



## **Who Governs Water Resources In Developing Countries?**

### **A Critique Of The World Bank's Approach To Water Resources Management**

**By:**

**Nancy Alexander ([ncalexander@igc.org](mailto:ncalexander@igc.org))**

**June 2002**

7000-B Carroll Avenue, Takoma Park, MD 20912  
Tel: (301) 270-1000 FAX: (301) 270-3600  
<http://www.ServicesForAll.org>

## Table of Contents

- A. Introduction
- B. The World Bank's Role: New Water-Related Strategies
- C. Water And Sanitation: Indiscriminate Privatization?
- D. Dams And Other Infrastructure: Bigness Is Back
- E. Compliance With Operational Policies
- F. Mechanisms For Managing Water
- G. World Bank Lending For Privatization PR Campaigns: Conflict of Interest?
- H. Poverty Reduction Strategy Papers (PRSPs): Where Is The Water Agenda?
- I. Cost Recovery And Financing
- J. Sidelined: Poverty, Social And Environmental Concerns
- K. Conclusions And Recommendations

### Boxes:

- 1. Water-Related Millennium Development Goals (MDGs)
- 2. Engineering Consent For World Bank Group Water Strategies
- 3. The Seven Deadly Sins Of Water Projects
- 4. Grants To Underwrite Corporate Subsidies
- 5. The Bank's "Demand Responsive Approach" (DRA) To Water Services
- 6. Armenian Water Utility Cuts Off Poor Customers
- 7. The IMF Sets Cost Recovery Schedule For Water In Ghana

### Figure: The Making of CAS

### Attachments:

- A. Outline Of Proposed Water And Sanitation Business Strategy Of The World Bank Group
- B. World Bank-Spawnd Institutions And Partnerships In The Water World
- C. Long-Term Bank Loans Preclude Public Provision of Water: The Cases Of The Philippines and Ghana

**Acronyms:**

<b>APL</b>	Adaptable Program Loan
<b>CAS</b>	Country Assistance Strategy
<b>DRA</b>	Demand Responsive Approaches
<b>ESSD</b>	Environmentally And Socially Responsible Development
<b>IDA</b>	International Development Association (of the World Bank)
<b>IFC</b>	International Finance Corporation (of the World Bank Group)
<b>IMF</b>	International Monetary Fund
<b>MDG</b>	Millennium Development Goal
<b>OED</b>	Operations Evaluation Department (of the World Bank)
<b>PR</b>	Public Relations
<b>PRSC</b>	Poverty Reduction Support Credit
<b>PRSP</b>	Poverty Reduction Strategy Paper
<b>QACU</b>	Quality Assurance And Compliance Unit
<b>SMART</b>	Safeguards Management And Review Team
<b>SWAP</b>	Sector-Wide Approach To Planning
<b>WRSS</b>	Water Resources Sector Strategy

# Who Governs Water Resources in Developing Countries?

## A Critique Of The World Bank's Approach To Water Resources Management

*The more users pay, the more likely a project is to be demand-driven.*  
— Operations Evaluation Department, World Bank, Précis Number 215, Winter 2002

### A. Introduction

On June 5, U.S. Treasury Secretary Paul O'Neill delivered a major foreign policy address on the future of international assistance. The address was delivered 55 years – to the day – from Secretary of State George Marshall's announcement of the Marshall Plan. Indeed, the U.S. Administration views its Millennium Challenge Account (MCA) – scheduled for a September 2003 launch – as the third great foreign policy initiative of the century after the Marshall Plan and the Alliance for Progress.

Secretary O'Neill dwelled on the importance of primary education, health (HIV/AIDS) and, especially, safe water. The MCA is expected to revolutionize service delivery, especially by working with governments that agree to delegate such delivery to private and not-for-profit providers.

Indeed, the agenda of public sector reform in developing countries is being transformed within G-7 governments, the multilateral lending institutions they control, and transnational corporations that influence both groups. Decades of disappointment with foreign aid have transformed that agenda into a debate about how – rather than whether – to privatize basic services, especially water and power.

Powerful creditors and donors, such as the U.S. and multilateral lenders, may refuse to extend credit to those governments that choose to retain public water provision. Recently, the World Bank Director for Water and Power declared that water and sanitation loans to Africa will be “out of the question” unless they include private sector participation. This position represents an institutionalized hypocrisy. The industrialized countries that dictate conditions for access to development assistance maintain public provision of water for themselves, while requiring that developing countries renounce it. (The same double standard exists in other policy areas. For instance, the industrialized countries increase already high levels of agricultural subsidies, while requiring that developing countries remove theirs.)

**Rejecting Public Provision.** Powerful donors and multilateral lenders have many ways to influence politics in developing countries – mainly by withholding aid, credit, or debt relief until governments agree to privatize.<sup>1</sup> The IMF has suspended debt relief when governments were unwilling to privatize or to privatize rapidly enough.

---

<sup>1</sup> The IMF is essentially the kingpin of a “cartel” of creditors and donors that obeys the IMF's signals about the acceptability of a government's policies. At present, the IMF is extending the time period within which Ghana must achieve full cost recovery for water and electric utility services. If the Government of Ghana

Usually, donors and creditors insist that developing countries take a step-wise approach to privatization. They may require that, as conditions for accessing aid and credit, governments take steps to: decentralize decision-making;<sup>2</sup> pass water-related laws and regulatory provisions; prepare and implement bidding plans; withdraw credit to failing public water companies; and enhance cost recovery. The institutions recommend the “boil the frog” method of cost recovery, which involves gradual tariff increases. Just as a frog doesn’t struggle as slowly increasing water temperatures ultimately lead to its demise, so too, the theory says that consumers will not protest as the burden of higher water payments accumulates over time.

Not surprisingly, the World Bank does not disclose sectoral or structural adjustment loan documents that include the terms and conditions of water privatization, even after Board approval. As of 2002, borrowing country governments can voluntarily disclose their requests for such loans. However, few are likely to do so. How many governments will be anxious to disclose information and documentation that include requirements that subvert parliamentary or congressional processes (where they exist) by mandating the passage of laws, or by offering key assets, such as public water systems, for sale or concession?

**Extolling good governance while short-circuiting participation.** While the creditor and donor communities publicly extol “good governance,” they finance tactics that short-circuit the possibility of open and pluralistic decision-making. Indeed, the World Bank is requiring that governments undertake highly biased “information campaigns” to convince their citizens of the merits of water privatization.

The drive to privatize water is enveloped in rhetoric about the importance of participatory and demand-responsive approaches (DRA) to decision-making. However, popular participation in decisions about *whether or not to privatize* is seldom – if ever — sought. Privatization is often a foregone conclusion. Hence, participation is limited to issues such as water allocation decisions and cost recovery. Citizens lose their right to self-determination when they are only engaged in carrying out policy decisions, rather than making them.

**Inducing private sector participation.** The Bank’s draft Water Resources Sector Strategy (WRSS) takes the position that privatization and big infrastructure will go a long way toward solving water challenges of the future. However, rather than provide compelling analysis and evidence, the WRSS takes its controversial position as a given, and focuses on practical constraints to realizing its vision of private service provision.

For example, because it is the nature of private investors to avoid the kinds of risks entailed in water supply, sanitation, irrigation and drainage projects in developing countries, the World Bank Group (and its major shareholder, the U.S.) is inventing new ways to entice investors into high-risk environments. In addition to its traditional product line of guarantees to offset commercial

---

fails to comply with key IMF loan conditions, it could lose access to as much as \$1.2 billion in foreign assistance from an array of donors and creditors. Donor governments also exert leverage. For instance, the U.K. government is withholding \$300 million until the Government of Ghana concedes to signing private concessions for the urban water system.

<sup>2</sup> Over the decade, seventy percent of water projects promoted decentralization of water resource management, despite country views that communities lack the capacity for such management. Bank surveys show that Bank staff members were three times more likely than country stakeholders to believe that small rural communities could plan and management water supply systems.

and political risk, the World Bank Group plans to subsidize corporate investment in water systems with new grant flows. (See Box 4.) The World Bank Group is also expanding microfinance programs for independent water providers and for households that are unable to afford commercially priced services.

**Injunctions for the WSSD.** The Rio Declaration on Environment and Development promotes peoples' right to participation in open decision-making processes. As the world's civic communities prepare for the World Summit on Sustainable Development (WSSD), or "Rio +10" in August 2002, they should unite in calling for bottom-up national decision-making about water provision. They should condemn any actions which short-circuit democratic processes and preclude the option of public provision of water services.

Agenda 21 – the product of the 1992 UN Conference on Environment and Development in Rio de Janeiro — states that water is not just an economic good, but also a social good. "In developing and using water resources, priority has to be given to the satisfaction of basic needs and safeguarding of ecosystems" and that "beyond these requirements, water users should be charged appropriately."<sup>3</sup> As described below, the World Bank is in the process of finalizing three water-related strategies that may flout this injunction.

The Bank's proposed strategies also lack a focus on the need for affordable, safe water in rural areas where the vast majority of the world's poor people live. In order to meet the water-related Millennium Development Goals (MDGs), the Bank will need to revisit the issue of how to empower poor populations (especially those in rural areas) and help to ensure their livelihoods.

#### **Box 1**

#### **Water-Related Millennium Development Goals (MDGs)**

- Halve by 2015 the proportion of people without sustainable access to safe drinking water. This involves improving water supply for 1.018 billion urban dwellers and 581 million rural inhabitants.<sup>4</sup>
- Enable at least 100 million slum dwellers to have access to improved sanitation facilities by 2020.
- Reduce by two-thirds the under-5 mortality rate by 2015.

### **B. The World Bank's Role: New Water-Related Strategies**

**The Bank's Portfolio.** At present, of the \$60 billion invested in water in developing countries each year, about 90% comes from domestic sources. The World Bank accounts for about half of

<sup>3</sup> Agenda 21, paragraph 18.8.

<sup>4</sup> Appleton, Brian and Chatterjee, Ashok, "Innovative Strategies for Water and Sanitation for the Poor: Access and Affordability," Water Supply and Sanitation Collaborative Council, International Conference on Freshwater, Bonn, 2001.

external financing – about \$3 billion per year. However, this understates the Bank’s role, since the institution also leverages private investment and often plays a decisive role in policy formulation.<sup>5</sup>

Water-related investments are about 14% of the World Bank’s overall loan portfolio. At the end of fiscal year 2001, the World Bank had outstanding commitments in water-related sectors of about \$20 billion: \$4.8 billion for urban water and sanitation; \$1.7 billion for rural water and sanitation, \$5.4 for irrigation and drainage, \$1.7 billion for hydropower, and \$3 billion for water-related environment projects.<sup>6</sup>

In 1993, only 27% of World Bank-financed water projects had likely sustainability (e.g., continue to reap benefits over time, after project completion) as compared to about 40% today.<sup>7</sup> Rather than sustainability ratings, the Bank tends to tout ratings at project completion, which stand at 58% for water and sanitation<sup>8</sup> and 62% for irrigation/drainage.

Still, the World Bank Group is planning a major expansion of its water-related portfolio, especially in the area of high-risk infrastructure. It is pushing back the privatization “frontier” by, among other things, targeting water supply and irrigation services.<sup>9</sup>

**Whose Consensus?** The draft Water Resources Sector Strategy declares that:

*Just as there is a global consensus on what constitutes a sound energy sector, so too is there a consensus on the central features of a sound water supply and sanitation sector. This consensus draws on the same principles of separating the role of providers (increasingly private) from that of regulation, policy formulation, and assessment (a public role), and of stimulating competition amongst providers.”* (WRSS, paragraph 52)

Notwithstanding the World Bank’s enthusiasm, there is no such global consensus about the water sector. According to the Bank’s own Operations Evaluation Department (OED),

*“...getting the private sector to focus on the alleviation of poverty and to design tariffs in a way that does not discriminate against the poor has proved hard to achieve in practice...where the private sector cannot deliver or sees the risks as too high, there may be a case for the Bank to intervene to improve capacity and policy to upgrade public sector utilities.”* World Bank, OED, Bridging Troubled Waters, p. 22, 23.

Given the number of institutions and partnerships that the Bank has founded and financed, it is not surprising that the orchestration of privatization messages gives an appearance of a consensus among certain governments and corporations. (See Attachment B, World Bank-Spawnd Institutions and Partnerships.)

---

<sup>5</sup> <http://www.worldbank.org/html/extdr/pb/pbwater.html>

<sup>6</sup> World Bank, “FY01 Annual Report on Portfolio Performance,” Report R2001-0216; IDAR2001-0198, December 21, 2001.

<sup>7</sup> OED, “Bridging. . .”, Annex C, p 16.

<sup>8</sup> World Bank, FY01 Annual Report on Portfolio Performance, December 21, 2001, p. 64.

<sup>9</sup> See the 2001 “Strategic Directions” paper of the Bank’s private sector affiliate, the International Finance Corporation (IFC). The IFC’s investments increased four and a half times over in real terms between 1980 and 2000. The IFC’s infrastructure department was created in 1992 and, by 2000, a fifth of IFC lending went to private sector infrastructure.

**Proposed Water Strategies.** The privatization “spirit” infuses the series of three water-related strategies that may come on line at the Bank this year:

- Water Resources Sector Strategy (WRSS)
- Water and Sanitation Business Strategy (WSBS)
- Irrigation and Drainage Business Plan (IDBP) of the Agriculture and Food Security Strategy

In early August 2002, the World Bank’s management plans to send the proposed Water Resources Sector Strategy (WRSS) to the institution’s Board for approval. The WRSS proposes a big comeback in World Bank financing of big, controversial infrastructure, such as dams.

**Box 2**

**Engineering Consent for World Bank Group Water Strategies**

The Bank’s draft Water Resources Sector Strategy (WRSS) is intended to put two documents into action: the Bank’s 1993 Water Resources Management Policy Paper (WRMPP) and the evaluation by the Bank’s Operations Evaluation Department (OED), “Bridging Troubled Waters: Assessing the Water Resources Strategy Since 1993,” (October 15, 2001).

These Strategies would escalate private sector participation in water supply. For instance, implementing the Water and Sanitation Business Strategy could *nearly triple* the size of the Bank’s portfolio in this area.

While some Board members assert that the WRSS is intended as a comprehensive strategy paper; management claims that the WRSS is intended to capture the Bank’s perspective on controversial issues. Whatever else the WRSS is intended to be, it certainly is controversial: its assertions of a consensus in favor of private water provision and the need for significant expansion of Bank financing of big infrastructure.

As described below, the Bank’s consultation process on the Water Resources Sector Strategy (WRSS) is inadequate.<sup>10</sup> However, at this point in time, the Bank has NO plans to consult on its Water and Sanitation Business Strategy (WSBS) or its Irrigation and Drainage Business Plan (IDBP) even though these documents will have a decisive impact on efforts to meet Millennium Development Goals. Board members should be urged to require consultation with respect to approaches to both water and sanitation and irrigation and drainage. (See outline of WSBS in Attachment A.)

The consultation process for the Water Resources Sector Strategy (WRSS) has involved revisiting in 2002 groups in several countries that were consulted in 1999-2000 in connection with the

---

<sup>10</sup> The World Bank’s new Information Disclosure Policy, which went into effect on January 1, 2002, requires disclosure of the institution’s proposed strategies and policies if and when a Board Committee approves such disclosure for consultation purposes.



development of the environment strategy as well as the water resources strategy. The draft WRSS includes very selective input from stakeholders (e.g., the input of the Brazilian private sector is presented). In the 2002 consultations, the Bank did not inform or invite NGOs — other than the handpicked few who were included in the earlier round. World Bank observers and staff note that the institution’s consultations are often *pro forma* exercises in “participation for validation” of strategies that are already designed and, frequently, under implementation.

The Bank’s “global civil society” consultation on the WRSS was held on May 29 in Washington with representatives of 11 NGOs (of the 20 invited). John Briscoe, author of the WRSS, was the only professional Bank staff person in attendance at this consultation.

**Labor?** Although the water sector is highly organized in many countries, the World Bank has had few talks on the WRSS with the international labor federations representing the affected unions. Where World Bank negotiations of water privatization exclude affected unions, problems arise, including poor regulation, lack of transparency and corruption. Frequently, the privatization process is conducted as if no collective bargaining agreement existed with unionized water sector personnel. While the Bank claims to fight poverty and support “good governance,” in privatizing water authorities, it eliminates thousands of formal sector jobs in violation of internationally-recognized labor standards (e.g., the rights of association and collective bargaining) and without regard for unions, which are sometimes among the few democratic and representative organizations that operate in countries.

**WRSS Schedule.** The Bank’s Board Committee on Development Effectiveness (CODE) currently schedules the WRSS for review in July and by the full Board in August. The policy may be approved in time for distribution at the World Summit on Sustainable Development in Johannesburg, South Africa in late August-early September 2002.

### C. Water And Sanitation: Indiscriminate Privatization?

The World Bank’s official position supports public provision of water as one policy option in borrowing countries. However, when a participant at the Bank’s May 2002 Water Forum asked the Bank’s Director of Water and Power whether he supported that position, she was told that, *for Africa, loans without private sector participation components are “out of the question.”* While this official did not explicitly rule out a role for public provision for Africa, he might as well have, stating that the Bank would invest in public utilities only where a Task Manager can make the case that the utility is operating effectively on a commercial basis.

When the Bank’s Board approves the Water and Sanitation Business Strategy, it will provide a roadmap to massive expansion of the water and sanitation portfolio — from \$5.5 billion to \$15 billion in four years. The main elements of the Strategy are summarized in Attachment A. Bilateral donors – especially the U.S. — will accelerate these privatization efforts independently as well as through cofinancing of water operations.

**Poorly Performing Water and Sanitation Projects.** According to the Bank’s evaluators, only 40% of *dedicated* water projects and 24% of *non-dedicated* water projects are rated as “likely to be sustainable.” The Bank classifies water and sanitation projects as “dedicated” projects. “Non-dedicated” projects contain water-related components, but are classified differently [e.g., Social

Funds, Urban Development, Environment, Agriculture projects].<sup>11</sup> ***“Non-dedicated” projects represent nearly half of all Bank lending for water and sanitation.***

One channel for “non-dedicated” water lending — Social Funds (SFs) – often provides resources for rural water supply and sanitation on a large scale. In Ethiopia, about 40% of total capital investments in the sector were made by the SF.<sup>12</sup>

Social Fund mechanisms, which exist in over 60 countries, have the potential to significantly undermine democratic process. However, the latest OED evaluation of Social Funds does not treat this problem with sufficient seriousness. Of particular concern are the instances in which Social Fund resources are not included in the national budget process and instances in which Social Fund projects run in parallel to, and sometimes at odds with, the projects of line ministries.<sup>13</sup>

**Sanitation: Bias toward Capital-intensive Solutions.** Sanitation services are conventionally handled with either large, centralized systems in cities, decentralized septic tank systems in peri-urban or rural areas, or with latrines used by the poor. The interests of creditors and corporations favor conventional centralized systems. However, such systems generally require significant government subsidies for infrastructure and treatment costs. The technical nature of both maintenance and management of these systems tends to be top-down, and technocratic. Community input is generally limited to complaints when there are leaks or other problems in the system. Even small systems tend to be driven by engineers with little citizen input or knowledge of management systems.

### **Box 3**

#### **The Seven Deadly Sins of Water Projects**

The water and sanitation portfolio is among the Bank’s worst performing portfolios. The Bank’s Operations Evaluation Department (OED) has described the ways in which the projects generally go awry. They posit the “Seven Sins” of water projects<sup>14</sup>:

1. Finance a “Washington pipe dream”
2. Proceed without political will for reform
3. Set targets (e.g., cost recovery goals) with no means (e.g., tariff regulation and metering) to achieve them
4. Disregard consumer preferences
5. Overestimate demand to justify the project (i.e., demand projections must take into account the effect of tariff increases, the effect of better metering and the effect of changed incentives)

<sup>11</sup> Water and sanitation investments accounted for about a third of total costs in non-dedicated projects.

<sup>12</sup> WSP, Africa, “Water Supply and Sanitation in PRSP Initiatives: A Desk Review of Emerging Experience in Sub-Saharan Africa,” p. 14.

<sup>13</sup> World Bank OED, “Social Funds: A Review of World Bank Experience,” Report No. 23668, February 12, 2002, p. 37.

<sup>14</sup> See Power oint “Thirty Years of Bank Assistance in Water Supply and Sanitation: Preliminary OED Findings, Klas Ringskog, World Bank Water Forum, May 6, 2002

- |   |
|---|
| <ol style="list-style-type: none"><li>6. Build a cofinancing house of cards (i.e., if one cofinancier withdraws, a project may collapse)</li><li>7. Blast ahead with unchanged incentives (i.e., the “carrot is stronger than the stick”)</li></ol> |
|---|

#### **D. Dams And Other Infrastructure: Bigness Is Back**

As a result of controversy over infrastructure lending, especially dams, the Bank’s portfolio in this area took a dive during the late 1990s. There was a decline of 19% (in real terms) in the size of the Bank’s *total* loan portfolio since its peak in FY96.<sup>15</sup> However, there has been a steeper decline of 30% in lending for infrastructure (Energy Sector decline of 65%; Transport, 28%; Urban, 25%) over FY95-01. The institution’s 2001 “Cost of Doing Business” study concluded that an important part of this decline is attributable to client distaste for Bank’s safeguard policies.”<sup>16</sup> (See “E” below.) The study did not mention corporate impatience with the policies.

At the same time, many shareholders and the Bank, itself, were supportive of the World Commission on Dams (WCD) which, in its November 2000 report, presented a framework for decision-making on water and energy development based on core values: equity, sustainability, participatory decision-making, and accountability. The Bank’s Board met five times to consider the recommendations of the World Commission on Dams. Management also consulted with borrowing countries.

In these consultations, the Bank reports that they heard the following messages from borrowers: 1) They are proud of improved performance with respect to dams in recent decades; 2) They are a strong commitment to continued improvement; 3) they are concerned about a sharp reduction in Bank involvement; and 4) they want the Bank to be a more effective partner in "high risk/high reward" infrastructure. That is, they don't want the Bank to be risk averse.

The Bank formed an Operational Group — the Patel Panel — that reversed the Bank's *de facto* withdrawal from high-risk investments. Dam projects will be set aside as “corporate projects” with extra resources, since they are 64 times more likely to go to the Inspection Panel than other projects. The Inspection Panel, established in 1993, accepts complaints submitted by aggrieved parties in borrowing countries who contend that harm has resulted due to the Bank’s violation of its own operational policies.

The Bank perceives the WCD’s 26 recommendations as much more ambitious and costly than its own safeguard policies. Hence, the Bank’s Board decided that the recommendations could not be adopted as guidelines for the institution’s operations. Instead, the WCD recommendations will inform operations. (See Attachment B for information on the WCD.)

The WCD is one of many collaborative processes in which the Bank has engaged and, in the end, flouted the outcome. In this case, as in others, outcomes are guided by a growing alliance among corporations and certain governments.

---

<sup>15</sup> At the end of FY01, the Bank’s lending portfolio consisted of 1561 operations representing commitments of \$105.9 billion. This represents a 10% drop in nominal terms from the year before, largely due to the exit of big adjustment operations from the portfolio.

<sup>16</sup> World Bank, “Cost of Doing Business: Fiduciary and Safeguard Policies and Compliance,” SecM2001-0469, July 17, 2001.

Unfortunately, the World Bank is reverting to its old ways. Until 1992, when a Bank Commission (the “Wapenhans” Task Force) issued a stinging rebuke to the institution, its focus was unabashedly on moving money. The Bank had a “culture of approval” with an incentive system that rewarded Board approvals of big loans and sacrificed the quality of loans and development outcomes. After the Wapenhans report was issued, the Bank began to emphasize monitoring, evaluation and outcomes.

But bigness is back. At the same time, the Bank is sensitive to its reputation and record of failure in big infrastructure projects. To restore its credibility, the Bank could take responsibility for its record and demonstrate more enthusiasm for low-risk/high return infrastructure than high risk/high return infrastructure.

## **E. Compliance With Safeguard Policies**

*The Bank’s safeguard policies to prevent or mitigate against environmental harm from its projects – while sound in concept – were not accompanied by clear standards and consistently effective implementation. This has resulted in increased reputational risks and diversion of attention to damage control.<sup>17</sup>*

Three-quarters of water projects, including dams, are environmentally sensitive. This means that the Bank’s safeguard policies should apply. There are ten safeguard policies intended to ensure that Bank-financed projects “do no harm” to people and ecosystems.<sup>18</sup>

Since the Bank anticipates financing more large dams and other infrastructure projects, it is problematic that its rate of compliance with safeguard policies for such high-risk projects has declined (FY00-01). Project supervision is inadequate with respect to practices such as monitoring and evaluation; mitigation and management; consultation; and appropriate action when safeguards are breached.

The Bank has a short-term and a long-term plan to meet its challenges in ways that minimize the costs of these policies to borrowers.<sup>19</sup> The *short-term plan* has involved considerable strengthening of internal compliance mechanisms. For instance, the Bank has doubled (to \$4 million) the FY02 resource allocation for the Quality Assurance and Compliance Unit (QACU) [which is located in the Bank’s Environmentally and Socially Sustainable Development (ESSD) Vice Presidency]<sup>20</sup> to deal with high risk operations. There are also increases in the budgets for regional safeguard policy work, safeguard policy training, and projects that pose high risks.

Following recent policy changes, the Bank has pledged to:

---

<sup>17</sup> World Bank OED, “Review of the Bank’s Performance on the Environment,” July 3, 2001, p. 25.

<sup>18</sup> The Safeguard Policies are: Environmental Assessment; Forestry; Involuntary resettlement; Indigenous Peoples; International Waterways; Dam Safety; Natural Habitats; Pest Management; Cultural Resources; Projects in Disputed Areas.

<sup>19</sup> For instance, by policy harmonization among donors and creditors, shifting responsibilities for safeguards onto borrower institutions, and, possibly, integrating several policies (forestry, natural habitats, pest management and dam safety) under the umbrella for the Environmental Assessment

<sup>20</sup> QACU coordinates the Safeguards Management and Review Team (SMART), which helps apply the safeguard policies in different countries and sectors. Where SMART cannot reach consensus, they submit cases to the Safeguards Committee of senior management related to the case.

- Disclose Environmental Assessment Reports in-country and at headquarters as a prerequisite for formal project appraisal;
- Treat all safeguard policies equally. Previously, the Bank focused primarily on three safeguard policies: environmental assessment; involuntary resettlement; and indigenous peoples.

The *long-term plan* for minimizing the “cost of doing business” is for the World Bank to harmonize its safeguard policies with those of the other financial institutions. Since other institutions (regional development banks, export-import banks) have lower standards, this could entail a “race to the bottom.” The long-term plan also entails ensuring that borrowing governments assume responsibility for compliance through their own policy and legal frameworks.

## **F. Mechanisms For Managing Water**

The Bank has developed new emphases in its lending operations that focus on groundwater — specifically, managerial and remedial measures — as well as on river basin organizations that rely on market mechanisms to allocate water, plan, monitor and evaluate. River basin organizations depend on the establishment of a system of transferable property rights, management by users and elimination of certain subsidies. Indeed, the Bank sees the elimination of subsidies as a top priority and precondition for private provision of irrigation services.

With respect to costs, the Bank holds that farmers should pay the full financial costs — operations and maintenance, rehabilitation, and the costs of debt servicing — as well as the opportunity costs of water.

Whereas the Bank favors market mechanisms for water allocation, its own surveys<sup>21</sup> found that almost two-thirds of country stakeholders believed that central government — not market-based mechanisms — should directly allocate their country’s water resources among competing users. The Bank appears to listen only to stakeholders that adhere to its views and to ignore preferences of the majority. It holds that the market is generally superior to the state in terms of the potential to produce equitable social outcomes.

But, it is far from clear that certain market mechanisms can even function in many developing countries. The Bank’s OED says that integrated water resource management by river basin organizations “requires sophisticated institutions and good governance — things lacking among most of the Bank’s borrowers.”<sup>22</sup> Hence, it is important that the policy-makers, including the World Bank, work with stakeholders to ensure that the necessary preconditions are in place for such organizations to operate effectively. It is revealing that the Bank’s OED could not find any Bank projects that “systematically reviewed pre-project water uses to determine the effects of the river basin project on the water access and the use by different socioeconomic groups.” (OED, 21) Where powerful interests control river basin organizations, access to affordable water may be denied to poor and marginalized groups.

Indeed, the Bank’s policy that water should be allocated from low value to high value users has the potential for abuse by powerful interests. Moreover, even if allocation decisions are not

<sup>21</sup> Surveys were conducted by the Bank in Brazil, Yemen, India and the Philippines.

<sup>22</sup> Ibid., p. 24.

subject to politics, the Bank’s dream of a “world without poverty” suggests that a major assumption underlying its position is that high value activities have extensive linkages to activities central to the livelihoods of poor people. Yet research in both rural and urban poverty fails to reveal such a relationship. Generally, the Bank values industry over agriculture and export agriculture over subsistence agriculture. Implementation of such a policy – together with commercial pricing of water – could deprive poor and powerless people of the water they need to survive.

Often, river basin organizations do not fully take into account the needs of downstream users. Historically, government-run irrigation management agencies have been given administrative responsibility for tending to the needs of downstream agricultural users. However, the Bank is increasingly supporting the transfer of management from government agencies to localized water users’ associations (WUAs).<sup>23</sup>

Where WUAs are mandated (e.g., Indonesia, Sri Lanka, and Pakistan), local groups can be excluded from development of rural water management policies. In these cases, WUAs became the implementing forum for policies made in negotiations between the Bank, donor representatives, and the government ministers.

Frequently, WUAs can be more responsive than government to the needs of their members. However, WUAs may be unsustainable when they are:

- Imposed on irrigation communities, hence, undermining ownership and sustainability<sup>24</sup>;
- Weaker than government irrigation agencies when it comes to bargaining with upstream users, such as hydroelectric companies or companies using hydropower for industry;
- Unable to achieve the necessary economies of scale to match provision by well-functioning, centralized irrigation systems;
- Unable to benefit from commercialization of irrigated agriculture or market access;
- Rife with local-level corruption, inefficiency, and discrimination where there is insufficient oversight; and
- Required to pass on costs that farmers cannot bear.

It is important that the Bank not see WUAs as panaceas, as it tends to do. The vast majority of the world’s poor are subsistence farmers in rural areas who will not work their way out of poverty if “solutions” are imposed upon them. The reality is that WUAs are one strategy for irrigation management.

## **G. World Bank Lending For Privatization PR Campaigns: Conflict of Interest?**

The Bank’s development communications brochure states:

*When issues are contentious, as in reform initiatives, the Bank and governments need to listen and be strategic and innovative in using communications to bring about consensus.*

---

<sup>23</sup> William Easter, Herve Plusquellec, Ashok Subramanian. 1998. Irrigation Improvement Strategy Review: A Review of Bankwide Experience Based on Selected “New Style” Projects (Draft Final Report). Water Resources Thematic Group, Rural Development Family, The World Bank.

<sup>24</sup> For example, see Saadia Iqbal and Aftab Alam. 2000. “The Impact of Institutional Reforms in Water Management on the Poor.” A report by ActionAid, Pakistan.

*The Development Communications Unit (DevComm) helps the Bank and governments reach this goal.*

For instance, the Bank's private sector affiliate, the IFC, is introducing private water supply services in Nigeria's Lagos State. Lagos State has about 96% non-revenue water (NRW), so the question is not whether reform is needed, but rather what kind of decision-making should steer the process of reform.

DevComm worked with the Mobilization and Publicity Unit of the Lagos State Water Corporation to develop an IDA-financed \$500,000 public communication strategy which is being implemented from February 2001 to January 2003 to create "a political environment supportive of private sector participation among key political stakeholders" – first among government departments and then among the public.<sup>25</sup> Posters declare "Let's Join Hands to Make Private Sector Participation Work for Us."

By being party to these loans, the people of Nigeria borrow from one part of the World Bank Group (IDA) to convince themselves of the virtues of private water supply facilitated by another part of the World Bank Group (IFC).

It is unusual that the Bank's Board has not declared this kind of arrangement as a conflict of interest. The Bank's role is explicitly that of marketing a particular outcome (of which the Bank, itself, is a beneficiary) rather than fostering a genuine public debate about how urgently needed services can be improved.

Currently, only 22% of World Bank Task Managers employ communications expertise. In the future, public information campaigns will be regularly employed in water projects introducing private sector participation. New-style communications programs will parallel the entire life cycle of a project – that is, from project inception, to approval and completion.

**Training and Befriending Journalists.** At its May Water Forum, the World Bank invited journalist Rupert Wright to explain about the role of media and journalists in privatization processes. Wright described how journalists have the power to kill privatization projects. Hence, privatizers should, as a first order of business, befriend journalists and influence their messages. He described a new program funded by the World Bank, the Netherlands and Japan that would expand media training with essential skills, such as "simply, then exaggerate."

The communications approach taken by the Bank aims to raise and lower public expectations at the same time. It would raise expectations by overcoming "public skepticism about the possibility of a truly transparent privatization process, distrust of the underlying motives of any coming private sector operator, and suspicion that the transaction is destined to benefit only the wealthy."<sup>26</sup> The strategy would also manage unrealistic expectations of services delivered by private operators.

---

<sup>25</sup> "Public Communication Program for the Lagos State Water Supply Private Sector Participation Project," Case Study, World Bank, May 2002.

<sup>26</sup> Ibid.

Worldwide, the Bank suggests that communications strategies would “achieve public acceptance of cost recovery measures and diminish opposition to foreign operators” while maintaining and strengthening political commitment to potentially unpopular reforms.<sup>27</sup>

Many Bank officials believe that the popular opposition to water privatization in Ghana is a direct result of the failure of the Government of Ghana to carry out an effective communication program. Journalist Wright contends that the Bank and the Government should have formulated persuasive messages. That is, the public should have been convinced that water privatization was the best policy option since public provision failed — the \$100 million invested in the Ghana Water Company over 10 years did not improved water services. He said that the messages of one NGO, the Integrated Social Development Center (ISODEC), reached people – messages such as: “No to Water Privatization,” “Workers against Privatization,” and Privatization is Recolonization.”

Democratic process should not be reduced to publicity campaigns. The World Bank and the Government of Ghana have more money to formulate advertising messages than small NGOs. Instead, democratic processes – especially in a country like Ghana – should rely on decision-making processes through debate and discussion among citizens and their elected representatives.

## **H. Poverty Reduction Strategy Papers (PRSPs): Where Is The Water Agenda?**

The governments of low-income countries must develop PRSPs – preferably with input from civil society – in order to qualify for external assistance, especially from the IMF and World Bank. In theory, PRSPs are developed to provide a framework and set of priorities to guide the investment of domestic and external resources in ways that promote progress toward the Millennium Development Goals.

In practice, the World Bank’s Country Assistance Strategy (CAS) determines lending priorities. The Bank prepares a CAS for each borrowing country that describes the investments planned by the Bank over a 3-year time period. In formulating the CAS, the Bank takes two things into account, a government’s PRSP and the Bank’s rating of the government’s performance [i.e., its Country Performance and Institutional Assessment (CPIA) rating]. Hence, the PRSP is indicative, not decisive, in CAS formulation.

The U.S. negotiator for the World Bank’s IDA, Bill Scheurch, indicated that the U.S. prefers the “partnership” approach of the CAS to the “ownership” approach of the PRSP. This may indicate that the U.S. is distancing itself from the PRSP approach or downplaying the role of the PRSP in formulating actual loan operations. If this is the case, one could expect that the development assistance would diverge more sharply from the aspirations of developing countries, as expressed through the PRSP process.

According to the World Bank, the governments that mentioned privatization of public services in their PRSPs (Nicaragua, Honduras, Bolivia, Mozambique, Burkina Faso, Mauritania, Uganda), were not very specific about their plans. For instance, the Burkina PRSP stated only that the government will privatize state interests “in order to facilitate the entry of new firms, resources and technology into various segments of the market.” Mozambique mentioned the need to

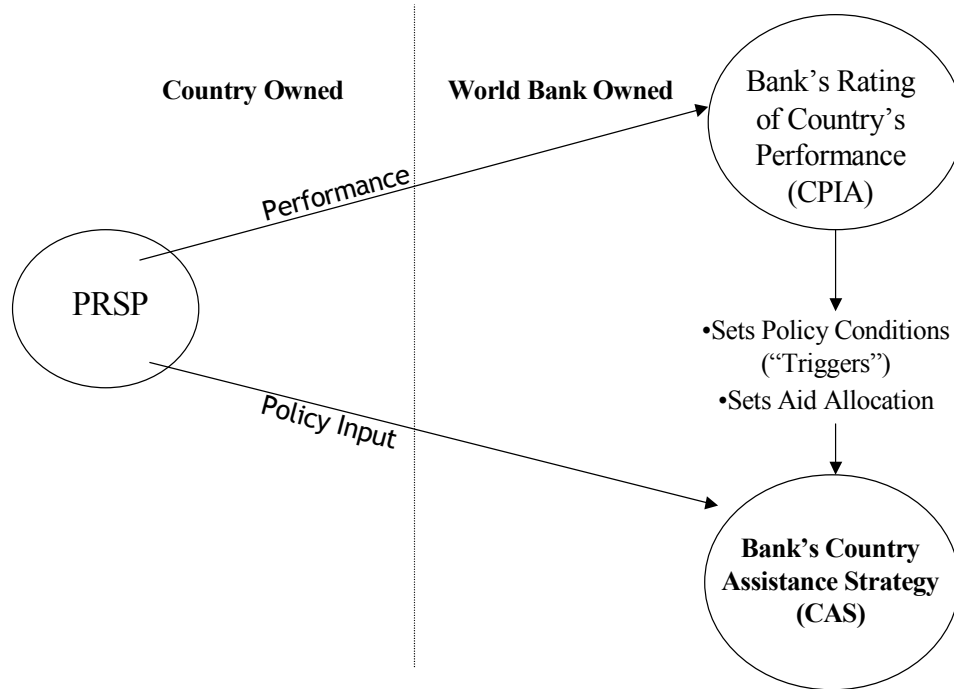
---

<sup>27</sup> Power Point, “Beyond information dissemination: the role of strategic communications in the water and sanitation sector,” Paul Mitchell, External Affairs, World Bank, May 7, 2002.



encourage private investments in energy, water, mining, ports, shipping and roads. Nicaragua's PRSP detailed intentions to engage private sector management of water systems and ports.<sup>28</sup>

### The Making of the CAS



The World Bank Group prepares a CAS for each borrower that describes its investment plans in the country over a three year time period. In CAS formulation, country views may be influential, but not decisive.

Popular participation in PRSP processes should not be confined to articulating development goals for the future or identifying social priorities. Participation is meaningful when it determines the means to achieving goals, as well as the goals, themselves. In particular, before making any decisions about the delivery of basic services, the state should engage citizens in discussions of policy options.

As it stands, African PRSPs are not guiding operations in water and sanitation. A recent desk review of PRSPs by the Water and Sanitation Program (WSP) in Nairobi found that only one out of ten PRSPs – Uganda's — included a water supply strategy. None of the PRSPs addressed sanitation issues.

Notwithstanding the absence of water supply strategies, privatizations are underway in several PRSP countries:

<sup>28</sup> World Bank, "Review of the Poverty Reduction Strategy Paper (PRSP) Approach: Early Experience with Interim PRSPs and Full PRSPs," February 21, 2002, p. 72.

- Benin: The public water utility (SBEE) is being privatized and possibly linked to small-scale service providers.
- Kenya: Privatization is being studied or planned for two or more large urban centers, including Nairobi and Mombasa.
- Mozambique: There are major privatization initiatives in five cities.
- Rwanda: Privatization of Electrogaz is planned.
- Tanzania: Privatization of DAWASA is underway, which is not mentioned in the full PRSP.

Why are water and sanitation conspicuously missing in so many PRSPs? From an institutional point of view, the Bank has integrated education and health concerns with macroeconomic planning and the medium-term expenditures frameworks (MTEFs), but not water and sanitation.

From a stakeholder viewpoint, there is resistance on the part of many constituencies in borrowing countries to the privatization push by donors and creditors.

**Water Privatization in Uganda.** According to reliable insiders, the Bank would have insisted that Uganda include a more radical water privatization program in its PRSP if bilateral donors – especially Austria – had not intervened. In general, powerful donors and creditors have greater influence on PRSPs than many domestic constituencies.

As it stands, the Ugandan Ministry of Water, Lands and Environment and other line ministries and donors completed studies on urban and rural water supply and sanitation. A study of water for production is underway and a study of water resources management will commence in September 2002.

Based on the PRSP, the Bank is providing support in the form of four Poverty Reduction Support Credits (PRSCs) through March 2004. PRSC1 (2001) was intended to enhance good governance, fiscal discipline, and basic service delivery. PRSC2 (2002) is reforming agriculture, health, and education and water. Water coverage is expanding at the rate of 1% per year. PRSCs 3 and 4 will accelerate water reform as follows:

- **Urban Water.** The March 2004 PRSC would support the privatization of urban water by an asset-holding authority. In smaller towns, autonomous WSS authorities will contract out service delivery to private operators. Services will operate on commercial, cost recovery principles.
- **Rural Water.** There will be a Sector-Wide Approach to Planning (SWAP) in the Water and Sanitation Sector based on decentralized management by local governments and central government facilitation of service delivery by the private sector. Communities will bear the full cost for operations and maintenance (O&M) of water systems with government assistance for rehabilitation and costly repairs. The process has begun by increasing the proportion of the discretionary budget allocated to water and sanitation from 1.7% in 1998/99 to 3.4% in 2000/2001.

Uganda is “flagging” certain districts and towns for support from particular donors. Hence, to a significant extent the fate of water supply in each area would be in the hands of a particular donor, e.g., Denmark, Sweden, UNICEF, Austria, Britain, Spain, and the World Bank. It is shortsighted of borrowing countries to rely heavily on the grant flows of external agencies to

provide water subsidies. Poor populations should not rely on the fickle external aid flows for the water they need to survive.

## I. Cost Recovery And Financing

*The most important policy recommendation we can make is for the adoption of full-cost pricing of water use and services. It will be the basis for promoting conservation, reducing waste and mobilizing resources.*” — World Water Commission

*In developing and using water resources, priority has to be given to the satisfaction of basic needs and the safeguarding of ecosystems, beyond these requirements, water users should be charged appropriately.* Agenda 21

**Whose risks matter?** The Bank claims that, in order to meet Millennium Development Goals, annual investment must rise to \$180 billion from the current level of \$80 billion. Of the annual \$180 billion, the Bank estimates that private, public, and donor commitments are needed of \$138 billion, \$30 billion, and \$12 billion, respectively. Estimates by other authorities, such as the U.N., are much lower.

Water and sewerage projects received \$4.5 billion in private financing in 2000, down from \$7 billion in 1999, but still well above the \$2 billion record in 1998. Flows during 1990-2000 totaled some \$36.7 billion – only 5.4% of private participation in infrastructure.<sup>29</sup> To boost private participation in water and sanitation, the draft Water and Sanitation Business Strategy (see attachment A) calls for more creative use of private-public partnerships, risk mitigation, and greater use of guarantees.<sup>30</sup> In addition, the Bank claims that irrigation is a “lagging” sector, which will require the use of strong incentives to attract private investment.

To explore water financing options, Michel Camdessus, former Managing Director of the IMF, is Chairing an Eminent Persons Panel on Water Financing sponsored by the Global Water Partnership, the World Water Council, the Egyptian Minister of Water Resources and Irrigation, and the Third World Water Forum.<sup>31</sup> Camdessus joked with an audience at the World Bank’s Water Forum that perhaps, since he was associated with liquidity, people felt he was qualified to deal with water.

---

<sup>29</sup> Jamal Saghir, Water and Sanitation Business Strategy Development, Power Point presentation, May 6, 2002, p. 13.

<sup>30</sup> Donors are getting in on the act. The UK’s Department for International Development (DFID) launched the Fund for water and sanitation, transport, electricity and telecommunications. In addition to DFID, financing participants include Development Finance Institutions in Germany, the Netherlands, and South Africa, the Standard Bank Group, and the Barclays Bank. Emerging Africa is managed by Standard Infrastructure Fund Managers (Africa). The Consortium will make guarantees and 15-year debt financing available for private sector infrastructure companies in sub-Saharan Africa.

<sup>31</sup> The Eminent Persons Panel has met twice and will have 5 more meetings of 2-3 days each in the lead up to the Third World Water Forum in Kyoto in March 2003. It is comprised of the Presidents of all four regional development banks, the International Finance Corporation, private businesses including private banks and water supply companies, several poverty-oriented NGOs, such as WaterAid and the International Secretariat for Water, and Transparency International. The Panel members are also meeting with national water authorities and other interested parties.

Corporate water giants, such as Vivendi, have set aggressive expansionary targets (e.g., by 2010, water corporations expect to own or manage of 20% of Asia’s water markets — up from 1% in 1997). Of the five percent of the world’s population (300 million people), that obtains water and sanitation services from private companies, the vast majority (220 million people) are served by Vivendi and Ondeo.

Recently, the CEO of SAUR, a French water giant, told a World Bank audience that, without subsidies, the water business was too risky.

Governments, local authorities and consumers face more consequential risks in entering into contracts with private firms. These include risks of the project failing (e.g. Tucuman, Argentina); of the contract becoming unworkable (e.g. Dolphin Coast, South Africa); of the company failing (e.g. Azurix, Buenos Aires province, Argentina); of socially unsustainable price increases (e.g. Cochabamba, Bolivia); and of corruption and distorted accounting (e.g. Grenoble, France).<sup>32</sup>

The World Bank or governments are expected to assume key risks to attract international companies. State provision of guarantees can effectively undermine the whole concept of risk sharing which underlies much of the Bank’s recent policy initiative of Private Sector Development.<sup>33</sup>

*The World Bank shareholders should ban the use of public money to subsidize corporations as the Bank suggests doing. (See Box 4.)*

#### **Box 4**

### **Grants To Underwrite Corporate Subsidies**

The World Bank Group is considering utilizing grants to subsidize water utilities. In particular, the Bank plans to scale up output-based aid (OBA) schemes, which would provide subsidies to corporations when they deliver services or meet certain performance benchmarks relating to:

- Coverage expansion: lump payment for each new connection in poor areas;
- Tariff transition: support gradual tariff increase to recover costs; Payment based on service delivered (quality parameter; collection rate over designated period);
- Consumption: Subsidize minimum consumption for poor households;
- Wastewater treatment: Subsidy based on amount of pollution removed.

The Bank’s private sector affiliate, the International Finance Corporation (IFC), justifies the use of grants to improve the social and environmental aspects of private investment, beyond essential risk mitigation and to advise governments on privatization.<sup>34</sup>

**The World Bank’s Board should ban the use of public money to subsidize corporations, as some shareholders suggest.**

<sup>32</sup> See [www.psiru.org](http://www.psiru.org).

<sup>33</sup> See World Bank Private Sector Development (PSD) Strategy.

<sup>34</sup> IFC, “IFC Strategic Directions,” March 12, 2002, p. 12.

Source: World Bank, Water and Sanitation Business Strategy Development (PowerPoint), May 6, 2002, p. 30

**Culture Shock in the Bank.** In 1993, when the Bank adopted its Water Resources Management Policy Paper, it affected a dramatic shift in the type of analysis and advice offered by the Bank. For instance, there was a 20-fold increase in the Bank’s production of analyses that called for an expanded role for the private sector, pricing and water supply markets.<sup>35</sup>

The dramatic shift in the lending culture of the Bank created conflict among Bank staff and between the Bank and many borrowers. In its 1996 review of the sector portfolio, the Bank found a “lukewarm country commitment – at best – to the new [1993] Bank policy” due to how “residual ambivalence in the Bank and among borrowers about the relative weights given to managing water as an economic or a social good adversely affects the ability to gain borrower commitment.” Bank managers were told to resolve this ambivalence by promoting market reforms and walking away from governments unwilling to adopt these reforms.

The Bank’s OED states<sup>36</sup> that

*“Most Bank projects pay lip-service to cost recovery, but only two-thirds of Bank projects have addressed it substantially.”*

*The battle to mainstream economic and financial aspects of pricing policy in both [irrigation and water supply and sanitation] sectors has largely been won in the Bank, but not in client countries or the international political arena. A large external constituency of stakeholders still wants to maintain social water pricing, which is difficult to manage with formulaic guidelines.*

## Box 5

### The Bank’s “Demand-Responsive Approach” (DRA) To Water Services

The principles of the Bank’s Demand Responsive Approach (DRA) are as follow:

- The focus is on what users want, are willing to pay, and can sustain,
- The local community initiates, plans, implements, maintains and owns the system (increasing its sense of responsibility;
- Water is treated as an economic good;
- The private sector provides goods and services;
- Local water committees, in which women play a key role, are strong (but need training);
- Full cost recovery is expected on O&M and replacement.

<sup>35</sup> Ibid., Annex D, p. 30.

<sup>36</sup> Ibid., p. 17 and 23.

- **The more users pay, the more likely a project is to be demand-driven.** (Emphasis added.)

Source, World Bank OED, “Rural Water Projects: Lessons Learned,” Précis Number 215, Winter 2002.

The Bank’s evaluators see the failure of irrigation/drainage projects to recoup costs as an issue because irrigation uses more than three-quarters of the developing world’s water resources. It states that:

*In most respects these findings show that there are fundamental philosophical differences in the way the sectors are treated. Irrigation and drainage are still very much in the public goods domain dominated by conservative public sector agencies. Water supply and sanitation have moved toward commercialization and in some cases privatization.*

**Contradictory Goals: Cost Recovery vs. Service for All.** Projects are assessed by the extent to which they are efficient (e.g., recover costs and engage private sector participation), sustainable (strengthen institutions, recover costs, improve regulation) and help to provide “service for all” (expand service to the poor). In the 1990-2001 period, 40% fostered improved cost recovery; 31% promoted private sector participation; 74% fostered institutional strengthening; and 8% promoted regulatory frameworks.<sup>37</sup> It is not clear what percentage sought to advance the goal of “service for all.”

The Bank is undertaking a water pricing review to determine the extent to which operations comply with Operational Manual Statement 3.72, which has some conflicting policy objectives: allocation, conservation, service, and financial viability. Among other things, the evaluators found that it isn't feasible to implement economic pricing when there is poor billing/collection, high water losses; lack of metering and inefficient O&M.

The Bank favors subsidies for water connections rather than for water consumption. It is moving toward enforcement of loan covenants calling for metering, billing, and collection. Ultimately, water utilities are beginning to cut off customers who are unable to pay tariffs. (See Box 6.)

---

<sup>37</sup> Although better cost recovery is stated as an objective for 40% of dedicated water supply and sanitation projects, the objective is not always implemented. Of the projects where cost recovery is an objective, 76% provide financing to improve cost recovery, 52% have tariff covenants and 19% have covenants to improve metering, billings and collections. Only 8% have the establishment of regulation as an objective; 14% provide financing for this objective, but only 1% have legal covenants to support the implementation of sector regulation. Improvements in the regulatory environment were *never* sought in non-dedicated water projects – that is, in urban development, environment or Social Funds that included a water dimension.

**Box 6****Armenian Water Utility Cuts Off Poor Customers<sup>38</sup>**

From 1995 to 1999, household water tariffs increased by 100% in one locality while the industrial tariff decreased by 36%. The water utility is switching to a metered billing scheme as it begins a process of increasing tariffs and enforcing bill collection. Currently, the majority of households are in substantial arrears. It is unclear whether the utility can provide reliable service at a price that the poor can bear.

In Armenia, real wages are only 12% of 1990 levels. The poor spend about 30% of their per capita expenditures on energy (electricity, central heat, central gas, wood, etc.) and about 8% of their monthly expenditure on water.

**Output-based aid.** Policy-makers are increasingly touting the benefits of output-based aid (OBA) to hold the private sector accountable for achieving social goals. Traditionally, aid has been “front-loaded” for the purchase of inputs for a project. OBA “back-loads” aid disbursement – that is, aid is disbursed only when a project is completed and service goals are attained (e.g., water connections established, kilowatts purchased). Governments, donors and lenders may have no role in such schemes other than contracting out, regulating, and allocating disbursements against output.

OBA for water services is risky for poor people. OBA contractors will tend to be international or foreign firms with the resources to invest and the capacity to postpone return on investment. Foreign service providers can exacerbate cultural conflicts, access, affordability and accountability problems. Domestic providers may lack the “deep pockets” for up-front financing of water services, as required by OBA.

Without strong and independent regulatory capacity which, by definition, poor countries lack, problems crop up, including:

- Difficulty identifying poor people in order to target water subsidies. The bureaucratic apparatus needed to identify and administer subsidies can exceed the cost of subsidies.
- Difficulty targeting subsidies and “leakage,” or capture, of water subsidies by well-to-do groups. Efforts to reach poor people with subsidies or exemptions to defray or offset the costs of services often fail.
- Corrupt providers. Private providers can pocket subsidies and, then, provide poor service or no service at all. Audits to ensure that services are actually delivered can be difficult and costly to carry out.

---

<sup>38</sup> Utility Pricing and the Poor: Lessons from Armenia,” World Bank Technical Paper No. 497, J.A. Lampietti, A.A. Kolb, S. Gulyani, V. Avenesyanyan, 2001.

## Box 7

### The IMF Sets Cost Recovery Schedule For Water In Ghana

The terms of the IMF's Fifth Review of Ghana's Poverty Reduction and Growth Facility (PRGF) loan (March 5, 2002) require implementation of a Public Utility Regulatory Commission (PURC) strategy for achieving full cost recovery and automatic tariff adjustments in the public utilities. This is also a Completion Point condition for Ghana's participation in the Highly Indebted Poor Country (HIPC) Initiative.

Originally, the IMF required that Ghana's Public Utility Regulatory Commission (PURC) begin to recover full costs for water services as of the end of September 2001. However, the IMF reports that, given the PURC's independence, the timing of the plan's launch was out of the government's control and that a public consultation process about the rates was not completed in November 2001. Now the cost recovery plan is scheduled for implementation in June 2002.

The Government plans to channel .2% of GDP into water price subsidies for the poor, pending government finalization of water privatization. Targeted subsidies will "buy down" water rates for the poor "in recognition that water is a staple with a significant bearing on the living standards of the poor." (PRGF Arrangement, p. 50)

The IMF attributes 9% of the 19.8% overall deficit to basic service sectors (due to factors including the price subsidies, accumulation of arrears on government obligations, mispricing, etc.) Of the 9%, subsidies are distributed to petroleum (5.6% of GDP); electricity (2.4% of GDP) and water (.9% of GDP).

## J. Sidelined: Poverty, Social, and Environmental Concerns

*In 1992-98....social assessments have been notably absent.*

— World Bank OED, "Bridging Troubled Waters," p. 7.

*"There seems to be an unwillingness by the Bank to continually learn from evolving implementation lessons...the [Bank's] focus was on meeting disbursement targets and responding to directives and mandates from headquarters" rather than to local issues or concerns.* – World Bank OED, "Bridging Troubled Waters"

**Poverty and Social Concerns.** The Bank's draft Water Resources Sector Strategy (WRSS) pays scarce attention to the importance of sustainable livelihoods or the implications for poor people of its approach to big infrastructure and private provision of services.

For instance, the WRSS emphasizes that market mechanisms to allocate water from low value uses to high value uses as in the case of Northeast Brazil. Originally, expensive infrastructure was being used for subsistence agriculture. When land was auctioned off to big commercial farmers, the poor farmers often became subcontractors or found employment in industries spun



off by the agricultural sector. This emphasis on export-oriented agricultural production has an established pattern of pushing out small farmers to allow for agribusiness expansion. This is a major problem; small-scale farming and irrigation is crucial for poverty reduction and food security as well as environmental management. In cases, such as this, WUAs become the implementing forum for policies negotiated between the Bank, donor representatives, and government ministers.

The weak treatment of social issues is not new. The Bank's evaluators state that the limited treatment of social development issues within the water sector is endemic – from the Bank's publications to activities of the World Bank Institute to the learning efforts of the Social Development "family" within the Bank.

At the beginning of the decade, the Bank's evaluators stated that "poverty considerations were mostly bypassed as the Bank responded to the pressure from influential segments of the population for better water and sanitation services." Over the course of the decade, less than half of all operations had satisfactory arrangements for measuring and evaluating social outcomes and "little has changed in this regard over the decade." During the 1997-99, nearly half of water projects had adequate arrangements for monitoring and evaluation of social impacts, including poverty impact; 39% of projects were designed in ways that ensured that target populations were reached.<sup>39</sup> The OED study concluded: "substantial room remains for targeting the poor and vulnerable populations within water sector operations. Of most concern across the Bank is the **scant attention given to the direct impact of these operations on the poor....and tailoring project design to meet the needs of target populations.**"<sup>40</sup>

This record does not inspire confidence in the Bank's capacity to work with borrowers to target beneficiaries. Hence, one would expect the failure of many Bank-financed projects that attempt to target water subsidies to the poor in the context of full cost recovery.

Despite these problems, the Bank claims that about 75% of water operations are supervised satisfactorily! This highlights the fact that the key dimension of water projects – poverty reduction and social development – is not captured by the Bank's evaluation system. The system needs retooling before the water portfolio is expanded.

**Environmental Concerns.** Although the Bank has expanded its environmental work over the course of the last decade, it still remains marginal to the Bank's main agenda. The Bank's OED stated that<sup>41</sup>:

*The concept that environmental sustainability is an integral part of sustainable development has not been explicitly accepted at a strategic level.*

*The modest extent of mainstreaming the environment into the Bank's overall program is disturbing.*

There is poor treatment by the WRSS of the continuum of water resources – from marine, to coastal to freshwater issues. Nor is there an integration of poverty and environmental concerns.

---

<sup>39</sup> Ibid., Annex H, p 76.)

<sup>40</sup> Ibid., p. 11.

<sup>41</sup> World Bank, OED, "Review of the Bank's Performance on the Environment," July 3, 2001, p. 12 and 18.

Reliance on private provision of water raises many questions about the disincentives for private providers to increase efficiencies, conserve water, improve water quality, or balance ecological needs with downstream uses. In theory, environmental assessments (EAs) are a critical tool in designing and implementing water projects to address such factors. However, EAs are very rarely conducted early enough to make a difference in the design of a project or to prepare for mitigation measures.

In addition, where environmental concerns appear in a Sector Strategy, such as the WRSS, it has not necessarily been reflected in subsequent projects. Integration of the environment into Bank Country Assistance Strategies (CASs) or PRSPs has been quite limited.

## **K. Conclusions and Recommendations**

Increasingly, policy-makers strive for integrated resource management in order to achieve basic developmental goals, such as the Millennium Development Goals (MDGs). The Bank assumes that the means to achieve such goals involve creating markets (through, for instance, tradable water rights); using markets (through, for instance, water fees); and establishing water-related regulations.

However, market mechanisms cannot function without independent, strong regulatory systems – something that most Bank borrowers lack. There are many examples in which private provision has *not* improved development outcomes. Still, the Bank appears to favor almost indiscriminate privatization, such as when Bank officials require that African water projects contain private sector components. At the same time, the Bank has failed to identify the regulatory *preconditions* for equitable and just private provision.

Especially in countries with weak regulation, privatization will not promote integrated water resources management. It involves “unbundling” water services and functions to attract private investors, which “cherry-pick” the profitable parts and saddle government with the rest.

Given that water is essential for survival, it is not a pure “economic good” and cannot be treated as such. By treating water as an economic good, the Bank comes to the wrong-headed conclusion that “the more users pay, the more likely a project is to be demand-driven.”<sup>42</sup> The Bank lauds markets that allocate water to “high value” users (industrial and export agricultural users) and poor people are not high value users. Hence, the water-related activities which help improve the livelihoods of poor people and women could simply be dismissed as having “low value.”

Rather than financing public relations programs to persuade borrowing country constituencies of the virtues of privatization and big infrastructure, the Bank should “put its money where its mouth is” by supporting good, accountable governance processes. Citizens, themselves, should determine the best path to water protection, management and development.

### **Good governance requires that developing country governments:**

**Respond to a public consensus about the best modalities for water systems and services.** The Bank should not preclude extending credits for public utilities in Africa or any other region. In low-income countries, PRSPs should identify any prospective changes in water services. Donors

---

<sup>42</sup> World Bank OED, “Rural Water Projects: Lessons Learned,” Precis Number 215, Winter 2002.

and creditors should not privatize water in low-income countries unless the PRSP calls for it. Citizens and their elected representatives should make such decisions.

**In consultation with stakeholders, identify the preconditions to successful privatization – such as a strong and independent regulatory system – and suspend or reject any privatization arrangement in which preconditions are not met.** Independent regulators should set tariff arrangements without interference from the IMF or other creditors.

**Shun loan instruments [Social Funds or Adaptable Program Loans (APLs)] that would require participating communities to privatize water without their consent and without regulatory components that ensure oversight.** Generally, such loans flout the Bank's safeguard policies and lack any regulatory component. Only about a quarter of Social Fund water projects are sustainable.

**Refuse to accept privatization that shifts risks onto the public sector.** Rhetorically, the Bank has argued persuasively that performance risks should be shifted from borrowing countries to the private sector. In practice, however, borrowing governments are usually expected to bear the burden of fluctuations in demand, prices and currencies.

**The World Bank's shareholders should:**

**Refrain from the attaching policy conditions to loans, grants of debt relief operations that require privatization of water or specific cost recovery schedules.**

**Forbid the use of grant financing to subsidize corporate water provision. This is an inappropriate use of public resources.**

**Halt the planned expansion of the Bank's water portfolio** until the institution improves its record in addressing social development and environmental concerns. In particular, the institution should perform ex ante social and environmental impact assessments, which (a) shape project design, (b) establish appropriate monitoring and evaluation procedures, and (c) ensure that project benefits materialize and mitigation measures are carried out.

**Focus on appropriate technology, not high technology, solutions.** The level and type of financing required to meet the water-related challenges of the future depend, among other things, upon how technology choices are made. Creditors and investors often choose high technology, capital intensive, market-based solutions. Instead, they should focus on financing low or medium risk infrastructure with high rewards for poor and marginalized groups. The policies of the Bank do not reflect the lessons about appropriate technology that take into account the need to balance human and environmental requirements as called for by Agenda 21.

**Postpone consideration of water strategies.** Because the Bank has not thought through the social, environmental or economic implications of its drive for privatization and big infrastructure, shareholders of the institution should postpone consideration of all three proposed water strategies – the Water Resources Sector Strategy, the Water and Sanitation Business Strategy and the Irrigation and Draining Business Plan. If shareholders do not postpone their consideration, they should require that management consult with the public with respect to all water-related strategies under consideration.

**Adhere to standards in consulting with the public.** Shareholders should also reject Strategies that have not been formulated through adequate consultative processes. The Board should be aware when consultations that are designed in ways to guarantee “participation for validation.”

## **Outline of Proposed Water and Sanitation Business Strategy Of the World Bank Group**

(Source: World Bank, Water and Sanitation Business Strategy Development,  
May 6, 2002)

The Bank's management expects to seek its Board's approval for a Water and Sanitation Business Strategy sometime during fiscal year 2003 (which begins on July 1, 2002). As of May 2002, the Bank had not decided whether to consult with stakeholders about the content of the Strategy.

The institution expects to massively expand lending related to four themes outlined below, particularly the rural transformation theme. The following outline should be considered as a preliminary draft.

### **The four themes:**

#### **1. Livable Cities—Serving And Empowering The Urban Poor**

- Promoting market structures which provide incentives for lower cost solutions, appropriate levels of service and a mix of providers;
- Creating opportunities for poor households to participate in the policy and regulatory process regarding water and sanitation services.

#### **2. Investment Climate and Fiscal Balance—Building Sustainable Futures**

- Promoting policies which encourage greater accountability, commercial orientation, creditworthiness and customer focus of service providers;
- Improving the climate for private participation through output-based aid, risk mitigation instruments and expansion of local currency lending;
- Strengthening regulatory capacities to provide impartial, transparent and predictable oversight of service providers;
- Developing knowledge products to expand advocacy activities and identify new, more attractive, reform options; and
- Ensuring that sanitation and hygiene education are integral parts of water interventions in order to meet health and environmental objectives.

#### **3. Safeguard Environment—Fostering Responsible Stewardship Of Water Resources**

- Establishing realistic ambient and effluent water objectives and standards at the river basin level;
- Fostering water pollution control policies and practices that are within financial and management capacities of local jurisdictions;
- Expanding low-cost sanitation service options in conjunction with flood control and solid waste management measures in poorly served urban areas;
- Incentivizing service providers to reduce system leakage;

- Promoting private management and financing/contractual instruments to facilitate efficient investment and operation of sanitation facilities.

**4. Rural Transformation—Increasing Access To Rural Water Supply And Sanitation.**

The Bank projects the biggest expansion in the water and sanitation lending portfolio in this area in order to finance:

- Reducing cost and improving service sustainability in accordance with communities expressed preferences and willingness to pay;
- Building capacities to support communities, local governments and private sector to plan, manage and deliver service;
- Redirecting financing and subsidies to support scaling up community managed schemes;
- Ensuring that sanitation and hygiene are integrated into water supply and health education programs.

In the four thematic areas, the Bank plans to use more sub-sovereign (and non-sovereign) lending and a “quantum increase” in upstream sector and cross-sector advisory work (such as PRSPs, Community-Driven Development, Strategic Environmental Assessments, etc.). It will also employ the following instruments:

- Operations to support performance-based (or output-based) contracting with suppliers/operators of onsite/offsite sanitation and sewerage services and integrating sanitation strategies with solid waste management and storm drainage in the context of broader city management activities;
- Programmatic (adjustment) lending to support gradual step-wise approaches to sewerage and water pollution control investments while building local technical, management, and financial capacities;
- Advocacy on social, health and economic value of sanitation through assessment of health impact of sanitation/hygiene, and promotion of alternative service delivery and cost recovery mechanisms.
- Advisory work on effluent standards and economic control options at basic level, regulatory instruments and cost recovery mechanisms.

**World Bank-Spawmed Institutions  
And Partnerships In The Water World**

- The 1977 UNDP-World Bank Water and Sanitation Program (WSP), which is supported by 11 donor governments, operates in 30 countries.
- Global Water Partnership catalyzes funding for implementation of water management proposals in developing countries. The World Bank was instrumental in founding the GWP and a Bank Vice President chaired it for a time. The Partnership developed a strategy and investment required to create a “World Water Vision.” The World Water Vision 2000 was presented at the Second World Water Conference organized by the World Water Commission at the Hague in 2000.
- World Water Council is a water policy think tank, which the World Bank was instrumental in creating in 1996. It publishes a journal, “Water Policy.”
- The African Water Utilities Partnership for Capacity Building (1996) is supported by the Bank to transfer experience and assistance from experienced to less experienced utilities.
- A South Asian Water Utilities Partnership for Capacity Building (modeled on the African Partnership, see above) is being created.
- The International Participatory Irrigation Network, which arose from a 1995 World Bank Institute workshop in Mexico, has members in about 44 countries and chapters in the 10 biggest borrowers for irrigation projects.
- The Bank-sponsored International Program for Research in Irrigation and Drainage moved to the Food and Agricultural Organization (FAO) in 2000 and cooperates with the International Participatory Irrigation Network (see above).
- The UNDP-World Bank Partnership on International Waters was established in 1998.
- The World Commission on Dams convened out of a workshop held in Gland, Switzerland with the joint support of the World Bank and IUCN-The World Conservation Union in April 1997. It began work in May 1998, and operated on four principles:
  - 1) Participants operated in their personal capacity, rather than representing institutions;
  - 2) The commission would address performance and impacts of large dams and options for water and energy development;
  - 3) Public consultation and access to the commission;
  - 4) The WCD developed a new, multi-institution funding process. A WCD Forum of 68 participants from diverse backgrounds were consulted throughout the process. WCD Commissioners are 12 individuals with positions in government, the private sector, international financial institutions, civil society organizations, and

affected people. The report produced in November 2000 presents a framework for decision-making based on five core values—equity, sustainability, participatory decision-making, and accountability. The report proposes principles to reflect the underlying rationale that decision-making on water and energy development should:

- a) Integrate social, economic, and environmental dimensions of development;
  - b) Create greater levels of transparency;
  - c) Increase the confidence and ability of nations and communities to meet future water and energy needs.
- A World Bank-Germany collaboration has given rise to four international roundtables on transboundary water policy and management in support of the Global Water Partnership's Integrated Water Resources Management Window.
  - Business Partners for Development partnership includes a 3-year water and sanitation program sponsored by the Bank, DEFID, and private water companies. It is studying public-private partnerships in eight countries.
  - The World Bank's Middle East-North Africa (MENA) Regional Water Policy Initiative was spearheaded by the Bank along with the EU and the European Investment Bank in 1997.
  - An African Water Resources Forum was created in May 1999 as an outcome of the World Bank's Africa Water Resources Management Policy Conference in Nairobi.
  - An International Consortium for Cooperation on the Nile will seek support for cooperative projects in the Nile Basin.
  - A World Bank-Netherlands Water Partnership arose from the Second World Water Forum to mobilize Dutch resources to innovate in Bank operations.



**Long-Term Loans Preclude Public Provision of Water:  
The Cases of the Philippines and Ghana**

The World Bank's long-term adaptable program loans (APLs) roll out water privatization programs in Ghana and the Philippines over the course of nine years and twelve years, respectively. APLs require participating towns to choose private (or NGO) provision of water.

**The Philippines**

Adaptable program loans (APLs) over the course of 12 years represent a significant, long-term intervention aimed at changing the structure and incentives of water utilities in the Philippines. The APLs seek to attract private participation in many of the approximately 1000 LGUs in which municipal offices manage town water system. They aim to increase service to 90% of the population, compared to the current estimate of 55% to 60%.

APL 1 (\$23 million, November 1998-2002): In the first APL, water services were partially extended to about 9 municipalities (rather than 35, as scheduled) at an investment cost of \$28 million. Despite the massive failure to hit the performance target of 35 municipalities, the Bank proceeded with APL 2 (September 2001-2006 at \$30 million) to scale the project up to an additional 40 cities and municipalities.

APL 3 (scheduled for 2004-2008 at \$100 million from WB + \$33 million from others) would change the role of government finance institutions and the Land Bank of the Philippines from retailers to wholesalers of loans, inducing private sector banks to invest in LGU-based water supply and sewerage systems.

APL 4 (scheduled for 2006-2010 at \$130 million from the WB and \$100 million from others) would finance water supply and sanitation services in about 130 Philippine water utilities, with World Bank financing used by the Development Bank and Land Bank of the Philippines to leverage private financing in the sector. The role of the two Banks will change from being retail lending institutions to being (a) wholesalers to private financing institutions, (b) underwriters, facilitators of syndication, securitization and insurance for private providers of water supply and sanitation in secondary cities and towns.

A major factor for the high dropout rate was the unwillingness of communities to accept the suggested tariffs. Cheaper options, such as groundwater extraction, were available. Some LGUs had better financing operations. Politicians realized that the systems needed to be separated from the municipal administrations so that tariffs did not become an election issue. There have been problems resolving boundary issues in transferring water rights. In the case of the regional water utility Subicwater, for instance, access to water rights from aquifers in two neighboring municipalities have been held up by extended negotiations. The Global Water Partnership is attempting to establish the feasibility of creating tradable water rights systems. There are also problems obtaining the grant financing for project preparations by so many towns. Environmental assessments are addressing issues, such as: the need for wastewater disposal,

availability of adequate land area for on-site sanitation facilities; for sites in private lands, ambiguities around land acquisition; etc. Individual Environmental Management Plans (EMPs) address potential negative impacts. The World Bank's Indigenous Peoples and Involuntary Resettlement Policies also apply to the project.

## **Ghana**

**The \$27.5 million Community Water and Sanitation Project (CWSP) II (Effective September 1999)** is part of a nine-year series of adaptable program loans (APL) being implemented in three, 3-year phases. The purpose of the CWSP II is to increase water and sanitation service coverage to about 550,000 people in villages and small towns in four regions. In phase 2, coverage is sought in two additional regions; in phase 3, coverage would be sought throughout the country.

The project fosters competition among private sector and NGO actors for contracts to deliver goods and services to communities and District Assemblies (DAs). Activities involve: construction and rehabilitation of water points, piped systems and sanitation facilities; strengthening community capacity to manage services (e.g. forming water boards and water and sanitation (WATSAN) committees); strengthening district level capacity to deliver or contract out CWS services. The loan may initiate one policy change involving a possible increase in community cost sharing.

The project is largely implemented as communities submit requests for subprojects to District Assemblies (DAs). WATSAN committees and water boards represent the communities. These boards will be encouraged to enter into service management contracts with the private sector. When the CWS Agency is considering subproject proposals for funding, communities open bank accounts and deposit the required contribution. The DAs are required to contribute 5% to the subproject costs and perform most of the procurement, contracting, and training.

An average package of subprojects would include about 10 point sources, latrines and one small town water system for a total value of about \$300,000. Hence, a 5% contribution would represent \$15,000.

Communities are expected to provide 5-10% of the investment cost and 100% cost recovery for operations and maintenance (O&M).

The loan experienced implementation delays due to problems transferring procurement responsibility to district assemblies and communities. As of mid-2001, over 20 districts in four regions were participating. About 200 communities had submitted applications to their District Assemblies (DAs) for participation. The CWSP II loan supports decentralization of water and sanitation responsibilities as part of a larger decentralization effort.