

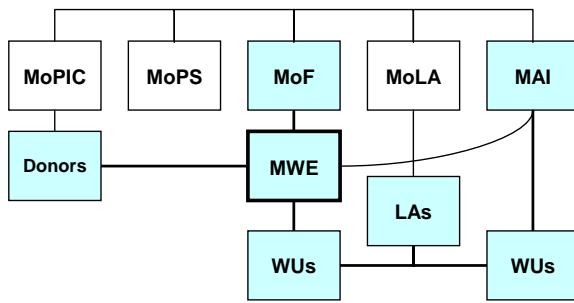
**Key Issues for the Joint Annual Review (JAR) of NWSSIP  
Input Paper on Donor Coordination, Harmonization and Alignment**

**Overall progress**

In November / December 2004, an OECD established the baseline of the harmonization and alignment agenda in Yemen in general, including the water sector. According to that assessment and the recent sector review, the H&A advancement in the sector is as follows:

<b>End of 2004</b>	<b>End of 2005 / early 2006</b>
(i) NWSSIP is rated as a clear sector policy and strategy	(i) NWSSIP is enhanced by a donor declaration of support in January 2005 and finally approved and adopted by GoY in May 2005; NWSSIP elements integrated in new 5-year national plan for poverty reduction
(ii) A general sector MTEF is still lacking	(ii) Information collection for a sector MTEF is started and well advanced on the donor side, while GoY 2005 budget execution figures could be collected for the JAR; a mid term indicative GoY sector budget is still not available
(iii) A formalized donor coordination is not yet in place	(iii) A functional formalized donor-donor and GoY-donor coordination system is set up
(iv) A sector performance monitoring system is missing	(iv) A M&E monitoring unit in MWE was created and M&E reporting has started, with enhancement needs identified during the JAR
(v) An agreed process toward harmonization systems does not exist	(v) Steps were taken to define a process towards system harmonization (World Bank SWAp Study, RNE/German MoU cum milestone approach, high level donor meeting)
(vi) Exertion of an appropriate level of GoY authority is still in the initial phase	(vi) GoY increased its ownership and authority within a GoY-donor coordination framework at sector level, however with a still weak support from government
(vii) Donors start relying on sector policy for their allocation strategies	(vii) MAI/GDI investments and donors now fully align their allocations to the NWSSIP, although many projects are still carried over from pre-NWSSIP times and a sector MTRF is still not finalized
(viii) Donor funds are not yet integrated in a MTEF	(ix) A first MTEF base is established and needs alignment to a mid-term results framework; information supply has been poor to nil outside of the DCG
(ix) Donor acceptable monitoring systems for reporting are not ready	(ix) First reports of the urban PIIS and the M&E unit in MWE have been prepared, and donors rely on sector information produced under the joint JAR exercise
(x) Donors participate in the sector coordination process	(x) Participation of donors in the coordination process continues to concentrate within the DCG and occasional involvement of NWSSIP signatories

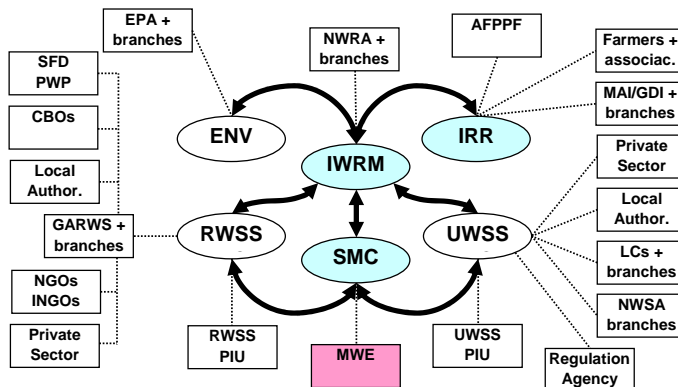
## Stakeholders



At inter-ministerial level, the sector depends on inputs and support from various stakeholders: (i) MoPIC is charged with the overall strategic and economic planning; (ii) MoPS is responsible for staff recruitment aspects and the civil service reform agenda; (iii) the MoF provides investment and recurrent funds and approves the sector budgets, besides

playing an important role in fiscal policies affecting the water sector; (iv) the MoLA is charged with guiding the decentralization process and enhancing the Local Authorities capacities to engage in the water governance structures; (v) the MAI through its GDI has a significant bearing in rationalization of water use vis-à-vis enhancing rural economy and employment; (vi) finally, donors liaise with the MoPIC on ODA allocations and strategic cooperation aspects. At the sector level, there is an intensive interaction between donors and the MWE on sector policies and strategies and, depending on the nature of cooperation, there is also an intensive involvement with the sub-sector institutions and their projects and programs. At local level, water users such as urban utilities, rural WUAs and farmers together with concerned local authorities combine their efforts in a workable governance structure (basin committees).

## Sector organization

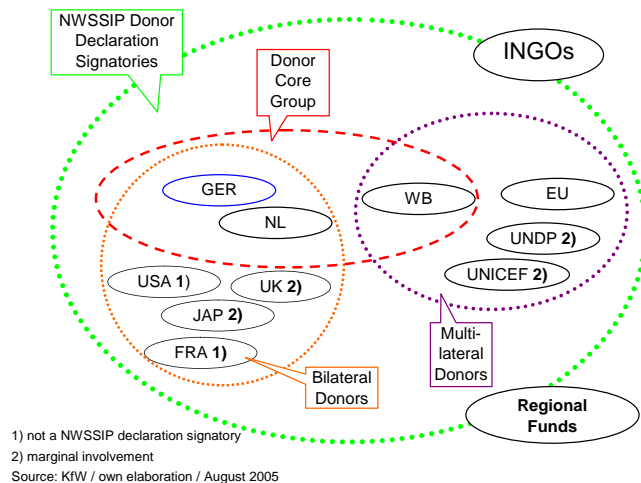


There are 4 distinct intra-MWE sub-sectors with the following institutional set up: (i) EPA for the environment protection agenda (ENV); (ii) NWRA for the water resources management (IWRM); (iii) GARWSP for rural water and sanitation with various local executing agencies, NGOs and a minor role of the private sector (RWSS); and (iv) 9 local

corporations (LC) and NWSA as providers in urban water and sanitation (UWSS), acting through more than 40 urban utilities; private sector engagement in water truck supply is significant however largely unregulated. A regulatory agency is under study for the urban sub-sector with potential full sector responsibilities later on. The extra-MWE sub-sector of irrigation under the GDI is of significant importance being agriculture the main water user has a strong interaction with NWRA especially on basin level in resource and watershed management. While the environment sub-sector is governed by a separate sector, the water affairs are all combined through a sector management and coordination set-up in the water & sanitation sector within MWE.

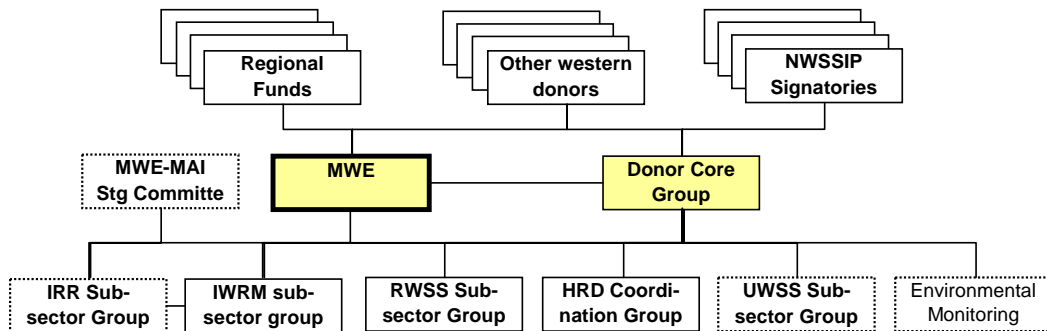
Within this framework, donors act as funding agency for and technical assistance provider within a number of authorities. In addition, indirect sector support is provided through SFD and PWP (some 15-20% for water investments) and the EU/EC FSP.

## Donor coordination structure



Within the core water resource management as well as water and sanitation areas, donor presence includes (i) bilaterals (Germany, Netherlands, France, Japan, UK, US); (ii) multilaterals (WB, EU, UNDP & UNICEF); (iii) INGOs such as CARE; and (iv) regional funds (AFESD, OPEC fund, ADB, Islamic Bank). Their involvement is structured in (i) the donor core group (Netherlands, Germany, World Bank), and (ii) the NWSSIP signatories (Netherlands, Germany World Bank, UN, Japan, UK-DfID,

EU). The remaining donors are not directly related to any systematic structure, but generally are coordinated by MWE as to their strategic alliance with NWSSIP.



The donor core group, whose members are representing about 86% of available donor funding) is spearheading sector dialogue and concept development, while the NWSSIP signatories have given significant political leverage and moral support to the national strategy. The role of donor speaker is rotating semi-annually between Netherlands and Germany, since the World Bank has no local presentation in sector policy development. After finalizing recruitment of a water expert for the WB office in Sana'a (funded by DfID), the World Bank will be included in the rotating in-country donor speaker function. Within this framework, information sharing has substantially improved and the mutual consultation and harmonization is steadily on the rise.

The RWSS working group already exists since 2002, and the IWRM working group was established in 2005. Also, a more informal HRD coordination group has become active in 2005 for better coordination in technical assistance, institutional development and training efforts, with the aim to foster the development of a sector wide HRD strategy. After consolidating the coordination success experienced in the irrigation/ watershed sub-sector between MWE and MAI/GDI during the JAR, it is intended to either institutionalize a respective working group in the course of 2006 or combine efforts with the IWRM group. The same holds true for the environmental sub-sector, which so far has had little involvement in water affairs. Last but not least, the urban sub-sector will create its working group in 2006. All groups are or will be working on the basis of agreed objectives and terms of reference and substantially enhance the cross-sector communication process. The MWE M&E unit will play an important facilitating role in this endeavor.

Notwithstanding this structural set-up for donor coordination, donor collaboration at the level of programs and projects has not taken off yet. In fact, some programs and projects are being implemented without any mutual communication thus leading into duplication of work and failing to create synergies. Although efforts have been made to create synergies by sharing information and ideas there is still much room for improvement for increasing aid effectiveness and efficiency on the ground. There are no agreements of concrete collaborations on the project or program level existing so far. There is no joint planning of donor projects and programs (annual sector plans) in place so far. There is no systematic follow-up of donor coordination at this level through MWE.

## **Donor significance**

While Yemen has in general a low ODA dependency (12-15 USD/c/yr), the contribution of the donors in the water sector MTEF (2005-2009) stands at an impressive 57.4%. It is also proven that donors have played a significant role in development of the country's sector strategy NWSSIP and are constantly providing conceptual inputs into the sector dialogue, at the same time supporting the sector in the superior government sphere.

## **Aid modalities**

Although project aid is still the dominant aid modality in the water sector, some developments are worth mentioning: (i) the Netherlands has started in 2005 with a modified budget support approach for two sector institutions, with so far mixed experience; (ii) German financial aid in UWSS is implemented directly by Yemeni counterpart institutions (LCs, NWSA) without external PIUs, while German technical cooperation is directly inserted in sector institutions and has a significant relevance for institutional development in the sector. Regional funds usually delegate responsibility for implementation of their investment funding fully to Yemeni sector agencies. The World Bank utilizes the model of independent project implementation units (PIU) which show also mixed results, while their capacity building impacts is very limited.

## **Guiding principles for program based approach<sup>1</sup>**

Good practices in the establishment of partnerships between governments and donors at sector level all aim at increasing effectiveness of development policies and broaden government ownership over public sector policy and allocation of resources. The following guiding principles are established for donors:

### **Support government ownership and leadership**

Donors must leave the initiative with the partner country government, while offering flexible support, information and guidance. Aid coordination at the national level is a government responsibility, while the government-donor partnership should be based on mutual accountability. Donors should be knowledgeable and sensitive about the country context and its institutions. They should seek areas of broad agreement and avoid micro-management.

### **Work with government to strengthen institutional capacity and accountability**

Setting up parallel systems tends to undermine the regular systems of government and confuses accountabilities. Donors should therefore work as much as possible through partner systems and procedures while collaborating with partner country governments to address identified weaknesses. Both donors and partner governments should think in terms of national capacity, not just government capacity.

### **Set the sector program into context**

Donors need to be aware of the SWAp's implications for overall coherence across the government, including the SDP's consistency with the PRS and its effect on the role of the central coordinating ministries, and on the relationship between central and local governments. Address cross-cutting issues, including gender equality, the environment, HIV/Aids, and public service reform.

<sup>1</sup> Source: OECD DAC

**Take a long-term, strategic view**

Recognize the dynamic nature of SWAp and accept that it will take time to realize all the potential benefits of a sector partnership. Sector development programs take a long time to mature and usually imply long-term institutional change and organizational development. They are typically implemented over at least a 10-year time frame, implemented in 3 to 5-year tranches. Donors must have similar time horizons, and must be prepared to commit long-term predictable resources. Address all stages of the planning and budgeting cycle for the program, and build in a strong "results" orientation.

**Be pragmatic and flexible**

Design processes which economize on management, planning and policy skills within government, while progressively developing capacity. Assess the costs as well as the benefits of proposed innovations. Recognize that there are competing interests on both government and donor sides which need to be sensitively managed. Undertake a proper institutional and incentive analysis. Recognize and manage risks. Look for some "quick wins" that can help to build support for the program (amongst both government and donor constituencies) in its early stages. Be realistic and learn from experience (including comparative international experience).

## **Rationale and success factors for SWAp**

The basic principles of taking a holistic view, working to a medium-term planning horizon and explicitly linking expenditures to policy are relevant to all sectors and applied by effective governments everywhere. The efforts of setting up a formal sector partnership is more likely to be worthwhile when (i) donors are an important part of sector financing and (ii) the sector is one in which public expenditure and service delivery play substantial roles. Both aspects are very much true for the case of Yemen's water sector. For details, see attachment 1.

## **Initiatives for program-based approach**

The World Bank, in close collaboration with the two other key donors in the sector, Germany and The Netherlands, conducted at the end of 2005 an assessment study on the readiness and opportunities for sector wide approaches (SWAp) in the water sector. It was concluded that the movement into SWAp at the level of specific sub-sectors can begin right away: what is required is simply a joint government-donor agreement for any of the sub-sectors in question and the related roadmap. The potential benefits of moving into a SWAp framework can ensure stronger country ownership, strengthen national capacity systems and institutions, and more effective implementation with no duplication and no wasted resources. The World Bank, in its new Country Assistance Strategy (CAS), is considering to assist the Government of Yemen with programmatic lending, starting in the water sector with a Poverty Reduction Strategy Credit (PRSC) in the year 2009. The key donors in the water sector support this approach. Germany's future engagement in the UWSS will be geared towards a more flexible and open program approach with a potential closer cooperation with the new World Bank program. On the Yemeni side, a clear aid policy statement indicating preferences for programmatic support is needed, and serious efforts have to be undertaken to create the enabling environment in terms of systems, instruments and institutional capacities.

## **Next steps**

As agreed during the donor meeting held in Frankfurt on February 1, 2006, discussions on a roadmap towards SWAp in the water sector will resume after the JAR and depending on its outcome.

## Attachment 1: Rationale and success factors for SWAp

Factor	Appreciation for Yemen
<b>Political and macro-economic stability</b>	
- Political stability	<ul style="list-style-type: none"> <li>- Governance problems (corruption, PFM &amp; accountability, human rights, press freedom, civil service etc) highlighted in GoY-donor dialogue</li> <li>- Decentralization (“returning the power to the people”) started but has a long way to go; “returning the money to the people” by fiscal decentralization is delayed</li> <li>- Yemen joined the “Fragile States Initiative” (Good International Engagement)</li> <li>- Stability in relation to tribal areas and laws unpredictable</li> <li>- Open and hidden unemployment main challenge, job demand unlikely to be met, social implications far reaching</li> </ul>
- main resource bases	<ul style="list-style-type: none"> <li>- Oil reserves dwindling at an increased speed, in the last years offset by very high crude oil prices; LPG exploitation not yet operational; predictions on potential for recovering hydrocarbon sector revenues with gas exports, after a short-term dip</li> <li>- LPG has potential for domestic impact (energy production, sea water desalination)</li> <li>- Water resource overexploited with no indication that water balance deficit can be leveled out completely; resource management weak</li> <li>- Present agricultural prosperity bubble not sustainable due to limited water resources</li> <li>- Alternative non-oil sectors (fisheries, tourism) have low employment impact</li> </ul>
- state revenues and budget predictability	<ul style="list-style-type: none"> <li>- GoY had to reduce energy cost subsidies but still maintains many perverse incentives</li> <li>- Tax base is too narrow and shows weak enforcement; fiscal sustainability on e of 3 main cooperation agenda points</li> <li>- Budget allocations for the sector show with still low predictability over the medium term</li> </ul>
<b>Broad and effective government ownership</b>	
- Strong and effective leadership at sector ministry (MWE) level	<ul style="list-style-type: none"> <li>- Strong and competent leadership at MWE top level, but limited capacity at middle management for policy implementation and follow up</li> <li>- MWE-attached authorities not enough involved in sector strategic discussions</li> <li>- MWE still compelled to engage in project/program management due to limited capacity in authorities</li> <li>- MWE leadership role clearly does not extend to the irrigation sub-sector, but coordination improving</li> </ul>
- Commitment to the process at senior political level	<ul style="list-style-type: none"> <li>- MoPIC has played a role in defining the PRS, its dynamics were however poor with parallel structures within MoPIC and confusing responsibilities; new DPPR agglutinates PRS and MDG orientation</li> <li>- Thematic Working Groups launched by MoPIC did not work for the water sector, new coordination structure proposed will not add value to a well functioning sector coordination</li> <li>- GoY has subscribed to the Aid Harmonization and Alignment agenda and established a respective Unit at MoPIC</li> <li>- NWSSIP has been approved by the Cabinet, however, MWE is not governing its sector financial resources; Cabinet approval has had thus no direct practical implication on the investment plan</li> <li>- Commitment to address the water resource crisis at top political level is not convincing at all; MoPICs convening efforts to establish an inter-ministerial steering committee for the JAR were half-hearted and not successful</li> </ul>
- Active involvement of the Ministry of Finance (MoF)	<ul style="list-style-type: none"> <li>- Initial NL discussions on proposed MoU with MWE and MoPIC included MoF, but in spite of some progress did not conclude</li> <li>- MoF is a powerful and difficult partner which is not primarily concerned with sector goals</li> <li>- MoF is focused on “hardware” (=investments) with skepticism on capacity building expenditure</li> <li>- MoF accepts good arguments: budget negotiations by sector institutions need to document value-for-money to defend their budgets</li> </ul>
<b>Broad consensus between GoY and donors on policies and sector mgmt.</b>	
- Sector policy NWSSIP	<ul style="list-style-type: none"> <li>- Clear consensus existing as evidenced by NWSSIP support declaration by donors</li> <li>- NWSSIP recognized as a dynamic process with permanent adjustment needs</li> </ul>
- Sub-sector policies	<ul style="list-style-type: none"> <li>- Developed for rural sub-sector, not yet approved by GoY</li> <li>- NIWRM Plan (by NWRA, RNE, UNDP) updated August 2004 (has been integrated into NWSSIP) includes strategic results framework</li> <li>- NWRA Water Policy and Strategy Paper</li> <li>- Agreement to develop other sub-sector strategies (urban)</li> <li>- Irrigation sub-sector strategy needs to be discussed with MAI</li> </ul>
- Sector management	<ul style="list-style-type: none"> <li>- Sector management issues are outlined in NWSSIP and are discussed among stakeholders</li> <li>- NWSSIP has defined action plans for all sub-sectors which are being monitored, implementation is partly encouraging and partly disappointing</li> <li>- Goy-donor and donor-donor coordination is formally established and working</li> </ul>