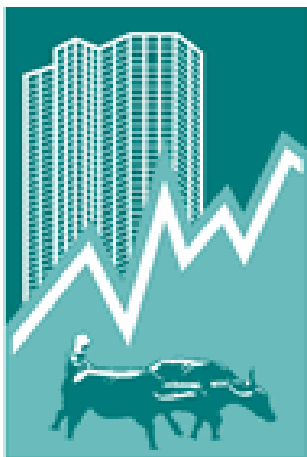




Uwe Hoering, Ann Kathrin Schneider

# King Customer?

**The World Bank's  
“new” Water Policy  
and its Implementation  
in India and Sri Lanka**



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## **King Customer?**

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

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## CONTENTS

List of abbreviations	2
Introduction	3
<b>Part 1: The World Bank's water policy since the beginning of the nineties</b>	<b>4</b>
1.1. Reform agenda	4
1.2. Strategy for the water sector. The 1993 Policy Paper	5
1.3. Supply for the poorest of the poor? Experience with privatisation	7
1.4. The 2003 Water Resources Sector Strategy	8
1.5. The Action Plan for Infrastructure	10
1.6. Lessons learnt from failure? The Demand-Responsive Approach	11
<b>Part 2: The World Bank and water policies in India and Sri Lanka</b>	<b>14</b>
2.1. Sri Lanka: A trial run for the demand-responsive approach	14
2.1.1. The CWSSP Pilot Project	14
2.1.2. Water sector reform	16
2.1.3. An initial assessment	19
2.2. India: Self-help and dams	20
2.2.1. The World Bank as a motor of reform	20
2.2.2. Expansion without evaluation	22
2.2.3. The World Bank's U-turn on dams	23
<b>Part 3: Summary and assessment</b>	<b>25</b>
3.1. Experience with the Demand-Responsive Approach	26
3.2. The illusion of consumer power	29
3.3. Self-help and the readiness to take risks	31
3.4. Recommendations on a different water policy	32
Literature	34

**List of Abbreviations**

CAS	Country Assistance Strategy
CBO	Community-Based Organisation
CDD	Community-Driven Development
CNES	Citizens Network Essential Services
CWSSP	Community Water Supply and Sanitation Project
DRA	Demand-Responsive Approach
ECOSOC	Economic and Social Council
GoI	Government of India
GWP	Global Water Partnership
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
IRN	International Rivers Network
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organisation
O&M	Operation & Maintenance
OBA	Output-based Aid
OED	Operations Evaluation Department
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSP	Private Sector Participation
SANDRP	South Asia Network on Dams, Rivers and People
UN	United Nations
UNICEF	UN-Children's Fund
WCD	World Commission on Dams
WCW	World Commission on Water
WHO	World Health Organisation
WRSS	Water Resources Sector Strategy
WSP	Water and Sanitation Program
WSSD	World Summit on Sustainable Development
WWC	World Water Council

## Introduction

The World Health Organisation WHO estimates that more than a billion people have no access to clean drinking water, and that more than twice as many people do not dispose of decent sanitation, which has grave negative impacts on their living conditions. Eighty percent of them live in the rural areas of the South. At the Millennium Summit in 2000, the international community of states set itself the goal of remedying this state of affairs for half the number of people affected by 2015. According to estimates of the UN Children's Fund UNICEF, this will require that, given population growth, 1.6 billion people – which means 231,000 a day – need to gain access to clean drinking water (UN 2004). The World Bank is among the most important development organisations that have taken up the cause of implementing this goal.

Not only will 2005 be the first year of a second UN decade for drinking water, but it will also be Year No. 5 after the New York Millennium Summit. Ten years ahead of the deadline for the attainment of the goals, it represents a good point in time to remind the development co-operation players of their pledge. Concrete steps and success will be required, especially with a view to improving water supply in urban slums and rural areas.

This urgency is being underlined by a recent commentary by the UN-Committee on economic, social and cultural rights, which concludes, that access to water is a human right, which binds governments and international organisations. Indeed, water is not an economic good like any other goods, as the proponents of commercialisation and privatisation in the water sector claim.

The World Bank plays a key role for the entire water sector. The Bank's financial

contributions as a whole are lower than the sum total of the loans and subsidies provided by all bilateral donors (Brugger 2004, 12). But thanks to its prominent position in development co-operation, it does have a crucial influence on the policies of the recipient countries as well as on those of the other multilateral and bilateral donors. It shapes national and international water policy both via its linking the award of loans to strict conditionalities and by its leading role in the formation of opinion in the water debate. Thus it has a decisive influence on the concepts and strategies to improve water supply in several countries.

The World Bank's policy in the urban water sector has already been examined in numerous studies. So far, much less attention has been given to the rural areas, although it is here that the largest number of people currently lack access to safe drinking water and sanitation. They belong to the economically and socially weakest sections of the population. Thus better, safe water supply is an essential contribution to poverty reduction in rural areas.

In the following, the World Bank's water policy since the beginning of the nineties is outlined, the central aspect of which is the notion of water as an economic good. Then the water policies in Sri Lanka and India as well as the World Bank's role in designing them and putting them into practice are described. These two countries have been chosen because the World Bank is implementing its policy both at project and programme and sector level in them in what is virtually an exemplary manner. Thus India and Sri Lanka offer an opportunity to take a look at the impact that the World Bank's water policy has had in rural areas so far and deduce demands on a different water policy from this.

## Part 1.

### The World Bank's water policy since the beginning of the nineties

The water sector assumes a central role in World Bank policy. For one thing, this is reflected in its share of loan awards. In the nineties, around 16 percent of all bank loans were provided for the development of water resources and water-related services. On average, the World Bank Group invested three billion US dollars a year in water, representing five percent of overall investment in the water sector of the developing countries (Briscoe 2003, 18). In the 2001 business year, outstanding credits in the water sector totalled around 20 billion US dollars, with 4.8 billions having gone to the urban area, 5.4 billions to irrigation, 1.7 billions to hydropower projects, 3 billions to environmental protection in the water sector and just 1.7 billions to water supply to rural areas (Alexander 2002, 4).

Second, the World Bank has initiated the setting-up of, or plays an influential role in, several organisations and institutions that have had a crucial impact on water policy over the last decade. These include the Water and Sanitation Program (WSP), coordinated by the World Bank, which was jointly launched with the UN Development Programme UNDP in 1977 and is aimed at promoting water supply and sanitation in rural and peri-urban areas, the Global Water Partnership (GWP), which developed the "World Water Vision 2000", the World Water Council (WWC) and the World Commission on Water (WCW), two influential water policy think tanks.

And finally, the significance of the water sector is reflected in a multitude of strategy and policy papers issued by the World Bank, the most important of which are:

1. The Water Resources Management policy paper passed in 1993 (World Bank 1993), which, according to the

2. Bank, "reflected the broad global consensus that was forged during the Rio Earth Summit of 1992" (World Bank 2003c, 1).
3. The 2003 Water Resources Sector Strategy (WRSS), with which the Bank clearly expresses its intention to extend its financing of reforms and projects in the water sector in future (World Bank 2003c).
4. The 2003 Action Plan for Infrastructure, which announces a massive boost to investments in new large-scale projects such as dams (World Bank 2003a)

#### 1.1. Reform agenda

Up to the beginning of the nineties, the World Bank's water policy had by and large been oriented on financial support for infrastructure provided by the state. After the end of the 1<sup>st</sup> UN Water Decade (1981-1990), which failed to reach its goal of "Water for All" in spite of considerable investments and remarkable success, a fundamental reorientation was started. The World Bank stepped up its efforts towards a comprehensive reform of the infrastructure sector, which had so far largely been in public hands, and hence the water sector itself.

The declared goal of the intended sector reforms was to improve supply for all, especially for the poorer sections of the population. The chief reasons given for the need for reform were the problems that many public utilities were encountering as well as the predicted high financing requirements.

The key elements of the solution concept, which was, for example, reflected in the World Development Report 1994 (World Bank 1994), are

- autonomy, decentralisation, commercialisation and cost recovery as basic principles for the utilities,

- competition through privatisation or by involving private, and in particular foreign, companies (Private Sector Participation, PSP) alongside public companies and user organisations, and
- autonomous regulatory institutions that formulate reliable requirements for utilities independently of political influence but that are also to ensure that environmental or social demands such as affordable prices for lower-income sections of the population are addressed.

While the Structural Adjustment Programmes of the eighties were above all focused on restricting state control via deregulatory measures, it is now at least acknowledged that the state can play a positive role in the development process provided that it observes “Good Governance”. Transparency and freedom from corruption in state action are regarded as key to good governance. Within the framework of the Good Governance Agenda, the state is to support development processes that conform with the market, also with the aid of legislation and jurisdiction. The state is to act as a facilitator. Instead of providing services itself, it is to create an atmosphere enabling private and societal actors to take up these tasks.<sup>1</sup>

According to the World Bank, the role of multilateral and bilateral development cooperation in these reforms is to assist the partner governments in putting the framework conditions they require in place, i.e. creating the institutional and legal prerequisites for change including commercialisation and privatisation.

<sup>1</sup> This notion of the state’s “new” role as a catalyst of growth and regulatory body for independent providers of services is also reflected in the 1997 World Development Report (The State in a Changing World) and in the 2004 World Development Report (Making Services Work for Poor People).

## 1.2. Strategy for the water sector. The 1993 Policy Paper

With its 1993 policy paper on Water Resources Management (World Bank 1993) the World Bank set the course for a fundamental shift in its policy regarding the entire water sector, i.e. for resources management, the provision of drinking water and sanitation, irrigation, hydropower and the relations between water resources and environmental protection. The basic elements of this policy shift can be found in all the following papers and publications. The Bank plans to achieve improvements in access to drinking water not only via an extension of its financing for the sector but above all through fundamental changes in the water sector of the recipient countries.

“The World Bank Group will continue to be a partner in bringing about both investment and reform in a sequenced and prioritized manner aimed at achieving sustainable integrated water resource management and water services and therewith responsible growth and poverty reduction in developing countries.” (World Bank, w.y., 22)

Here, thanks to its position, the World Bank regards itself as specially predestined to advise and support the governments in carrying out these reforms:

“With the formidable challenges to improve technical, financial, social and environmental performance of water management remaining worldwide, the World Bank Group is committed to using its acknowledged comparative advantage in terms of performance and knowledge, convening power, ability to link water issues to other sectors through economy-wide engagement, a multi-disciplinary perspective, relations with almost all riparian countries, a combination of knowledge and financial resources, and engagement at all scales (local watershed, city, irrigation district, river basin and aquifer, country, regional) and ability to integrate across these.” (ibid)

As a basis for the fundamental reforms it calls for, it refers to an alleged “global consensus” on modern resource management, the Dublin Principles. However, the four principles, which were adopted by the International Conference on Water and the Environment in Dublin, Eire, in 1992 (see Box), are reduced to three: the *ecological principle* of integrated management on the basis of river catchment areas, the *institutional principle*, according to which all stakeholders (the state, the private sector, civil society) are to be involved, and thirdly the *instrumental principle*, which states that distribution and improvements in quality of the scarce resource water are best achieved via incentive dam projects.<sup>2</sup> Instead, institutional and financial reforms in the sector were to be supported. The World Bank argues that it was particularly the unsatisfactory management of the sector, dependence on government authorities and a lack of resorting to cost recovery water tariffs and business management standards that had inhibited the development of the sector and improvements and economic principles, since water is an economic good just like any other. The fundamental demand of the Dublin Principles for participation (see page xxx for Box on participation) falls by the wayside, while the central role that women play is reduced to a subordinate clause. Instead, the World Bank emphasises the role of the private sector, which is not even mentioned in the Dublin Principles. This is why Nancy Alexander, Director of the civil society network CNES, regards the new policy as a “dramatic shift” towards stressing private sector involvement, price and cost issues and water markets (Alexander 2002).

With the Dublin Principles, the notion of water as an economic good was established in the international debate in the early nineties. It was argued that the “supply-oriented

<sup>2</sup> Since resistance and widespread criticism was an obstacle to the implementation of further dam projects, the World Commission on Dams was appointed with World Bank support in 1997. The Commission has developed guidelines for future policies. See WCD 2000.

approaches”, that had been pursued up to then, had proved not to be financially sustainable and had therefore not reached the poor in particular. An orientation on water as an economic good and the related cost recovery principle for water supply were to achieve a better sustainability and better supply for the poor.

### The Dublin Principles

1. Fresh water is a finite and vulnerable resource, essential to sustain life, development and the environment.
2. Water development and management should be based on a participatory approach, involving users, planners and policy-makers at all levels.
3. Women play a central part in the provision, management and safeguarding of water.
4. Water has an economic value in all its competing uses and should be recognized as an economic good.

In its 1993 policy paper, the Bank announced that it intended to finance fewer individual water projects in future. At the same time, owing to growing resistance, it increasingly withdrew from financing large in access to water. In future, the responsibilities for water supply should be reallocated:

“From having previously worked through government water supply and sewerage agencies, that Bank adopted in the 1990 a paradigm that seeks to create regulatory capacity in the sector and encourage private sector participation.” (OED 2003a, v)

Supply should be decentralised as far as possible, while the state should see to the regulation of the sector and provide the legal framework. Water tariffs should be raised in order to distribute water supply costs more strongly than hitherto among the consumers. The private sector should be boosted to enable it to take up more tasks in the sector in future.



The “Operational Policy 4.07 – Water Resources Management”, which formulates binding guidelines, is crucial to the practical implementation of the World Bank’s water policy. It is based on the 1993 policy paper, and together, they reflect the fundamental change in water policy at the beginning of the nineties. They represent an attempt to move away from the traditional project approach and the splitting up of the water sector into various individual areas and simultaneously abandon the notion that the government should provide water free of charge. Concepts such as cost recovery, demand responsiveness and privatisation are mentioned here for the first time.

### **1.3. Supply for the poorest of the poor? Experience with privatisation**

The World Bank has repeatedly ensured that it is an overriding goal of its policy on water and sanitation is “to ensure that poor people gain access to safe, affordable water supply and sanitation services by reducing costs and increasing accountability” (World Bank 2003c, 18).

The Mega cities in the South served as a pilot project for the transformation of the hitherto public water sector into a commercial economic field oriented on the private sector. Only 15 to 20 percent of the people without sufficient access to water and sanitation live in these cities. Nevertheless, the conditions they offer for the involvement of private companies appear to be particularly favourable: an existent, albeit often ailing infrastructure as well as high demand and purchasing power. So between 1990 and 1999, 160 larger PSP ventures were agreed in the water supply and sewerage sector, twenty times more than in the eighties (<http://rru.worldbank.org/ppi/reports>).

Experience has since shown that the contribution made by these projects to improving supply to low-income sections of the populations has frequently failed to meet expectations<sup>3</sup>. Corporate representatives

tions<sup>3</sup>. Corporate representatives concede that, in spite of price increases, subsidies via development credits from public finance institutions such as the World Bank and albeit low investments costs of their own, involvement in the water sector and, in particular, supply for poorer sections of the population does not pay its way for them. J.F. Talbot, Chairman of the Board of Directors of the French utility SAUR International has expressed serious doubts about the viability and profitability of private provision of water in developing countries and insists that substantial grants and soft loans are necessary, because “service users can’t pay for the level of investments required for social projects” (Talbot 2002). This means that the principle of full cost recovery by the users cannot be sustained in developing countries and government investments and subsidies remain necessary.

Moreover, there has been resistance to privatisation on the part of trade unions, civil society groups and consumer organisations in many countries, such as in Cochabamba, Bolivia, in April 2000, in South Africa or in Tucumán in Argentina. In the meantime, ever stiffer political headwind, economic crises such as that of Argentina and management mistakes have resulted in foreign corporations withdrawing from privatisation projects, as has been the case in Bolivia, Tucumán, Maputo and Manila. Just like in the infrastructure sector as a whole, in the water sector, too, foreign investments have dropped dramatically by around 50 percent after having peaked in 1997. Thus the privatisation concept in the services and utilities sector has run into a deep crisis.

These difficulties have prompted the World Bank to reassess its activities in the water sector. At the request of World Bank Executive Directors, both the Bank’s Operational Policy and its implementation were evaluated by the World Bank’s Operations Evaluation Department (OED) in 1998 given that “water and water-related projects were among the poorer performers in the Bank portfolio” (OED

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<sup>3</sup> For experience with PSP and privatisation in the water sector, see, among others, Grusky 2003; Hoering 2001.

2002c). The results of this survey, which are documented in the report “Bridging Troubled Waters”, were to indicate how a new water strategy could be developed for the World Bank.

The report “Bridging Troubled Waters” (OED 2002a) subscribed to the significance of the goals established for the sector in 1993 but criticised their insufficient implementation and called on the Bank to take concrete steps to accelerate implementation. In particular, the evaluation department stated that the Bank’s water supply projects had so far not had any significant impact on poverty reduction (OED 2002). In a further report issued one year later (OED 2003a), the Bank’s internal control body maintained that a stringent regulation of water prices including special arrangements for the poorest of the poor was not in place in any of the countries that had been awarded World Bank credits for water projects. The evaluation also criticises that:

- The respective country contexts are only insufficiently considered and the goal of sustainable water supply has been inadequately implemented. This is why one of the recommendations is: “Greater attention to linking water projects with CAS (Country Assistance Strategy, CAS – Author’s note) and poverty strategies, to better understanding local institutions and preferences, and to monitoring and evaluating project effects on poverty....” (Rec 1a).
- The setting up of regulatory authorities and the design of socially acceptable prices is insufficient.
- The contribution of private enterprises to providing poor sections of the population, in particular in rural and peri-urban areas, is meagre: “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...” (Item 85). Thus the report

recommends that more support again should be given to the public sector: “So, 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” (Item 87).

Moreover, at a World Bank Conference in March 2003, Vice-president for Infrastructure Nemat Safik conceded that the World Bank was being “over-optimistic” regarding expectations with respect to private investments: “Now countries that reform can’t find anyone willing to come in”. The latest statements in World Bank circles create the impression that the World Bank is abandoning the privatisation concept because it “has been oversimplified, over rated and finally disappointing as it promised more than has been kept” (World Bank News, 16.06.2004). Only recently, the US American lobby organisation Public Citizen also asked whether the World Bank was giving in to critics of privatisation. (2004).

It certainly has opted for other actors again. First of all there are public enterprises. A large number of examples of efficient public utilities do indeed exist, for instance in Malawi, Porto Alegre, Sao Paulo or Bogotá, and there are several cases of successful reforms having been initiated as an alternative to privatisation, often in co-operation with trade unions and the public. The World Bank has since started to analyse experience with reforms of public companies to benefit from “best practice” there in its own policies.

Second, it is focusing more on extending the reforms in the water sector beyond the urban areas to the rural regions.

#### **1.4. The 2003 Water Resources Sector Strategy**

Early in 2003, the World Bank management drew up a new strategy for the water sector (Water Resources Sector Strategy, WRSS) emphasising the fundamental principles of the policy paper issued ten years previously.

However, the latter “need to be adapted to specific economic, political, social, cultural, and historical circumstances,” explains John Briscoe, one of the most important architects of World Bank water policy since the mid-nineties and the chief author of the new strategy (Briscoe 2003, 19). On the basis of the OED evaluations, it is to contribute to drawing conclusions from the success as well as the failures of the past and improving the implementation of the principles formulated in 1993.

In a contribution for the World Bank journal “Environment Matters”, Briscoe announces that the new strategy “represents a significant new chapter in the Bank’s ongoing work in the water resources area” (2003, 18). For one thing, referring to the World Commission on Water (WCW), he sees a considerable requirement for investments according to which the annual investments of currently roughly 75 billion US dollars would have to be raised to 180 billion US dollars over the next 25 years. However, money alone is not enough, as Briscoe argues:

“Governments must support reforms to make the water sector more accountable, transparent, efficient, and environmentally and socially responsible. Strengthened participation in these reforms by water users and civil society at large is indispensable. And when governments in poor countries adopt appropriate policies, they need to be supported by the international community.” (2003, 18)

He thus sees two “challenges”: first the mobilisation of massive investment in stepping up infrastructure, ranging from local rain-water harvesting structures to major infrastructure such as dikes, canals, dams, and interbasin transfers. What is above all necessary according to Briscoe is “to reconsider” the World Bank’s de facto withdrawal from large-scale water projects (19). In the WRSS sector strategy, it is then announced that “the World Bank will re-engage with high-reward-high risk hydraulic infrastructure” (World Bank 2003c, 3).

### **Subsidies – different standards**

With the concept of Output-based Aid, the World Bank aims to create incentives for private service providers to offer poorer sections of the population more affordable services. Companies obtain public funds from development co-operation if they can prove that they have improved the supply situation for low-income groups.

According to Nancy Alexander, Director of the CNES network, such approaches do not only cause considerable monitoring costs that ought to be compared to those of providing public services, but they also set contradictory standards in development co-operation. While the international finance institutions are increasingly rejecting traditional support for public provision of basic services for financial reasons, they are welcoming of public subsidising of untested instruments aimed at getting companies to provide for poor sections of the population. (Alexander 2003)

The second priority is to extend legislation and regulatory mechanisms and institutions. Financing such “non-structural solutions” (Briscoe) by the Bank is consequently being increased. Here, one important goal is that of promoting commercialisation and privatisation. Thus the strategy emphasises the demand that water tariffs at least cover operating and maintenance costs. The assumption is that this would put an end to wastefulness and injustice, e.g. through subsidies to the benefit of affluent groups. Water distribution and use is to be regulated by an effective system of water rights, i.e. by supply and demand on a market economy basis.

As an important new instrument, Briscoe suggests individual country strategies for the entire water sector (Country Water Resources Assistance Strategy). They ought to be developed on the basis of the World Bank’s development strategy for a respective country

(Country Assistance Strategy, CAS), the national Poverty Reduction Strategy and the principles of the World Bank Strategy Papers of 1993 and 2003 (Briscoe 2003, 19).

The WRSS water sector strategy emphasises the principles of cost recovery and demand responsiveness defined at the beginning of the nineties (also see Box on cost recovery below). At the forefront are financing issues, instead of a sustainable use of water taking the interests and needs of the poorest sections of the population into consideration. The Bank calls for even more state support of the private sector in water supply in order to boost implementation. Although the private sector has only achieved little to improve water supply for the poorer sections of the population over the last ten years, the World Bank continues to opt for strengthening it, albeit in a “mix of providers”, i.e. of public and private companies, user groups and self-help initiatives. The sector strategy refers to Private Public Partnerships, public funding to minimise risks through currency fluctuations, an improvement of the investment climate and Output-based Aid (see box) as instruments to support private actors in the water sector (World Bank, 2003c, 47). The World Bank has now realised that only considerably more attractive investment conditions can get private investors to engage in water supply in the developing countries, and that win-win situations by no means exist per se.

### 1.5. The Action Plan for Infrastructure

Criticism of the negative impacts that major infrastructure projects such as dams have had on the environment and the population, the transition from “Brick and Mortar-projects” – as referred to in the Action Plan for Infrastructure - to policy and regulatory reforms and institutional capacity building as framework conditions for private investments, and the high expectations placed on the private sector had resulted in a decline in World Bank funding for infrastructure pro-

jects with public development funds in the nineties<sup>4</sup>. By 2002, it was providing only half as much money for infrastructure measures, including water supply, as it had at the beginning of the nineties (World Bank 2003a, 2).

Just like it was already reflected in the WRSS sector strategy, the rollback has also had an impact on the new Action Plan for Infrastructure. Like the WRSS, it pursues two priority goals: accelerating privatisation and returning to major infrastructure projects as “high risk/high-reward” projects. In the Action Plan passed in July 2003, the World Bank announces its intention of drastically increasing finance for infrastructure over the next few years to offset the decline in private infrastructure investments, which had dropped by more than half from 1997 to 2002 (World Bank 2003c, 3). This trend is also reflected in the World Bank’s projects and programmes in the individual countries. For example, in December 2003, the Bank announced that it was to double its credits and subsidies for India and stated that the money was intended in particular for infrastructure measures and development projects in rural areas (World Bank Press Review, December 15, 2003). Water supply plays a key role in this context.

Here, the Bank above all emphasises the direct impact an improved infrastructure and water supply has on economic growth and on the prospects of reaching the Millennium Development Goals. It argues that the Camdessus Report (2003), the new development initiative for Africa, NEPAD, and the Conference on Sustainable Development in Johannesburg in September 2002 had sharpened the perception of gaps in the provision of infrastructure services. The Bank notes that these gaps have to be filled, and that it has to respond by stepping up its activities in the infrastructure area (World Bank 2003a, 2).

At the centre of the Action Plan is financing of new infrastructure projects and promoting the

<sup>4</sup> At the same time, the members of the World Bank Group operating in the private sector, such as the IFC, which awards credits to companies, or the investment guarantee agency MIGA, multiplied their support for the private sector, cf. World Bank 2003a.

private sector, e.g. by “sustainable subsidies for private provision”. Furthermore, the World Bank announces that it is to step up its consultancy activities in the sector and, in addition to credits, increasingly provide countries with other financial instruments such as securities and guaranties for the funding of infrastructure projects.

### **“Alternative service delivery arrangements”**

“Making Services Work for Poor People” is the title of the latest World Development Report, in which the Bank advocates “alternative service delivery arrangements” (Weltbank 2004). At the core of the Report is the notion of “putting poor people at the centre of service provision”, in order to raise the “effective use of all resources, internal and external” (1). Improvements in the fields of education, health, water and sanitation and power supply are to be achieved by enabling the consumers themselves to “monitor and discipline providers”, by giving them more say in political decisions and by boosting incentives for providers to supply to the poor (ibid.). The aspect of accountability is emphasised in the mutual relation between providers, clients and political decision-makers. The prime objective of reforms is to promote political and economic decentralisation, strengthen solution concepts by the community itself and above all give a voice to poorer clients when addressing politics and the providers.

Source: World Bank, World Development Report 2004

Thus the Action Plan is characteristic of the World Bank’s policy in the wake of hopes of privatisation having been dashed. It is no longer opting solely for the private sector. Other models such as Public-Private Partnerships or, “in some cases”, credits for “well-performing public utilities” are becoming increasingly important. “We realized that reliance on private sector financing

would not be sufficient. The Infrastructure Action Plan will help us work on infrastructure service delivery along the entire spectrum of public and private involvement,” said Nemat Safik, Vice-President for Infrastructure, at the World Bank in July 2003. The World Bank assumes that for the time being, it will have to continue to support state services in the poorer countries, especially in the water sector, while the private sector can already take over a major share of activities in countries with medium per capita income levels. The private sector is to enjoy more support from the World Bank by the provision of guarantees against investment risks and public funds from development co-operation (World Bank 2003a, 9).

## **1.6. Lessons learnt from failure? The Demand-Responsive Approach**

Four fifths of all people without adequate drinking-water supply and sanitation live in rural regions. The World Bank’s causal analysis of this situation resembles its analysis of the urban sector: poor management by the state or public institutions, insufficient funding of necessary investment in maintenance and expansion and simultaneous considerable subsidies that often benefit the more affluent sections of the population. However, drinking-water supply and sanitation for rural regions has a conspicuously low status in the sector strategy for water resources, WRSS, and other strategy papers.

Compared to other areas, such as the urban sector or irrigation, drinking-water supply and sanitation for rural areas has always played a secondary role in the World Bank’s water policy. Moreover, the results achieved so far with World Bank projects in the rural supply sector have been impressively meagre. More than half of all rural drinking-water projects have had no sustainable impact according to the Bank’s evaluation department (OED 2002c, 2).

However, it is not possible to directly transfer the privatisation strategy the World Bank and other development organisations have been pursuing in the conurbations since the beginning of the nineties to the rural regions. This area is less attractive by far for investors than the urban supply sector. Decentralised, appropriate supply systems are required, and the purchasing power of the consumers, who by and large use local water resources, is low. In a nutshell, most rural regions are not a target area for centralised, capital-intensive water supply and sewerage systems with elaborate piping, pumping stations and sewage plants that private companies could make a profit with.

Instead, the World Bank advocates an increased application of the Demand-Responsive Approach. The Key Design Principles for Community Water and Sanitation Services note that experience with water and sanitation projects has shown that projects pursuing a demand-responsive approach are more sustainable (World Bank 2002, 1). These guidelines argue that supply-oriented approaches, i.e. systems planned, financed and operated by the state, proved to be financially unsustainable and had therefore above all failed to reach the poor. This approach can be directly traced back to the Dublin Principles, with which the notion of water as an economic good entered the international debate. The title of a 1998 World Bank paper rings like a policy programme: “Managing Water as an Economic Good: The Transition from Supply-Oriented to Demand-Responsive Services” (Garn 1998).

The newly-conceived approach of demand-responsiveness is to ensure sustainability, cost recovery and the transfer of responsibilities for financing and operation to bottom levels. Water users or local institutions are to take decisions on their supply system, financing, implementation and, finally, operation into their own hands.

“This means empowering communities to make informed choices about their participation, service levels and service

delivery mechanisms; realigning the rights and obligations of key stakeholders; vesting communities with ownership rights and authority to select service providers; building local capacity to support community decision making in planning, management and delivery of services and establishing financial policies and instruments that provide incentives for communities to contribute to capital costs and pay for all operation and maintenance costs. An important element of such approaches is to make sure that women can play a role that is commensurate with their knowledge of local water services and interest in improving them.” (WRSS, 18pp.)

What the World Bank expects from this concept is that the costs of water supply are no longer borne by the state but by the users, and that thanks to participatory elements, awareness of ownership is raised as is, therefore, users’ readiness to pay. The power to make decisions and the right of disposal is transferred from state and public authorities to the consumers, while investments are not made by bureaucracies but are steered by self-determined requirements and are not initiated by the state but by the consumers. In this way, the World Bank claims, two goals can be reached simultaneously. Access to water for poorer sections of the population in rural areas can be improved, while the water sector as a whole can be made more financially viable.

Here, the Bank clearly advocates cost recovery by the users, advocating that water tariffs ought to correspond to what the service costs. Every water and sanitation system ought to be financially self-supporting, and subsidies should only be awarded on a short-term, once-off basis (World Bank 2002, 3). This could also provide the foundations for more involvement of private companies in rural areas. Thus the evaluation department OED hopes that cost recovery via fees and tariffs “may attract private operators” (OED 2002c, 3).

The proponents of this approach, including in particular the World Bank and the Water and Sanitation Program (WSP) it supports, have since promoted its implementation in a wide

range of policies and strategies, especially in Asia and Africa. The World Bank has announced that in future, it is only going to become involved in the water sector of countries considering the concepts of cost recovery and demand-responsiveness. In the rural regions, projects should only be implemented in villages the population of which is willing to bear the costs of water supply itself. At the same time, the World Bank has declared that it is willing to provide more money for projects supported by the community (“Community-Driven Development”)<sup>5</sup>.

### **The Demand-Responsive Approach – Principles:**

- 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<sup>6</sup> and replacement.
- The more users pay, the more likely a project is to be demand-driven.

Source: OED 2002c, Rural Water Projects: Lessons Learned. Précis Number 215, Winter 2002

sections of the population in planning and implementing water projects. In contrast, water systems that are initiated and operated by the villagers themselves bear the potential to respond to their interest in affordable, decentralised, self-determined solutions adapted to local social and cultural conditions. But do the reforms initiated by the World Bank in the water sector really offer those groups whose voices have not been heard so far the opportunity to influence important decisions? Who has to be addressed when attempting to formulate and assert interests? Who finances investments, operation, and maintenance? And finally, is there a probability that the reforms will contribute to the poorest and most marginalised sections of the population gaining better access to drinking water?

India and Sri Lanka are among the few countries the Demand-Responsive Approach has so far been applied in. There are several large-scale pilot projects in both countries. Moreover, according to the World Bank, the sector reform programme passed by the Indian Government in 1999 is the largest water project world-wide with a Demand-Responsive Approach (WSP 2002, 2).

Increased involvement of local groups in decisions made in the water sector really could represent an opportunity to improve access to drinking water and sanitation. For in the past, public authorities have frequently neglected the interests of the poorer

<sup>5</sup> The Bank largely uses the terms “Demand-Responsive Approach” (DRA) and “Community-Driven Development” (CDD) synonymously.

<sup>6</sup> Operation and Maintenance.

## Part 2.

### The World Bank and water policies in India and Sri Lanka

#### 2.1. Sri Lanka: A trial run for the Demand-Responsive Approach

Sri Lanka withdrew from the state socialist development model earlier than many other South Asian countries. Already towards the end of the 1970s, it introduced a package of IMF liberalisation measures with which the island, situated Southeast of India, was to attract foreign investors and turn into an export centre like Hong Kong or Taiwan. However, the escalating conflicts between Tamil and Sinhalese parties resulted in a civil war in the early eighties that claimed the lives of more than 64,000 people and resulted in the displacement of a further estimated 800,000. It also inhibited development as well as the country's attractiveness for private investors. Nevertheless, with the exception of 2001, Sri Lanka can boast a steady economic growth of four to six percent and comparatively high health and education standards. At 880 US dollars a year, average per capita income is higher than in most South Asian countries. However, about a quarter of the 20 million inhabitants live below the poverty line, 90 percent of them in rural areas (Country Brief Sri Lanka).

In February 2002, the Government of Sri Lanka and the Tamil liberation movement LTTE agreed a ceasefire with which, after 20 years, the civil war was put an end to for the time being and that opened up the way to an accelerated continuation of the market economy reforms (trade liberalisation, exchange rates and investment conditions) that had already been introduced in 1977. This was also reflected in the new economics and poverty reduction strategy "Regaining Sri Lanka, Vision and Strategy for Accelerated

Development" in December 2002. In April 2003, the World Bank, which had supported Sri Lanka with credits totalling 2.4 billion US dollars at a favourable rate of interest via its subsidiary IDA<sup>7</sup> from the beginning of liberalisation up to 1997, presented its new Country Assistance Strategy for the implementation of which it approved 800 million US dollars in subsidies and IDA credits for a period of four years. This represents a considerable increase in comparison to the previous five years in which, on average, just 60 million US dollars had been provided. One priority here is the creation of framework conditions for the development of the private sector, which also includes improvements in the banking and finance sector, the services sector, infrastructure and regulatory capacities.

The water sector plays an important role both in the government's development programme and in the World Bank's Country Strategy. Both water supply, to which just below eight percent of the current credit has been allotted, and the expansion or rehabilitation of irrigated agriculture, especially in the civil war regions (North East Irrigated Agriculture Project) are being supported. Here, one declared approach is that of "empowering communities to address their own development needs" (Country Brief Sri Lanka, 2).

##### 2.1.1. The CWSSP Pilot Project

Up to the end of the nineties, the World Bank or its subsidiary IDA financed four projects in the area of water supply and sanitation in Sri Lanka with a total of 100.5 million US dollars. One of these projects, the Community Water Supply and Sanitation Project, is in a rural area and was approved for a period of five years in 1993. According to the OED in its 1998 Impact Study, this "innovative project" aimed

<sup>7</sup> The International Development Agency awards credits and subsidies to the poorest countries.



“to increase beneficiary involvement including that of women through the use of existing local groups or to promote new community-based organisations to take charge of development, implementation and O&M of new water supply and sanitation systems” (OED 1998, 1).

In the framework of the project, the Government of Sri Lanka was to transfer its responsibility for planning, management and the lion’s share of financing water supply in rural areas to water-user groups. The project was regarded as a pilot project and pursued three objectives:

- running demand-responsive water projects in rural areas and in smaller towns in the districts of Ratnapura, Badulla and Matara,
- developing systems and institutions for communal planning, implementation, running and rehabilitation of demand-responsive water and sanitation systems,
- preparing a follow-up project and a concept for the transfer of this approach to the water sector of the country as a whole.

The new approach of demand-responsive water supply in Sri Lanka’s rural regions was above all financially motivated. In its introduction to the project report, the World Bank notes that difficulties with the state budget arising from the costs of the civil war made it impossible for the government to satisfy the population’s infrastructure needs and maintain the standards for services in rural areas (World Bank 1999a, 2). It goes on to remark that the rural water sector is not financially viable since water tariffs would not cover the water costs (World Bank 1999a).

Instead, the policy aims at forming water user groups via which users are to be involved in planning and implementing supply facilities. The costs, which are to be borne by the users, would vary depending on the solution concept chosen. Also, the user groups are to observe payment morality in order to raise the money needed for opera-

tion and maintenance. The concept is based on the assumption that

“involvement of users in all aspects of water supply system development, implementation and O&M improves sustainability. Women’s involvement proved to be critical for performance” (OED 1998, 2).

Officially, just below 80 percent of the population in rural areas had access to water in the mid-nineties, and 70 percent to sanitation. Largely, however, water quality and installations were poor. Although the Government was already officially pursuing the policy of at least having the costs of operation and maintenance covered by the users, this goal was seldom attained. Not only was the new concept supposed to ensure this cost recovery, but additionally, it was designed to introduce a contribution of the users to the capital costs – a share of 20 percent for water, and even the full cost of latrines. It was expected that this would result in a sense of ownership, ensuring sustainability. At the same time, tariffs were also to be raised for existing systems so that at least the costs of operation, maintenance and debt servicing could be covered.

While the World Bank identifies a number of achievements in its internal evaluation of the pilot project, the difficulties are predominant in the implementation of this project. For instance, while water supply has been quantitatively and qualitatively improved, all in all, it remains unsatisfactory in the project areas (World Bank 1999a). And while participation improved in project planning, this was not the case with implementation, e.g. in the construction of the supply facilities. Above all, cost recovery is still problematic. “Tariff remains too low, as well as collection rates,” the OED study states (29). The World Bank also notes that it is still too early to assess whether users can bear maintenance costs on their own, without financial support from outside (1999a, 5). The low level of readiness among the population to pay higher water tariffs and become involved in the projects as well as insufficient rehabilitation efforts are identified as the central problems of the project. The sustainability of the investments made to the tune

of just under 30 million US dollars is questioned by the Bank itself.

In spite of this, the Bank demands a comprehensive reform of the country's national water policy oriented on elements such as participation, demand-responsiveness and cost recovery.

### **A culture of hydraulic engineering**

Between the first and the sixth century AD, the construction of gigantic water collection basins, canals and dams made a crucial contribution to food security and the development of Buddhist society in Sri Lanka. Only the transition from an agriculture depending on rain that yielded just one harvest a year to an irrigated agriculture with two harvests annually enabled society to provide for the Buddhist monks as well. The growth of the monasteries and the Buddhist faith was possible at this stage because farming yielded enough to also feed those not working in agriculture. The creation of the political and religious centre in the Northeast of the island towards the middle of the fifth century AD is closely connected to the development of irrigated agriculture in this region. Even then, the state was responsible for water supply. One of the factors the legitimacy of a ruler depended on was his capacity to secure water supply. If he did not succeed in doing this, he was threatened with a loss of power.

Source: Anuradha Seneviratna, *The Springs of Sinhala Civilization*, New Delhi 1989

### **2.1.2. Water sector reform**

Rajindra de Ariyabandu, Policy and Planning Director at the Government Water Resources Secretariat in Colombo, reports that the demand-responsive approach tested by the World Bank in the first Community Water Supply and Sanitation project has since been adopted by the Asian Development Bank and other major donors and is now being implemented throughout Sri Lanka

(Ariyabandu 2004). The introduction of the Demand-Responsive Approach is a central pillar of comprehensive water sector reform in Sri Lanka the formulation of which was crucially influenced by the World Bank. The focus on liberalisation, commercialisation and privatisation and on demand-responsiveness and cost recovery is reflected in various strategy and policy papers and in recent legislation:

1. In 2001, the new *National Policy on Rural Water Supply and Sanitation* is passed that stresses, among other aspects, the economic value of water and a Demand-Responsive Approach,
2. The growth and poverty reduction strategy (PRSP) "Regaining Sri Lanka: Vision and Strategy for Accelerated Development" was submitted to the multilateral finance institutions in December 2002 and rests on three central pillars: creating the macroeconomic conditions to strengthen the private sector, an orientation on poverty reduction and the improvement of the state's monitoring and regulatory capacities.
3. In the summer of 2003, the World Bank passed the new Country Assistance Strategy for Sri Lanka that is aimed at supporting the implementation of the poverty reduction strategy. It defines the projects and programmes of finance organisation in the country for the next four years.
4. In October 2003, the Water Services Reform Bill was tabled in Parliament.

The World Bank notes that despite remarkable progress made in development over the last ten years, considerable inequality still prevails in Sri Lanka. Especially with regard to equal opportunities, access to services and the distribution of natural resources, there are big differences throughout the country. For this reason, improvements in quality and access to services are a prime objective of the country strategy (CAS). At the same time, the Bank argues, the capacity of local communities to

fulfil their development requirements themselves needs to be strengthened.

One key element of the strategy is public sector reform, which is to be supported both by programme-linked and project-linked credits. In addition to a credit provided for poverty reduction on an annual basis – the Poverty Reduction Support Credit (PRSC) – the World Bank is going to award further credits and subsidies in order to finance projects in individual sectors (World Bank 2003b, 28). Here, the Bank advocates a flexibilisation of labour markets, strengthening of the private sector and greater financial participation of users in the area of basic services.

As an incentive for the Government to consistently implement the World Bank's ideas, the country strategy stipulates that the level of credits depends on whether the Government significantly reduces its budget deficit and extends the role of private enterprises in the infrastructure sector. Then the funds Sri Lanka receives from the World Bank will be 25 percent higher than if it does not comply with the provisions to the Bank's satisfaction (World Bank 2003b, 29).

### Slowed-down participation

While the World Bank and the Government claim that the poverty reduction strategy has evolved with broad participation of sections of the population and represents a consensus in society, the country's civil society groups and networks reject this. The *Movement for National Land and Agriculture Reform* and the network *Alliance for the Protection of National Resources and Human Rights* from Sri Lanka told the 3<sup>rd</sup> World Water Forum in Kyoto in March 2003 that they had not had any opportunity to influence the water-relevant aspects of the PRSP. The document as such had been negotiated between the World Bank and the Government, and the reservations of several groups about the planned commercialisation of the sector had not been considered in any manner.

Many of the country strategy's elements are based on the country's "Regaining Sri Lanka: Vision and Strategy for Accelerated Development" poverty strategy (PRSP) of December 2002. The concepts for the water sector contained in the strategy bear striking similarities to those of the World Bank. For instance, improving access to drinking water in the rural areas is planned via the introduction of demand-responsive systems with rising cost recovery by the users. In the urban areas, the strategy aims at extending the role of the private sector.

Two major projects have been established for the water sector in the country strategy:

- The Second Community Water and Sanitation Project, which the World Bank is to finance with 40 million US dollars over the period up to 2009, is to improve access to water for communities in the Northeast, the Northwest and the central provinces. This project is the follow-up project of the First Community Water Supply and Sanitation Project. In the framework of the new project, the World Bank finances investments in water infrastructure plants as well as supporting water-user organisations and other sections of the population in the autonomous management and financing of water infrastructure plants.<sup>8</sup>
- The large-scale North East Irrigated Agriculture Project, which was agreed in the new country strategy and for which 64.7 million US dollars has been provided, is the core element of the rehabilitation fund set up by several international donors for the Northeast (NERF), with the World Bank acting as co-ordinator.

The new National Policy for Rural Water Supply and Sanitation Sector clearly distances itself from the notion hitherto that "drinking water and basic sanitation have been considered as social goods" (Republic of Sri Lanka 2000, 2) for the provision of which the government is responsible. It argues that supply

<sup>8</sup><http://web.worldbank.org/external/default/main?pagePK=64027221&piPK=64027220&theSitePK=233047&menuPK=287063&Projectid=P058067>.

was oriented “on the need that was not necessarily backed by an effective demand”. And since revenue would not cover public expenditure, cost recovery by the users is aimed for.

The state should increasingly restrict its role to regulation and the provision of framework conditions, while instead, the provision of installations and services should be accomplished by the users themselves. To this end, “Conceptual and attitudinal changes (are) imperative, focusing on water as an economic good and a commodity responding to effective demand.” (ibid. 7)

Whenever possible, community-based organisations (CBOs) and private operators should determine requirements and technical solutions, raise funds and see to or at least control planning, construction and operation themselves, paying attention to broad participation of the locals. Registered NGOs can support them. It is hoped that international investors will be able to contribute money, technical support and know-how.

Also, in October 2003, the *Law on a Reform of the Water Sector Services* was tabled in Parliament that stipulates further privatisation and commercialisation both in the urban and the rural areas and bases the principles formulated in the country strategy and the poverty reduction strategy on legal foundations. If it is passed, this will result in fundamental changes to the water supply system. This is above all to be accomplished via two elements: the setting up of an autonomous Public Utilities Commission and the introduction of licences for the providers.

In addition to providing specialist advice to the Government and the Ministries, the new commission, which is to operate independently of the Government and Parliament, is to act as an economic and technical regulatory body. Its wide range of activities include, in particular, setting tariffs and quality and supply standards, awarding licences to operators of supply installations and the overall management of water resources. The aim striven for is a comprehensive, efficient,

economical and secure supply with sustainability being achieved by cost recovery.

### **A licence to exclude others**

The Law on Services in the Water Sector gives the licensees far-reaching powers, also with regard to the water resources. If a public well is to be dug in an area that another actor already holds a licence for, the costs entailed, including those for the amount of water taken from the well, have to be compensated for by the public. People using the water of areas that belong to a licensed actor are violating the new law and have to reckon with prosecution. People bathing or washing their clothes in a source of water belonging to a licensed operator are also in breach of the law and may be prosecuted.

One of its key tasks, which is defined in detail by the law, is the award of licences for the provision of services in the water sector. Licences may be acquired both by public institutions such as the national water authority NWSDB and by CBOs and private companies. Not only do financial resources have to be provided to obtain a licence, but a financing plan and cost recovery calculations have to be submitted as well.

The licensed actors are to have the right of disposal of the entire infrastructure and the water resources in a certain area. Thus they alone have the right of usufruct of water and the right to offer services in the water sector and demand a price for these services. Public bodies are privileged regarding the award of licences for a period of five years after the law has been passed. However, if they do not succeed in acquiring a licence within this period, the commission can award the areas to other contenders.

### 2.1.3. An initial assessment

According to Miriam Witana, formerly a World Bank specialist on infrastructure in Sri Lanka, the Bank assumed a co-ordinating role in the reform of the country's water sector. She states, for example, that the concept for the *National Policy on Rural Water Supply and Sanitation* approved in 2001 was commented by Bank consultants and modified along lines they proposed.<sup>9</sup> The draft law on the reform of services in the water sector of October 2003 was also developed under considerable influence of the World Bank. The World Bank's current specialist on infrastructure in Colombo has confirmed that opening up the sector to private investors is a key element of the legislative initiative and the reforms promoted by the World Bank. She reports that the Bank supported the ministry that prepared the draft law, also by providing private consultants that played a crucial role in fleshing out the law<sup>10</sup>. In the framework of a credit for technical support of economic reforms, the World Bank is paying consultants of the private consultancy firms Pricewaterhouse Coopers and Halcrow.

So it comes as no surprise that Sri Lanka's policy now conforms exactly to the World Bank's water policy. Demand-responsiveness, cost recovery, user participation and the definition of water as a commodity are central elements of its policy. The Government is to limit its activities to formulating the national policy and regulating the sector, also with respect to sustainability "A shift towards more and more user-managed modes of providing facilities and services is required. Further, conceptual and attitudinal changes in all sector partners are imperative, focusing on water as an economic good and a commodity responding to effective demand. Concurrently, the capacities and the resources of the user organisations and those of the private sector need to be utilised more productively while the role

of the Government, particularly in the provision of facilities, has to be reduced.," the rural water supply strategy RWSS (7) states. Entirely in line with an orientation on demand, CBOs and user groups are to assume the task of estimating the population's water needs, opt for an adequate infrastructure and bear a growing share of the costs incurred.

However, the laws and regulations that have been created for an across-the-board implementation of the Demand-Responsive Approach give rise to a number of questions:

- They refer to inequalities in access to public services in general and those in the water sector in particular. But how this state of affairs could be improved remains unsettled. Except for generalised statements, the laws and regulations lack explicit strategies or measures that could target improvements in supply for the poorest of the poor. This means that there is no guarantee of improved supply for them.
- The relation between the water law (WSRB) and the rural water supply strategy (RWSS) remains unclear. Given high demands on licensees, it appears improbable that CBOs will be in a position to apply for licences to a larger extent.
- Licensing grants the licensees an enormous scope for control of developing water supply, also with a view to cost recovery, as well as of the local water resources themselves (see Box). Thus there is no guarantee that at least some of the water resources and the drinking water infrastructure remain accessible for the public.
- Licensed actors also have the right to set water tariffs at a level ensuring that they can recover their entire costs. Apart from an appeal to "social responsibility", the draft law contains no provisions that would ensure that the actors consider social and environmental principles, and they are explicitly allowed to turn off the water for defaulting users. How access to drinking water for poorer sections of the population is to be ensured remains unclear.

<sup>9</sup> Miriam Witana, personal interview, Colombo, 7.11.2003.

<sup>10</sup> Amalie Rajapaksa, Interview, Colombo, 31.10.2003.

- The monopoly held by the licensees is insufficiently offset by regulatory options. In many cases, the CBOs and local authorities will be too weak, and the centralised supervisory authority UPC is remote. Moreover, just like in urban privatisation projects, an ongoing conflict is emerging between licensees demanding a cost-covering, profitable water tariff and the regulatory authority, which is to ensure socially acceptable prices.
- Neither was there any comprehensive participation in the development of the water strategy, in contrast with the World Bank's announcing that "strengthened participation in these reforms by water users and civil society at large is indispensable" (Briscoe 2003, 18).

## 2.2. India: Self-help and dams

Over the last 60 years, India has received almost 60 billion US dollars in IBRD and IDA credits, making it the largest single cumulative recipient of World Bank assistance. Here, the water sector has always played an important role, as is reflected in the Indian Government's borrowing ten percent of investments in the water sector between 1985 and 1997 from the Bank. Having peaked in 1987, the award of credits dropped by almost half to 330 million US dollars a year, only to rise again following the World Bank's formulating its new water policy in 1993. Thus the share of water in World Bank funds for India has grown from 9 percent to 25 percent, most of which goes into agriculture. However, investments in drinking-water supply and sanitation have since almost doubled to 520 million US dollars (Pitman 2002, 18).

### 2.2.1. The World Bank as a motor of reform

Step-by-step liberalisation of India's economy, which had been introduced in the early nineties by a constitutional and finance reform, has also opened up the way to reforms in the water sector. At the same time, with its new 1993 water policy, in India too, the World Bank has increasingly been shifting from project to sector financing, with the conflict over the Narmada Dam Project and the Morse Commission's report having significantly contributed to this change (see Box). Himanshu Thakker of SANDRP, a network of groups in Southeast Asia working on the issue of dams, maintains that most of the World Bank projects were "unaccountable, uneconomic, destructive" and resulted neither in sustainable nor fairly distributed use<sup>11</sup>.

Since the mid-nineties, the Bank has increasingly been shifting its co-operation away from central government in favour of providing those Federal States with support that are "willing to undertake public expenditure reform" (Pitman vii) – Orissa, Rajasthan, Andhra Pradesh, Karnataka and Uttar Pradesh. Thus, Pitman maintains, it has simultaneously obtained more leverage with reform policy as compared to the self-conscious Indian Central Government (vii). The State Governments are to restrict themselves to developing the framework conditions and withdraw from management, and the efficiency of institutions, Good Governance and decentralisation are to be promoted "that allow the private sector, including user groups, to take a greater stake in water planning, investments and management". (viii). Privatisation projects are being initiated in some major cities. Generally, principles such as cost recovery and market orientation are to be implemented. "Traditionally in India, water has been seen as a social good. But since ten years there are attempts to re-define it as an economic good," says Mariappa

<sup>11</sup> Statement on WRSS, in: McCully 2002, Annex A.

Kullappa, sector reform specialist at the World Bank's WSP South Asia.<sup>12</sup>

Initially, however, the World Bank's reform efforts met with little success. Reviewing the nineties, the evaluation of World Bank support for the management of water resources by the Bank's evaluation department (Pitman 2002) notes that "the performance of completed Indian Bank-financed water operations is poorer than South Asia and the Bank as a whole" (19). This applies in particular to hydropower and rural water supply and sanitation, "with none of the projects performing satisfactorily" (20). Moreover, their sustainability is held to be "unlikely". The study goes on to state that promised reforms have not been implemented, and notes that "India has made little progress to reform its water sector, even though there has been (...) sustained Bank support." (vii) Among other aspects, the study comments, implementing higher water tariffs to ensure cost recovery remains a challenge (Pitman, viii).

This applies in particular to the rural areas in which the majority of India's population live. In spite of considerable government investments (320 billion Rupees since 1954) drinking-water supply and sanitation has remained inadequate and is above all not sustainable, i.e., the supply systems quickly become unable to operate. The World Bank estimates that Central Government's expenditure on the rural water sector would have to increase 2.5-fold in order to attain its goal of comprehensive rural water supply within ten years, "an unrealistic objective unless other funding mechanisms are developed". (Pitman, Annex E, 7)

A further extensive stocktaking of water sector policy that was jointly conducted by the Central Government, the World Bank and a number of bilateral donors and submitted in 1998 arrives at similar results. It states that while the government has succeeded in creating access to drinking water for 85 percent of the rural population, sustainability of supply and protection of water quality is not

ensured (World Bank 1999b, XI). The fact that the water is free of charge for the users and the government is responsible for the sector as a whole is referred to as a problem in the report, which argues that users are thus deprived of the opportunity to take advantage of their power as consumers in order to attain better access to water supply. Moreover, state dominance of the sector is regarded as a restriction of options for Non-Governmental Organisations and private enterprises to participate. And the Government's lack of fiscal discipline and the insufficient commercial orientation of the sector is perceived as an additional deterrent against the private sector.

### Narmada

In the mid-eighties, the Indian Government started drawing up plans for the construction of roughly 1,000 large, medium and small dams along the Narmada River. The World Bank was originally intended as the source of finance for one of the largest projects, the more than 130-metre-high Sardar Sarovar Dam. This project alone threatens more than 300,000 people, most of them indigenous sections of the population, with displacement. Massive resistance on the part of the Narmada Bachao Andolan grassroots movement prompted the World Bank to withdraw from the scheme in 1993. And an independent body, the Morse Commission, attested the Bank severe omissions and violations of its own guidelines, e.g. in resettlement, environmental compatibility assessments or cost-benefit analyses.

The stocktaking proposed a new, comprehensive reform strategy that "covers most of the principles of the Bank's 1993 water resources management policy" (Pitman 2002, viii). A longer-term goal for the rural water sector is to pass on the entire costs step-by-step to the users. According to the World Bank, an effective cost recovery strategy is crucial to the Government's attaining its goal of providing access to water for all. So the most important objective of this strategy is to cover the entire

<sup>12</sup> M. Kullappa, personal interview, Secunderabad 22.11.2003.

costs of water supply (investment as well as maintenance and repair costs) by water tariffs. Should credits have to be taken out for investors, interest ought to be offset by water tariffs as well, i.e. by the users. (World Bank 1999b, XVIII). The Bank remarks that these recommendations do not merely represent marginal changes but that, rather, it is interested in a radical reform of India's water sector (XII).

### 2.2.2. Expansion without evaluation

Like in Sri Lanka, a number of pilot projects were first of all initiated in India with DRA, partly in co-operation with the World Bank and the Water and Sanitation Program (WSP South Asia). In 1,000 villages in Northern India, the World Bank financed the project "Swajal" – "Our Water" of the State Government of Uttar Pradesh from 1996 to 2002. In the framework of the Accelerated Rural Water Supply Programme, Central Government funded projects in 63 Districts in 26 Federal States in which "a community-based participatory approach has been adopted to promote the management of water supply services at the village level, that is, local self governments and communities" (WSP August 2001a). Further pilot projects have also been run or planned in Karnataka, Kerala and Andhra Pradesh since the end of the nineties.

As a rule, the projects are run for a period of five years and comprise the development of a sector framework programme for the rural water sector, credits for investment and technical support. The sector reforms support cost-covering, demand-responsive water management approaches in rural regions and are to empower communities and local civil society groups to take over water supply themselves without having to rely on support from outside (WSP 2001b, 2). Ramesh Chandra Panda, a senior civil servant at the Ministry of Rural Development, explains that the reform represents

"a paradigm shift from supply driven to a demand-responsive approach, centralised to the decentralised service delivery, from the top-down to the bottom-up approach and ultimately to change the role of the Government from that of a service provider to a facilitator. (GoI 2003, ii)

As a rule, Village Water and Sanitation Committees (VWSC) or similar user groups are formed that are responsible to the local Gram Panchayat, the lowest level of the Panchayati Raj self-government system. The committees are to ensure user participation, collect money, organise and monitor planning, implementation and maintenance when private companies are commissioned for these tasks. Like in Sri Lanka, the users are expected not only to raise the money for operation and maintenance costs but to provide at least ten percent of investments, a share that is to increase in future. NGOs can support the committees in mobilising locals or with training.

A "rapid review" by the WSP in October 2001 notes that the sector reform programme and the pilot projects "achieved progress in mobilizing proposals and disbursing substantial funds to districts. (...) however on the whole, progress in implementation is poor". (WSP, June 2002, 3). The review explicitly refers to several critical aspects inhibiting implementation, including:

- shortcomings in informing and training user groups and members of the local Gram Panchayat as well as in participation at village level;
- the failure to develop clear and transparent criteria for the selection of households to be given priority in supply even though this is important in terms of sustainability, justice and comprehensive water supply, which boils down to the most needy households not having been considered in planning;
- a real choice of technology – handpumps, rainwater harvesting, piped schemes, standposts, house connections, wells, etc. - and the cost options entailed have not been fully explored and offered to communities;



- operation and maintenance cost implications have not been fully considered.

In a nutshell, the goal of community planned, designed, implemented and managed schemes has been only partially realised. “The review revealed that communities remain marginalized at all levels of scheme planning, designing, implementation and management” (6).

In spite of this, the state “Guidelines on Swajaldhara”, passed in June 2003, are to accelerate and extend the reform process initiated in 1999 (GoI 2003), irrespective of the WSP South Asia’s warning that no country has so far managed “to scale-up (the pilot projects) to a national level. Indeed little is known globally by water sector professionals on how to scale-up these approaches.” (WSP 2001b)

With the new guidelines, every community now has the possibility to file an application to the Government of its Federal State for a Swajaldhara project. The projects have to be based on the concept of demand-responsiveness and cost recovery, which means that the population of a community opt for a drinking-water infrastructure that they can support on their own. The Government funds the lion’s share of initial installation costs while the village population, represented e.g. by a water-users’ committee, are responsible for management and have to raise infrastructure maintenance costs. Once the infrastructure has been built, the government no longer bears any responsibility for the water system, which is entirely in the hands of the users. The costs of electricity, employees’ salaries, repairs and subsequent work on infrastructure have to be covered by the users themselves via the water tariff.

### 2.2.3. The World Bank’s U-turn on dams

According to the World Bank, its “overriding” policy objective in India is to put its resources to use in a manner that will enable the country to make progress on the way to

the Millennium Development Goals (World Bank 2004). Here, it is currently focusing on two pillars. Firstly, it intends to promote reforms in the area of infrastructure as a precondition for economic growth, which is above all to be boosted by the private sector. Its second pillar is to support direct measures to reduce poverty (pro-poor intervention). Here, in addition to education and health, the Bank is concentrating on rural development. “Activities are designed to be community based, target vulnerable groups (women, scheduled castes and tribes, the landless), and support decentralization and empowerment at the local level,” the Country Brief India states. The demand-responsive water projects in Karnataka and Kerala are stressed as examples of such poverty-oriented measures.

In its draft 2005-2008 Country Strategy of June 2004, the Bank announces that it is to considerably step up support for the reform and extension of infrastructure. The credits for India are to be doubled to three billion US dollars a year, with most of the additional money having been earmarked for infrastructure projects. The special point here is that, after years of abstinence, the World Bank also wants to directly finance large-scale dams. To this end, 550 million US dollars is to be provided up to 2008.

The reason given for returning to the financing of dams is the energy required to secure India’s economic growth. At the same time, the infrastructure sector as a whole is to be further commercialised in order to make it attractive for private investors. World Bank subsidiary IFC, which awards credits for private companies, is to considerably step up its activities, especially “in projects which are constrained by limited risk appetite of other investors”. Moreover, in order to ensure a more rapid outflow of funds, the Bank plans to slacken its own Operational Policies on environmental and social standards by adapting them to the Indian standards, which, as a rule, are lower, for example with regard to resettlement issues.

The Bank’s return to financing large-scale dams met with strong criticism among non-governmental development organisations both

in India and abroad. In a press release of the 9<sup>th</sup> August 2004, several Indian NGO complain not only about insufficient transparency and participation of civil society or parliaments in developing the Country Strategy, but also about the Bank's pressure on the Indian Government to approve comprehensive privatisation in such important areas as electricity, water, agriculture and other basic services<sup>13</sup>.

The Bank itself concedes that the new priority of infrastructure and involvement in controversial areas such as hydropower and large-scale dams are going to raise the risks it is taking. At the same time, it ensures that a "considerable effort is already made to mitigate those risks" (para 157). However, development organisations such as the International Rivers Network (IRN) are critical of the Bank's giving more consideration to its own investment risks here, "yet is oblivious to risks faced by affected communities". (IRN 2004) At the same time, it is co-operating in these projects with clearly centralised and bureaucratic institutions such as the National Hydroelectric Power Corporation (NHPC). In the past, these institutions have given little consideration to affected sections of the population and demonstrated stubborn resistance to reforms. Thus it is contradicting its declared goal of involving affected sections of the population in the development and implementation of projects. Moreover, it is to be expected that not the rural areas but the cities will benefit from improved water and electricity supply.

With its new policy, the Bank is thus promoting a division of the water sector which has also become apparent as a consequence of privatisation in the urban area. With the Demand-Responsive Approach, it is accelerating the state's withdrawal from rural supply. In future, maintaining supply is to be exclusively the task of user groups, local self-government, Non-Government Organisations and, whenever profitable, private

companies. Pompous labels such as self-responsibility, self-help and subsidiarity conceal the fact that the Government has thus given up its responsibility for comprehensive and socially just supply.

The funds that this withdrawal of the government releases are to flow into the commercially attractive area of infrastructure. For example, in the mountainous Northeast Region, the Indian Government has planned the construction of 168 dams with involvement of the World Bank, the Asian Development Bank and other international development financiers. Twenty-six projects have already been approved without the population affected by the measures having been given sufficient information or participated appropriately. Given previous experience with the negative economic, social and cultural impact of such large-scale measures, resistance is beginning to build up. In August 2004, around 50 participants from the region met and demanded "that full democratic process becomes the norm in the building of large dams" (The Assam Tribune, August 24, 2004, [www.irn.org](http://www.irn.org)).

Not only is the Government withdrawing from its responsibilities. Thanks to the return to funding large-scale infrastructure projects, a growing share of World Bank credits will also be used to directly and indirectly promote the private sector instead of for poverty reduction. Just like in the urban sector, the involvement of private enterprises is being promoted in spite of its contribution to poverty reduction only being small. The Action Plan for Infrastructure states that the high investment requirements will probably force most of the developing countries to resort to public-private partnerships (World Bank 2003a, 16). Here, the Bank has clearly also considered its own economic interests as a financial institution. "For us it is big business," John Briscoe declared when announcing towards the end of January 2003 that the share of water projects in the World Bank portfolio is to increase from 16 percent (3.2 billion US dollars) to 24 percent in three to four years' time.

<sup>13</sup> Civil Society Organizations Reject World Bank Country Assistance Strategy, Press Release, August 9, 2004, [www.esgindia.org](http://www.esgindia.org)

## Part 3.

### Summary and assessment

Again and again, the World Bank has emphasised that reducing poverty is the overarching goal of its policy. In 2003, the International Year of Drinking Water, with its Action Plan for Infrastructure, it announced a stepping-up of its involvement in the water sector with the intention of reducing the share of people without access to clean drinking water and contributing to the attainment of the Millennium Development Goals. The World Bank's new slogan for its water policy is "Services for All". And in its Website, it has written that since water is of crucial importance to life, it is striving to support its member countries in providing drinking water and sanitation for the entire population. Furthermore, it declares that reducing poverty by improving supply is the biggest challenge in the water sector.

The Bank plans to achieve improvements in access to drinking water not only via stepping up its financing of the sector but above all with sweeping sector reforms and an integrated management of the water sector in the recipient countries. Here, thanks to its position and experience, it regards itself as especially suited to advise and support governments carrying out these reforms. Failures of the past that are borne out by several reports of the evaluation department OED are simply ignored.

The core aspect of the reforms is the state's restricting itself to providing framework conditions and regulation. Operation and financing are to be passed on as much as possible to other actors such as private enterprises and user groups. In the context of its infrastructure policy, a further, new priority of the World Bank is to return to supporting large-scale projects in the water sector, which is justified as an alleged contribution to economic growth.

With the Dublin Principles, the notion of water as an economic good was established in the international debate. It was argued that supply-oriented approaches pursued in the past had proved to be financially unsustainable, thus above all failing to reach the poor. With an orientation on water as a commercial good and the cost recovery principle this entails, improved sustainability and improved supply for the poor were to be achieved.

This paradigm shift is also reflected in the Demand-Responsive Approach (DRA), which is to result in sustainability, cost recovery and passing down financial and operating responsibilities to lower levels. Water users are to take the selection, implementation and, finally, financing of supply into their own hands. It is then expected that water tariffs will be oriented on the customers' purchasing power and ownership awareness, and therefore the readiness of the users to pay, will rise. The notion of the World Bank is that the users themselves make decisions about investments and supply systems. This represents a fundamental change to the roles of the various actors including the users, the NGOs, the private sector, the governments and the donors. The advocates of this approach, among them in particular the World Bank and the WSP, have since promoted it in a broad spectrum of policies and strategies, especially in Asia and Africa.

### 3.1. Experience with the Demand-Responsive Approach

In principle, there is agreement by and large on what measures would be required to achieve universal supply of drinking water and sanitation, and in particular to provide water for marginalised sections of the population with as yet inadequate supply:

- Development strategies would have to put a significantly greater emphasis on drinking water and sanitation than so far.
- Technologies and practices would have to be affordable and socially and culturally acceptable.
- More funding would have to be provided.
- Capacity-building would have to be boosted.
- Priority would have to be given to the needs of the poor regarding investments.
- Effective government regulation would have to be in place.

Some of these demands, which were also once again reiterated at the UN Summit on Sustainable Development (WSSD) in Johannesburg in September 2002, are met by the Demand-Responsive Approach, such as the intended orientation on appropriate technologies or the emphasis on capacity-building. Decentralisation, participation and the subsidiarity principle are further measures that could represent progress in comparison to policies pursued so far. On the other hand, with its orientation on cost recovery and a demand, users are able to pay for, this approach clashes in principle with these criteria and their implementation.

In contrast with the broad debate on DRA, especially in international development politics<sup>14</sup>, only little experience has so far been gained in implementing the approach. It is above all based on a number of pilot projects – apart from India and Sri Lanka also in Ghana and South Africa – that are however, only meaningful to a certain degree since many of them have been donor-driven and

supported with considerable funding. And there is certainly no experience with any comprehensive restructuring of national water policies in rural areas, i.e. with “real life”. But in spite of numerous open questions and unsolved problems, the World Bank and other international development financiers are urging to extend the approach across the board and are increasingly making its implementation a condition for further financing agreements for the water sector.

Experience with the pilot projects has shown that partial improvements can indeed be attained in the short term. In many cases, water-user groups have been formed, new supply systems have been installed and user tariffs have been introduced. But they also show that the demands on implementation, especially with regard to financing, institutional capacities and political will, are extremely high (WSP 2001). And they demonstrate that insufficient participation, low cost recovery and inadequate support of capacity-building and empowerment call sustainability and poverty orientation into question.

#### *Participation*

At first glance, the World Bank’s current water policy in rural areas meets calls for more participation. The terms “participatory” and “demand-responsive”, in particular, suggest that the interests of the population are at the centre of considerations.

However, civil society was only seldom involved in implementing the new concept in national water policies. Moreover, the considerable pressure and the various ways in which influence has been taken by the World Bank Group to urge governments to adopt the new concept contradict the principle of ownership. In contrast with the announcement of a “bottom-up approach”, the introduction of the Demand-Responsive Approach is, as a rule, still being pursued “top-down”. This is highly problematic since the framework conditions and the fleshing out of responsibilities, requirements and rights

<sup>14</sup> See for example World Bank 1998; Garn 1998; Arku 2002; Mulenga 2002; ODI 2003.

formulated by the government and legislation have a considerable influence on the prospects of success for the approach. For example, the high demands formulated in Sri Lanka's new water law for the award of operating licences probably create considerable disadvantages for local user groups or self-government institutions and may even exclude them altogether.

Participation in implementation itself is also usually both qualitatively and quantitatively insufficient. Jasveen Jairath, Director of the

### **Influential local elites dominate water-user groups**

There is not a single woman in the rural water-user group in Haresamudram, a village in a project supported by the World Bank near the city of Anantapur in the Indian Federal State of Andhra Pradesh. All the male members of the group belong to one of the two upper castes, and they all own land. They jointly manage a tank together with the irrigation system it is linked to. However, the water is not only used by them to irrigate their fields but also by members of other caste groups, of women using the water to do their washing and by dyers, launderers and fishermen for whom water represents the basis of their livelihoods. None of these groups have any say in the water-user group and thus have no influence on decisions regarding the reservoir and the water. They remain reliant on the dominant groups and can never be certain whether they will be able to use the water in future as well.

Source: Interview with Sudakar Reddy, Haresamudram, 20.11.2003.

South Asian Consortium for Interdisciplinary Water Resources Studies, examined participatory, demand-responsive water projects run by various organisations in the rural sector in the Indian Federal State of Andhra Pradesh. She noted that participation of the population initiated by the World Bank was seldom long-lasting. At first, economi-

cally less well-off people were also interested in the projects. But as soon as it became apparent that no financial subsidies could be reckoned with but that, on the contrary, they themselves were expected to pay, they withdrew. Jasveen Jairath says that the weakest members of the community have no control over these systems and lose interest in next to no time.<sup>15</sup>

As a result, the expansion of supply frequently bypasses sections of the population that have so far been inadequately provided for owing to their marginalisation. This grave shortcoming is confirmed in, among others, the "rapid review" of Indian pilot projects by the WSP South Asia, albeit in a rather more diplomatic style: "... well laid-out and transparent criteria for habitation selection and prioritization" were lacking. (WSP 2002)

### **Cost recovery**

Often, a price is already being paid for high-quality water – even if it is just for the power to drive the water-pump – while access to water of poorer quality is free of charge in many cases. For example, the majority of the rural population in Sri Lanka have access to two types of water supply. A source of water, whether it be the well in one's own garden or a water pipe in the house or the street, provides the people with water of superior quality that they use for drinking purposes or to cook with. Water of poorer quality, from a small river, a public well, a water collecting basin or a small lake, is used for cleaning the house, watering the kitchen garden or doing the washing.

This underscores the frequently demonstrated readiness of most users to pay an appropriate sum for a reliable, safe supply of water. However, there are numerous differences here that are based partly on cultural and partly on socioeconomic aspects. For example, many households are hardly in a position to contribute to the investment costs

<sup>15</sup> Personal interview, Hyderabad, 14.11.2003.

or, beyond day-to-day operation, to maintenance, let alone depreciation, interest, profits and reserves. So only in a handful of the pilot projects was the intended cost recovery even marginally reached. This calls long-term economic sustainability into question. Supply problems are merely postponed to the future. This applies all the more if, as demanded by the World Bank, state subsidies for electricity are phased out, which results in higher prices.

### **Readiness to pay?**

Damenti, a thirty-year-old student from Ganeshapuram in Northeast Sri Lanka, says that she goes to a house 300 metres away every day to fetch drinking water for her family of six. She contributes to the costs of the water source of the family she is friends with. Three families share the monthly bill. She uses this water mainly to cook with, while she does the washing with water from the village well, which is not of the best quality but is free of charge. The passing of the new water law, which is oriented on cost recovery, would most probably raise the cost of living for families like that of Damenti without raising their quality of life.

Source: Interview, Ganeshapuram, 4.11.2003

Moreover, sanitary installations have a much lower priority and therefore “demand” than drinking-water supply. This is why much less significance has also been placed on extending sanitation in rural areas and demand-responsive projects, like in the cities. And yet this is the Achilles heel of water supply, for inadequate sanitation will result in contamination of drinking-water sources, destroying progress already made.

Combining financial sustainability via cost recovery with poverty reduction goals is a tightrope walk that simply cannot work under the conditions of widespread poverty, as is the case in many developing countries and is usually the rule especially in the rural and peri-urban areas. In his survey of DRA pro-

jects in Sub-Saharan Africa, Frank Arku notes that many families can either pay water tariffs or school fees, but not both (Arku, w.y.). Even graduated tariffs and cross-subsidising of tariffs have proved insufficient in urban privatisation projects.

In more affluent regions, or via subsidising, commercialisation of the rural water sector and cost recovery can simultaneously facilitate the involvement of private enterprises, especially as producers securing exclusive access to the resource, for example via licences. For this reason, activists in Sri Lanka and other countries regard transferring responsibility for water supply to local groups as a dangerous measure. They claim that it is the first step towards privatising public services. Suranjan Kodtuwakku, Director of the Green Movement in Sri Lanka, is convinced that the World bank is so bent on the community approach because it will facilitate privatisation of the water sector.<sup>16</sup>

### **Left to one's own devices**

The members of the water-user group in Haresamudram, Andhra Pradesh, who have now been managing their reservoir on their own for three years, grin when they answer whether they would be able to foot the bill for repairs and other necessary measures: “If it weren't for government support, we wouldn't be able to maintain the dam and the lake.” The men of the water-user group maintain that a withdrawal of the state from drinking-water supply would “make things very difficult” for their village. Currently, the publicly accessible handpumps were still being maintained by the local or district administration. If there were problems, one could address the relevant bodies and reckon with support. However, with the reform of the water sector in India, the population will no longer have the opportunity to consult local government when problems occur.

Source: personal interview, Haresamudram, 20.11.2003

<sup>16</sup> Personal interview, 10.11.2003.

**“Empowerment”**

The Demand-Responsive Approach makes considerable requirements on the community groups regarding organisation, mobilising the users, including all groups, financial administration, management and maintenance. Both the regulations in Sri Lanka stipulating that a licence be obtained for a supply area and the Swajaldhara guidelines in India were developed without the participation of the population. They are complicated and bureaucratic, and often, they are not adapted to the local socioeconomic conditions. So one can reckon with many communities not being willing or in a position to set up a further committee demanded by the donors, a water-user committee, and fulfil the donor requirements.

Moreover, as a rule, the establishment of working water committees is a long-term, difficult and politically sensitive process of learning and debate that hardly fits in with the time limits of the project approach pursued, for example, by the World Bank. An initial review of the Bank’s evaluation department also finds that the Bank has not changed internal processes to adapt to the increased complexity of these programmes and that there is a lack of continuity and long-term commitment.

Experience shows that the implementation of the Demand-Responsive Approach has not been seriously promoted in many cases. “Capacity-building has not received adequate importance” WSP South Asia notes (WSP 2002). Education and awareness-raising among the population, which would be necessary to dilute the role of politically motivated resource allocation decisions, have also been neglected (ibid). Over the last few years, comparably favourable conditions have been created for autonomous rural development in India with the creation of local self-government organisations, the Panchayati Raj Institutions (PRI), into which the user groups can be integrated. But here too, with the exception of West Bengal, the role of the Panchayati Raj Institutions has not been adequately strengthened in imple-

menting the SRP (WSP 2002). Implementing the approach in other countries with less-developed self-government structures, such as in Africa, will be far more difficult still.

This is why in reality, more or less randomly formed user groups are to be reckoned with that are dominated by special interests and that are not capable of making informed decisions supported and implemented by the community. Thus only little will probably change compared to the present situation. Initial evaluations of the community-oriented and demand-responsive projects show that they have not “resulted in significantly more favorable development outcomes compared to its other programmes”. (OED 2003b, 33).

**3.2. The illusion of consumer power**

It would be wrong to put the blame for inadequate supply only on the public utilities. On the contrary, according to the UN Commission on Sustainable Development, CSD, the increase in state investments was one of the key reasons for improvements in the past. For example, the Commission attributes the threefold increase in access to clean drinking water in India between 1980 and 2000 mainly to strong political will resulting in increased public spending in the sector. (UN E/CN.17/2004/4, Box 3)”.

In contrast, a variety of (local-level) political, socio-economic, gender-specific, religious and cultural preconditions often play a crucial role in access to water and investment decisions at local level, thus determining success or failure of investments and development projects.

For example, water distribution is frequently organised along the lines of power and influence relations. Even though water still traditionally belongs to “the community”, it has long been privatised in many regions via economic or social power. For instance, in drought periods in Andhra Pradesh, those with the deepest wells enjoy the longest ac-

cess to water. Usually, they are the economically better-off sections of the population because others cannot afford deep excavations or deep well pumps.

In the past, the members of the lowest caste in India, the Dalits or “Untouchables”, had no access at all to public drinking-water wells since they are traditionally held to ritually contaminate water sources. Before the government partly started to build wells to be used only by the Dalits, they had had to wait for people “of higher castes” to give them water. Even though they have now successfully campaigned for equal access with the aid of NGOs in several villages, conflicts arise again and again, and their drinking-water supply remains precarious.

### **Water Lords**

Mr Kistappa of the Rural Integrated Development Society in Anantapur, Andhra Pradesh, says that the reservoir in his village used to belong to the village community. The community had employed somebody to organise distribution. Villagers saw to minor repairs themselves, while the district government was consulted in the case of more expensive work. He emphasises that everyone in the village was entitled to water and did not have to pay anything. However, the reservoir has now belonged to a water-user group for a number of years, and a fee is levied for formal membership. Today, people who are not members of the group are denied access to the water. Summing up, Kistappa says that “with the new system, the rich have a greater say and can irrigate their crops better than the others”.

Source: personal interview, Anantapur, 19.11.2003

Correspondingly, several households often have demands and desires regarding a water supply system differing from those of the “community”. So, especially in strongly heterogeneous communities, user groups and majority decisions may be counterproductive because they establish concepts that are

not, or cannot be, supported by a large number of community members. It is essential to ensure that decisions are not only taken by the dominant groups and elites.

However, power asymmetry, dominance and economic inequality, which determine both disposal of a resource itself and decision-making processes, remain largely eclipsed in the Demand-Responsive Approach. This becomes especially problematic when user licences are awarded, as is the case in Sri Lanka. And the World Bank’s notion of regulating water distribution more strongly via so-called water markets, i.e. supply and demand on the part of customers with money to spend, is equally problematic. Since state regulation is weak or lacking altogether in most cases, such mechanisms distort the predominance of dominant groups in the water sector even more in their favour and threaten to virtually cripple the supply systems owing to a lack of water, even if they have been successfully installed.

So instead of improving and securing supply, the Demand-Responsive Approach threatens to aggravate conflicts and increase economic and social differences. Demand-responsiveness and cost recovery offer nothing to counter the obstacles with which marginalised sections of the population are faced every day owing to their economic and political status or their gender. They contain no instruments that would guarantee an integration of these groups into decision-making processes on water, empowering them to make decisions or ensuring their access to water. In his study on DRA projects in Africa, Frank Arku arrives at the result that “socioeconomic conditions that prevail in most rural areas in sub-Saharan Africa make the application difficult, if not impossible” (Arku, o.J., 1)

In the context of a survey of the impact the Demand-Responsive Approach has on water supply in Sri Lanka, Rajindra de Ariyabandu, Director of the Water Resources Secretariat in Colombo, Sri Lanka, also states that it is particularly difficult to ensure access to drinking water for the marginalised



sections of the population in villages and thus attain the Government's declared goal of securing access to drinking water for the island's entire population by 2025 (Ariyabandu 2004).

Here, a fundamental problem is at issue. Since access to water is defined by purchasing power in the Demand-Responsive Approach, the marginalisation of the economically weakest part of the population is pre-programmed. A demand-responsive system will not be able to satisfy the demand of those who are cut off from political and economic opportunities. The interests of the poor as consumers are economically irrelevant and they are of no significance as market participants. Access to clean drinking water for the poor cannot be secured by purchasing power and the "self-regulation of the market". "It is no use considering a person's demand for a good if he does not have the money or resources to realise it" (Mulenga 2002, 12).

In spite of this, the World Bank is determined to see this approach applied comprehensively. Following the passing of the Swajldhara Guidelines in India, only those villages in India are entitled to public funding for new water systems that are willing to adopt the Demand-Responsive Approach. Not only could this result in poorer villages and sections of the population no longer receiving government funds because they are unable to pay their share of investments and the costs of operation and maintenance on their own. Other, alternative approaches that are developed by e.g. local groups or non-governmental organisations are ousted.

### **3.3. Self-help and the readiness to take risks**

The water sector reforms advocated by the World Bank and implemented under extreme pressure result in the state's step-by-step withdrawal from providing services. So interaction between the citizen and the state is terminated in this sector. Now, the state merely provides the framework conditions

and finances the immediate supply infrastructure, probably with a declining financial volume, while other actors – private companies, users, user groups – are to increasingly assume responsibility for the financing and functioning of operation. These approaches suggest a follow-up development of the IMF and World Bank structural adjustment policy. Having promoted the reduction of the role the central administration state had and the sell-off of lucrative industries to transnational corporations in the eighties and nineties, these financing institutions are now contributing to releasing the governments from their direct involvement in problematic service sectors offering low profits, such as rural water supply and sanitation.

Simultaneously, the double leitmotif of the demand for a further expansion of private sector involvement in the entire water sector and the return to the establishment of large-scale infrastructure projects including big dams, which are alleged to be of "considerable benefit" to economic growth and hence to poverty reduction in spite of "high risks", can be found in all the more recent policy papers. With its revival of the big dams, the World Bank is ignoring important demands made by the World Commission on Dams – an institution the Bank itself supported. In its final report submitted in November 2000, it presented a framework for decision-making on water and energy development based on the core values of equity, sustainability, participatory decision-making and accountability.

Rediscovered enthusiasm for major infrastructure projects combines the interests of most governments and the World Bank Group. The public funds released by the state's withdrawal from immediate supply and maintenance of existing systems, for which the users are to be responsible in future, are to finance this policy. At the same time, the World Bank is increasingly developing instruments to improve investment conditions for private enterprises, e.g. via Output-based Aid (OBA) and to cushion economic and financial risks arising, for instance, from fluctuations in exchange rates.

So it only appears at first glance as if the World Bank had learnt from the failure of its privatisation strategy in the water sector and entered a fundamental change with its promotion of Community-Driven Development concepts, participation and self-determined, appropriate supply concepts in the framework of the Demand-Responsive Approach. Instead, it is now promoting a division of the entire sector that has already become apparent in the urban sector. For supply areas that are not lucrative for the private sector, such as the urban squatter settlements or the rural regions, self-help solutions are implemented in which the users are largely left to their own devices and that are glossed over with labels such as self-responsibility, empowerment, etc. At the same time, state, public support is focused on those areas which are potentially attractive to the private sector and in which investment conditions are being improved by correspondingly developed framework conditions and financing.

So instead of a development approach focusing on poverty reduction, commercialisation, privatisation and market orientation continue to remain at the centre of World Bank policy - criteria on which, to an increasing degree, the entire water sector, ranging from resources management to drinking water supply and sanitation, is to be oriented with the new, comprehensive strategy concepts.

The Bank stresses its support for the internationally agreed development goal of halving the share of people without access to drinking water and sanitation by 2015 in all its statements on water. However, its predominant instruments and policies clash with these pledges and the demands on the provision of supply systems for the poor by the governments. The guidelines and policies for the sector advocate the restriction of state commitments and the extension of the population's financial responsibilities. It remains unclear how these reforms can contribute to improving access to water for the poorer sections of the population. If the World Bank's water policy were coherent with the goal of combating poverty, measures to overcome marginalisation and destitution

among the poor would be at the forefront of the policy instead of their ability to pay. Thus in reality, the risks of the new policy are borne by the consumers, especially those among the low-income, marginalised section of the population – i.e. the risks of having to continue to live without adequate supply or having to spend a considerably larger share of their income on supply services.

At the same time, there is a danger of the renaissance of large-scale infrastructure projects as an alleged pillar of a growth strategy oriented on the private sector resulting in an acceptance, as in the past, of destroying the basis of livelihoods among indigenous and poor sections of the population in order to improve power and water supply for industry, the urban middle classes and commercial irrigated agriculture. Peter Bosshard, Director of the International Rivers Network, IRN, gives an extremely critical assessment of the Bank's revitalised interest in financing infrastructure projects, arguing that the Bank's policy shift may result in more conflicts and blockades but will not solve the energy and water problems of poor sections of the population. (Bosshard 2004)

### **3.4. Recommendations on a different water policy**

The essential elements of the World Bank's new water policy clash with its offer of participation, which it is constantly announcing. At best, civil society groups have been able to have a small amount of influence on projects in their final stages, and even this has been under extreme pressure of time. Second, it contradicts important principles and requirements such as those jointly agreed upon in the recommendations of the World Commission on Dams. Major development organisations such as the International Rivers Network and the Citizens Network on Essential Services therefore adamantly opposed the passing of the 2003 Sector Strategy on Water Resources of 2003.

Furthermore, the World Bank's strategy is based on the notion of consumer power. But

as a rule, economically and socially marginalised sections of the population are not powerful consumers or users, as has been demonstrated by applying the Demand-Responsive Approach in India and Sri Lanka. This is why concepts aimed at reaching the poor cannot be solely market oriented, an aspect that is also reflected in various analyses and evaluations carried out by the World Bank itself or by its evaluation department OED. So it is neither understandable nor acceptable that the World Bank's sector policy is not only continuing its practice so far but, following the metropolises of the South, now intends to fully commercialise the rural sector as well.

Also, the World Bank ought to relate to the latest state of the debate as represented in the ECOSOC legal commentary on the human right to water (see Box on the World Bank and Human Rights), according to which water supply is an issue of public responsibility. This is why it is not enough for the state to act merely as a regulator. Rather, it also has to assume its responsibility as the guarantor of utilities that is above all obliged to fulfil its commitments towards the poorest sections of the population. In this context, cost recovery cannot be reduced to individuals paying fees but ought to be developed as a concept regulating how a given society can raise the money to pay for costs so that everyone has access to adequate supply. This can comprise individual fees as well as tax subsidies, etc. However, the human right to water rules out public responsibility being replaced with an individual's ability to pay.

As long as these requirements are not fulfilled, isolated positive approaches in the World Bank's concept are not enough. For example, decentralisation can only be promising if it is accompanied by a substantial transfer of resources to the subsidiary levels enabling public responsibility in the water sector to be assumed by consumer groups or local organisations, also, and in particular, regarding those who do not have "sufficient purchasing power".

Applied to participation, this means that owing to the state's obligation to provide for universal and comprehensive water supply, any participatory concept has to be measured against the yardstick of to what degree it includes those who are politically and economically excluded from decision-making and from the market with regard to the crucial aspects at stake.

It follows that a very different paradigm shift is required for the World Bank. Instead of orienting policies on the notion of water as an economic good or a commodity and demanding and promoting the phasing out and withdrawal of public responsibility, it ought to focus its support measures on seeing to it that this public task can be dealt with better and more efficiently and that it is paid by those who are able to pay.

- World Bank policy should set out from the assertion of the human right to water in co-operation with the responsible public bodies in the recipient countries. Ensuring access to water as well as its fair distribution and sustainable conservation should be at the centre of considerations.
- The Bank ought to ensure that all sector reforms it is involved in or initiates are subjected to a timely debate in public.
- Together with governments, civil society, local organisations and legal experts, the World Bank ought to define a concept for its future role in asserting the human right to water.
- The World Bank ought to abandon purely market-supported systems of water supply since they strengthen the power of influential forces in society as well as private enterprises to determine the distribution of, and access to, water and weaken the influence of marginalised sections of the population.
- The significance of democratically elected public bodies in the water sector ought to be enhanced instead of being further weakened.
- The World Bank ought to continue to directly support states and governments in providing services.

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Uwe Hoering, Ann Kathrin Schneider

# King Customer?

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<sup>1</sup>. 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

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<sup>1</sup> 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"<sup>2</sup>. 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"<sup>3</sup>.

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

<sup>2</sup> OED, Rural Water Projects: Lessons Learned. Précis Number 215, Winter 2002

<sup>3</sup> 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<sup>4</sup>:**

- 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<sup>5</sup> 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<sup>6</sup>. 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

<sup>4</sup> The Bank often uses "Demand-Responsive Approach" (DRA) and "Community-Driven Development" (CDD) synonymously

<sup>5</sup> Operation and Maintenance

<sup>6</sup> 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.

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**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](mailto:wasser@brot-fuer-die-welt.de)) and World Economy, Ecology and Development (Weed) ([weed@weed-online.org](mailto:weed@weed-online.org)).