistan, Bangladesh, Sri Lanka, India</td>
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<tr>
<td><strong>Improving Service Delivery</strong></td>
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<tr>
<td>Angola, Ghana, Guinea, Madagascar, Mozambique, Tanzania</td>
<td>Cambodia, China, Indonesia, Lao PDR, Philippines</td>
<td>Armenia, Bosnia, Croatia, Georgia, Hungary, Kosovo, Kyrgyz, Romania, Russia, Turkey</td>
<td>Argentina, Brazil, Colombia, DR, Perú, México</td>
<td>Iran, Jordan, Lebanon, Morocco, West Bank &amp; Gaza</td>
<td>India, Sri Lanka, Pakistan</td>
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<tr>
<td><strong>Increasing Rural Access to WSS</strong></td>
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<tr>
<td>Burkina Faso, Kenya, Uganda, Madagascar, Niger, Nigeria, Tanzania, Chad</td>
<td>Cambodia, Indonesia, Lao PDR, Vietnam, Philippines</td>
<td>Albania, Belarus, Georgia, Uzbekistan, Ukraine, Moldova</td>
<td>Colombia, Ecuador, Paraguay, Perú</td>
<td>Egypt, Iran, Morocco, Yemen</td>
<td>Afghanistan, India</td>
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<tr>
<td><strong>Managing Water Resources Effectively</strong></td>
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<tr>
<td>Chad, Senegal, Ethiopia, Uganda, Guinea, Nigeria, Kenya, Lesotho</td>
<td>China, Cambodia, Philippines, Vietnam</td>
<td>Albania, Croatia, Hungary, Kazakhstan, Moldova, Russia, Uzbekistan</td>
<td>Argentina, Brazil, Dominican Republic, Colombia</td>
<td>Egypt, Morocco, Yemen</td>
<td>India, Bangladesh</td>
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23 A recent review conducted by the Urban Development Department
23 indicates that WSS currently accounts for 47 percent of the urban environment portfolio
These are countries whose governments have taken action to: develop appropriate policies and regulations; support innovative service delivery mechanisms; build strong partnerships with communities and the private sector (including small and local operators); introduce pro-poor tariff structures and subsidy mechanisms; and initiate broad water resources management reforms.

CROSS-CUTTING PRIORITIES

4.9 Across the four business line described above, the World Bank will work with client countries to address a core set of operational, policy, and institutional priorities that are essential for sustainably improving WSS services. These priorities, derived from the global lessons identified in Section 2, are to: (i) strengthen governance mechanisms; (ii) ensure financial sustainability (iii) strengthen service delivery; (iv) target interventions to the poor; and (v) improve health outcomes (see Table 4).

4.10 Addressing these priorities will require actions to provide appropriate AAA and financial support. Such actions include improving Bank instruments and their application. For example, in response to the recommendations of the World Panel on Financing Water Infrastructure (see Box 9), the WBG has launched a joint initiative with other International Financial Intermediaries (IFIs) aimed at creating conditions for sub-sovereign lending and risk mitigation for privately financed undertakings (whether public or private management). Specific interventions include: (i) addressing institutional policies and processes that constrain the use of risk mitigation instruments; (ii) developing new credit enhancement and risk mitigation instruments to better deal with policy and currency risks; and (iii) creating a Municipal Fund within the IFC, and working with bilateral agencies to develop a sub-sovereign partial risk facility (GuarantCo) to specifically address the constraints in financing sub-sovereign entities. In addition, as part of the Infrastructure Action Plan, guidance notes will be issued on “rules of engagement” for scaling up support to public WSS operations and the widely used WSS private participation toolkit will be updated to reflect recent experience on contracting, regulatory and policy matters.

<table>
<thead>
<tr>
<th>Box 9. Recommendations - World Panel on Financing Water Infrastructure*</th>
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<tr>
<td>The Report of the World Panel on Financing Water Infrastructure issued in March 2003, sets out the two challenges of improving governance and mobilizing investment financing. The report makes several recommendations on measures to meet WSS investment needs:</td>
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<tr>
<td>▪ <strong>Prepare national financing strategies</strong> - Governments should set priorities for the sector and prepare plans and strategies accordingly (e.g. public expenditure reviews, cost recovery strategies);</td>
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<tr>
<td>▪ <strong>Optimize the use of existing financial vehicles</strong> - existing facilities should be replenished and strengthened (e.g. ODA should be increased and existing facilities, especially for local currency financing should be expanded/improved;</td>
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<tr>
<td>▪ <strong>Develop new financial instruments</strong> - including a liquidity backstopping facility; and a grant facility for preparing/structuring complex projects;</td>
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<tr>
<td>▪ <strong>Support long term sector reforms</strong> - emphasis is placed on building capacity of local authorities to promote local resource mobilization through a range of measures (e.g. reforms required to support sub sovereign financing/lending).</td>
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<tr>
<td><strong>Strengthen Governance Mechanisms</strong></td>
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<tr>
<td>Policy and regulatory reform enhance sustainability. Creating the conditions for reform requires political commitment and long-term engagement.</td>
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<tr>
<td><strong>Ensure Financial Sustainability</strong></td>
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<tr>
<td>Satisfied customers pay their bills. Cost-recovering tariffs enable service providers to operate and maintain their systems at adequate levels, and mobilize financing for service expansion.</td>
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<tr>
<td><strong>Improve Service Delivery</strong></td>
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<tr>
<td>Improve access, quality, and sustainability of service delivery. Broaden and strengthen partnerships among governments, communities, the private sector, and civil society.</td>
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<tr>
<td><strong>Target Interventions to the Poor</strong></td>
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<tr>
<td>Reach poor and vulnerable groups through specific and targeted interventions to address the particular needs and characteristics of poor households.</td>
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<tr>
<td>Pilot output-based approaches that shift public funding from inputs to services outputs actually delivered to poor households.</td>
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<tr>
<td>Deploy measurement tools to track outcomes, support regulation, and inform policy-makers and consumers of implications and outcomes.</td>
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<td></td>
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<tr>
<td>Improving health outcomes requires not only investment in water and sanitation facilities, but also behavioral change.</td>
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5. EXECUTING THE BUSINESS STRATEGY

5.1 The WSS business strategy draws on the World Bank Group’s comparative advantage to support country efforts to improve WSS services in line with the priority actions identified above. These include:

- a long term perspective of development brought about by the Bank’s historical engagement in the sector in numerous countries;
- an ability to develop and diffuse knowledge and experience regarding country-specific social and investment needs, financial and human capacities to governments and communities of interest/practice;
- a comprehensive geographic and sectoral scope and economy-wide focus which places WSS concerns within the broader fiscal, social and environmental context.
- access to a diverse set of instruments that support and tailor policy advice and financing instruments to the needs of the country, including long term finance for large, complex investments;
- recognized leadership in the sector, and an ability to convene development partners to address issues of common interest such as sector governance, financing, environmental and social concerns.

5.2 Exploiting the World Bank Group’s comparative advantage means exercising selectivity in terms of where the Bank devotes its resources and how it provides such assistance. In the context of the Bank-wide Implementation Follow Up (IFU7) exercise in 2002, the Regional and central support units endorsed two key concepts of selectivity as it relates to the WSS business:

(i) identifying focus countries in which to scale up based on demonstrated commitment to reform;
(ii) determining the appropriate mix of instruments, ranging from analytical and advisory assistance to investment lending to partial guarantees. These principles reflected in the recently launched Infrastructure Action Plan (IAP) 24, underpin business scenarios prepared by each of the Regional WSS units:

SELECTING FOCUS COUNTRIES

5.3 Assistance for water supply and sanitation will focus on those countries where the potential for impact is highest—where the Bank’s corporate objective of supporting countries to achieve the MDG targets is matched by country commitment to sound policies and institutions. As part of IFU-7, each Region identified focus countries (see Annexes 1-6) in which to scale up support in order to achieve the MDGs. These range from countries with low levels of access to WSS and widespread poverty to those with medium to high levels of access but persistent pockets of poverty. For each focus country, Regional WSS units will prepare country action plans (CAPs), starting with 10 countries in FY04. The nature of assistance outlined in the CAP will be

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24 The aim of the Infrastructure Action Plan is to rebalance the Bank Group’s business and re-position infrastructure as a key contribution to achieving the MDGs. The Infrastructure Action Plan is a comprehensive management tool which will guide the Bank Group’s infrastructure business for the next 2-3 years. It includes a particular emphasis on building the Bank Group’s infrastructure business by investing further in the Bank Group’s pipeline of loans and other financial instruments, as well as country diagnostic work.
determined by country needs, and will include policy reform support, capacity building, and financing.

5.4 Identifying focus countries does not imply that work will cease in non-focus countries. Activities will continue at a steady pace (where institutional capacity exists), with reduced intensity (in countries where reforms are slow or non-existent); on a declining basis (where other partners are taking the lead, as in European Union (EU) accession countries, or when national governments do not require external support). While more World Bank resources will be dedicated to achieving impact in focus countries, this will not necessarily mean high volumes of lending in each of those countries. For example some LICUS countries will not be able to absorb large increases in external financing.

5.5 Ensuring sustainable access to WSS will require that in some countries support for policy and institutional reforms takes precedence over investment lending. The extent to which a country commits itself to undertaking necessary but often difficult reforms will dictate the pace of progress in achieving sector goals. In selecting countries on which to focus, each Region has assessed the extent and status of reforms, and accorded priority to those that have already demonstrated their commitment to implementing sound policy. Long term Bank involvement will often be required in order to realize durable improvements.

WORKING WITHIN COUNTRY FRAMEWORKS

5.6 The MDG targets reflect global goals which must be adapted to country specific priorities, implementation capacities, and timeframes. Setting ambitious yet attainable targets at the national level requires that they be underpinned by sound sectoral policies and strategies, reflected in discrete programs and budgets. Scaling up WSS must take place as part of a country wide prioritization and resource allocation effort that recognizes the interdependence of WSS, health, education, and environmental outcomes. Well elaborated country programs, such as those intended in poverty reduction strategies will help to reduce duplication of effort among agencies and donors and enable the development of a common framework for assistance (e.g. SWAPs, PRSCs). A clear indication of the priority that government and World Bank managers accord WSS is the extent to which it is reflected in PRSPs and/or CASs25. While WSS is often a feature of PRSPs, few have elaborated specific policies, priorities and budgetary implications with enough clarity to guide external assistance. A review of the treatment of WSS in PRSPs carried out in Africa26 concludes that more work is needed in several areas: multi-stakeholder assessments— that bring diverse perspectives to the table; solid sector diagnostics and strategies— that establish realistic baseline conditions and define policy and program priorities and implementation mechanisms; monitoring and evaluation systems— that measure implementation progress and development impact; and more accurate assessment of investment needs and financing strategies.

25 Countries without PRSPs may reflect WSS priorities in national development plans or other strategy documents.

STRENGTHENING ANALYTICAL AND ADVISORY WORK

5.7 Consolidating sector knowledge in advance of strategy and project preparation helps to inform sectoral priority setting; feeds into the elaboration of PRSPs and CASs; and guides sector reforms. A strong knowledge base and understanding of the WSS sector is essential for informed planning and decision making. Addressing gaps in knowledge at country level often requires joint work with other sectors (e.g. public expenditure reviews, municipal finance assessments, environmental health strategies) to prioritize and sequence interventions at the national and local levels. Joint reviews—carried out with external partners—are also important for ensuring consistent advice and better coordination of policy support and investment programs among development partners. The World Bank hosts a variety of knowledge dissemination, capacity building and learning programs (e.g. WSP, BNWP and PPIAF), that aim to generate and disseminate knowledge in order to inform policy and programs, and improve resource use (see Box 10). However, translating learning into country actions, also depends on sufficient budgetary allocations for AAA work. A recent OED evaluation notes the increased reliance on trust funds for ESW and points out that future ESW should be more closely linked to lending—of 90 pieces of ESW carried out between 1990 and 2000, only 10 percent were directly aligned to sector development27.

5.8 A renewed focus on AAA must be matched by improvements in knowledge sharing. OED report points out weaknesses in existing arrangements, which depend heavily on thematic groups, advisory services and websites28. Knowledge sharing activities must be directly linked to the Bank’s core business. To build stronger linkages between substantive work and knowledge sharing, the WSS practice will ensure that target audiences and products are well defined, quality assurance mechanisms are in place and functioning, and stronger links between trust funded programs (such as WSP, PPIAF and BNWP) and operations are established.

PROSPECTS FOR SCALING UP

5.9 Based on the precepts of selectivity and focus, fit with country program priorities and stronger AAA, Regional water supply and sanitation units, in consultation with other practices, prepared business scenarios (see Figure 7). These scenarios give an indication of the

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volume and types of assistance the World Bank should provide for water supply and sanitation over a five-year period—FY03-07 (Annex 1-6 provide a summary of Regional WSS business strategies). Base case and high case scenarios for scaling up assistance imply more effective use of existing resources, but also reflect the need for more resources. Activities are classified as sector specific (dedicated) or multi-sectoral (non-dedicated).

5.10 In developing the business scenarios, a five-year time horizon was used to reflect the time period over which (i) shifts in the WSS business would gradually take place; and (ii) development impacts from operations could begin to be meaningfully measured. The base case scenario reflects conservative goals when compared with annual averages in the three-year lending pipeline. The high case scenario projects a more ambitious work program. Achieving the high case is predicated on (i) a larger number of countries putting in place effective policies and institutional arrangements, which are essential for effective utilization of development assistance and (ii) better and more extensive treatment of WSS themes in sectoral and multi-sectoral AAA and lending operations.

5.11 The Base Case Scenario – business as usual. The base case reflects a modest program, comprising a small number of better-prepared operations, and scaling up lending across business lines in a limited number of countries. Using a mix of sectoral and multi-sectoral instruments, the base case envisages lending of $1.2 billion per year over the five-year period. This is a conservative scenario, in that it represents about 60 percent (on an annual average basis) of the current three-year forward-looking pipeline. This is in line with past trends in delivering the
three-year pipeline. The number of AAA activities is also conservative relative to the pipeline, and emphasizes support for building the knowledge base (e.g., poverty and environmental health analytical work, developing national WSS strategies, conducting public expenditure management reviews, undertaking water resources management assessments). Execution of this scenario requires a small increase in WSS professionals from the current level of 77 to 87 over the five-year period, and incremental operational costs of $2.2 million by year five. The staffing increase would be directed solely at the Regions, with no increase in the Anchor, IFC, or MIGA.

5.12 The High Case Scenario – making a difference. The high case aims to expand WSS access and quality of service in a larger number of the Bank’s client countries at a faster pace, contributing to sustainable improvements, not only in water supply and sanitation services, but also in health, education, and environmental outcomes. Scaling up under this scenario requires intensified assistance in a number of low income countries that are unlikely to make much progress without external support. Assistance will be selectively scaled up in middle income countries that have the capacity to close access gaps through better targeting of policies and programs to the poor. This scenario implies more than doubling the level of financing ($2.6 billion per year over 5 years) compared to the base case (see Figure 8). It also implies an increase in the number of multi-sectoral operations that involve urban development, private sector development and regulatory reform and rural development. Reflecting the view that improved access to WSS should be measured on the basis of sustainable service delivery rather than the mere presence of physical infrastructure, the high case anticipates tripling the number of AAA operations to support policy and institutional reforms and facilitate knowledge sharing in key areas (e.g., sanitation, regulation and public-private partnerships). Implementing the high case would require an additional $4.2 million in operating budgets by year five, to bring staffing levels up from 77 Regional staff in FY02 to 100 in FY07. Higher staffing levels also reflect the need for increased cross support to multi-sectoral operations in other networks.

Figure 8. Level and Composition of Lending by Business Line (Totals-Five years)

![Approvals of Lending Operations w/ WSS Component(s) Historical Vs. Projected (US$m)](source: SAP Business Warehouse, January 2003; Regional Units (Base and High Case Scenarios), August 2002.)
5.13 The WSS business scenarios presented above reflect Regional operational priorities derived from analysis of country programs. Each Region’s Business Strategy, described in more detail in Annex 1-6 and summarized in Table 5, indicates Regional priorities, instruments and partners, and types of activities to be implemented under the different scenarios.

### Table 5. Overview of Regional Business Strategies

<table>
<thead>
<tr>
<th>Region</th>
<th>Priorities</th>
<th>Instruments</th>
<th>Partners</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Africa</strong></td>
<td>-Integrate water supply and sanitation more effectively within PRSPs.</td>
<td>-Policy dialogue and ESW are a priority and the basis of reforms</td>
<td>-Bilateral donors and AfDB, NEPAD</td>
</tr>
<tr>
<td><em><em>Focus countries</em>:</em>* Benin, Chad Burkina Faso Ethiopia Ghana, Kenya Madagascar Mali, Malawi Mozambique Niger, Nigeria Rwanda, Senegal Tanzania Uganda, Zambia</td>
<td>-Strengthen WRM and other multi-sectoral initiatives such as Poverty Reduction Strategy Credits.</td>
<td>-SILs for URBAN WSS, PRSCs for town and rural WSS (at least 10 planned)</td>
<td>-Regional initiatives - African Ministerial Conference on Water; African Water Task Force; the Water Utility Partnership, -WSP for policy and institutional reform dialogue, knowledge, capacity building.</td>
</tr>
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<td></td>
<td>The thematic focus of future lending will include WRM, investment climate, multisectoral operations, Poverty Reduction Sector Credits (PRSCs) and RWSS.</td>
<td>-SIFs in Low Income countries/Low Income Countries Under Stress (LICUS).</td>
<td>-Increased cross-sectoral collaboration with HD</td>
</tr>
<tr>
<td><strong>Europe and Central Asia</strong></td>
<td>-Strengthen upfront reform (AAA), focusing on urban WSS –with emphasis on rehabilitation, efficiency improvement and financial sustainability.</td>
<td>-AAA will be increased to enable upfront reform.</td>
<td>-EIB and EBRD financing for large urban centers</td>
</tr>
<tr>
<td><strong>Focus Countries:</strong> Albania Armenia Georgia Kazakhstan Krygyz Moldova Tajikistan</td>
<td>The thematic focus of future lending will be improving the investment climate and scaling up RWSS.</td>
<td>-Single sector loans for (SILs) urban WSS with IFC and MIGA.</td>
<td>-Leverage soft funding from EU, ADB, Germany, Japan, and others for (town and rural WSS).</td>
</tr>
<tr>
<td></td>
<td>-Multi-sectoral and programmatic approaches in RWSS.</td>
<td>-Multi-sectoral and programmatic approaches in RWSS.</td>
<td>-Collaborate with OECD on analytical aspects.</td>
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<tr>
<td></td>
<td>-Increased cross-sectoral collaboration – HD, SD, PREM, UD, ENV, RD</td>
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<tr>
<td><strong>East Asia and the Pacific</strong></td>
<td>-Scale up investments in the lowest income IDA countries, while maintaining a lending program in middle income countries such as China, Philippines, and Indonesia.</td>
<td>-Blend of IBRD/IDA, IFC, and MIGA services is needed.</td>
<td>-Close coordination with major donors (primarily JBIC, the Asian Development Bank).</td>
</tr>
<tr>
<td><strong>Focus countries:</strong> Cambodia China Philippines Vietnam</td>
<td>The thematic focus of future lending will be on: improving the investment climate, and managing the environment</td>
<td>-AAA TA work on refining OBA approaches, pro-poor reform, sub national lending, transaction design, regulatory models and risk mitigation.</td>
<td>-Water and Sanitation Program support for policy dialogue, partnerships, piloting, and knowledge sharing.</td>
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<tr>
<td></td>
<td></td>
<td>-Mix of SILs, APLs, SALs and PRSCs</td>
<td>-PPIAF, BNWP support for regulation, water resource management, sanitation policy, etc.</td>
</tr>
<tr>
<td>Region</td>
<td>Focus Countries</td>
<td>Priorities</td>
<td>Instruments</td>
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<tr>
<td>Latin America and the Caribbean</td>
<td>Bolivia</td>
<td>- Create the conditions for investment (transaction design, regulatory models, and risk mitigation) through (AAA) joint work with IFC and MIGA.</td>
<td>- AAA and TA on design of OBA approaches, pro-poor reform, WSS sector reform, and regulatory reform.  - Mix of SILs, APLs, SALs, SECALs, and PRSCs.  - Joint work with IFC and MIGA.  - Cross-sectoral work PREM, ENV, HD, UD, WRM.</td>
</tr>
<tr>
<td></td>
<td>Brazil</td>
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<td>Costa Rica</td>
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<td></td>
<td>Columbia</td>
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<td>Dominican Rep.</td>
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<td></td>
<td>Panama</td>
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<td></td>
<td>Peru</td>
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<td>The thematic focus of future lending will be on environment and continued support for urban WSS – towns and peri-urban areas.</td>
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<tr>
<td>Middle East and North Africa</td>
<td>Jordan</td>
<td>- Strengthen AAA in urban WS, WRM, and sanitation.</td>
<td>- AAA and ESW will focus on regulatory and policy issues as well as on sanitation.</td>
</tr>
<tr>
<td></td>
<td>Iran</td>
<td>- Build linkages to education, gender, governance, and private sector development.</td>
<td>- Urban WSS operations (SILs) dominate the dedicated lending portfolio, but also some rural operations are planned  - SIFs in several low income countries.  - Multi-sectoral rural and environment operations.</td>
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<tr>
<td></td>
<td>Yemen</td>
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<tr>
<td></td>
<td>Algeria</td>
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</tr>
<tr>
<td></td>
<td></td>
<td>The thematic focus of future lending will be on the environment urban and rural WSS; and WRM.</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td>India</td>
<td>- Strengthen policy dialogue in all countries to create conditions for investment (transaction design, regulatory models, and risk mitigation) through joint work with IFC and MIGA.</td>
<td>- Expand policy dialogue and ESW (AAA).  - Programmatic lending (fiscal decentralization), municipal finance and local government reform.  - SILs for urban WSS and RWSS.  - Increased cross-sectoral collaboration with HD.</td>
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</table>

* IFU 7 Focus countries identified by Regional Vice Presidencies.

5.14 The mix of instruments— for building institutional capacity and financing infrastructure— will be geared to country-specific needs, capacities and commitment to sound policies. None the less, countries of similar levels of development share common characteristics which inform the types of sectoral assistance and their phasing. In low income countries, assistance will initially be focused on policy and institutional reforms, then on investment financing to scale up on various fronts (urban, rural, and small towns) in accordance with local implementation capacity. Given the importance accorded to decentralization, emphasis will increasingly be on financing WSS operations through sectoral and multi-sectoral programmatic lending (see Box 11). In middle-income countries which typically have greater resource mobilization capacity, Bank assistance will be highly selective and catalytic, directed at leveraging private financing through IFC, MIGA and concessional lending by regional banks; addressing poverty pockets through the design of pro-poor targeting policies and programs; and strengthening local government management and financial capacity (e.g. mobilizing local financing and facilitating sub sovereign lending). In low income countries under stress (LICUS),
first priority will be to advocate for and establish basic policies, and build institutional capacity for modest investment programs that will be implemented in partnership with communities, the local private sector, and NGOs.

Box 11. Yemen: A Focus Country in MNA

Yemen is at an intermediate level in its policy and institutional reform process. Recent ESW on water sector reform provided the basis for scaling up support for the sector. The PRSP identifies WRM as a priority, and sets specific targets for increasing access to WSS. High priority is also accorded to WRM in the CAS, which focuses on ensuring environmental sustainability and on watershed management. The Bank expects to play a leading role among development agencies, particularly with respect to policy reform, and will coordinate its activities with other active partners. A number of projects are underway, including in rural water supply (SIL), social fund (SIL), and urban water supply and sanitation (APL). Reflecting the focus on WRM in the PRSP and the CAS, the pipeline also includes investments in river basin management and groundwater and soil conservation. A joint WRM and WSS Country Water Assistance Strategy has been prepared, to ensure consistent approaches to addressing water-related issues.

6. USING RESOURCES EFFICIENTLY

6.1 The business scenarios presented above give an indication of the types and levels of assistance required to address strategic priorities. Delivering these priorities will require the Bank to deploy its human and financial resource in a cost effective manner. Doing so will mean (i) aligning staffing with business priorities, (ii) building strong partnerships, both internal and external, to leverage the impact of the Bank’s sector assistance, and (iii) improving monitoring and evaluation mechanisms to assess progress on the ground and to make mid-course corrections in a timely manner.

ALIGNING STAFFING WITH BUSINESS PRIORITIES

6.2 Recent Trends. The Bank historically had a strong water supply and sanitation skills base across most Regions. This strong skills base has been maintained, however overall staffing levels have declined by more than 30 percent over the last decade, due to decentralization, retirement, and budget cuts. This decline in staffing levels has been partially offset by an increase in the number of operations managed by staff in other networks, although in some of those operations, sectoral skills may not have been adequately brought to bear on the WSS components. The current staffing distribution reflects Regional and country budgetary allocations rather than a comprehensive staffing policy (see Figure 9).

6.3 As of December 2002, about 85 higher-level staff (F and above) were mapped to the WSS family. There are also more than 50 higher-level staff in other networks with work programs addressing WSS, and 28 higher-level staff in the Water and Sanitation Program which provides some cross support to World Bank operations. IFC and MIGA have no sector staff per
se, although five staff in IFC and two in MIGA are involved with WSS transactions, guarantees and advisory assistance.

Figure 9. Staffing by Location and Number, Level F and Above

![Staffing by Location and Number, Level F and Above](image)

Source: WSS Staff Skills Assessment, World Bank, November 2001

6.4 In terms of institutional goals for gender and Regional diversity, staffing distribution is in line with overall Bank trends, but not with its targets: only about 25 percent of higher-level staff are female; 45 percent are from Part II countries. About half of higher level staff have Bank experience in more than one Region and 30 percent are based in the field. As a result of a significant number retiring during the past seven years, the age structure of WSS staff is reasonably balanced:

<table>
<thead>
<tr>
<th>Age Structure</th>
<th>WSS</th>
<th>INF</th>
<th>Bank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Staff over 45 years of age</td>
<td>55%</td>
<td>58%</td>
<td>44%</td>
</tr>
<tr>
<td>Staff to retire within five years</td>
<td>4%</td>
<td>12%</td>
<td>4%</td>
</tr>
<tr>
<td>Staff at Grade H or higher</td>
<td>20%</td>
<td>25%</td>
<td>20%</td>
</tr>
</tbody>
</table>

6.5 While higher than Bank-wide averages, higher-level WSS staff nearing retirement and at the highest grade are modest relative to the infrastructure network as a whole. This has two implications: the practice will not have to contend with large-scale departures in the near term, but will need to ensure that senior practitioners leverage and mentor younger staff. Going forward, the flexibility afforded by a relatively young age profile will need to be weighed against the need to attract and retain high-caliber, internationally respected experts.

6.6 **Emerging Priorities.** Delivering on Regional priorities and business scenarios will entail: (i) increasing staffing levels in core business areas; (ii) strengthening expertise in strategic areas; and (iii) enhancing integrative skills to improve interaction and joint work with other practices (e.g., public finance, decentralization, environmental management, municipal service delivery). Solid and broad expertise in these areas will be critical for delivering high-quality upstream
analytical work, to underpin an expanded lending program and effectively engage a larger number of client countries and partners in program design and execution.

6.7 Staff skills assessments undertaken over the past two years as part of a strategic staffing exercise indicate key competencies that should be retained and those that need to be developed (see Table 6).

Table 6. Required Staff Competencies

<table>
<thead>
<tr>
<th>Competencies to retain</th>
<th>Competencies to build</th>
</tr>
</thead>
<tbody>
<tr>
<td>-Utility management / finance</td>
<td>-Rural WSS service delivery and financing</td>
</tr>
<tr>
<td>-Sector reform policy formulation and planning</td>
<td>-Promotion of sanitation and hygiene</td>
</tr>
<tr>
<td>-Public-private partnerships, transaction design</td>
<td>-Poverty targeting and public expenditure analysis</td>
</tr>
<tr>
<td></td>
<td>-Communication</td>
</tr>
</tbody>
</table>

6.8 Retooling to Meet the Challenges. The Bank faces several challenges in ensuring that staffing levels and skills are commensurate with business demands: addressing budget and staffing constraints, working across sectors, identifying sources of expertise, and meeting gender diversity objectives. To address these challenges, several short-term, incremental measures are already underway, in tandem with longer-term solutions. For existing staff, actions are underway to: (i) deploy existing staff more effectively, offer more opportunities for career advancement and rotate senior task team leaders among Regions; (ii) encourage senior staff to work across Regions and provide mentoring opportunities for women and junior staff; and (iii) promote cross-network support/exchanges and organize joint learning programs with relevant practices (e.g. though thematic groups). It will also be necessary to augment existing staffing by importing scarce skills from external partners through secondments, and staff exchange programs; recruiting practice assets through centrally funded programs such as the Batch Recruitment Program and Young Professionals Program; and integrating new staff in the practice through mission travel, and other programs.

6.9 A Human Resources framework to aid in implementing these solutions has been endorsed by the WSS Sector Board. A number of actions outlined in the framework, including batch hiring, have not been finalized. However, Regions have resumed hiring, based on their staffing plans to address identified skills gaps and meet business needs. Further actions to promote diversity have also been undertaken. In particular, promotions have contributed to a greater representation of women in management and technical leadership positions in the sector.

BUILDING SYNERGIES THROUGH PARTNERSHIPS

6.10 Partnerships are an important building block for effective country assistance programs. At country level, sector wide approaches and multi-sectoral programmatic lending are increasingly central to scaling up. Leveraging the expertise and financing of other development agencies, the private sector and NGOs\(^{29}\) requires that the water supply and sanitation practice

engage in a broad range of partnerships. These partnerships will be sustained and strengthened through joint activities in advocacy, knowledge generation, financing and capacity building.

6.11 **Working Across Practices within the World Bank Group.** The WSS practice will step up collaboration with other practices within the World Bank Group to deliver the sectoral and multi-sectoral WSS programs highlighted above. In recognition of the need for better coordination between infrastructure sub-sectors, the World Bank has prepared an Infrastructure Action Plan that aims to increase its contribution to improving infrastructure service delivery. The WSS practice is engaged in joint work with several networks (Development Economics (DEC), Poverty Reduction and Economic Management (PREM), Human Development (HD), etc.), as well as the World Bank Institute (WBI), Water and Sanitation Program (WSP) and IFC and MIGA. These activities are intended to strengthen the quality and relevance of AAA and operational work and permit better integration of WSS in country programs (see table 7).

6.12 IFC and MIGA play an important role in efforts to build stronger private sector participation and leverage financing for the sector.

6.13 **International Finance Corporation-** IFC’s efforts to mobilize private financing and bring commercial management to utilities in emerging markets over the past decade have led to system improvements in larger urban areas. Between FY90 and FY99, the IFC approved six projects in the WSS sector at a total cost of USD $817 million. In FY03, the IFC Board approved an additional six projects with a combined investment cost of USD $675 million.

6.14 Among IFC’s key business priorities for the sector are (i) to continue to promote limited recourse financing, and (ii) to support concessions and build-operate-transfer (BOT) schemes. Preference will be given to concessions with lower credit risk and higher potential of development and economic impact gains. While continuing to support projects in LCR, where the private participation wave has been strongest, IFC will extend its geographical coverage to Asia and Europe where there are more opportunities to expand the role of the private sector in funding utility and multi-utility operations.

6.15 The World Bank Group has been aware that in many of its client countries much of the responsibility for providing infrastructure and services has been passed on to municipalities and other sub-sovereign tiers of government. In this context on May 1, 2003 it established a Municipal Fund to gain market knowledge by making a few direct investments in municipalities, without sovereign guarantees.

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30 These projects include two partial guarantees: one in support of a local currency bond issuance for the water, wastewater and solid waste concession for Barranguilla, Colombia, and the other in support of a structured debt financing for the Municipality of Tlahuapan and its water utility. Other projects include financing for concessions in Metro Manila East and Chile, and Manaus in North East Brazil and a Build Operate and Transfer scheme in Panama.
Table 7. Cross-Sectoral Collaboration within the World Bank Group

<table>
<thead>
<tr>
<th>Internal Partner</th>
<th>Areas of Cross-sectoral Collaboration</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban development network</td>
<td>- Community Water and Sanitation Facility (CWSF) established by Cities Alliance program</td>
<td>Strengthen WSS content of urban programs—e.g., slum upgrading, environmental management</td>
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<td></td>
<td>- Development of Urban Environment toolkit (Urban Environment and UWSS thematic Groups)</td>
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<tr>
<td>Human Development network</td>
<td>- National Burden of Disease and Cost Effectiveness Assessments to establish health impact from WSS interventions Handwashing initiative (Public Health Thematic Group and RWSS Thematic Group)</td>
<td>Initiate joint Energy and Water Department (EWD) and Human Development Network WSS and health pilots in select countries</td>
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<td></td>
<td>- FRESH program—sanitation/hygiene in schools (Education and RWSS Thematic Groups)</td>
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<td></td>
<td>- Hygiene and Sanitation Promotion in large-scale projects</td>
<td></td>
</tr>
<tr>
<td>Water resources network</td>
<td>- Undertake joint WSS/WRM assessments—Country Water Resources Assistance Strategies (CWRASs)</td>
<td>Strengthen staff capacity for preparing joint CWRAS</td>
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<tr>
<td></td>
<td>- Joint MNRE/IF task force to prepare a regional water strategy, country strategies.</td>
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</tr>
<tr>
<td>Environment network</td>
<td>- Strategic Environmental Assessments—country/basin-level water quality management strategies (e.g., Brazil, China, Vietnam)</td>
<td>Interpretation of Environmental Safeguard Assessments—implications for water supply and sanitation projects</td>
</tr>
<tr>
<td></td>
<td>- Assessment of the determinants of environmental health (brown bag lunches, clinics, joint papers)</td>
<td></td>
</tr>
<tr>
<td>Rural development network</td>
<td>- Rural Infrastructure Services Investment Climate Assessments: strategy notes, clinics, and country-level assessments</td>
<td>Strengthen WSS content of multi-sectoral programs—policy consistency, cross support</td>
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<tr>
<td></td>
<td>- RWSS toolkits/methods/brown bag lunches for multi-sectoral operations</td>
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<td></td>
<td>- CDD scale-up strategies—joint work on building local capacities to support communities post construction in large-scale RWSS</td>
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<tr>
<td>PREM/DEC</td>
<td>- Country/subnational-level public expenditure and public finance assessments and operations</td>
<td>Improve WSS access statistics (e.g. Joint Monitoring Program), indicators and tools; and household survey instruments</td>
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<td>- Country-level PRSPs and Poverty and Social Impact Assessments (PSIAs)</td>
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<td></td>
<td>- Cross-sectoral determinants of MDG outcomes</td>
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<td></td>
<td>- Environmental health economics</td>
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</tr>
<tr>
<td>IFC/MIGA/Infrastructure and Private Finance (IPF)</td>
<td>- Local currency-based instruments for risk mitigation/credit enhancement</td>
<td>Develop instruments to mitigate risk, encourage local currency financing and facilitate sub-sovereign lending</td>
</tr>
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<td></td>
<td>- Develop mechanisms for increased sub sovereign lending</td>
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</table>

6.16 **Multilateral Investment Guarantee Agency**- Due to its relatively recent involvement in the sector, MIGA’s portfolio currently consists of only one signed contract for a project in Ecuador, valued at US$20 million, to insure the equity investment and the performance bond posted by the sponsor. However, MIGA’s pipeline of WSS projects is expanding rapidly, and now comprises eight projects, three of which have already received Board approval. Another five projects are expected to be presented to the Board in FY04. Given the current investment/engagement pattern, China and Eastern Europe have the most projects, although
several are anticipated in the Middle East and Africa in FY04 and beyond. MIGA expects to become the insurer of choice for private operators in emerging markets.

6.17 MIGA has identified sub-sovereign, regulatory and contract risks as the three areas in which it could either expand or modify its products to meet the market’s needs. This process is ongoing, and MIGA has prepared a strategy for the Water Sector outlining measures to ensure that its products meet changing market needs. MIGA will also be more active in structuring operations, to ensure that the public-private partnership conceived for each transaction has a balanced allocation of risks, and is well suited to the local context. In this regard, MIGA is working on several new initiatives aimed at strengthening south/south investments (e.g., in Central and South America), and at mobilizing private investors for small infrastructure projects in Africa—through a proposed joint facility with the World Bank's Infrastructure and Project Finance Departments.

6.18 **WSS Programs** - The World Bank hosts or supports a number of programs, funded by external partners, that provide support for WSS operations. Several of these programs (see Box 12 above) play a key role in facilitating knowledge sharing, program design and project preparation, and have been instrumental in supporting policy and institutional reforms, particularly with regard to public private partnerships. The three largest trust funded programs that support water supply and sanitation are the Water and Sanitation Program, (US$ 15 million per annum), Bank-Netherlands Water Partnership Program (US$3 million per annum), and the Public-Private Infrastructure Advisory Facility (US$6 million per annum).

### Box 12. The Water and Sanitation Program – A pro-poor Partnership

WSP is an independent multi-donor funded technical assistance agency that works closely with governments, donors, and civil society to help the poor gain access to WSS. WSP staff (spread over 30 countries in four Regions -SAR, EAP, LCR, and AFR), have been instrumental in bringing partners together at the regional and country levels. WSP’s three lines of business are: (i) generating and communicating knowledge acquired in the field; (ii) strengthening water supply and sanitation sector policies; and (iii) improving the effectiveness of water supply and sanitation investments. With its global knowledge and strong links to donors and civil society, the program is well positioned to provide long-term support to countries in the early stages of reform. A key role for WSP in the immediate term will be to advocate for and facilitate better interagency coordination at country level and provide technical assistance for various initiatives that aim to scale up toward the MDGs.

### STRENGTHENING EXTERNAL PARTNERSHIPS

6.19 The World Bank works closely with various agencies at global, regional, and country level, in sharing knowledge, leveraging resources, building consensus on effective policies and practices, and supporting common programmatic approaches. While the World Bank traditionally partnered with governments and donor agencies, over the past decade, cooperation has increased markedly with private operators, financiers, academia and civil society. At the global level, joint initiatives are underway with various United Nations agencies (UNICEF, Habitat, WHO, UNEP, etc) and most bilateral agencies – many of whom also support one or
more trust funded programs (WSP, PPIAF, BNWP) housed within the Bank. Joint initiatives have also been established with private operators through the WSS operators roundtable, and several initiatives have been launched to strengthen collaboration with civil society. In collaboration with WBI, work with academic and research institutes (e.g. University of Florida-IFUR, MIT, IHE-Delft) and journalists (World Media Network) will continue. The Bank is an active participant in a limited number of global networks—such as the Global Water Partnership, Water Supply and Sanitation Collaborative Council, Cities Alliance and Global Handwashing Initiative.

Figure 10. Building Synergies with Other Players

At regional level, the Bank often works with the regional development banks – many of whom play a lead role in WSS financing (e.g., the Inter-American Development Bank in Latin America; the Asian Development Bank (ADB) in Asia; and the European Investment Bank (EIB) and European Bank for Reconstruction and Development (EBRD) in ECA). The Bank has also established partnerships with both regional and country networks of professionals such as the regulators forum in Latin America, and water utility partnership in Africa (see Table 8).

MEASURING FOR RESULTS: MONITORING AND EVALUATION

The World Bank measures results at various levels to determine the effectiveness of its assistance. Initiatives aimed at strengthening the measurement of outcomes include collaborative efforts to strengthen tools used at global and country level such as the Joint Monitoring Program (JMP) \(^{31}\) and the utilities performance benchmarking program. Within the Bank, work is

\(^{31}\) The JMP, established in 1990 following the World Summit for Children, mandated WHO and UNICEF to join forces to provide global and country-level water supply and sanitation coverage figures to the UN system. Baseline global
underway to standardize project level monitoring indicators across sectoral and multi-sectoral operations; disseminate methods/tools for measuring sectoral performance at the country level; and improve monitoring of the portfolio.

<table>
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<th>Table 8. External Partnerships: An Illustrative Example</th>
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<tr>
<td><strong>Partner</strong></td>
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<tr>
<td><strong>Global</strong></td>
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<td><strong>Global Water Partnership (GWP)</strong></td>
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<td><strong>Building Partnerships for Development - Water and Sanitation (BPD)</strong></td>
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<td><strong>Regional</strong></td>
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*Notes: For more on the JMP, see below.*

Each partnership may contribute to one or more of the following objectives: knowledge, capacity building, advisory, financing.

6.22 Over the past year, demands have grown rapidly for performance data, driven largely by the focus on MDGs. These demands emanate from IDA-14, IFU-7, REDI, unit compacts, and global monitoring programs (e.g., Paris 21). In response to these growing demands for better performance measurement, a WSS sector M & E action plan has been prepared and implementation is underway. The action plan aims to address these multiple demands through a

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32 Recent Economic Developments in Infrastructure (REDI) – country-specific, standardized yet flexible diagnostics of the infrastructure sector.
6.23 This approach comprises (i) development of a tiered set of indicators for use at the country and project levels (see Figure 11), and (ii) phased implementation of country level and project level monitoring as follows: A first phase, already underway entails carrying out consultations with M & E experts and developing measurement tools. The second phase, to be started in FY04, comprises several pilots at regional level, that will support sector wide efforts to define country level performance indicators; assemble baseline data as part of the preparation of Country Action Plans in IFU focus countries; and develop and pilot test tools and templates for distinct types of operations (rural/urban/peri-urban, water/sanitation). At the same time, work will be started to identify and agree the use of standard indicators for non-dedicated projects. In Phase three, the roll out phase, lessons learnt from the pilot exercises will be used as the basis for implementing enhanced M&E across the sector.

6.24 Monitoring Country and Global Outcomes. Measurement of country outcomes is important for gauging effectiveness of country policies and Bank assistance. However, effective measurement is often difficult due to numerous, and often non-comparable, performance indicators used by different entities.

6.25 Immediate demands for country-level data on access will be satisfied using indicators already available from the WHO-UNICEF Joint Monitoring Program (JMP). However, JMP
Box 13. Monitoring WSS: Toward the MDGs

JMP statistics are the basis on which the Millennium Goals have been quantified. The proxy indicator for water supply access published by the JMP ―access to an improved water source,‖ which is far from the Millennium Development Goal target of ―sustainable access to safe drinking water.‖ This divergence reflects the difficulties of measuring sustainable provision and safe drinking water across countries and over time. The statistics generally overstate the current access rates, in that access to an improved source, i.e., hardware, says little about water quality and even less about service sustainability (operational, financial, and environmental). For sanitation, this problem is even more pronounced. Measuring the effectiveness of sanitation implies a focus on use rather than access, and requires multi-sectoral action (health, environment).

access statistics are derived from a variety of survey instruments, the principal ones being: Demographic and Health Survey (DHS-USAID), Multiple Indicator Cluster Survey (MICS-UNICEF), to a lesser degree Living Standards Measurement Survey (LSMS-WB), and, since 2000, the World Health Survey (WHS-WHO). This diversity of data collection instruments at the country level complicates JMP’s efforts to aggregate data at the global level. It also complicates the measurement of progress toward the Millennium Development Goals (see Box 13).

6.26 The World Bank is a member of the newly constituted advisory JMP panel. The role of the panel is to (i) work with other partners to improve the relevance, quality and timeliness of data collection; (ii) increase consistency between data collection instruments; and (iii) strengthen management of the JMP. In conjunction with these activities, the WSS practice will work with DEC on the LSMS survey tools and methods to more accurately reflect actual levels of service households obtain and to facilitate comparison with other common household survey instruments.

6.27 Another point of collaboration with the JMP is to augment the scope and definition of access. This work will seek to extend the range of indicators at country level to include other indicators (e.g. affordability, and service quality)— many developing countries already collect data on WSS access levels (physical coverage), however, few engage in systematic measurement of water quality, affordability, and service reliability. Sector specialists will work with country teams to take advantage of potential assistance in building statistical capacity at the country level, in conjunction with several Bank initiatives:

- Statistical Capacity Building Trust Fund Grants (administered by DEC)
- StatCap (another DEC program) - $100,000 in resources will be provided to support pilots
- PRSP Capacity Building Trust Fund

6.28 Comparative Performance of Service Delivery. The World Bank will also continue to support comparative measurement of provider performance, in order to raise awareness among policymakers, service providers, and consumers about what is possible relative to the service delivery they are receiving. The Anchor and Regions will pilot somewhat more ambitious efforts to enhance country-level M & E to assess WSS safety and sustainability as part of the Country Action Plans being prepared for IFU 7, and report on a broader range of issues than simply access. These pilot efforts would be evaluated before any widespread application.
As one of the tools to be used in these pilot efforts, the WSS Anchor has disseminated a benchmarking toolkit for use at the utility level, with the potential to aggregate at the national level. While application of the toolkit has been uneven, recent efforts by the Water Utility Partnership for Capacity Building in Africa (supported by DFID); the ADB in Asia; OECD in Russia, Ukraine, and Moldova; and the Bank in Vietnam and the Baltics have significantly increased the scope and comparability of data sets. The system is decentralized, with ownership at the country level, and results are presented in a standard format on the internet. The utility benchmarking activity will be expanded with the launch of a global project in FY03. Funded by DFID, the initiative will increase the number of participating utilities and extend the range of indicators to include poor households served by non-utility providers such as small-scale providers of WSS. The Bank will work through country and city-level partners to implement this program; ensure consistency with national-level monitoring tools (e.g., household socio-economic surveys); and improve the quality and comparability of provider performance information.

Development Effectiveness of Project Interventions. The World Bank currently measures development effectiveness by monitoring inputs and outputs against indicators reflected in project log frames. Few projects currently measure the link between outputs and outcomes, and those that do rarely have comparable data. As the World Bank increases the use of programmatic and multi-sectoral lending instruments, the monitoring of WSS outputs and impacts becomes more complex, and must be more closely aligned with indicators of country outcomes. In line with efforts to strengthen country and global monitoring of outcomes, the World Bank will streamline project-level monitoring indicators and bring them into line with those used to assess country outputs and outcomes.

A minimum set of project-level indicators applicable to all projects is currently under preparation. Drafts of indicators and their measurement procedures will be reviewed by the Regions, and tested during FY04. These indicators will use customer level data, and policy indicators, as well as standard provider-level data. These indicators will not be sufficient for all projects, and M&E plans should include locally-appropriate indicators that are defined during project preparation to reflect the unique requirements of each project.

Testing of the draft M&E Protocol will include:
- baseline measurement of the core indicators (for the Project Appraisal Document (PAD),
- their re-measurement as part of the (Project Status Report (PSR) during implementation
- their final measurement as part of the Implementation Completion Report (ICR)

Application of the new project level indicators will be rolled out gradually, and build on the results from the testing activities. However, all new projects will measure access to water and sanitation in their project areas. (to satisfy Implementation Follow-up (IFU) requirements, and to permit tracking of progress towards the MDGs).

Simplified indicators for water and sanitation for non-dedicated projects will be piloted with the Rural, Urban Development, and Social Protection sectors and thematic groups first. These must be “simplified” in the sense that the same level of sector-specific M & E cannot be expected from a non-dedicated project as from dedicated projects. It is however the lack of sector specialist management of such projects, that makes M & E so crucial.
6.35 **Monitoring the Portfolio.** Building on the positive ground gained through the FY00-FY02 portfolio improvement plan (PIP), the Water Sector Board has agreed on individual action plans for all the projects at risk. A follow up PIP (FY03-05) was recently launched to tackle risk and quality issues in the portfolio through annual targets for each Region; and through regular and more in-depth monitoring and reporting. In addition to Quarterly Portfolio Reviews of regional and project performance, the PIP also includes the use of project clinics and QERs, to bring practice-wide expertise to bear on individual operations and country wide programs.

6.36 **Tracking Implementation of the Business Strategy.** Monitoring of the business strategy is a distinct exercise from the project, country, and global measurement initiatives outlined above. This activity will focus on those elements identified as key to improving the way the World Bank does business in the water supply and sanitation sector. The Sector Board will report on overall progress at the global and regional levels on an regular basis, using indicators to:

- track the integration of WSS into Country Assistance Strategies and Poverty Reduction Strategy Papers;
- monitor the level and nature of upfront and ongoing policy and institutional support (particularly ESW and technical assistance);
- monitor the alignment of financing and staffing with Regional WSS programs;
- track cross-sectoral support and collaborative efforts (e.g., City Development Strategies, Country Water Assistance Strategies, Public Expenditure Reviews, Rural Business Climate/Infrastructure Assessments, Environmental Health Strategies);
- better capture inputs and outputs in multi-sectoral operations that contain WSS components.

7. **MANAGING THE BUSINESS**

**ACCOUNTABILITY FOR DELIVERY**

7.1 Principal responsibility for implementing the WSS strategy rests with country departments and sector units responsible for water supply and sanitation, under the direction of Regional management teams. The Network Vice Presidency, Sector Board, Anchor, and thematic groups provide a range of support functions such as strengthening cross-sectoral linkages; coordinating the corporate agenda – e.g. Millennium Development Goals; reporting on sector performance; generating and disseminating knowledge; and strengthening partnerships with external agencies (see Table 9). Regional management teams play a key role in validating and adapting sectoral assistance strategies, selecting focus countries in which to scale up activities (IFU7), allocating resources for staffing, and ensuring that the various dimensions of water supply and sanitation are integrated into the broader development agenda.
Table 9. Sharing Accountability within the World Bank Group

<table>
<thead>
<tr>
<th>ENTITY</th>
<th>Lending</th>
<th>Portfolio</th>
<th>Analytic and Advisory Assistance</th>
<th>Knowledge Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGIONAL UNIT</td>
<td>Sector Specific</td>
<td>Multi Sector</td>
<td>Manage- ment</td>
<td></td>
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<tr>
<td>Anchor</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
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<tr>
<td>Region Board</td>
<td>4</td>
<td>4</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>RMT</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>2</td>
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<tr>
<td>WBI</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
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</tbody>
</table>

Key: 1 = Primary Responsibility, 2 = Support to Primary, 3 = Reporting, 4 = M & E

7.2 The WSS Sector Board. The Sector Board represents the WSS practice at the corporate level and provides leadership on: (i) sector strategy—analysis of sector trends, distilling lessons of experience for operational practices, and business planning; (ii) human resource management (strategic staffing and recruitment); (iii) the knowledge and learning agenda; (iv) financing and support of thematic groups and (v) portfolio management. The Board comprises water supply and sanitation sector managers across the World Bank Group (the Regions, MIGA, IFC, sector programs), along with staff from other networks who provide relevant input into sector issues (e.g. Operations Evaluation Department, World Bank Institute, Project Finance and Guarantees, Rural Development, Human Development). Board decisions are made on a consensus or non objection basis under the chairmanship of the Director for Water and Energy. Funding for the Board comes from the Bank’s operating budget through the Infrastructure Vice Presidency (INFVP).

7.3 The WSS Anchor. The water supply and sanitation Anchor, located in the Water and Energy Department, is a compact unit with seven higher level staff. Its core functions are to: (i) serve as secretariat for the Sector Board; (ii) develop corporate strategy and policy in consultation with sector units and other networks; (iii) act as an information clearing house in collaboration with the thematic groups; (iv) provide state-of-the-art skills through cross support for Regional operations; (v) disseminate knowledge and serve as an incubator for new ideas through for example QERs, policy research etc; (vi) host Bank executed partnerships and (vii) strengthen cooperation with external partners. The Anchor is enhancing its capacities in critical areas such as regulatory reform, sanitation and hygiene, and rural WSS and refocusing knowledge generation activities on several emerging priorities: WSS financing strategies and instruments, public-private partnerships, sanitation upgrading strategies, and monitoring and evaluation.

7.4 The WSS Thematic Groups. The Urban WSS and Rural WSS thematic groups play an important role in knowledge management, information dissemination, and professional development by bringing together staff across various disciplines to share experiences and

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33 Clearing house functions include a Help Desk advisory service, intranet, website, news and public relations, and organizing events such as water forums, lecture series, brown bag lunches.
develop and encourage good practice. Key activities led by the rural group include the Handwashing Initiative, while the urban group is supporting the updating of a toolkit on private sector participation in WSS. Both groups are working together on the Town WSS program, and cross-sectoral activities with other networks - Human Development, Urban Development, Environment, Water Resource Management, Poverty Reduction and Economic Management, and Development Economics. Annual work plans are cleared by the Sector Board. Key activities include: hosting learning events at the global and regional level (in partnership with Water and Sanitation Program, World Bank Institute, and other internal units); collaborating with international networks and institutions in other sectors (eg. London School of Hygiene and Tropical Medicine, World Health Organization); and supporting professional development in order to build capacity across networks to address WSS issues.

RISKS IN IMPLEMENTING THE STRATEGY

7.5 Implementing the strategy is a complex undertaking, involving many partners, which increases the level of risk. The following potential risks have been identified:

**Risk 1:** Country programs are not aligned with the priority accorded to WSS by Regional Management Teams. In light of the recent focus on Millennium Development Goals, many Country Directors are reviewing their programs to assess the requirements for scaling up WSS. In several countries, CASs and PRSPs that currently do not reflect WSS as a priority will be updated to enable adequate budgetary resources to be allocated to the sector.

**Risk 2:** The disconnect between internationally embraced Millennium Development Goals and country-level priorities and programs leads to business as usual, rather than to scaling up investment in WSS. Countries must take the first step by including WSS targets in PRSPs or national plans, and by strengthening the measurement of results in order to measure progress and inform sector planning and investment.

**Risk 3:** Countries do not create the necessary conditions to sustainably scale up services. Countries must commit to undertaking necessary policy and institutional reforms, and to increasing their own resource commitments to the sector. External resources are only complementary to the countries’ own resources, and will be driven by the pace of country-level reform.

**Risk 4:** Addressing individual Millennium Development Goals in isolation, along narrow sectoral lines, and out of sequence in time and space, leads to fragmentation and dispersion of effort and resources. Increasing the effectiveness of WSS interventions will require consolidation of effort among the various development actors in the health, education, agriculture, and environment sectors; and a prioritization of investments in line with country needs.

**Risk 5:** Engagement with external partners does not progress beyond good intentions, leading to a proliferation of approaches, dispersion of focus and, high transaction costs at country level. Coordination and collaboration among client country institutions and with external support
agencies is essential. Where the World Bank is not well placed to take the lead in supporting country programs, it will work with and through other partners.

**Risk 6:** Commitment to a long-term presence in countries identified for Bank support is not followed up, leading to premature disengagement and a disruption of reform in mid-stream. The World Bank will engage with countries over the long term to achieve development outcomes, and will focus particular attention on implementation support for high risk/high reward programs.

**Risk 7:** Dispersion and lack of policy consistency as a result of WSS operations being fragmented across various networks. The World Bank will develop tools for improving policy consistency and enabling quality assurance across sectoral and multi-sectoral operations supported by the various networks.

8. **CONCLUSIONS**

8.1 Safe water supply and adequate sanitation are central to poverty reduction. These basic services contribute significantly to addressing multiple dimensions of poverty: health, education, environmental sustainability, livelihoods, and gender. In the developing world, many people currently lack access to safe, reliable water supply and sanitation services, impeding progress on these broader concerns. The inclusion of water supply and sanitation as a target of the Millennium Development Goals explicitly recognizes this interdependence. However, the challenges in achieving the quantum increases in access to WSS are formidable. Based on past trends, no more than 1 in 5 developing countries are on track to achieve the targets by 2015, and less than 1 in 10 low income countries appear to be on track.

8.2 Closing the access gap is not merely a matter of spending more on infrastructure but rather must be combined with sound policies and effective institutions for it to translate into sustained improvements in services and expanded access, especially for poor people. Moreover, while the MDGs reflect shared global goals, they are broad and need to be adapted to local priorities, constraints and timeframes. Households, communities and local governments have an enormous stake in obtaining improved WSS services and much has been learned over the past decades about successful approaches to empowering communities and serving households.

8.3 The World Bank’s institution-wide commitment to supporting developing countries in making faster progress to reduce poverty, exemplified by the MDGs, calls for focus and clarity in defining sectoral assistance priorities, approaches, instruments, and working arrangements. This business strategy, drawing from broad thematic strategies, recent corporate initiatives (eg. IFU7 and the Infrastructure Action Plan) and Region-specific operational concerns, identifies key areas in which the Bank will focus its efforts, strategic priorities at the regional and country levels, scenarios for future Bank assistance and associated resource implications. The business strategy outlines four principles sets of actions:

- **First, focusing the Bank’s WSS business.** Assistance for WSS will focus on supporting client countries in: (i) extending services to the urban poor; (ii) improving operator performance; (iii) increasing rural access to WSS; and (iv) better managing the water resource base. In implementing these lines of business, the Bank will be selective in
identifying countries of focus. Assistance will be scaled up in those countries which demonstrate commitment to reform and the mix of instruments will vary in accordance with country specific needs, capacities and operational priorities.

- Second, improving development effectiveness. Across the four business lines described above, the Bank will work with client countries to address a core set of cross-cutting policy and institutional priorities – strengthening governance, ensuring the financial sustainability of WSS schemes, improving service delivery, targeting interventions to the poor, and improving health outcomes – all of which are essential for achieving sustained improvements in sectoral performance and broader poverty reduction outcomes. AAA work will be stepped up across all Regions to support the establishment of sound policies and institutional arrangements and to provide a firm basis for scaling up financial support across a wider range of countries than is presently the case. An increasing share of both AAA and lending work will be carried out in conjunction with other practices to better integrate WSS priorities into country wide planning frameworks and Bank’s country assistance programs.

- Third, leveraging sectoral assistance. Bank assistance for WSS will draw on partners, both internal and external to the Bank, to maximize the impact of the Bank’s modest sectoral assistance resources. A key area for collaboration with other development agencies is building capacities at the local level to manage and finance service delivery, particularly in low income and LICUS countries. Such partnerships will feature strongly in programmatic lending operations which draw on multiple sources of concessional assistance, to provide support to governments in a more coherent and coordinated manner. Beyond development assistance per se, and in line with the recommendations of the “Camdessus” panel on Financing Water Infrastructure, the Bank, together with other international finance institutions and credit agencies will seek to catalyze increased financing flows from both public and private sources through judicious deployment of the full range of WBG financing and risk mitigation instruments.

- Fourth, using resources efficiently. The Bank will align WSS staffing levels and the skills mix to meet the growing demands these changes imply by retooling existing staff, drawing more on expertise available in other practices and recruiting specialized expertise. Better measurement of sectoral performance, utilizing common metrics across countries and meaningful and consistent indicators of the impact of Bank assistance in client countries, will be an integral component of country-based work and that of the INF network. Management accountabilities for delivering on the business are clear as are responsibilities for managing the associated risks.

8.4 These lines of action, taken together aim to strengthen the impact of Bank assistance in improving the quality and reach of WSS services. Following through on these actions implies several shifts in approach and emphasis in the way the Bank does business. These include:

Aligning with country specific needs and local priorities: supporting clients in developing practical strategies for realizing locally determined goals and providing analytical and advisory support for improving the efficacy of public policies, efficiency in service delivery, and resource mobilization
Aligning with country program priorities: increased focus on sanitation & hygiene and peri-urban settlements, greater use of multi-sectoral approaches (urban services and governance, environmental health, municipal finance, water resource management), and strengthening local government (sub-sovereign lending, risk mitigation, and capacity building).

Aligning with partners comparative advantage: substantive collaboration with select external institutions where such partnerships demonstrate significant value-added for client countries in terms of knowledge sharing, financing, and capacity building.

8.5 These shifts in emphasis are already underway but will require concerted attention and follow through. Execution of the business strategy will be monitored closely and progress will be assessed regularly during the 5 year business planning period.
ANNEX 1: WATER SUPPLY AND SANITATION BUSINESS STRATEGY – AFRICA REGION

Regional Context

The Africa region comprises 48 countries (39 IDA countries and 9 IBRD countries), with a total of 674 million inhabitants. The GNI per capita in the region ranges from US$ 100 to US$7,050. The region currently has the lowest level of water-related services (water supply, irrigation, hydropower) worldwide. An estimated 300 million persons lack access to WSS (see figure 1). Of the urban population, 83 percent have access to water supply and 73 percent to sanitation. In rural areas, access levels are 44 percent for water and 43 percent for sanitation.

Key Challenges

Given the wide, and widening, gap in coverage, expanding access to basic WSS in a sustainable and inclusive manner is a major challenge for the region. Several other challenges complicate the progress in expanding access to WSS. First, the continent has the fastest pace of urbanization worldwide. Although two-thirds of the population currently resides in rural areas, by 2015 forty five percent of the population will live in towns and urban centers. Second, water scarcity is a growing concern. Almost half of Africa’s population already lives in water-scarce environments, and 18 countries will soon face situations of water stress that will require tough choices in terms of water resource allocation. Given the magnitude of investment financing required for the sector between now and 2015, an unprecedented effort will be required to increase country-level funding for WSS, and to leverage equivalent co-financing from donors.

World Bank Assistance

AAA is currently underway in several countries. The primary areas of focus is on UWSS reform, through increased public-private partnerships and strengthening regulatory frameworks. There is also significant support for WRM strategies at the country level (25 countries). Current thematic lending focuses on:

- Extending Services to the Urban Poor. There are a growing number of slum upgrading programs (primarily in WCA); some combined with local government reform and decentralization programs (in ESA).

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35 United Nations population projections;
Strategic Direction

During the five-year business period, the Bank will give priority support to scaling up WSS in 17 countries that are at various stages of reform. The MDGs can only be achieved where governments commit to reforms and the use of their own financial resources to provide water/sanitation, and donors collectively support national programs. The Bank intends to mainstream and integrate water and sanitation into policy and investment dialogue (AAA) throughout the region. Building on significant progress in preparing WRM strategies, multi-sectoral initiatives will be strengthened through better integration of WSS into urban, rural, health, environment and private sector interventions at the country level. Support for capacity building will be increased. In terms of thematic lending, the Bank will focus (see figure 2) on:

- **Extending Services to the Urban Poor** – continued emphasis on integrating WSS into slum upgrading initiatives, and strengthening linkages with local government reform.
- **Increasing Rural Access to WSS** – an increasingly important role for programmatic lending (through at least 10 PRSCs) in countries with PRSPs/HIPC programs; stand-alone RWSS projects in non-HIPC countries; and CDD and Social Funds in other low income/LICUS countries.
- **Improving Operator Performance** – continued emphasis on UWSS operations in the dedicated lending portfolio, building on reforms initiated within the past 5 years, with new areas of emphasis to include capacity building for local operators and small-scale providers.
- **Managing Water Resources Effectively** – a significant increase in WRM lending (now 40 percent of non-dedicated pipeline), building on policy dialogue carried out at regional/country level.

**Focus countries**
- Benin
- Burkina Faso
- Ghana
- Ethiopia
- Tanzania
- Madagascar
- Mozambique
- Chad
- Kenya
- Malawi
- Mali
- Niger
- Nigeria
- Rwanda
- Senegal
- Uganda
- Zambia

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37 List of IFU 7 focus countries identified by the Region as of May 1, 2003.
**Instruments**

The level of AAA will be increased through various means, including WSP and Trust Funds (e.g. PPIAF, PHRD), to support upfront reform in countries (a) that do not yet have a comprehensive WSS reform; and (2) are just beginning reforms which need consolidation. Support for UWSS will be provided primarily through SILs, and on a smaller scale, through multi-sectoral projects for local government reform/secondary towns. Programmatic lending is expected to increase, gradually replacing social funds as the primary source of support for RWSS in the region. For LICUS countries, the scale of planned investment requires that HIPC funds, supplemented by CDD and selected stand-alone projects, be directed to WSS. AAA work, in the form of sector policy/strategy and MDG action planning, will be needed in all countries (no country yet has an MDG action plan in place). A network of sector professionals will therefore be needed to complement Bank staff in carrying out sector reviews and providing ongoing implementation support, particularly for capacity building. A grant facility may be required for this purpose.

**Partnerships**

NEPAD is expected to lead the effort to scale up WSS in the region. The Bank will work with NEPAD, the African Ministerial Conference on Water (AMCOW), and the AfDB (which is responsible for infrastructure planning under NEPAD initiative), to build commitment at the regional level through a new Water/MDG Campaign Team. This team will facilitate effective outreach to other partners in Africa, enable more systematic and in-depth discussions with heads of state in reform-minded countries, engage with donor partners to build a common approach and strategy, and to ensure greater effectiveness in the use of resources at the country level. Key partners at country level include the bilateral donors and governments that also participate in regional initiatives such as the African Water Task Force and the Water Utility Partnership for Capacity Building in Africa. WSP will remain a key partner in the region, supporting dialogue on policy and institutional reform, leading knowledge-generation/learning initiatives, disseminating information, and building a network of sector professionals to support participating countries.
ANNEX 2: WATER SUPPLY AND SANITATION BUSINESS STRATEGY – EAST ASIA AND THE PACIFIC REGION

Regional Context

The East Asia and Pacific (EAP) region comprises 22 countries (13 IDA countries and 9 IBRD countries), with a total of 2 billion inhabitants. The GNI per capita in the region ranges from US $270 to US $6,730.

An estimated 464 million people in EAP lack access to water supply, and one billion lack access to sanitation (see Figure 1). Of the urban population, 93 percent have access to water supply and 73 percent to sanitation. In rural areas, access levels are 67 percent for water supply and 35 percent for sanitation. Economic growth has been the prime driver behind increasing service coverage in East Asia. Among other things, high economic growth rates, experienced by IBRD countries, enabled WSS access to increase at pace with rapid urbanization. Strong economic performance significant levels of investment finance to be secured by the public sector, and facilitated the amortization of concessional loans through user fees. Most IDA countries, lacking the economic means, continue to lag behind.

Key Challenges

A key challenge facing EAP countries is how to ensure that continued urbanization, which is expected to double the urban population from 665 million to 1.2 billion by 2030, can be matched by the provision of sustainable services in the years ahead. Urbanization has led to expectations by consumers of higher levels of water supply services. Past experience suggests that if these expectations are not met, many begin self-provisioning by tapping shallow and deep aquifers, without adequate regulatory oversight.

Serious environmental problems have already arisen due to unregulated self-provisioning of both water supply and sanitation services. If these problems are not adequately addressed, the next fifteen years will witness a dramatic deterioration in water quality and quantity in urban centers, while demand continues to increase. Moreover, competing demand for urban water supply and
irrigation is already an issue in most EAP countries. Addressing intersectoral water allocation and water quality management issues will require broader water resource management reforms.

**World Bank Assistance**

The current focus of EAP’s lending portfolio is on urban WSS, and there are a growing number of environmental operations (mainly in China). In both urban and rural areas, efforts are focused on improving O&M and ensuring cost recovery. Current thematic lending (see Figure 2) includes:

- **Extending Services to the Urban Poor.** Strengthening local government and municipal services in mid-sized towns; and on a small number of standalone slum upgrading and CDD projects.
- **Increasing Rural Access to WSS.** The pipeline includes a combination of single and multi-sector projects, focusing on strengthening O&M and cost recovery.
- **Improving Operator Performance.** For WSS projects in peri-urban areas, the focus will be on ensuring full cost recovery from consumers through improved operator performance and demand-based approaches.
- **Managing Water Resources Effectively.** The Bank will provide extensive lending for specific wastewater management and pollution control investments, and for broader environmental and WRM programs.

**Strategic Priorities**

Over the five-year business strategy period, the Region will focus on scaling up activities in 4 countries that are priorities for the MDGs. Work in other active countries will continue, although the pace and level of support in middle income countries may decline as alternative arrangements/sources of financing become more accessible. Several of the focus countries have already begun major sectoral reforms, and are in a position to initiate investment programs. The thematic focus of future lending will be on:

- **Extending Services to the Urban Poor** – developing mechanisms for targeting sustainable services to the poor; linking decentralization efforts to local government reform and investment in sanitation infrastructure; and using City Development Strategies to advance the WSS agenda (e.g. sewerage/drainage advocacy).
- **Increasing Rural Access to WSS** – scaling up small town and rural water supply programs, through both single and multi-sectoral initiatives; and providing investment subsidies to improve rural access to point sources.
- **Improving Operator Performance** – leveraging financing from private sector and other financing institutions through establishment of subnational guarantees (IFC), and supporting local government efforts to establish credible governance structures (e.g., regulatory agencies).
- **Managing Water Resources Effectively** – managing scarce water resources more holistically, and mitigating environmental problems caused by over-extraction of groundwater and pollution of surface water bodies.

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**Instruments**

A mix of dedicated and non-dedicated operations will be undertaken, using a range of instruments that include (a) project lending (SILs, APLs, multi-sectoral projects focusing on subnational lending, CDD projects, rural infrastructure projects); and (b) programmatic lending (SALs and PRSCs). The Bank is also considering the idea of establishing a Water Challenge Fund for Pacific Islands countries willing to undertake policy reforms before accessing investment funds. AAA and TA work will focus on refining OBA approaches, pro-poor reform, WSS sector reform, and regulatory reform. The Bank team will work with IFC and MIGA on improving PSP transaction design, regulatory models, and risk mitigation. In order to expand its multi-sectoral reach, there will be strong regional coordination among related sectors: PREM, Environment, Health, City Development Strategy, Water Resources Management.

**Partnerships**

The Bank will maintain close coordination with major donors (primarily JBIC, the Asian Development Bank), to ensure that client countries receive consistent policy advice. The Water and Sanitation Program will help to facilitate policy dialogue, strengthen partnerships, and promote knowledge-sharing on community-based solutions, rural water supply, and private sector participation (including in the informal sector). PPIAF and BNWP will continue to support AAA for activities relating to regulation, water resource management, and development of sanitation policy.
ANNEX 3: WATER SUPPLY AND SANITATION BUSINESS STRATEGY – EASTERN EUROPE AND CENTRAL ASIA REGION

Regional Context

The Europe and Central Asia (ECA) region comprises 28 countries (10 IDA countries and 18 IBRD countries), with a total of 470 million inhabitants. The GNI per capita in the region ranges from $170 to $5270.

Access to safe water supply in the ECA region varies widely. Urban coverage tends to be generally high - close to 100 percent for some of the countries in Central Europe, but less than 60 percent in others. However, in smaller towns and rural areas, coverage ranges from more than 90 percent (Central Europe) to less than 50 percent (Caucasus and Central Asia). Of about 70 million people classified as poor in the region, more than half do not have access to adequate water supply services. Almost all of the poor live in the countries of the former Soviet Union and particularly in the Caucasus and Central Asian countries where GNI per capita and personal income have plunged the most.

Key Challenges

Since the end of the communist era, the reliability and quality of WSS services has deteriorated at an alarming rate in all but the first tier EU-accession countries and Turkey. The region is dotted with collapsing infrastructure - much of which is over 40 years old and lacking regular maintenance. Services in many towns and rural communities have collapsed entirely. The key challenge is to prevent the further collapse of existing infrastructure through reforms, rehabilitation, and efficiency improvements. However, many existing systems require O&M at a cost that is beyond current income levels. There are great differences in the level and quality of WSS services, regulatory and institutional structure, and investment capacity within the region. The ability of government and the development community to address sector development challenges across the region varies greatly. Not surprisingly, sector performance mirrors closely the overall economic and socio-political evolution that has taken place in ECA.

World Bank Assistance

Over the past two years, AAA has concentrated on the Caucasus and Central Asia countries, Russia, and the post conflict countries in the Balkans. Various learning events have been organized to promote and initiate sector reform. Current lending – of which about two thirds is non-dedicated -includes:

- Extending Services to the Urban Poor - is a growing business line for the region. New experience with multi city lending in Russia and Armenia will be built upon, and increased attention will be given to secondary cities.
Increasing Rural Access to WSS - mainly through social funds (Uzbekistan, Turkmenistan) will be scaled up based on lessons learned from Kyrgyz Republic— comprehensive policy and institutional reforms were undertaken and CDD approaches introduced;

Improving Operator Performance - single city demonstration projects aimed at bringing in private sector operators have been launched in the Caucasus and Central Asia;

Managing Water Resources Effectively - is increasingly a feature of lending programs in Middle Income Countries (MICs). Rising urban water supply coverage has led to increased priority for sanitation and wastewater management operations.

Strategic Directions

As the Central European countries join the EU, the focus of the Bank will shift towards the countries of the Commonwealth of Independent States. Assistance to the Central European countries will continue, albeit on a declining basis. During the five year business planning period, seven focus countries have been identified as priority countries for the MDGs. In addition to scaling up operations in these countries, the Region will maintain a strong presence in the Balkans and explore new business opportunities (e.g. Romania and Bulgaria). The nature of assistance will vary in line with the country’s resources, needs and performance, and depend on the CAS.

During the five year business period, the Region will increase the level of upfront reform through AAA, focusing on rehabilitation of existing systems to improve efficiency and financial sustainability. A key target will be to improve cost recovery in IDA countries by reducing subsidies and introducing disciplined and transparent capital cost support. The thematic focus of future lending (see Figure 2) will be on:

- **Extending Services to the Urban Poor** - facilitating syndication of local governments through a multi-city amalgamation approach; introducing targeted interventions for the poorest of the poor; and rehabilitating infrastructure in large cities (e.g. in Russia and Turkey) in order to increase the quality of service.

- **Increasing Rural Access to WSS** - the Bank will increase support to neglected areas – secondary cities and rural areas in Eastern and Southern parts of ECA. Key approaches will include community driven development and scaling-up nation-wide coverage through programmatic approaches.

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- **Improving Operator Performance** - building on lessons learned from a decade of difficult PSP arrangements, efforts will focus on reducing quasi-fiscal deficits created by utilities by: (a) building capacity of local operators through leases or management contract, (b) corporatization of public utilities.

- **Managing Water Resources Effectively** – the Region will scale up its involvement in WRM initiatives and increase its share of environment related operations – particularly sanitation, sewerage (Central Asia, Albania) and wastewater (Balkans, Moldova, Ukraine, Turkey)

**Instruments**

Support will be provided through a combination of single sector (UWS) and multi-sectoral projects including CDD and programmatic approaches for (RWS, environment, urban development). The level of AAA will be increased to enable upfront reform. In order to make thematic shifts, more cross sectoral collaboration will be pursued with: PREM/Urban to determine ways to use of infrastructure investment as leverage for fiscal decentralization and strengthening of local government; HD and SD, to focus on (i) using education and health projects as vehicles for addressing WSS requirements; (ii) using infrastructure investments as leverage to bring about education and health reforms; and (iii) using CDDs for rural infrastructure projects; the Environment and Rural Development networks to focus on upfront WRM.

**Partnerships**

The Bank is increasingly being relied on by its partners to play a role in facilitating policy and institutional reforms. Strong partnerships with the key international agencies operating in the region are required. As EIB and EBRD financing will be provided on commercial terms very little financing will be available where the needs are greatest (secondary cities and rural). The Bank will need to leverage soft funding from EU, ADB, Germany, Japan, and others and collaborate with institutions such as OECD which have strong analytical capacity, and need to be strengthened to ensure strategic thinking on the most appropriate approaches.
REGIONAL CONTEXT

Latin America and the Caribbean region (LCR) comprises 25 active countries (9 IDA countries and 16 IBRD countries), with a total of 510 million inhabitants. The GNI in the region ranges from US$ 480 to US$ 9,250.

LCR is 75 percent urbanized. In urban areas 94 percent have access to safe water supply and 86 percent to sanitation (see Figure 1). However, less than 10 percent of domestic sewerage is treated. In rural areas, access levels are 66 percent for water supply and 52 percent for sanitation.

KEY CHALLENGES

Building on the achievements resulting from sector reforms over the past decade (60 million customers are currently served by private operators), the challenge will be to strengthen sector institutions and continue legal and regulatory reforms (e.g., building capacity of newly established regulatory institutions). Increasing access to alternative financing – public funding to the sector has declined and the level of private investment has been below expectations – will also be a priority. Downward economic trends have been particularly hard on the poor, for whom – in many countries – there is an inadequate framework for delivering subsidies. Efforts to reach the poor will need to be scaled up in both urban and rural areas.

CURRENT WORLD BANK ASSISTANCE

The Bank will continue to give priority to country dialogue, analytical work, and real-time policy advice; and help governments to translate this into robust assistance strategies. The focus of AAA is on: (a) local government, to extend WSS reforms to medium size-cities; (b) improving performance of sector institutions, including regulators; and (c) creating incentives to reach the poor. Current thematic lending (of which about half is through non-dedicated operations) includes:
- **Extending Services to the Urban Poor.** The Bank is currently involved in slum upgrading initiatives, including pilot projects to address poverty pockets, and is developing incentives and subsidy targeting mechanisms for the poor. There is also increasing involvement in municipal development and local government/decentralization programs, in medium and small towns.

- **Increasing Rural Access to WSS.** RWSS is supported through a variety of instruments, including SIFs, SILs, and multi-sectoral rural development projects with agricultural and health objectives.

- **Improving Operator Performance.** Current lending is targeted to both public and private utilities. The Bank support for policy and regulatory reform for urban WSS includes addressing post-privatization issues and fiscal transfers to sub-national governments.

- **Managing Water Resources Effectively.** Water quality and pollution control are increasingly being tackled through urban environment and river basin management programs in large metropolitan areas. Specific areas of support include drainage, solid waste management, flood protection, and disaster preparedness and management.

**Strategic Directions**

The Bank is currently engaged in 25 countries. In the five-year business period, efforts will be focused on scaling up activities in 7 focus countries, selected on the basis of (a) an increasing emphasis on reaching the poor; (b) commitment of the country or states/local governments to improve the performance of the sector; and (c) coordination with other donors. AAA will focus on creating the conditions for investment (transaction design, regulator models, risk mitigation) through joint work with IFC and MIGA. In terms of thematic lending (see Figure 2), the Bank will focus on:

- **Extending Services to the Urban Poor** – improving knowledge of best practices in serving the urban poor, (e.g., designing OBA approaches), and increasing support for city development and slum upgrading initiatives, particularly in medium sized towns.

- **Increasing Rural Access to WSS** – scaling up WSS activities in rural areas and small towns, where a growing number of underserved households reside, through single or multi-sectoral rural infrastructure development projects.

- **Improving Operator Performance** – increasing emphasis on AAA work on regulation and risk mitigation, to enable continued lending for urban WSS reforms, which remains a priority for the region. Scaling up will also take place through programmatic lending approaches (e.g. financing WSS services through fiscal decentralization initiatives).

- **Managing Water Resources Effectively** – increasing the focus on wastewater treatment and environmental management issues, with environmental programs becoming more prominent in the lending pipeline and through a small but growing number of WRM operations.

**Instruments**

A mix of dedicated and non-dedicated operations will be undertaken using a range of instruments that include project lending (SILs, APLs), multi-sectoral projects (CDD and rural infrastructure

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List of IFU 7 focus countries identified by the Region as of May 1, 2003.

- Bolivia
- Brazil
- Colombia
- Costa Rica
- Dominican Republic
- Panama
- Peru

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projects), and programmatic lending (SAL, SECAL, PRSC). AAA and TA will focus on the
design of OBA approaches, pro-poor reform, WSS sector reform, and regulatory reform. The
Bank team will work with IFC and MIGA on improving PSP transaction design, regulatory
models, and risk mitigation. In order to expand its multi-sectoral reach, the Bank will build
strong Regional coordination with related sectors: PREM, Environment, Health, Urban, and
Water Resources Management.

**Partnerships**

The Bank will play a leadership role in developing policy and strategy dialogue; and enhancing
collaboration and coordination among partners in the region, through regional forums and direct
policy/country coordination with WSP and key donors, particularly IADB; and leveraging
financing from the private sector and other financial institutions. At the operational level, the
Bank will foster networks among key stakeholders, and carry out a strong advocacy program on
key sector issues through regional seminars and joint capacity building efforts with regional
partners, such as the association of regulatory agencies (ADERASA).
ANNEX 5: WATER SUPPLY AND SANITATION BUSINESS STRATEGY – MIDDLE EAST AND NORTH AFRICA REGION

Regional Context

The Middle East and North Africa (MNA) region comprises 12 countries (2 IDA countries and 10 IBRD countries), with a total of 204 million inhabitants. The GNI per capita in the region ranges from US$ 460 to US$ 9,210.

Thirty-one million people in the MNA region lack access to safe water supply, and more than 51 million lack access to safe sanitation (see Figure 1). Eleven million of those without sanitation facilities are in urban areas. Rapid urban population growth over the next two decades will impact access levels. The urban population is expected to grow from 180 to 311 million between 2000 and 2020, while the rural population will grow from 120 to 141 million.

Key Challenges

Despite significant progress in increasing access to WSS services, the slow pace of policy and institutional reforms has had a negative impact on the overall quality of service. Weak policy and institutional frameworks perpetuate problems (such as inadequate cost recovery and subsidies that are pervasive and non-transparent) that may result in intermittent supply and impose substantial health, social, and financial costs on consumers. Nearly 50 percent of water in almost all MENA countries, is unaccounted for. Water quality is also a growing concern. The key challenges, therefore, are to: (a) reform policy and institutional frameworks for water supply and sanitation; (b) ensure sustainable financing of operation and maintenance; and (c) improve the cost effectiveness of water supply solutions.

Growing water scarcity in the region has resulted in serious water allocation and redistribution problems, which have pushed water resource planning and management to the top of the domestic and regional agendas. By 2025, the Middle Eastern population will have doubled, while water resource availability, which is already constrained, will have halved. On a per capita basis, the region has 1/6 of the world’s average availability of water, while extreme cases such as Yemen have 1/50 the world’s average. Fair allocation of water supply will, therefore, be an important priority for the region. Currently, agriculture consumes the bulk of available water, and despite growing urban demand, only 11 percent of total water abstraction in the region is destined for municipal and industrial use.
World Bank Assistance

The primary areas of focus of AAA is on UWS reform – leveraging investment (IFC, guarantees, loans), establishing sound regulatory frameworks, and building institutional capacity. About 54 percent of lending has historically been dedicated, and the bulk of this has been directed toward urban WSS. WRM strategies are also under preparation in several countries. Current thematic lending includes:

- **Improving Operator Performance.** The Bank is focusing on utility reform and improvement of sector finances largely through PSP operations. UWSS operations are underway in 7 of 12 countries.
- **Managing Water Resources Effectively.** Several WRM projects have been launched, and country Water Assistance Strategies are being prepared in most countries. Lending operations for the environment are focused on sanitation and wastewater management.

**Strategic Directions**

During the five-year business strategy period, the Bank will focus its efforts on scaling up its activities in four countries (Jordan, Algeria, Iran, Yemen) which are priorities for the MDGs, and on further deepening sector policy dialogue in countries where the Bank has had long partnerships (Tunisia, Morocco and West Bank and Gaza). The four focus countries represent: conducive sector policies (Jordan); gaps in access to safe sanitation (rural and urban Iran); large and poor rural population (Yemen); and fast-growing urban poverty (Algeria). The lending pipeline is aligned to the strategy’s four business lines; however it will need to be strengthened through a combination of AAA in several areas (urban WSS, WRM, and sanitation issues), and through strengthened linkages to education, gender, governance and private sector issues. The thematic focus of future lending (see Figure 2) in both focus countries and countries where we have an ongoing dialogue will be on:

- **Extending Services to the Urban Poor** – responding better to the needs of the poor through better targeting mechanisms; and focusing urban upgrading and community development investment programs on sanitation.
- **Increasing Rural Access to WSS** – a number of new multi-sectoral RWSS projects (agriculture and WRM links) and SIFs are planned.

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- **Improving Operator Performance** – continuing dominance of WSS operations in the dedicated lending portfolio, with AAA focusing on engaging countries on policy and regulatory issues and better addressing economic and fiscal impacts of water.

- **Managing Water Resources Effectively** – a significant increase in WRM lending; integration of urban water supply issues into the broad water management agenda; and environment programs focusing on pollution control, environmental health, and waste water treatment and reuse.

**Instruments**

To ensure that WSS is integrated into the CAS, sector staff will need to work closely with the CT to carry out necessary analysis (AAA), and make appropriate linkages to other strategic priorities, such as the environment and urban development. The Bank will also need to make deliberate efforts to improve the poverty focus of its interventions, and will work across sectors (e.g., HD, URBAN and the rural alliance) to define approaches. Building on a joint sector retreat organized by MNSRE and MNSIF in October 2002, the Bank will prepare a regional water strategy; and support the preparation of country WRM and WSS strategies.

**Partnerships**

The Bank will partner with donors (especially the EU, AFD and KFW), and work with civil society at the country level. Work with regional partners will be organized through special initiatives such as the regional Operators Roundtable, organized for 2003, and the PPI network established to promote infrastructure sector reform.
ANNEX 6: WATER SUPPLY AND SANITATION BUSINESS STRATEGY – SOUTH ASIA REGION

Regional Context

The South Asia region (SAR) comprises 8 countries (IDA and Blend), with a total of 1.4 billion inhabitants. The GNI per capita in the region ranges from US$ 250 to US$ 2,040.

Access to safe water supply in South Asia is 94 percent in urban areas and 80 percent in rural areas. Access to adequate sanitation services is 67 and 22 percent, respectively. Meeting the MDGs will be a challenge, as three of the world’s “highest needs” countries (weighted by population) are in South Asia (see Figure 1).

Key Challenges

South Asia has made significant strides in improving access to physical infrastructure, but slow progress in institutional (especially cost recovery) and policy reforms has resulted in declining service quality. Continued urban population growth is likely to further increase the gap between the served and unserved. The first major challenge in South Asia is therefore to undertake institutional and policy reforms that lead to the sustainability of WSS, rather than adding to the considerable public investment in the sector.

A second challenge for the region is to scale up sanitation and wastewater management activities. A third is to address WRM issues that have become a priority as a result of over-exploitation of groundwater and declining water quality (e.g., high levels of arsenic). The Bank is developing a strategy to support country clients address water resource management, and water supply and sanitation issues. Key elements will include: (a) scaling up community-based provision of rural services; (b) establishing policies and institutional arrangements that enable sustainable investment in the sector, while making services inclusive of the poorest; and (c) promoting utility commercialization and public-private partnerships in urban water and sewerage services.

1 At 60% of the current pipeline, the base and high case estimates in figure 2 are modest. Initial indications (FY04 lending program) are that in the base case, dedicated lending will average 150$m per annum. This may rise to $250$m in the high case.
World Bank Assistance

The primary focus of AAA work is on policy and institutional reforms in RWSS. Several countries have now adopted national policies which encourage community-based service delivery of WSS in rural areas. Dialogue on reforms in UWSS has been much slower; although progress has been made in Sri Lanka and Nepal. Current thematic lending (of which about two thirds is non-dedicated) includes:

- **Extending Services to the Urban Poor.** Lending will focus on slum upgrading (e.g., a slum sanitation pilot project in India) and municipal development projects.
- **Increasing Rural Access to WSS.** The bulk of the Region’s lending has been through stand-alone RWSS projects and multi-sectoral rural development operations.
- **Improving Operator Performance.** Slow progress in reforms has resulted in limited lending for UWSS; however, AAA work has led to increased attention to cost recovery and tariff setting.
- **Managing Water Resources Effectively.** Lending for water resources increased through several WRM and multi-sectoral rural development operations.

Strategic Directions

The Bank has identified one focus country, India, which represents 70% of the region’s population and in which all four lines of business are being supported42. It will continue to engage in all other SAR countries in specific areas of the strategy, mainly through self standing RWSS projects and non dedicated lending and ESW in CDD, urban management and water resources. The thematic focus of future lending will be on(see Figure 2):

- **Extending Services to the Urban Poor** – initiation of several multi-sectoral projects targeting urban poverty and sector reforms at the state level, to establish a policy environment that focuses on making services inclusive of the poor.
- **Increasing Rural Access to WSS** – building on current success in RWSS, to fast-track community-based provision of rural services, focusing on either the country or state level (e.g., Sri Lanka, Bangladesh, and the Indian State of Maharashtra).
- **Improving Operator Performance** – continued support for urban sector reform in India and Sri Lanka, leading to pilots with urban utilities geared toward commercialization and public-private partnerships.
- **Managing Water Resources Effectively** – targeting of rural WSS access and environment and health improvements (e.g., arsenic).

Instruments

AAA work (combined with WSP’s advocacy and policy research) will remain the priority, including documentation and dissemination of success stories, advocacy and dialogue aimed at improving understanding of the issues among decision makers and civil society. Cross-sectoral work will be strengthened by the posting in Delhi of a Senior Water Advisor, who will work across rural development, environment and infrastructure sectors. The Region has also recently relocated the South Asia rural water and sanitation program within SASEI. This arrangement will help create a critical mass of WSS staff in the Region, streamline SAR’s relations with the

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WSS Sector Board and WSP. It will also strengthen dialogue with the Bank’s partners at the country level.

**Partnerships**

Given the scale of SAR’s population, financial support from the Bank and other donors, even with a proposed increase in sector lending, can only meet a small fraction of the needs. Thus it is crucially important to improve domestic resource mobilization within South Asian countries. The Bank’s role will be to: (a) provide advice in key areas of sector policy, (b) help to build monitoring and evaluation capacities, (c) support change leaders in implementing reforms, and (d) selectively support sustainable investments in reformed segments of the sector. The most active multi and bilateral donors in the region are ADB, JBIC, USAID, and DFID. DFID has focused primarily on sector development TA and poverty-targeted investment, and has directly supported the Bank’s program and the WSP, which plays an important role in policy dialogue in India, Bangladesh, and Pakistan, in both urban and rural areas. Other partners, including civil society, NGOs, the public and private sectors, and financial institutions will play a key role in implementing the MDG agenda.