

Development finance for water resources

Trends in the Middle East and North Africa

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This policy brief provides an overview of research by the Overseas Development Institute (ODI) on donor finance for water resources in the Middle East and North Africa (MENA). Based on analysis of data reported by donors to the Organisation for Economic Co-operation and Development (OECD) and 15 interviews with multilateral institutions and bilateral donors, it explores: how finance for water resources in MENA compares to that in other regions of Africa and Asia; how countries within MENA compare in their access to finance; and how donors from the region and beyond make allocation choices. Based on our findings, we make four key policy recommendations for donor governments to improve the effectiveness of finance for water resources in MENA:

- 1. Maintain support for water resources to sustain development gains:** The recent downward trend of development finance for water resources in MENA should be reversed.
- 2. Raise the political profile of water resources reform:** Higher political prioritisation of water resources reform is needed to encourage reform and mobilise finance in MENA.
- 3. Use politically aware and cross-departmental approaches:** Reform should be approached by engaging with key political actors and agendas across government.
- 4. Form innovative donor partnerships in the region:** Donors from within and without MENA have comparative advantages in supporting reform.

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MENA's water challenge

MENA is the most water stressed region on the planet, and water scarcity increasingly constrains economic and social development.

Water is highly interconnected with human development goals. Progress in employment, economic growth, human rights, governance, gender equality, migration and political stability is shaped by and in return shapes how water is accessed and managed, particularly in a water stressed environment like MENA. The 2015 Global Risks Perception Survey ranked the water crisis as the most likely risk to MENA businesses and economies over the next 10 years, alongside unemployment and ahead of social instability and failures in governance (World Economic Forum, 2016).

In MENA, unlike in other developing regions, physical water scarcity is a greater constraint on water supply and sanitation provision than deficits in infrastructure or institutions (World Health Organization, 2014).

Of particular concern are the potential links between water insecurity, weak governance, and political instability. While not a primary cause of the eventual conflict, ineffective policy responses to ongoing drought contributed to political unrest in Syria during 2011 (Sowers, Waterbury and Woertz, 2013). MENA is currently experiencing the worst series of droughts for 900 years; in coming decades the social and economic impacts of more frequent and more intense dry periods are likely to be reinforced (World Bank, 2014).

Growing populations and economies mean MENA's water sector needs annual investment of 4.5% of gross domestic product (GDP). National governments, often with stagnant economies and beset by multiple urgent priorities, spend between 1.7% and 3.6% of GDP each year, while a number of factors inhibit private sector investment (United Nations Development Programme, 2013). This shortfall of private and domestic public finance raises questions about the role of development finance. Our research examines trends in public international development finance for water resources directed at MENA between 2002 and 2014.

Box 1: Definitions and framing

For the purpose of this paper we define development finance as official development assistance (ODA) (i.e. concessional grants and loans) and other official flows (OOF) (mostly non-concessional loans). Our analysis focuses on low- and middle-income economies of North Africa and the Middle East: Algeria, Egypt, Iran, Iraq, Jordan, Lebanon, Libya, Morocco, Palestine, Syria, Tunisia, and Yemen, and also considers regional programmes, which may cover other territories. We use data from the Creditor Reporting System (OECD, 2016), coded for water resources management, excluding sub-sector codes for water supply and sanitation and agricultural water (e.g. irrigation).

While much recent attention has been on water supply and sanitation access (see World Health Organization, 2014), we want to explore other dimensions of water policy and governance that help shape the availability of water for water supply, sanitation and hygiene (WASH) and other uses.

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The Middle East and North Africa region will be particularly at risk, given existing high levels of water stress and high rates of population growth.”

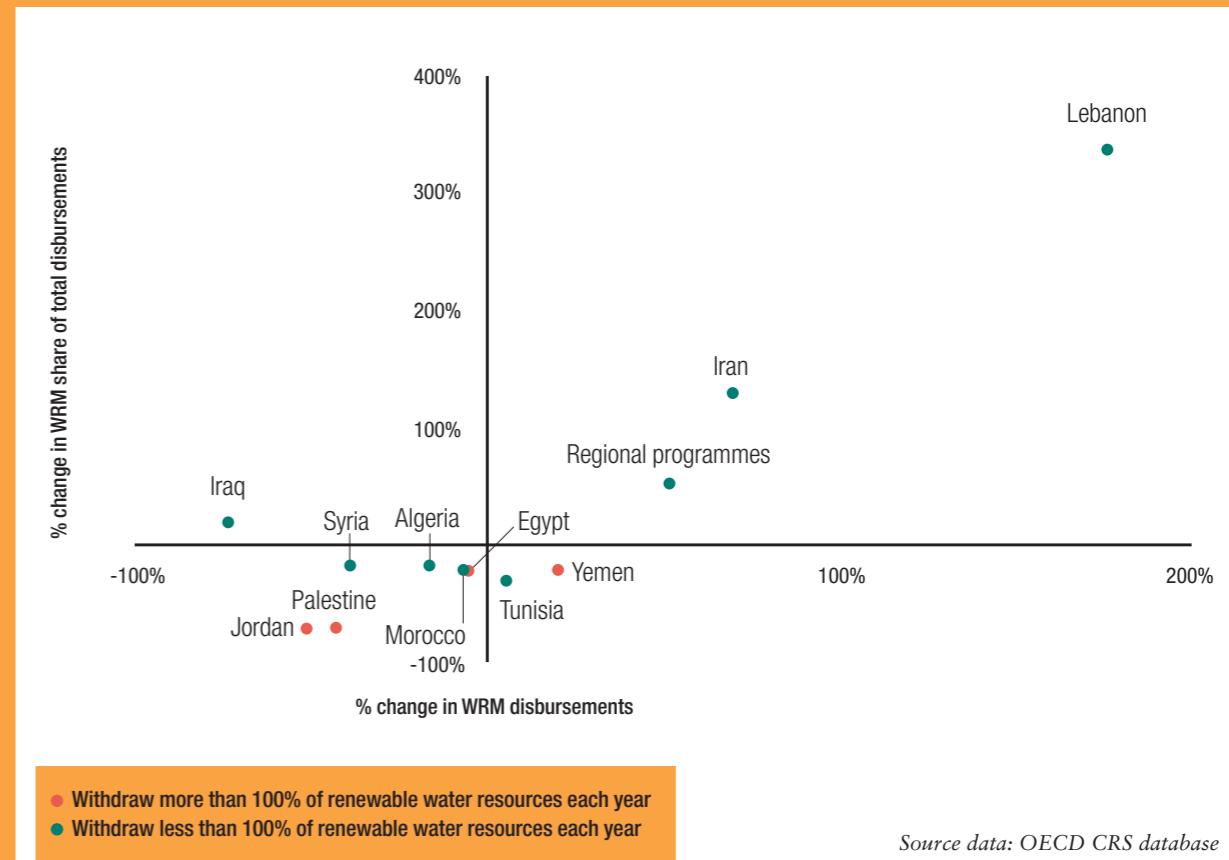
National Security Strategy and Strategic Defence and Security Review on climate change and resource scarcity (HM Government, 2015)

Research findings

1. Development finance for water resources in MENA is declining

Given the strategic implications of MENA's water scarcity, one would expect water resources to be a focus of development finance for the region. Indeed, between 2002 and 2006 the share of development finance directed at water resources was higher in MENA (1.8%) than in other regions of Africa and Asia. By 2013, however, the share of development finance directed at water resources had fallen to 1.2% in MENA, while the share in sub-Saharan African and Far East Asia had more than doubled. Development finance for water resources to MENA fell in absolute as well as relative terms in 2006-2010 and 2010-2014, mostly due to reduced ODA grants from the US for Iraq, Jordan, Palestine, and Egypt.

Box 2: Changes in WRM disbursement volumes and as share of total disbursements, 2010-14 compared to 2006-10



Source data: OECD CRS database

Between the periods 2006-2010 and 2010-2014, development finance for water resources management (WRM) fell in seven MENA countries. In eight countries, WRM had a lower share of total development finance in 2010-2014 than in 2006-2010. Of the most water-stressed countries (shown in orange above), WRM was deprioritised in Yemen, while Egypt, Jordan and Palestine saw both absolute and relative declines in WRM finance. In those countries, except for Morocco, with declining shares of WRM finance, the areas of increased spending focused on humanitarian relief and sectors related to international migration, employment, economic stabilisation, and democratisation. Lebanon and Iran were outliers, with large positive changes due to relatively low baselines in the period 2006-2010.

MENA is a complex region. For decades the engagement of development actors in the region has been shaped by geopolitical issues, most recently the 2003 invasion of Iraq, the 2011 Arab uprisings, and subsequent conflicts and humanitarian crises. This has made triangulating expert assessments of development need, demands from national government partners, and organisational and political mandates particularly challenging. In recent years, the focus of many traditional donor agencies has shifted away from sectoral issues such as water and agriculture to humanitarian action and a focus on private sector development, job creation and democratisation, three areas regarded as key to reducing migration, political instability and terrorism. Similarly, national governments in MENA face numerous economic, social and political risks with more immediate consequences than water scarcity.

Water resources are not divorced from these economic, social and political risks in MENA, and will be crucial to the sustainability of progress. While short-term events are likely to continue to drive allocations of development finance in MENA, maintaining support for water resources is important for long-term sustainability and the consolidation of development gains.

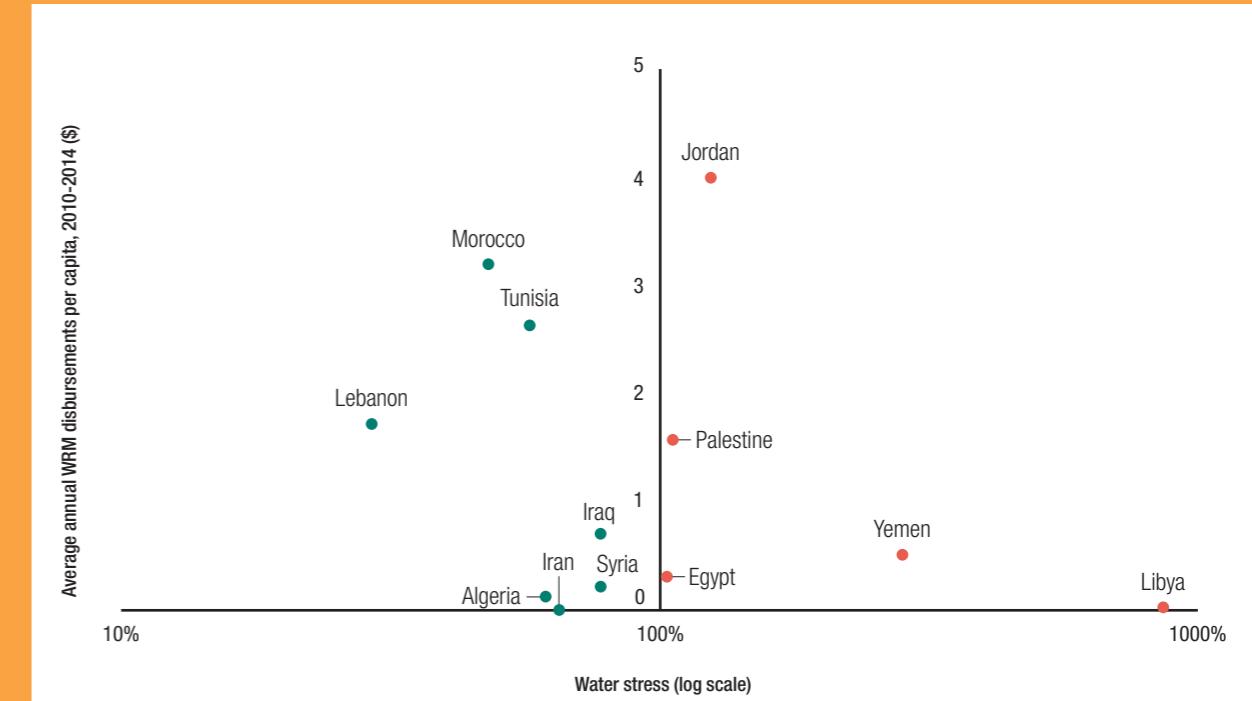
2. Water resources reform is not given a high political priority

Countries that have made water resources reform a political priority are better able to access development finance for the sector. Higher country demand for finance is part of the equation, and sources of finance also respond positively to signals of institutional and policy reform. Water resources reform has been a national political priority in Morocco during recent years, with the creation of decentralised river basin authorities, and policies to improve water productivity and economic efficiency and to strengthen drought resilience. Donors interviewed agreed that this prioritisation and reform programme is a major reason why Morocco attracted 39% of all development finance for water resources directed at MENA in 2010-2014.

However, in most MENA countries water resources reform is not an immediate political priority, and is not factored into macroeconomic or sectoral policies governing drivers of water demand. The most significant potential gains for water security in MENA lie in governance and economic reform rather than mobilisation of new water supplies, yet reform is extremely challenging due to water's role in the political economy of the region's agricultural economies. Agriculture uses 85% of the region's water and contributes a declining share of GDP and exports, yet it is a key source of income for powerful landowners and rural poor people. Together, several factors – the political complexity of institutional and policy reform, the problem of short-term costs versus long-term benefits, and evidence gaps on the social, political and economic costs of water insecurity – reduce the incentives for governments and donors to act.

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Box 3: Institutional capacity and commitment to reform attracts more finance



Source data: Finance: OECD CRS database. Water Stress: World Resources Institute's Aqueduct database, % of renewable water resources withdrawn annually. Population: World Bank World Development Indicators, 2014 population

Per capita funding is not related to levels of water stress; this picture changes little when only official development assistance is considered, except that in Morocco disbursements fall from \$3.2 to \$0.6 per capita. Aside from Jordan, all of the countries that withdraw more than 100% of renewable water supplies each year receive less per capita funding than Morocco, Tunisia, and Lebanon, which are, at a national scale, less water stressed.

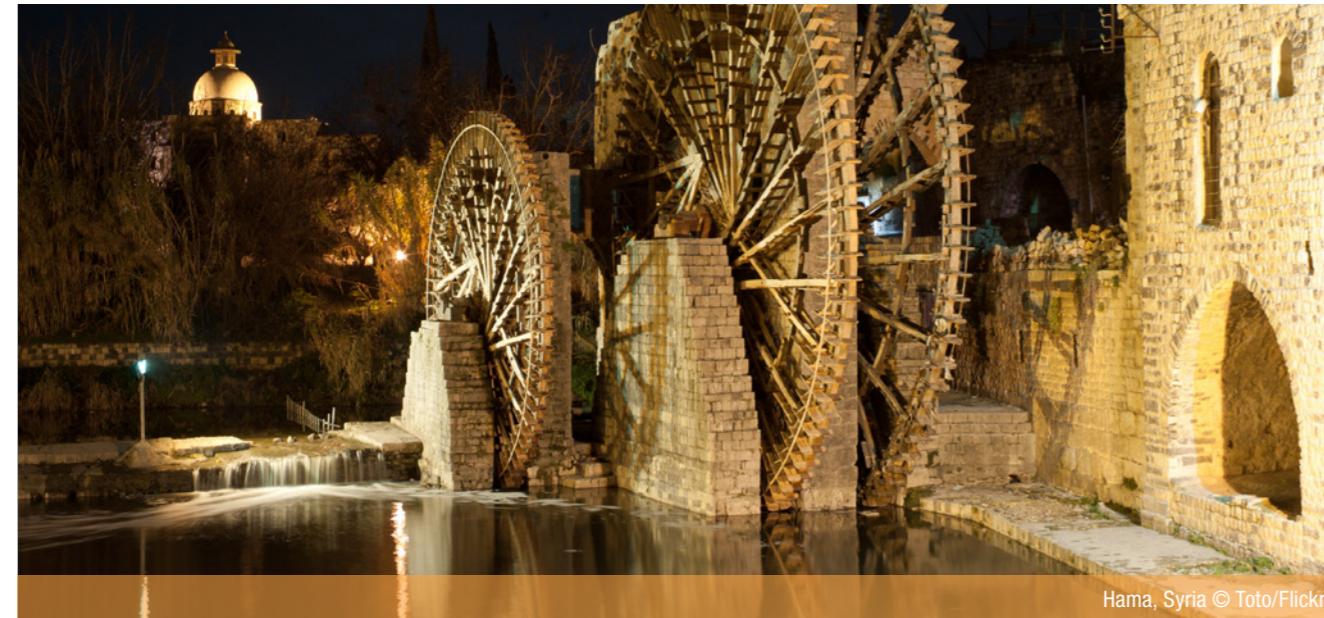
Morocco, Tunisia, Jordan, and Lebanon are, however, regarded as regional leaders on institutional and policy reforms for water resources. Political engagement in reforms, and the higher institutional capacity this implies, are signals encouraging donors to commit resources.

3. Politically aware approaches are not widely used

Traditional national partners for development agencies working in water resources management have been the line ministries with sectoral mandates, usually the ministries of water resources, agriculture and environment. This poses particular challenges in terms of enabling reform. Ministries of water resources and environment rarely have the institutional or political power to direct substantial cross-departmental policy or effect significant reform. Ministries of agriculture are usually more influential; however, while interested in raising agricultural water productivity, they can be obstructive of broader reform efforts.

The complexity of the reforms needed to improve water resources management and achieve water security require politically aware approaches. Once constraints, incentives, and opportunities to unblock reforms have been identified, they should become starting points for engagement (e.g. Booth, 2016). Aligning water resources reform with strategic and influential agendas of national governments may be more likely to deliver results than engaging only with line ministries. Many countries in the region are undergoing extensive processes of economic diversification and policy reform, for example; yet only in a few countries such as Morocco and Jordan is water resources management and policy a significant consideration in these processes.

Bilateral development agencies interested in raising the political profile of water security can engage with alternative and senior policy stakeholders by using non-traditional partners as intermediaries. The Swedish International Development Cooperation Agency (Sida) and the Swedish Ministry of Foreign Affairs collaborate in promoting transboundary water cooperation in MENA, for example, with Sida benefiting from the more senior diplomatic status of Foreign Ministry officials. Countries with significant trade relationships in MENA have opportunities to connect water governance with business and trade agendas, while the World Bank is well positioned to influence finance ministries. Understanding how water security aligns with the roles and interests of business and social elites in the political economy of each country could identify other avenues for engagement.



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4. Donors from MENA are not focused on water resources

Most state and philanthropic donors from the MENA region do not report disbursements to the OECD, yet they are important and significant actors in the humanitarian and development donor landscape. Saudi Arabia is among the largest donors in the world (United Nations Development Programme, 2016), and development finance to MENA from regional donors is estimated to be comparable to that from international sources (Villanger, 2007). However, these donors are little engaged on issues of water resources.

Only the United Arab Emirates, Kuwait, and the Arab Fund for Economic and Social Development reported financing for water resources to the OCED. While that level of finance was relatively small, it grew significantly over the last decade and was notable for its focus on fragile and conflict-afflicted states. No donors from the region reported having an agenda or strategy for water security in their aid and humanitarian programmes.

This lack of engagement among donors is due to limited demand from national governments, a disabling political environment and lack of data that inhibits the regional donor sector more generally, a disinterest in the SDG agenda – which donors see as largely irrelevant to needs on the ground in the region – and a tendency to follow the lead of other donors in setting their funding priorities.

However, engaging with water resources issues could benefit the strategic humanitarian and development goals of regional donors. They also have assets that could support water resources policy reform. Aside from the finance they can bring to bear, sovereign donors from the region have access to and understanding of political institutions closed to donors from outside the region. Similarly, private philanthropic organisations frequently have strong links to ministries responsible for business, industry, economic development and finance, and can influence agendas in those domains. These strengths of regional donors differentiate them from donors from outside the region, who may have higher technical capacity and institutional strengths in water resources management.

Donors and development actors from within and without the region can build innovative partnerships to address mutual goals. Despite their differences in approach, discourse and practice, different groups of donors have comparative advantages and a common interest in solving problems on the ground.

Policy recommendations

Maintain support for water resources

The recent downward trend of development finance for water resources in MENA should be reversed.

Raise political profile of water reform

Higher political prioritisation of water resources reform is needed to encourage reform and mobilise finance in MENA, and more evidence is needed on the interconnections between water insecurity and constraints on economic growth and diversification, job creation, governance reform, and social stability.

Use politically aware and cross-departmental approaches

Improved water governance is not a sectoral challenge; reform should be dealt with through politically aware approaches that engage with key political actors and agendas in MENA countries in cooperation with other government departments, including ministries for foreign affairs, and trade and industry.

Form innovative donor partnerships in the region

Donors from within and without the region can build innovative partnerships to address mutual goals. Despite differences in approach, discourse and practice, these different communities of donors have comparative advantages and a common interest in solving problems on the ground.

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