

IsDB



البنك الإسلامي للتنمية
Islamic Development Bank

Water Sector Policy

Sustainable and resilient water and sanitation systems for all



Social Infrastructure Division
Economic and Social Infrastructure Department
September 2020



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Abbreviations

10YS	Ten-Year Strategy
FCV	Fragility, Conflict and Violence
IsDB	Islamic Development Bank
P5P	President's Five-Year Programme
SDG	Sustainable Development Goal
STI	Science, Technology and Innovation
WSP	Water Sector Policy

Purpose, objective and background

1. With the 10-Year Strategy (10YS), the Islamic Development Bank (IsDB) has moved into a new direction, focusing equally on the delivery of development finance and knowledge products. Under the new orientation, the Water Sector Policy (WSP) establishes the overall direction and priorities for water-related operations in member countries in line with the IsDB Articles of Agreement. The WSP is aligned with the Sustainable Development Goals, SDG 6 in particular, and the Water Vision of the Organization of Islamic Cooperation. Informed by the analytical study “IsDB Water Sector Policy Study” (IsDB 2020), the WSP aims to guide IsDB’s contribution to resolving the pressing challenges in water resources use and management and the delivery of water and sanitation services.
2. IsDB operations are spread over a wide range of geographies and conditions, where nearly all forms of risks and threats to water use and management occur. These include droughts, flooding, constant water scarcity, persistent water logging, salinity and degraded wetlands, deteriorating water quality, failing public health, persistent shortage of reliable water services, weak governance, and local and regional water conflicts.
3. Faced with continuous water resources depletion and steadily growing demand, especially from the rising urban population, some member countries will be heading for a water disaster, unless immediate actions are taken. Fortunately, many of them stand to gain tremendously from better water governance, improved agricultural water management and effective water services delivery. Successful experiences in several member countries can serve as examples. However, time is running out. Unless water management practices and processes are significantly improved within the next 10 to 15 years, more and more countries, cities, people and economies are likely to face prolonged, irreversible water insecurity of unprecedented proportions. Climate change adds greater uncertainty, calling for more adaptability and pro-active problem solving.
4. Given their widespread geographic locations and distinct conditions, IsDB member countries face several water-related challenges:

- **Increasing water scarcity, uncertainty and rising demand.**

Almost 40% of member countries (22 out of 57) fall under physical water scarcity (< 1000 m³/capita per year) and 16 under economic water scarcity (< 3000 m³/capita per year). There is a regrettable legacy of water depleting as a result of inadequate management. When comparing withdrawals to resource availability, member countries in the MENA and Central Asia regions are the most water-stressed, with a negative water balance. In addition, many member countries have poor-quality surface and ground water resources. Pathogen contamination, salinity and chemical pollution are rising in all major river systems of the world, including the Ganges and Nile basins, North and West Africa, and the Middle East, as far as IsDB member countries are concerned. Many countries depend entirely on imported water, in which case water management requires regional cooperation. Yet, trans-boundary water management of many shared resources remains inadequate and 63% of water conflicts reported globally, are in member countries.

- **High exposure to climate change impacts.**

Climate change impacts translate into increased migration, economic losses and deaths due to poor flood and drought management. Drought is only one of the problems some member countries have to deal with. Floods and water logging are also major risks to some of them. The Internal Displacement Monitoring Centre reported that 7 million new people were displaced internally in the first half of 2019, due to disasters, more than 27% of them in member countries (1.6 million in Bangladesh, 213,000 in Afghanistan and 106,000 in Somalia). Preparedness to climate uncertainty still varies much among member countries as measured by the key factors of institutional, governance, and financial constraints.

- **Poor water and sanitation services.**

In 17 out of 57 member countries, less than 60% of the population has access to improved urban water services. In many others, access to rural water supply is inadequate, due to inexistent or dysfunctional infrastructure. Rural households, particularly in Sub-Saharan member countries, have the lowest access to drinking water services. In some others, less than half of the rural population have access to an improved water supply system. Not only has progress been slow, but,

more alarmingly, many existing services have been discontinued. As for sanitation services, they are marked by low wastewater treatment capacity, which leads to environmental degradation and poor public health. According to the WHO, 14 member countries reported over 4 million deaths in 2016 due to unsafe water, sanitation and hygiene conditions. In addition, the proportion of safely treated domestic wastewater is low. Inadequate disposal and treatment of wastewater is a key factor in deteriorating water quality and ecosystems.

- **Low agricultural water efficiency and productivity.**

While agriculture is by far the largest water consuming activity globally, efficiency of agricultural water use in member countries is low, particularly in mega irrigation systems in Central and South Asia and the Sahel. Water productivity is alarmingly low in terms of economic value and volume of produce per unit of water used. It is even decreasing in some member countries.

While still being a challenge, this situation offers a tremendous opportunity for developing huge amounts of unused, non-conventional water sources. For instance, much larger quantities of rainfall and flood run-off, especially in arid and semi-arid areas, can be captured to sustain agriculture and domestic water uses. Similarly, desalination, treatment and reuse of domestic, industrial and agricultural wastewater, and the use of produced water (from the oil industry), hold significant potential for enhancing the water supply in water-stressed member countries.

- **Poor water governance and man made challenges.**

This is manifested in weak regulation, uncontrolled water extraction, neglect of natural water systems, unabated pollution and lack of water allocation planning. Institutions are often the weakest link in service provision with below optimal asset management and poor customer relations. In many countries, water financing is problematic. Counterproductive water management practices are commonly encouraged fiscally in spite of limited public budgets by providing, for instance, energy subsidies for pumping scarce groundwater resources. Where enabling legal frameworks exist, they are often inadequately enforced.

5. Taking into account the wide range of challenges affecting the water sector in member countries, the overall goal of the proposed WSP is to achieve sustainable and resilient water and sanitation systems for all. Water shocks and crises have become part of daily life and the world must continuously adjust to these evolving stress situations as it improves service performance and safeguards long-term resource availability. Water systems and the integrated complex of water resources uses and functions they facilitate are vital, and need to be resilient, if they are to provide security in times of peace, change, turmoil and crisis. Surface and groundwater resources, humanity's precious common good, should be managed effectively to yield tangible results. There is a collective responsibility to ensure the continued and reliable provision of services at the heart of basic needs and well-being, that is domestic water supply, sanitation and water treatment. This will help create sustainable cities and vibrant rural areas. There is also a need to strive to achieve sustainability in agricultural water management, making sure that food systems do not come at the cost of sustainable water resources use.
6. The WSP aims to assist member countries the SDG targets of accessing safe water and sanitation. It also aims at positioning the IsDB to be at the forefront of supporting member countries in their effort to ensure effective water resources management, efficient water use, adopting new approaches and funding mechanisms and enabling frameworks to deal with a changing global environment. The WSP also seeks to enhance water management's contribution as a lever to achieve better health and food security, enhanced resilience, sustainable economic development, balanced energy consumption and lasting peace and stability.
7. The analysis of water challenges suggests that most traditional infrastructure financing approaches will be insufficient. This is very much in line with the President's Five-Year Programme (P5P), which operationalizes the 10YS and positions the IsDB as a "bank for development and developers". Investment in better approaches, human capacity and creativity, improved governance, smarter planning and effective management is highly needed and will pay off.

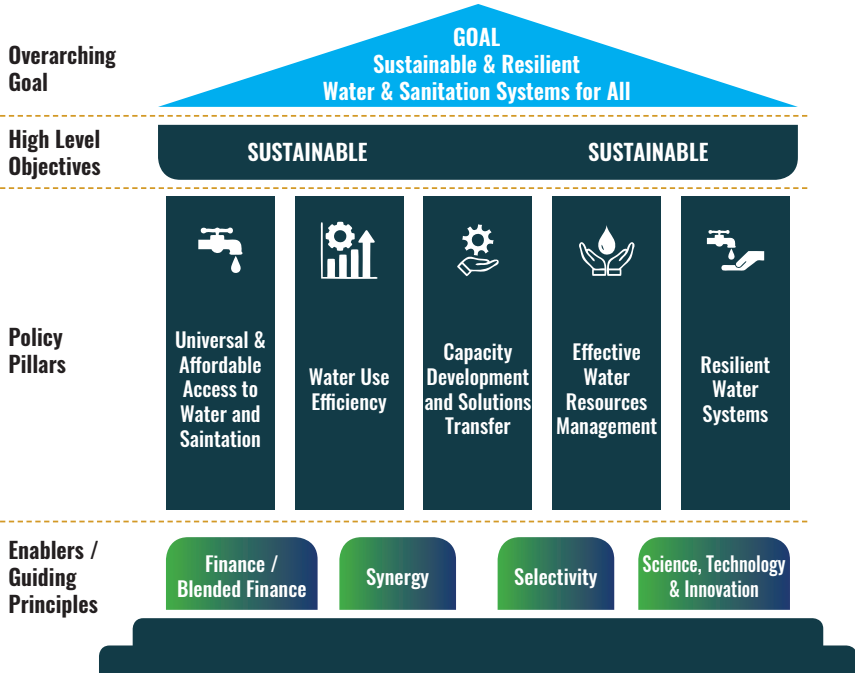
Definitions

Affordable access	Ability of consumers to use water services which meet recognized quality criteria and that are within purchasing power.
Effective water resources management	Management of water resources that translates into actions to improve the long-term availability and quality of water resources.
Functionality	Ability of water infrastructure to deliver the service they were created for, at or above minimum acceptable performance levels.
Inclusiveness	Ensuring that all groups, particularly marginal ones, have access to services.
Resilience	Ability of existing and planned physical, social, economic and administrative systems to provide services and withstand shocks and stresses.
Universal access	Having the entire population benefitting from improved water and sanitation services, without constraints of affordability, location, social group or otherwise.
Water governance	Rules, practices and processes (formal and informal) through which decisions for the management of water resources and services are taken and implemented, stakeholders articulate their interest and decision-makers are held accountable.
Water systems	The integrated complex of water resources and the uses and functions they facilitate.
Water use efficiency	The ratio between effective water use and actual water withdrawal; the proportion of water in the system actually used to deliver the services.
Water productivity	Volume of economic output, crop, biomass or jobs produced per unit quantity of water used.

Scope

8. The WSP provides a common framework for water operations within the IsDB in water resources management and use, and in water and sanitation. It establishes the basis for policy engagement and co-development of projects and programmes with member countries. The policy also offers the means to communicate and collaborate with other sectors within the IsDB and with partners having a similar mandate, particularly international financial institutions, multi-lateral organizations, service providers and think-tanks.
9. The overall goal of sustainable and resilient water and sanitation systems for all is supported by 5 pillars, as shown in Figure 1 below.
 - **Pillar 1** Universal and affordable access to water and sanitation
 - **Pillar 2** Water use efficiency
 - **Pillar 3** Capacity development and solutions transfer
 - **Pillar 4** Effective water resources management
 - **Pillar 5** Resilient water systems

Figure 1: Water policy framework



- 10. Pillar 1: Universal and affordable access to water and sanitation.** The first pillar of the policy is aligned with the 10YS that acknowledges that gaps are widening and that several areas risk being persistently 'left behind'. The 10YS emphasizes inclusiveness. There are two main targets in water services: urban and rural.
- 11.** The first target is urban water services, including water supply, sewerage, sanitation and water treatment. With rapid urbanization, especially in Africa, the priority is to remove the backlog, keep pace with urban water services delivery and provide adequate access. The preference is that urban water services are provided in an integrated 'source to tap and back' manner where water source areas around cities are safeguarded and the urban areas do not put undue pressure on their surroundings.
- 12.** Where possible, the link should be made with urban planning to protect and enhance those resources to ensure long-term affordable delivery. In delivering urban water services, what matters besides infrastructure is the management and governance of the utilities. This includes recovery of at least part of the costs, adequate pricing (to give the right price signals), proper asset management, reliable delivery, safe water quality, good customer relations and expansion of services. Support to such activities should come from all IsDB business units.
- 13.** The second target is about rural areas, particularly where water supply and sanitation are a persistent challenge, the so-called 'last mile' areas. These may be remote areas or without access to good quality water resources because of salinity, contamination or non-availability of water.
- 14.** The IsDB will endeavour to be practical yet innovative, as standard solutions may not be sufficient to provide affordable and adequate services. In strengthening rural water supply, special attention is needed to ensure systems are technically and institutionally robust, so as to prevent the frequent malfunctioning, characteristic of water services in many rural areas.

15. As universal access cannot be achieved without inclusiveness, the IsDB water and sanitation programmes will have focus on specific target groups. Given the paramount role of women in water, sanitation and hygiene, such programmes should have a strong gender focus. Another group requiring special attention in providing water and sanitation services are the ultra-vulnerable populations, those living or displaced in fragile, conflict stricken and violent regions (FCV). Focusing on these groups is important because many IsDB member countries are affected by FCV.
16. **Pillar 2: Water use efficiency.** Improving water productivity is imperative and may be achieved in all types of water uses, and more so in agricultural and urban water uses, where the potential for efficiency gains are the highest. Agriculture is the largest consumer of water in IsDB member countries, and the poorest performer in terms of water productivity.
17. In several member countries, less crop per drop is produced or more drop per crop is used than 10 years ago. Experts believe that improving water productivity in agriculture by an average of 25%, is feasible. Doing so will help ensure food security, free up water resources, reduce competition and conflicts and allow cities and industries to grow.
18. At the same time, it is important to put in place rules to govern the allocation of the water saved. In many irrigation systems, there is large scope for improvement, by enhancing water distribution rules, using appropriate water control structures, controlling leakages and promoting smart measures for better water management at farmer field level. Such programmes often yield immediate results without a long gestation period.
19. Moreover, improved efficiency in agricultural water use brings other benefits: less diseases, less back-breaking labour, less salinity and waterlogging. There is also room for improving water use efficiency in rain-fed and flood-dependent agricultural water systems. A

broad repertoire of measures can help retain and store these more erratic water resources. There is also high potential for increased productivity gains from rain-fed and flood-based farming, predicted by many to be the source for a large part of the future increase in global food production.

20. A second important area to promote water use efficiency is in urban settings. Water losses in urban water systems typically range between 25 and 40%. These losses are partly technical and partly administrative. They undermine the sustainability of water utilities, put pressure on infrastructure and resources and lead to the deterioration of the quality of water services. Reducing urban water losses is vital to secure long-term water resources availability for the growing cities.
21. **Pillar 3: Capacity development and solutions transfer.** Capacity development is a central tenet of the 10YS: “the empowerment of societal actors to effect positive and sustainable change in order to close capacity gaps and support the achievement of development goals”.
22. Many actions can be conducted differently. These include better urban water asset management, effective use of water resources, smart provision of basic water and health services, agriculture water savings and control of pollution and degradation. The obstacle to all these improvements is not lack of opportunities or interest, but the scarcity of skills and the inability of decision makers, institutions and individuals to take action.

The first priority under this pillar is effective water governance, that is making sure the prerequisites are in place for water to be managed fairly and for quality water services to be provided with integrity.

The second priority relates to the practical capacity of those who plan and implement programmes, their direct managers and supervisors, and the decision-makers above them. What matters is

impact, hence the emphasis in this pillar on the transfer of solutions and the exchange of practical experience.

23. As the IsDB’s experience in Reverse Linkage shows, there is much power in the interaction between member countries, which have their unique valuable experiences in solving developmental problems. Therefore, capacity development and the transfer of solutions will be mainstreamed into the IsDB’s interventions in the water sector.

The IsDB also needs to support a new generation of water practitioners and experts, closely linked to its operations, through scholarships and other forms of engagement.

24. **Pillar 4: Effective water resources management.** This pillar reflects the IsDB’s emphasis on impact and results. In the past two decades, there was an upsurge in water policies and approaches, but water resources are still under relentless pressure and major water issues remain unresolved, some not even tackled.

Often, they have been more a topic of debate than of action. This pillar focuses on effective water resources management, that is putting into action solutions for better water use, integration of functions and regulations, protection and enhancement of water resources.

25. The judicious management of water under an effective enabling and integrated management framework often goes hand in hand with balanced multiple water uses, harmonized and robust allocation between different users, better control of surface water, including flood management, basin management, regulation and recharge of groundwater, the safeguarding and use of wetlands for a range of functions such as water treatment and other nature-based solutions.

The trans-boundary cooperation between countries in water management will not only help de-escalate conflicts, but also give impetus to peace and cooperation. Raising awareness and fostering knowledge, supporting strong institutions and local ownership,

investing in relations, institutional coordination, aligning financial incentives, strengthening regulatory frameworks – the gist of improved water governance - are part of effective water resources management.

- 26. Pillar 5: Resilient water systems.** The COVID-19 pandemic has been a severe test to all systems in sustaining basic needs, keeping vital services provided and economies active.

The world is expected to face more crises as a result of disease outbreaks, climate change, conflict and water catastrophes, including depletion and degradation. Therefore, existing and new water systems need to be resilient to physically and institutionally withstand these constantly emerging pressures. Strengthening resilience will increase the ability of systems to deal with shocks and improve their performance.

It requires working with the existing systems and designing improved ones, better adapted to climate threats. For a water facility to provide services that enhance resilience, measures taken must contribute to the resilience of the entire system, not just protect part of the facility against threats. Resilience is not limited to physical infrastructure but extends to operational and managerial aspects.

- 27.** Some institutions are much more able to function under stress conditions than others. Therefore, stress-resistance will be built into the water portfolio as part of the overall strengthening of the institutions in charge. This pillar may also cover activities that help member countries better deal with droughts and floods, using non-conventional water sources, including desalinated waters.

A large number of drought proofing measures give higher results overall in landscape restoration for instance. As for floods, they may be seen not just as a threat, but an opportunity too, given the potential benefits of water storage and flood water spreading.

Guiding Principles

28. In order to formulate the specific programmes and operations in the water sector, a number of guiding principles (or enablers) will be used in close cooperation with member countries to help achieve the overarching objectives of the WSP.
29. **Finance/Strategic blending of finance** is the first guiding principle. As a pioneer in Islamic finance, the IsDB has developed several specialized Islamic financial products. The guiding principle is to use these financial services, where possible, to mobilise more funds for the activities undertaken, from private and public sources. Almost all water investments should qualify for green or climate Sukuk. The IsDB may raise funds for water and climate related projects on behalf of its member countries, with the efforts of IsDB and member countries in developing excellent programmes being rewarded with larger financial resources.
30. Developing blended finance packages serves to fund water programmes and plays a catalytic role by establishing financial linkages around them with local and international fund providers, public and private. This may further contribute to their developmental impacts. Supplementary resources can be raised within the country. Well-functioning water and irrigation utilities are a safe investment for national pension and welfare funds for instance. Public-private partnerships and new financial arrangements, such as performance-based contracts, may benefit from the private sector’s financial capacity and ability to deliver services, which helps build a stable local economy based on sustainable and efficient provision of essential services. In seeking blended finance, the IsDB’s role may be that of initiator, first resort financier or guarantor.
31. **Synergy** is the second guiding principle. It is closely related to the strategic blending of finance, forging alliances with external partners

(international financial institutions, bilateral donors, philanthropies, NGOs, etc.) around essential water programmes and services. The role of synergy could go even further. Water is an essential ingredient in other sectors and a means to achieving agendas in public health, security, job creation, etc. It is also unique and irreplaceable for food production and the integrity of the environment.

32. Synergy in water investments will be optimized to maximize the spin-off of water operations. It is also important to integrate water components in other programmes, such as agriculture, health, education, transport, urban development, youth employment and peace and security.
33. Synergy with the energy sector is of special importance, mainly because of the water-energy nexus. Energy drives the economic base for many water services such as groundwater use and salinization, and water services are responsible for a large part of energy consumption.
34. Similarly, synergy between water and agriculture is of high importance and merits special attention in IsDB interventions, as better agricultural water management can increase yields and free up water for other uses. Equally important is the synergy with gender and youth.
35. The whole management process of water and sanitation, from decision-making, technology choices, implementation, benefits and risks are all gendered. The situations, priorities, and needs of men, women – young and old – are different when it comes to water and sanitation. The promotion of women and youth participation will, therefore, be encouraged.
36. **Selectivity** is the third guiding principle. While water challenges in IsDB member countries are beyond their resources and those of donors combined, the IsDB can still make a meaningful impact. Given the multiplicity of problems, the choice of where to intervene within the entire

system is important. Some selection criteria should be systematically considered in the dialogue with member countries and partners. To be included in IsDB country strategies, programmes should be prioritized based on their ability to innovate or to offer easy and quick wins, create significant impacts and address inequity, and their scalability, replicability and successful implementation in member countries.

37. The fourth guiding principle is Science, Technology and Innovation (STI). IsDB operations provide unique real-life conditions for innovation to take root. Therefore, there is need to develop linkages with the best innovators who hold practical ideas. There is also need to support member countries to mobilize and mainstream science and technology to accelerate access to water supply and sanitation, and to harness innovation in water management.

38. There are several such promising breakthrough innovations. They include remote sensing in water management, smart metering in groundwater use, machine learning in performance monitoring, digitization in water management, multifunctional use of infrastructure, integrated urban water management, green infrastructure and nature-based solutions, district metered area systems and low-cost desalination.

39. In general, STI will be an integral part of IsDB dialogue with, and interventions in, member countries. With the support of various STI programmes, it will be streamlined within the IsDB in order to meet the national priorities and regional and global needs.

Roles and responsibilities

40. The IsDB will lead the implementation of the WSP and seek, for this purpose, the collaboration of other business units and affiliates within the IsDB Group.
41. The new direction taken with the 10YS offers a huge opportunity for the IsDB to help member countries improve water management practices and processes and spare countries and economies the consequences of water insecurity. To strengthen the dialogue with member countries on the water sector and operationalize the policy, the IsDB will have to translate the policy pillars into strategic plans. These operational strategies will have to be monitored and adapted from time to time to changes in member countries. While preparing new operations, linkages may be established with organizations experienced in developing proofs of concept and able to take a project from idea to implementation.
42. This policy also requires the IsDB to constantly monitor its own performance in supporting the water sector, using pre-set indicators, and be vigilant with respect to new challenges. The policy needs to gauge how well investments in the sector are contributing to progress in member countries and the achievement of the SDGs. The IsDB will facilitate the formal evaluation of its investment performance under this policy.
43. To support IsDB's role in improving the water sector in member countries and address the numerous challenges, systematic learning should take place within the IsDB sectors concerned through communities of practice.

Related Policies

- 44.** Water cuts across almost all aspects of human life and economic activities. As such, effective water management, supported by the WSP, contributes to the implementation of several IsDB sectoral policies. Other policies in turn, play a role in attaining the objectives of the WSP. Aligning policies and plans enhances the benefits and resource efficiency of policy implementation. Specific synergies exist with the climate change policy, the environmental and safeguards policy, the agriculture and rural development sector policy, the urban sector policy, the energy sector policy, the disaster risk management and resilience policy, the fragility and resilience policy, the health policy, the STI policy, and the reverse linkage policy. Additional important linkages exist with the women’s empowerment policy and the education sector policy.
- 45.** The P5P encourages the IsDB to add value, deliver results and act as a catalyst for change. All these actions can be achieved in the water sector since the IsDB is well positioned in many ways, given the trust it enjoys from member countries, and the solidarity between them. There is definitely a need for a catalysing force in the water sector and for practical breakthroughs in programmes which can serve as a learning tool.

Version History

- 46.** The WSP is the first of its kind to be prepared since the establishment of IsDB. It is based on a policy study, which analysed challenges and opportunities in the three working regions of the IsDB and was underpinned by quantitative indicators for member countries. The development of the policy benefitted to a large extent from the feedback of a technical committee, formed for this purpose within the IsDB Group, from the rich input of member countries, and from extensive comments received from many regional and international organizations, following many consultations, held in June 2020.
- 47.** This policy will become effective from the date it is approved by the Board of Executive Directors and will be reviewed periodically (as per the operational guidelines) to assess implementation experience and overall impact in achieving the SDGs.



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