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The World Bank's "new" Water Policy and its Implementation in India and Sri Lanka

SUMMARY

Does the World Bank Group really have a new water policy? True, the World Bank proudly presents its "new" Water Resources Sector Strategy (WRSS), endorsed by the Board of Executive Directors in February 2003. And the announcement in the Infrastructure Action Plan, accepted in the summer of 2003, to take up investment in major water infrastructure is also new, although it is actually just a return to the policy of the pre-1990s, before the Bank withdrew from financing big dams in the face of strong and successful resistance because of the negative social, economic and environmental consequences of these projects. Nevertheless, the basic principles of the policy are still the same as when they were first outlined in the Policy Paper on Water Resource Management in 1993: commercialisation, decentralisation, water as an economic good and cost-recovery by users, the withdrawal of the State as a service provider and opening up of the sector to private capital.

There is a long and well-documented history of how the World Bank Group has been pushing this policy upon recipient countries through Country Assistance Strategies and loan conditionalities since the early 1990s [1]. The first experimental field for it was the urban water sector. Although it represents only a small proportion of the total number of people without access to safe drinking water and sanitation, the conditions it offered seemed to be promising for brisk and profitable private business: an existent, albeit often run-down infrastructure, high demand and purchasing power. In response to water sector reforms sponsored by the World Bank Group, including de-regulation and improved investment conditions, Global Players like Ondeo, Vivendi or Thames Water took over from public utilities in many cities, promising badly needed investment, efficiency and management skills.

Today, and a decade later, World Bank officials, internal reviews by the Bank's Evaluation Department OED and spokespersons from private global multi-utilities alike admit

[1] See e.g. Sara Grusky, Water Privatization Fiascoes. Broken Promises and Social Turmoil. Special Report by Public Citizen's Critical Mass Energy and Environment Program. Washington/Oakland 2003; Uwe Hoering, Privatisierung im Wassersektor. Entwicklungshilfe für transnationale Wasserkonzerne – Lösung der globalen Wasserkrise? Berlin/Bonn (Weed-Working Paper) 2001

that privatisation policy has achieved much less than promised and expected. While coverage with water connections and, to a much lesser extent, with sewerage systems has improved in some cities and concessions, these achievements have been restricted by and large to well-off consumers, bypassing low-income areas and populations whose needs don't turn into demand because they lack the money to pay up for services. Neither have the private companies provided enough capital to make up for the investment gap, nor have they turned out to be more efficient or less corrupt than public utilities. Regulatory authorities have remained weak and unable to enforce contracts or shield poor consumers from frequent price increases.

Furthermore, political resistance against privatisation like in Cochabamba and South Africa, economic recession like in Argentine and severe management failures such as that in Manila by Ondeo have made many Transnational Companies (TNCs) rethink their investment strategy, withdrawing from "high risk" countries with little prospect of above-average profit margins. Having peaked in 1997, private capital flow into the water sector in developing countries has since declined by 50 percent. In many countries, even far-reaching reforms, deregulation, liberalisation and all kinds of subsidies and risk management tools by the World Bank, bilateral development organisations and governments have neither resulted in additional investments nor in substantial improvements, leaving the burden with the public sector.

Against this background, the "new" World Bank policy in the water sector should be seen as a kind of modification and adaptation, further prompted by the results of several OED evaluations in recent years stating that "water and water-related projects were among the poorer performers in the Bank portfolio"[2]. Confirming the basic principles of the 1993 Water Policy Paper, John Briscoe, one of the main architects of the World Bank Water Policy, explains that these principles now "need to be adapted to specific economic, political, social, cultural, and historical circumstances"[3].

So, in spite of the many failures of privatisation attempts and the policy as a whole, the World Bank Group, through its different lending arms like the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA) and the International Finance Corporation (IFC), is pushing the privatisation policy further. A whole range of new or strengthened instruments are already in place to promote commercialisation and privatisation, such as more support for Public-Private Partnerships, more World Bank loans for governments promoting privatisation, risk management instruments and guarantees for private capital, etc. None of this is really new.

New formula for the countryside

For the rural and the peri-urban areas, where most of the undersupplied poorer populations live, the World Bank is advocating a different approach. Often, privatisation is not an option here because the structural conditions and limited capacity of most consumers to pay hardly make them attractive for private capital. Instead of an outright privatisation, the Bank is advocating the so-called demand-responsive approach (DRA) or community-driven development (CDD), moving away from the supply-oriented approach, where services are provided by the government, often at subsidised rates. Water user groups or similar local community based organisations shall be responsible for designing, planning, implementing and running their own water and sanitation systems according to their needs and financial abilities. Participation is expected to increase the sense of "ownership" and higher willingness to pay, thereby at least reaching cost recovery for operation, maintenance and rehabilitation expenses. Besides financial sustainability, it is expected that the poor will be better served through this approach, while government institutions are relieved of the

[2] OED, Rural Water Projects: Lessons Learned. Précis Number 215, Winter 2002

[3] John Briscoe, The Bank's New Water Resources Strategy, in: Environment Matters, Annual Review 2003, 18-20

responsibility for sustainable and equitable services.

The Demand-Responsive Approach – Principles[4]:

- 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[5] and replacement.
- The more users pay, the more likely a project will be demand-driven.

The demand-responsive approach including the principle of cost-recovery is increasingly being incorporated in Country Assistance Strategies and Water Sector Reform Programmes by the World Bank as a condition for loan agreements. India and Sri Lanka are two of the handful of countries where the demand-responsive approach has so far been implemented on a larger scale. There have been several pilot projects in both countries, sponsored by the World Bank or the World Bank-controlled Water and Sanitation Program WSP. Severe influence and pressure on the part of the World Bank prompted both countries to shape their new national water programmes according to the Bank's Water Policy, including the demand-responsive approach for rural and semi-urban areas.

But experiences with the new approach have at best been mixed, as the Water and Sanitation Programme South Asia admits[6]. Pilot projects so far have been mainly donor-driven and well funded, succeeding in starting water user groups, installing new systems and introducing user fees. But they are hardly representative. Experts therefore expect many problems and conflicts when the approach is scaled-up to cover larger areas. Although some elements like decentralisation, participation and orientation towards appropriate, affordable technologies seem to be a certain measure of progress compared to earlier approaches to rural water supply and sanitation, there are serious doubts whether this will work under the conditions of rural social, economic and political inequalities and power relations.

1. In most cases, participation is limited to the rich and powerful, who manage to influence the projects according to their needs and priorities, thus bypassing the rural poor, the landless and women. Furthermore, civil society has not been involved in shaping the new national water policies in India and Sri Lanka, so rules and regulations are often bureaucratic, geared towards particular interests or power structures and neglecting the needs and demands of marginalised groups and users. In Sri Lanka, for example, a licence system is being introduced for service providers, sidelining Community Based Organisations like water user groups or local government bodies and threatening to give control over water resources to private licence owners.

2. Cost recovery remains poor due to lack of willingness or capacity to pay. Thus the financial sustainability of the approach is doubtful, and future problems with maintenance and replacement can be expected. If government institutions are really withdrawing from the rural or peri-urban water and sanitation sector, as is being proposed, the users will have two options: either they are forced to pay up much more than at present, or - more likely – supply systems will fail and conditions will deteriorate again.

3. Successful implementation and sustainability will further depend on capacity building and empowerment of users, local institutions and organisations in financial, technical

[4] The Bank often uses "Demand-Responsive Approach" (DRA) and "Community-Driven Development" (CDD) synonymously
[5] Operation and Maintenance

[6] Water and Sanitation Program (WSP), Implementing Sector Reform. A review of selected state experiences. New Delhi (jal manthan 6, June 2002)

and management matters. In most cases, this has been lacking because it is a difficult and long-term process. Without capacities to design, implement and run a system successfully, it can be expected that the situation will hardly improve.

The whole approach, as promoted by the World Bank, is basically flawed because its main orientation is the concept of water as an economic good that should be treated like every other good and distributed according to market rules. But this concept reduces people's need for water and sanitation to "demand", which depends on the capacity to pay for the service. Not only under rural conditions is it an illusion to claim that all consumers have equal "power" to express their needs and to influence supply systems and service providers, as the World Bank approach claims. In a demand-responsive system, those who lack political, social or economic power will automatically be excluded and marginalised, undermining the noble objectives of broad participation, sustainability and ownership. The needs and demands of the poor as consumers are economically not relevant. So the attempt to achieve financial sustainability by cost recovery from individual consumers and at the same time reach poor populations is an approach that can't work under conditions of poverty and social and economic inequality. There have to be systems of cross-subsidies or public subsidies to achieve "services for all", and governments can't be relieved of their responsibility to guarantee the right to water.

Furthermore, the demand-responsive approach should not be viewed in isolation. It is just the other side of the coin of the "new" World Bank policy in the water sector. As an attempt to transfer responsibility for water and sanitation services to the users themselves, decorated with catchwords like participation, ownership and sustainability, it would further push the state's withdrawal from its responsibility for providing services as a human right. This would allow governments to invest more resources and capacities into major infrastructure development. In India, for example, the present World Bank Country Assistance Strategy includes the Bank's re-engagement in the financing of new big dams, justified with India's increasing energy demand. The infrastructure sector will be further commercialised to make it more attractive for private investors.

Thus the investment gap in the water sector as well as in infrastructure as a whole, cited over and over again by the World Bank and other related international bodies like the World Water Council or the Global Water Partnership, would be narrowed at the expense of the poor sections of society. At the same time, more public investment into major infrastructure like big dams could once again make the infrastructure sector more attractive to private investors through lucrative contracts, Public-Private Partnerships and public subsidies.

This would further split up the water sector, as has already been experienced in the privatisation attempts in the urban areas. Profitable and lucrative areas like supply for industries and well-off consumers, big dams or other large-scale infrastructure are being further privatised, thus opening up new investment opportunities for TNCs. The remaining less attractive or risky areas will be left to the self-help of the people themselves, giving the latter appealing new labels like demand-responsive or community-driven development.

September 2004

Note: The full working paper is available in German and English and can be ordered from Bread for the World **(wasser@brot-fuer-die-welt.de)** and World Economy, Ecology and Development (Weed) **(weed@weed-online.org).**