

## Water for Food – Water for Profit

### The World Bank's policy in the agricultural water sector

(by Uwe Hoering)

#### Executive Summary

**While during the early 1990s the World Bank began to employ its water privatization policy above all in urban public utilities, in current years it has been extended to other sectors as well, including agriculture in particular. In doing so, the World Bank's strategy of likewise implementing commercialization, privatization and free market control mechanisms in agricultural water utilization, threatens peasant agriculture in particular and thus food security and efforts for poverty reduction.**

Up to the late eighties the World Bank mainly relied on supporting a water infrastructure financed, provided and managed by the state. Thus its policy paper on Water Resources Management in 1993 (World Bank 1993) paved the way for a substantial change in their policy. It made the Bank one of the first institutions to draft a comprehensive Integrated Water Resources Management (IWRM) policy for all sectors – that is, hydropower, irrigation, drinking water and sanitation, industry and environment. The basic components of the new strategy consisted in demanding extensive reforms within the political and institutional setup, combined with decentralization, privatization of management and delivery structures and restricting state control to the safeguarding of legal and institutional framework. Besides avowals of increased emphasis on environment and resource protection as well as fuller participation by stakeholders, the importance of economic aspects in reforming the water sector comes to the fore. In consistence with the Dublin Principles, the treatment of water as an “economic good” is now regarded as an essential prerequisite to induce an “efficient and equitable use, and of encouraging conservation and protection of water resources.”

#### „Pragmatic but principled approach“

The new strategy, substantiated in the Water Resources Sector Strategy (WRSS, World Bank 2004), is justified on one hand with the “urgent need for increased investment in infrastructure and services for water supply, food production and energy,” and on the other one with the challenge to develop “the laws, regulations, and institutions to manage water resources in ways that are economically productive, socially acceptable, and environmentally sustainable.” (Briscoe 2003, 18). John Briscoe, who as the Bank's senior water advisor played a key role in the elaboration of said strategy, acuminates its consequences for the program and project policy in four “main messages”:

- Most developing countries require promoting both management and development of water resources infrastructure at the same time instead of first realizing reforms followed by investments;
- A “pragmatic but principled approach” is needed, which in view of the tedious, slow, and conflict-loaded reform process will have to develop a implementation

strategy tailored to the specific circumstances, the so-called “political economy of reform”;

- The World Bank will have to re-engage in the development of high-reward/high-risk major hydraulic infrastructure;
- Improvement in management and access to water resources are of vital importance for ecologically and socially sustainable growth and poverty reduction.

In no other area do these new principles and approaches focus and complement one another as clearly as in the agricultural water sector. In recent years this field has moved back to the top of the Bank’s activity agenda. This is attended by the Bank’s rediscovery of the agricultural sector as a whole, which is reflected in the “renewed” rural development strategy (“Reaching the Rural Poor”) presented by the World Bank in 2002. Simultaneously the World Bank’s funds for rural development (from poverty-reduction and capacity building over fishery, resource protection and afforestation to land reforms and road works), which had reached a low level in 2002 with approx. 5 billion dollars, jumped to over 7 billion dollars until 2004. 1.5 billion dollars of that go to agriculture, with more than half of the money, that is 769 million dollars, being allotted to irrigation and drainage – compared to just under 500 million dollars two years earlier. Another increase in funds for irrigation agriculture to 920 million dollars is planned for 2005.

Being the main creditor of many developing countries allows the World Bank to realize this new strategy. Several countries have since elaborated a new and comprehensive legislature for the water sector and introduced sector reforms. Currently, “tailored” Country Water Resources Assistance Strategies (CWRAS) are drawn up with 14 countries to begin with. Moreover the new policy is increasingly employed in World Bank projects for the restructuring of the water sector, with the issue of water management in agriculture taking up considerable room.

### A new stage of commercialisation in the water sector

The World Bank’s main claim is to reinforce the contribution of water to economic growth. In case of agriculture that means to improve both access and utilisation in order to increase production. In doing so the Bank mainly relies on irrigation agriculture, massive investment into infrastructure, unbundling service and delivery structures, and restructuring the institutional and legal framework in the water sector as well as economic instruments like cost recovery and water rights. With that the Bank e.g. aims at laying the foundations for a greater commitment of private investors, which at present does not exist to the same extent as in the urban supply area.

### *Priority irrigation agriculture*

Until three or four years ago investment in irrigation agriculture was declining since it was, in terms of the World Bank, “economically unjustifiable” owing to low world market prices for staple foods. Lately the World Bank claims “leadership in revitalizing” (World Bank 2004, 17) it with a new “irrigation philosophy” that is reflected in numerous projects and a growing share in the granting of credits. This new commitment is flanked by the expansion of “hydraulic infrastructure”, that is multipurpose dams and interbasin transfer, such as the disputed Godavri project in India or the proposed Brazilian interbasin transfer out of the Rio Sao Francisco into the arid Northeast. Increased competitiveness in agriculture and higher efficiency in water utilization are aspired. At this, higher water availability due to river regulation, transfer and storage capacities has priority over demand management. Likewise small scale rainfed agriculture, which forms the basis of existence for the majority of the rural population, only plays a bit part – if at all.

### *Withdrawal of the state*

Central to the general framework of reforms advanced by the World Bank in the agricultural water sector are the unbundling of supply and distribution tasks and the development of an institutional system that redefines the role and responsibility of the different players – that is in particular the state, users and the private sector. The state as the facilitator is to withdraw largely from the economic sectors and to be restricted to general tasks like the phrasing of water distribution regulations based upon water utilization rights, the allocation of water resources and water quality control.

### *„Autonomous management“*

The management of irrigation systems as such is to be transferred from the hitherto predominantly centralised bureaucracies to local agencies, autonomous institutions, user organisations or private companies. While assessing the risks in the present situation as too high for private investors, the Bank relies over the medium term on an increased involvement of private, also foreign companies sponsored through public-private partnerships (PPP). One of the first models for this is the Guerdane irrigation project in Morocco that is conducted by an international group under the leadership of a Moroccan industrial concern.

### *Cost recovery and higher prices*

Likewise the Bank regards a full cost recovery in most of the cases as not enforceable. Thus cost sharing of 10 to 30 percent in investment costs, is aspired as well as cost coverage of the expenditure on operation and maintenance and phasing out energy subsidies.

The World Bank expects from the higher rates for water supply not only financial relief for over-indebted national budgets. At the same time the water price is

regarded as being instrumental in advancing more efficient water use, controlling the water distribution both between different cultivation products and different water-using sectors as well as providing a basis for the profitability of private management activities in irrigation agriculture.

### *Water Rights – “Pillars of Water Management”*

Moreover the World Bank pushes for the introduction of formalized water rights that would provide – the Bank claims – even more strongly than the water price an incentive for increased efficiency, private investments and redistribution in favour of “higher-value” water use. In order to tap the full potential, mechanism for trading water rights (as already in force in some countries, like Chile and Australia) should be created before long.

With this policy the World Bank crucially advances the handling of water as an “economic good”, embedded, however, in structural reforms and by providing favourable investment conditions for private companies. Water as such is not to be privatised, the Bank promises, yet the designed usufructuary rights *de facto* turn water into private property. Thus providing the basis for a systematic trade with water whereby cost, demand, offer, and possible profit would increasingly determine the price and thus the distribution among different users and usages. This change of system is the true purpose of the reforms applied.

#### **Experimental field Ethiopia**

Dams for energy and irrigation agriculture, new roads and better marketing opportunities are the crucial points mainly recommended by the World Bank for the Ethiopian water sector. Thus the abundantly available water resources could be used to full capacity for economic development and poverty reduction, the Bank maintains. In doing so, it consistently realizes the “high risk/high reward strategy” outlined in the Water Resources Sector Strategy (WRSS) of 2004: the benefit of major “hydraulic infrastructure” would clearly exceed the risks. In comparison measures like improved water management or environmental protection in the watersheds are paling into insignificance.

This strategy, however, does not satisfy the needs of the majority of the population, living primarily off rainfed cultivation. Instead they would need efficient measures against soil erosion; simple, small-scale and inexpensive methods for additional irrigation and extension services on the subject of improved cultivation measures and commercialization of spillovers from domestic supply. Moreover, the dependency on food imports and aid that at least six million people rely upon every year will not be reduced, because irrigation agriculture prioritizes products for exportation and foreign exchange proceeds.

Source: Country Water Resources Assistance Strategy, June 2005

### **The Water Market Syndrome**

Initial efforts to commercialise water as such go far back. For instance John Briscoe, senior water professional of the Bank, declared as early as the mid-nineties as the key orientation the neo-liberal hope, that instead of national administration of resources, “the genius of the market approach” would help to solve the complex tasks of a comprehensive and integrated water management (1996, 21). Yet the World Bank is well aware of the conflict potential this system change implies. The question of water rights, John Briscoe resumes, is one of the

three “most difficult and controversial issues” in the critical public’s perception of the World Bank – apart from its role in the construction of major dams and as precursor for the participation of foreign water concerns in urban water supply. To overcome possible opposition the Bank pleads for a new “political economy of reform” and a “dialectic reform process.”

The prerequisites for the introduction of tradable water rights, specified in numerous studies commissioned by the World Bank in the second half of the nineties, widely align with the World Bank’s new policy in the agricultural water sector. Stated are among others:

- A management approach permitting active participation of water users, e.g. in the distribution of water,
- a reliable and efficient system of user’s fees (cost recovery),
- clearly defined and enforceable usufructs;
- institutionalization of market processes, including an infrastructure distribution network sending the water from the vendor to the buyer,
- institutional framework securing the completion of contracts and regulation entities to prevent negative impacts of “market failure”,
- reliable, detailed information regarding available water quantities.

Moreover there is the material condition that sufficient “commodity” has to be available – be it by releasing water from agriculture, be it by opening new supply resources with dams.

In practice, the free market management tools applied threaten to seriously distort the water distribution among the different sectors and within agriculture as such, subsequently leading to an impairment of the production of staple foods, acceleration of the displacement of peasant agriculture and poverty growth.

### *Redistribution: Water for the Cities*

Towns and industry are seldom in the possession of sufficient proper local water resources like groundwater and rivers to guarantee the supply. Hence they have drawn their water from rural areas at all times. That leads to conflicts already now, in particular with agriculture. For instance during a long-term aridity during the late nineties, the water of farmers in the periphery of Manila was turned off without further ado so as to maintain the supply in the Philippine capital.

By creating tradable water rights and water markets such redistribution would be subjected to and accelerated by free market rules. In economic lingo: in towns and industry “opportunity costs” are higher, which means that demand and value are higher and hence a higher price can be realized. That increases the incentive for usufructuary right holders to sell them, for example, to urban service companies. In doing so, a whole new business field would be opened for private water traders and speculators. This would generally imply further increasing rates for urban consumers, affecting the poorer population in particular.

*On the losing side: Peasant agriculture*

In individual cases the selling of water rights may be quite profitable for the vendors. Yet in general it would also cause a price increase for agriculturally used water. The attraction of the urban water market might also reinforce water scarcity in rural areas, especially during the dry season, when demand and hence prices are higher than ever. Peasant agriculture would be more affected by this than well-to-do farmers and plantations investing in efficiency enhancement or in the position to buy additional water, if need be. Peasants would be increasingly pressured to transfer their usufructs, for instance to pay off their debts.

*The end of food security*

Rising water prices and emerging water markets would moreover fortify the tendency of cultivating “higher-value” agro-products in irrigation like industrial raw materials, fruit, vegetables or flowers for exportation since staple foods are not profitable. Together with the neglect of rainfed cultivation, which still secures the basic food supply especially for the poorer population and is regarded by experts as holding high potential (adequate consulting in cultivation methods, additional irrigation and marketing provided), this would further reduce the food security of many countries.

The solution suggested by the World Bank is that in the future arid countries increasingly should buy food from countries rich in water like the USA, Canada or Thailand using their proceeds from agro-exportation. But this calculation doesn't work out in many cases: while costs for the capital-intensive production for exportation of agro-products are increasing, prices are dropping in view of the hefty competition and the market power of international trade companies. In addition to that, food security would depend even more than today on production in the developed countries, on the world market and business strategies. Not to mention that a worldwide redistribution of surpluses would hardly help the poorer rural population due to the lack of spending power.

*The „invisible third party“*

As illustrated with the case of peasant agriculture, financially weaker user groups, “third parties”, would be disadvantaged in case of distributing water by tradable rights and the market. The same applies for environment that, as is generally known, does not represent a financially strong demand. Market mechanisms can additionally fortify the in part disastrous effects of over-exhaustion and pollution on the natural water cycle, groundwater stocks, rivers and lakes, flora and fauna: profit outlook, for instance, could lead to the activation of “sleeping” usufructs as well as the launching of unused resources, having remained so far in the natural water cycle, on the market.

At the same time there are approaches to advance the development of economic instruments in water management also in the environmental sector. Thus, for instance, the environmental protection organisation Nature Conservancy bought water for 1.5 million dollars from farmers in the North American state of Nevada, so that they'd keep it for the protection of fish stock in the river instead of conducting it on their fields. Such payments for so-called “environmental services” could turn into an incentive for the expansion of water markets.

## Water for Profit

The United Nations Conference on Environment and Development (UNCED) in Rio de Janeiro in 1992 made the public realize the vital significance of water for a comprehensive and sustainable development, the manifold, complex interrelations and dependencies in the water area as well as the hazards of a water crisis. Yet the approach and policy of the World Bank are less characterized by concerns about the water resources and their sustainable management than much rather by economic objectives like economic growth, promotion of the private sector and free market control mechanisms – while asserting its own best interest as creditor:

- First, the Bank concedes priority to irrigation agriculture instead of rainfed cultivation, with a focus on production for exportation in order to accelerate economic growth and promote private investments.
- Second, the Bank supports major infrastructure like multi-purpose dams and interbasin transfers instead of small-area, inexpensive, versatile, and locally adjusted structures and improved demand management; thus creating new private investment opportunities as well as state demands for World Bank credits for example.
- Third and final, under the pretext of improved water management, the Bank advances the commercialization of water per se as an “economic good” or rather, as a commodity. In doing so, the Bank makes the resource accessible for private water trade and speculation, which threatens water redistribution in favour of the more profitable urban supply and at the expense of a wide agricultural development.

The promotion of private investments in infrastructure and irrigation agriculture is subsidized in many direct and indirect ways through public-private partnerships, compensation of risk and profit covering.

Not only does this policy reinforce the debt situation owing to its high investment needs, it also fails to satisfy the needs of the poorer populations, that is in particular peasant agriculture. Even worse: it seriously interferes with their future development opportunities by denying or limiting their access to water, land and markets for food.

Hence in the opinion of water experts like Ramaswamy R.Iyer, former Secretary for the Ministry of Agriculture in New Delhi, a “re-orientation” is called for, the crucial issues of which are diametrically opposed to the World Bank’s policy:

- Demand-management, resource preservation and management should be emphasized rather than an expansion of the water supply.
- In case supply-oriented solutions are necessary, rainwater harvesting and other adjusted alternatives should be advanced with precedence. Major infrastructure solutions should be selected as last resort and only after having examined every other alternative.
- Traditional systems of water management that are inexpensive and can widely be operated by the users themselves should be revitalized.

- Population and experienced NGOs should be involved in all designs at the earliest possible stage.
- In regulating use and distribution men and nature must have precedence over the commercial utilization in agriculture and industry.

In addition to that, the free market approach essentially conflicts with the postulate of a human right to water. Central orientation for water management and thus for decisions on political priorities, investments and measures is shifting to the economy of water utilization – in accordance with the concept of water as an “economic good”. The value of water is reduced to its negotiability as a resource and thus to the user’s disposition to pay for it. Thus in the end profitability and spending power decide upon the distribution of water among the different areas of utilization and the availability for the individual user – to the point of excluding users and usages incapable of securing market rights or paying “market prices” for water.

## Literature

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