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Stimmt die Richtung? Analyse der aktuellen Finanzströme im Wassersektor

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Some Water for All or More Water for Some? Financing the MDG needs shift in resource allocation.



Study for “Bread for the World”
from Fritz Brugger

January 2004

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Preface

The implementation of the Millenium Development goal and of the Johannesburg Actionplan on water and sanitation, requires immediately stronger investment in the water sector. This is consented within the multilateral, official and non-governmental development organisations, but there are contradictions and discussions about the adequate sources and necessary terms for these additional investments.

An important role in the discussion plays the so called “Camdessus Report”. The Global Water Partnership (GWP), the World Water Council (WWC) and the 3rd World Water Forum had set up a panel coordinated by the former IMF director Michel Camdessus comprising 20 financial experts to address the ways and means of attracting new financial resources to the water field. Constituted in late 2001, the panel presented the result of their work in Kyoto at the World Water Forum 2003 (WWF3). The outcome evoked besides consent a lot of protests and discussions not only from NGO’s and civil society groups around the world but also from water professionals and politicians.

In order to get a broader picture of the financing problem and to contribute to the debate around private sector participation in the water sector, “Bread for the World” asked Fritz Brugger, independent consultant from Switzerland, to explore the different dimensions of water financing and to summarize the outcome of different actual evaluations on resource allocation in comparison to the needs in order to fulfil the Millenium and Johannesburg goals. The study offers a detailed insight into the present investment and development aid flows within the water sector. It analyses the recommendations of the mentioned “Camdessus Report” and follows its traces up to the EU Water Facility proposal. It also gives access to recent OECD and Worldbank evaluation studies concerning the quality and results of private sector participation in basic infrastructure including water and sanitation.

Besides abundant details and information, the study contributes to understand that the solution to the investment needs in the water sector of development countries is not “more of the same”. But that as important as the availability of funds, are the political decisions to make sure that the financial means in deed help to establish socially just and ecologically sustainable water and sanitation systems for the poor.

Danuta Sacher, Advocacy-Desk “Bread for the World”

1. Financing water – what are we talking about?

In the discussion how to finance the Millennium Development Goals (MDG), different estimations were made about the required amount of funding. Depending on the level of service, inclusion or exclusion of replacement costs as well as operation and maintenance costs (O&M), expected population growth and the different water sectors (only drinking water and sanitation or also agriculture) included into the estimations, the results differ from 9 billion to 180 billion per year¹. The figures the Camdessus Panel was referring to are the figures calculated by Global Water Partnership

For financing the MDG's for 2015 an amount between 10 and 50 billion dollar seems to be needed for connections, without municipal and industrial wastewater treatment, which would need additional 100 billion dollars per year. The costs of meeting the 2015 targets also depend crucially on the type and level of service.

In this paper we will focus on aspect of drinking water and sanitation. The following three questions are in the center of interest exploring the priorities and options

- a) Where do we have to finance water and sanitation projects to reach the MDG's and how do they correspond with the actual investment portfolio in the WSS sector.
- b) How efficient and effective are current funds for WSS used
- c) What are the possible financing sources and implementation channels

2015 MDG Goals		Annual Costs	
Most basic service		US\$ 10 billion	
Full water and sanitation connections and primary wastewater treatment to the urban population		US\$ 17 (water)	
		US\$ 32 (sanitation)	

	Annual Costs (billions of US\$)	
	Today	200-2025*
	Drinking water	13
Sanitation / Hygiene	1	17
Municipal wastewater	14	70
Industrial effluent	7	30
Agriculture	32.5	40
Environment protection	7.5	10
Total	75	180

*Investment in hydropower (about \$15 billion) is not separately identified because larger schemes are usually multipurpose; figures include 15% allowance for O&M

Figure 1 Estimated Projected needs to meet development goals²

¹ For an overview of the different calculations see Annex 3

² Financing water for all, Report of the World Panel on Financing Water Infrastructure, p3

2. The current flow of money for water

Before discussing the proposals made in the various papers and studies on financing the MDG's like for example the Report of the World Panel on Financing Water Infrastructure it is useful to remember the water reality in developing countries, to look at the patterns of actual water financing and subsequently look at the situation analysis made in the report.

2.1 *Where the people without water live...*

a) *Water and poverty*

- Water is an essential resource for life. Reaching the MDG targets – reduce by half the number of people without sustainable access to safe drinking water and of those without access to basic sanitation –, means providing water supply services to 280 000 people and sanitation facilities to 384 000 people every day for the next 15 years³.
- Water is one of the key elements for development; lack of access to water and sanitation affects the poor. Some linkages between poverty and water and sanitation⁴:
 - o Inadequate water and sanitation services to the poor increase their living costs, lower their income earning potential, damage their well-being and make life riskier. The continuing, nearly universal, deterioration of the surface and underground water sources on which people survive means that water and sanitation pressures will become worse in the future.
 - o Inadequate water and sanitation infrastructure slows down other health improvements
 - o Lack of convenient and affordable access to water reduces a poor household's consumption of other commodities and services, leaves it consuming less than the optimum amount of water for good hygiene, and influences health and labor productivity of the household members. It may also reduce income-generating opportunities of the household, thereby further reducing income and consumption.
 - o With regard to sanitation, women often have different privacy requirements from men. When the absence of latrines forces them to use public spaces, they can do so only in the shelter of darkness, during early morning and late evening hours.
 - o In some cultures the lack of toilets in schools serving the poor is known to be a major factor in preventing girls from continuing their education, particularly after puberty.
 - o Inadequate water and sanitation services cause a particular risk in each of the dimensions already described. And, water availability and quality may both be highly seasonal. During the dry season, the urban poor face higher water prices, while the rural poor face longer treks for lower quality water. Also, sewage return flows to water bodies, bearing pollutants of various types, make up a bigger proportion of total flows, reducing water quality and making effective treatment more difficult. The risk is faced in household consumption and in the use of water in economic activity such as agriculture. The poor are particularly unequipped to cope with this risk, since coping requires expensive storage or additional treatment. During the wet season, inadequate drainage and

³ WHO, UNICEF, WSSCC: Global Water Supply and Sanitation Assessment 2000 Report

⁴ Christophe Bosch et al., Water, Sanitation and Poverty, World Bank 2001

other sanitation infrastructure becomes problematic, as overflowing polluted water flood the streets and remains there for long periods.

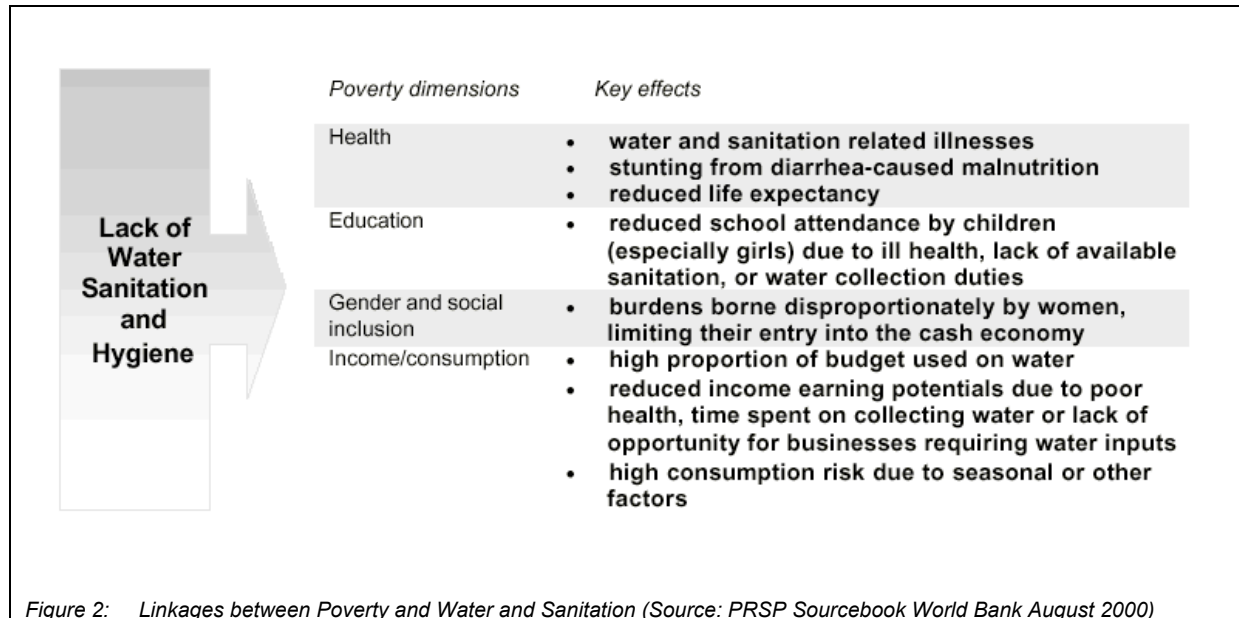


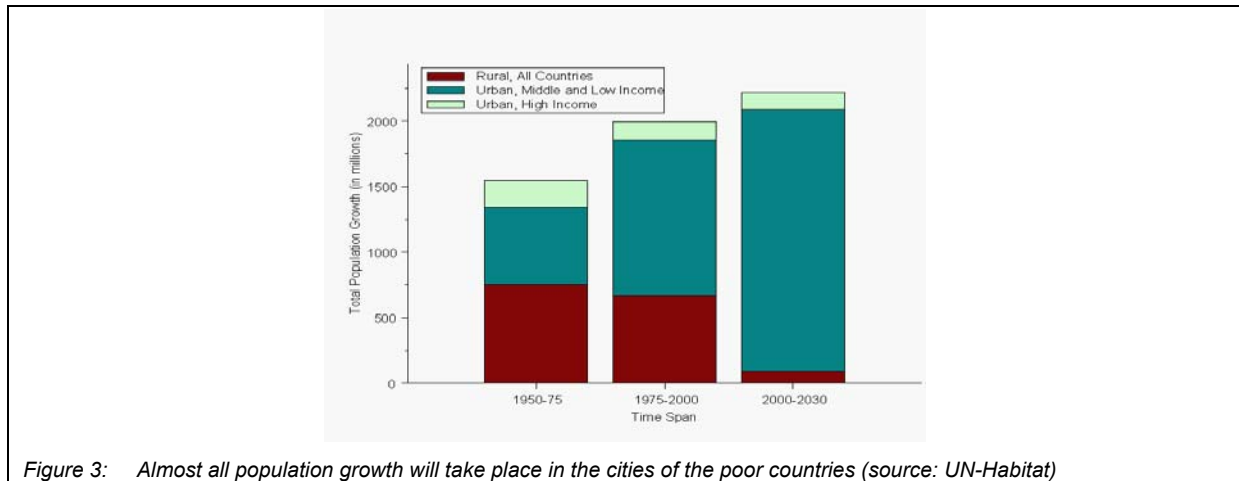
Figure 2: Linkages between Poverty and Water and Sanitation (Source: PRSP Sourcebook World Bank August 2000)

b) Most affected: rural areas and urban slums

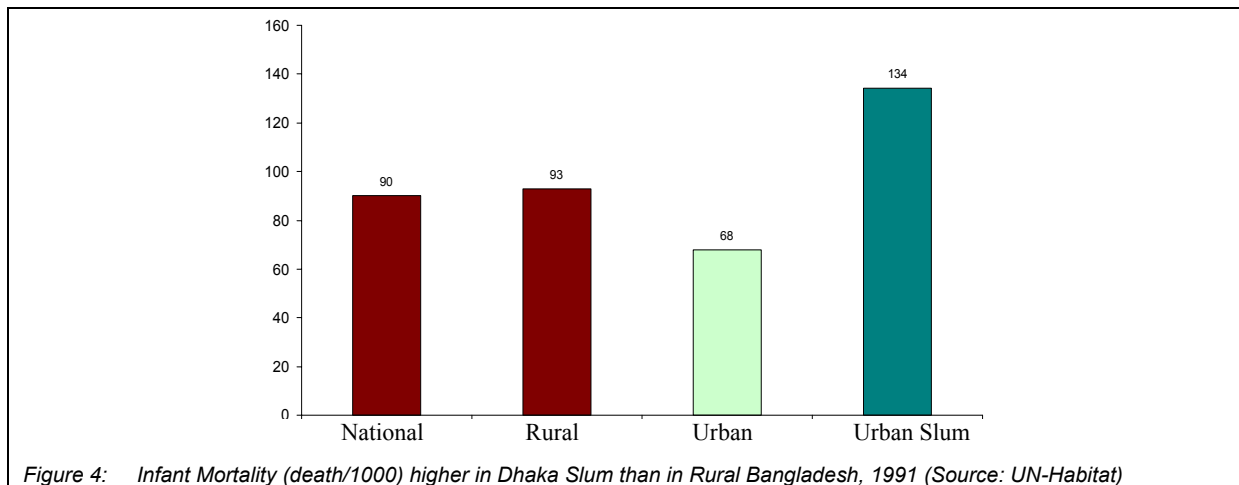
- Most of the people without access to safe water and sanitation live in rural areas and in urban slums, which are recognized as physical manifestation of urban poverty. In Africa about 400 million people – 50% of the total population – lack access to safe water and sanitation. Nearly 330 million live in rural areas.
- The number of slum dwellers increased by about 36% during the 1990s. At the beginning of the new century, 78.2% of the urban population in the Least Developed Countries (LDC) lives in slums.⁵
- In a city like Nairobi, 60% of the population lives in slums that occupy about 5% of the land.
- Almost all population growth will take place in cities of poor countries, especially in their smaller cities.⁶ The current estimated 924 million slum dwellers could increase to 1.5 billion by 2020 and to two billion by 2030 if no concerted action to address the challenge is taken. Urban services will face great challenges over the coming decades to meet fast-growing needs.

⁵ UN-Habitat, The Challenge of Slums, The first global assessment of slums: their problems and prospects, Nairobi October 2003

⁶ UN-Habitat, The need to accommodate rapid urbanization in the national statistical plan, 2003



- The water and sanitation situation in urban slums often is as bad as in rural areas, sometimes even worse with heavy impact on the health of their inhabitants, especially children: “The prevalence of diarrhea among the urban low socioeconomic status (SES) group was also greater than among the rural low SES group in 7 of the 11 countries studied. Thus, overall diarrhea prevalence rates in urban areas rival those found in rural areas, and poor urban dwellers are often worse off than the rural poor in that regard.”⁷



- The latest UN-Habitat assessment of slums puts investment in infrastructure water, sanitation, waste management, electricity – at the core of improving the environmental habitability of slums and enhancing economically productive activities. “Upgrading existing slums is more effective than resettling slum dwellers and should become the normal practice in future slum initiatives.”⁸

⁷ Ruel et al./ International Food Policy Research Institute; Some urban facts of life: implications for research and policy, 1999, p26f

⁸ UN-Habitat, The Challenge of Slums, The first global assessment of slums: their problems and prospects, Nairobi October 2003

Conclusions

- *Key areas for reaching the MDG's are the rural areas and the urban slums. Especially the provision of water and sanitation in slums can also be a question of political will as slum dwellers are often recognized as illegal settlers and therefore not being served.*
- *There is a powerful link between human development and water, sanitation and hygiene since they form an entry-point to human development and poverty elimination. Water and sanitation have to be on the top of poverty elimination strategies which is not the case at the moment.*

2.2 ... and where the money for water projects is flowing

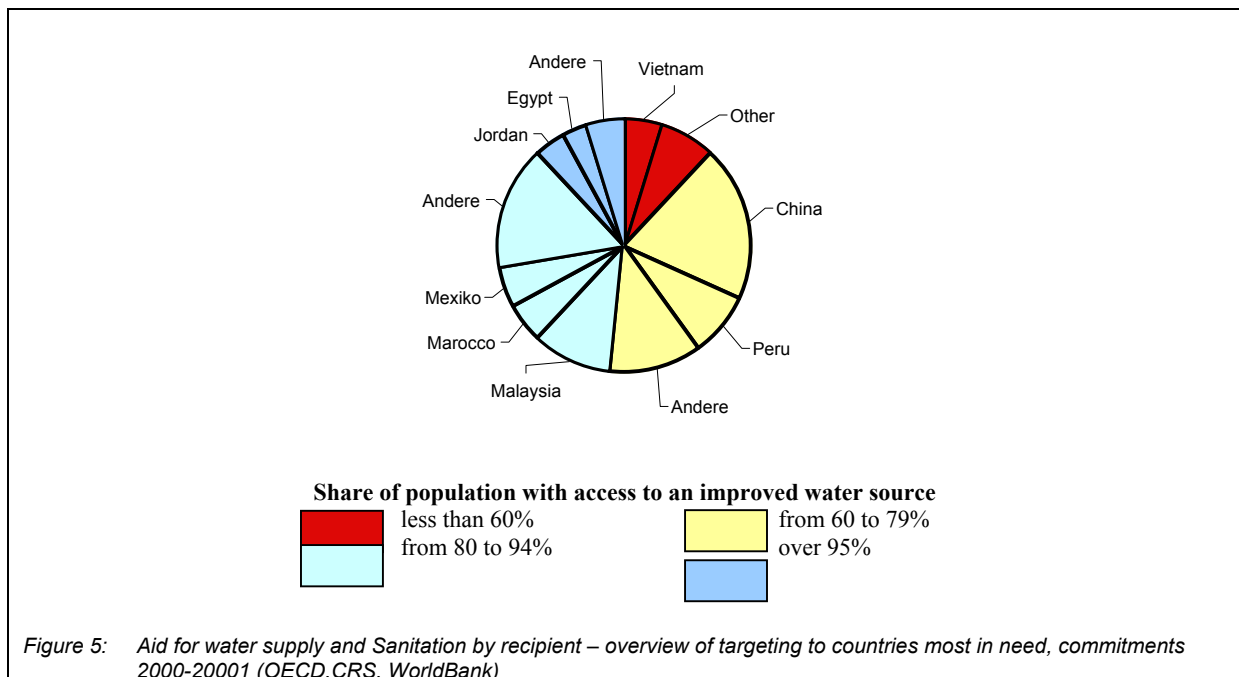
The question discussed here is the effectivity of actual water aid, meaning: 'Are the money invested in favour of the poor?' As indicator we look where the ODA for water is spent.

a) The flow of ODA money

There are five indications showing a significant gap between where the ODA is flowing to, where it should flow and if there is a need to set the priorities new.

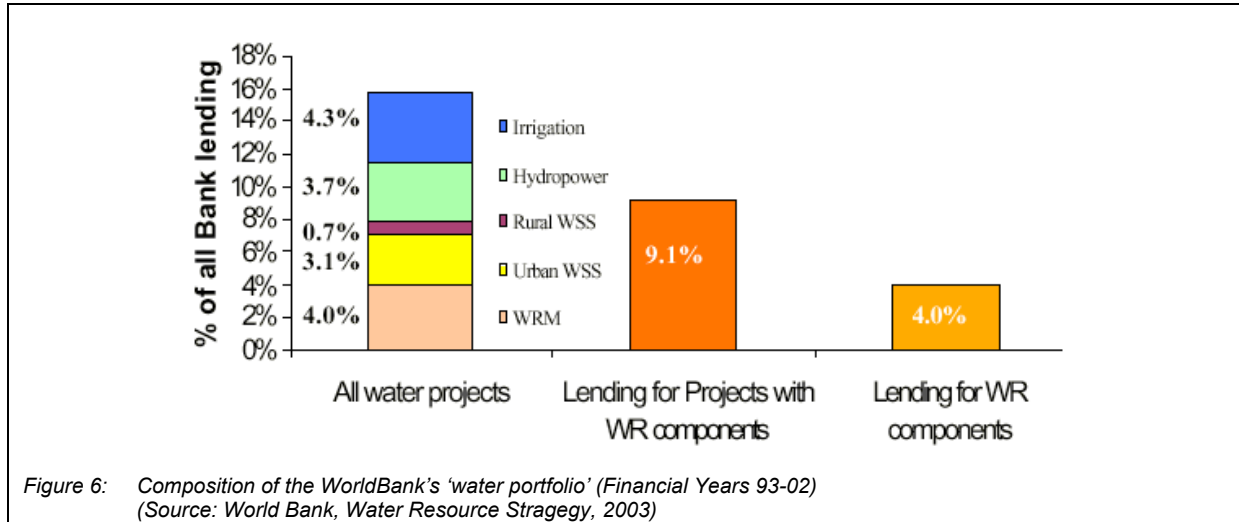
Least aid where people have least clean water:

Only 12% of the total aid to the water sector in 2000-2001 went to countries where less than 60% of the population had access to safe water, according to the findings from an OECD analysis of bilateral and multilateral aid to the water sector⁹. Even more: the share of Africa, where the need is extremely high, has slightly decreased during the last years.



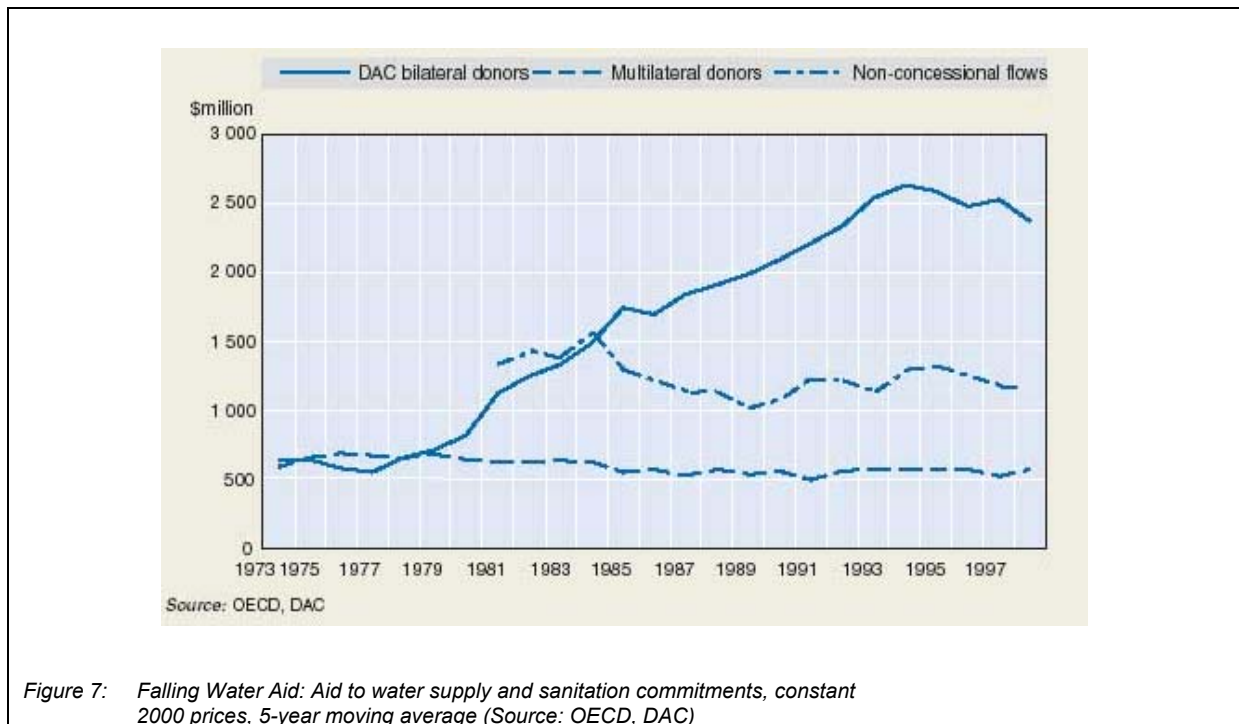
⁹ OECD, Creditor Reporting System (CRS), Aid Activities in the Water Sector 1997-2002, Geneva 2003

A similar picture shows the World Bank portfolio for Water and Sanitation: the water projects for rural areas account for less than 20% of the Banks lending to the water sector as a whole.¹⁰



Less money for water projects since 1996:

In recent years (1999-2001), total aid allocations to the water sector have averaged about \$3 billion a year. An additional \$1-1.5 billion a year is allocated to the water sector in the form of non-concessional lending¹¹.



¹⁰ World Bank, Water Resources Sector Strategy: Strategic Directions for World Bank Engagement, Washington, February 2003, p34

¹¹ 'Non-concessional lending' means loans at nearly market conditions (mainly by the World Bank)

As the figure on falling water aid shows, DAC members¹² bilateral aid for the water sector increased by an annual average rate of 9% over the two decades up to 1993, yet it has fallen since then.

Compared with the period from 1996-1998, ODA declined about 12%. Yet the share of aid for water supply and sanitation in total Official Development Assistance (ODA) remained relatively stable in the 1990s, at 6% of bilateral aid, and some 4-5% of multilateral aid.

There are big differences between countries how water is prioritized in their ODA activities (as percentage of the ODA-total). To set this figure in relation to the financial engagement for development cooperation, the ODA for water is simultaneously expressed as USD per capita/year of the donor country. Although Austria and Germany give high priority to the water sector, they spend less than half the amount per capita compared to Norway.

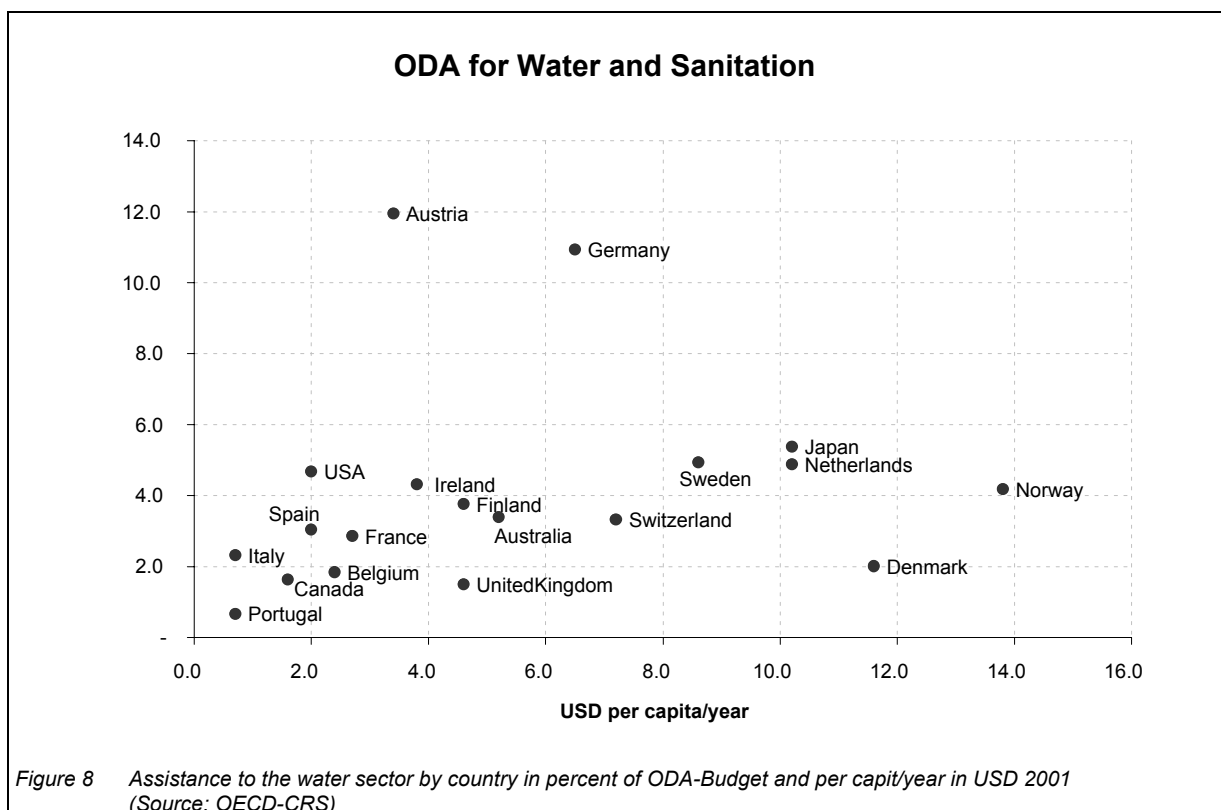
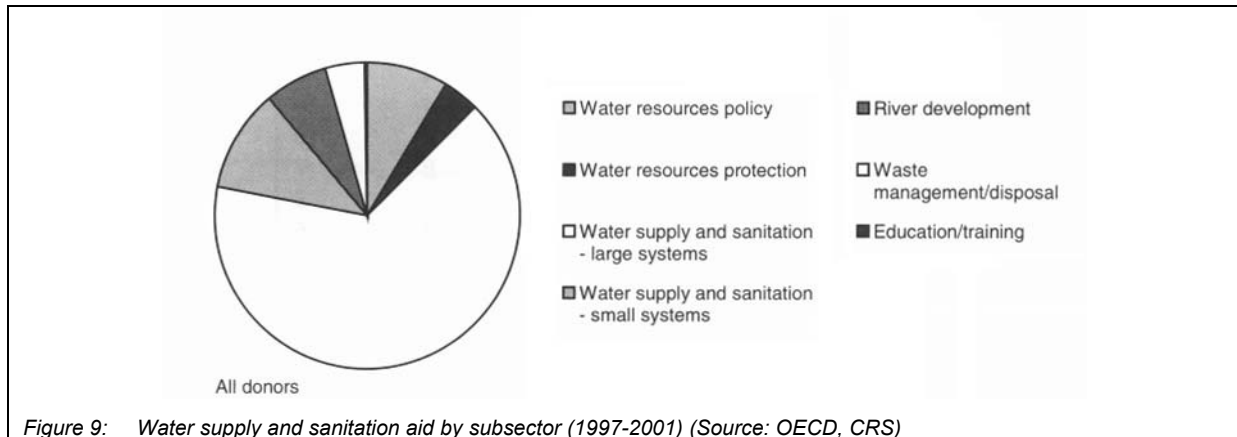


Figure 8 Assistance to the water sector by country in percent of ODA-Budget and per capita/year in USD 2001 (Source: OECD-CRS)

The vast amount of money for large projects

Figure 9 breaks down aid for the water sector by sub-sector for the five years from 1997 - 2001. Water supply and sanitation projects account for over three-quarters of the contributions. Most of these projects have been classified under “large systems”. A handful of large projects undertaken in urban areas dominate aid for water supply and sanitation.

¹² DAC is the OECD-Development Assistance committee. The member countries are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, Unites States



Most aid for a few countries

Water sector aid is channeled to relatively few countries. In 1995-1996, ten countries received nearly two-thirds of all aid, though from 1997- 2001, the ten largest recipients received 48% of the total. China, India, Vietnam, Peru, Morocco, and Egypt were among the top ten in both periods, whereas Turkey, Indonesia, Tunisia, and Sri Lanka slipped out of the top ten to be replaced by Mexico, Malaysia, Jordan, and the Palestinian-administered areas.

More loans than grants

Furthermore, many of these projects are financed through loans rather than grants. In 2000-01, for example, about 57% (or \$1.76billion) of total ODA in the water sector took the form of loans. This means that more than half of the ODA for water is increasing the foreign debts of governments. Taking the ODA for water together with the non-concessional loans, up to three quarter of the money flowing in the water sector is given as loan. By comparison, the share of loans in ODA to all sectors combined in 2000-01 was 22%. This may be one of the reasons, that water projects are not the first priority on many government's development agenda (see below).

Conclusions

- *In order to increase the funds for water, the bilateral donors have to go back to their prior commitments in a first step and then to increase their contribution as promised in the Monterrey agreement.*
- *The actual flow of money for water has not only to be doubled but also channeled differently from now. Reaching the MDG's and providing water to those who don't have water is only possible if new priorities in the ODA-investment policy are set: (a) aid to the countries in Sub-Sahara Africa has at least being tripled and the other countries with low access rates have to be prioritized too (b) more money has to be directed to urban slums and rural areas.*

b) The role of private sector in financial terms

Since the private sector is seen as a key player in reaching the MDG's and most of the financing proposals are looking for mechanisms to attract more private companies, we look at its share in providing water to the poor in LDC's.

The term 'Private Sector Participation' is used for a wide range of roles private companies

can play in the water sector from the local plumber or a small-scale provider on one end to the transnational water companies on the other. Although the local private sector plays an increasing important role in water service provision, In the context of this report as well as the different reports we refer to, the foreign companies are in the center of interest because they are expected to invest in water and to bring in new capital. Figure 10 shows the most frequent contract forms and their occurrence as well as the most important companies in low and middle-income countries (LMIC)

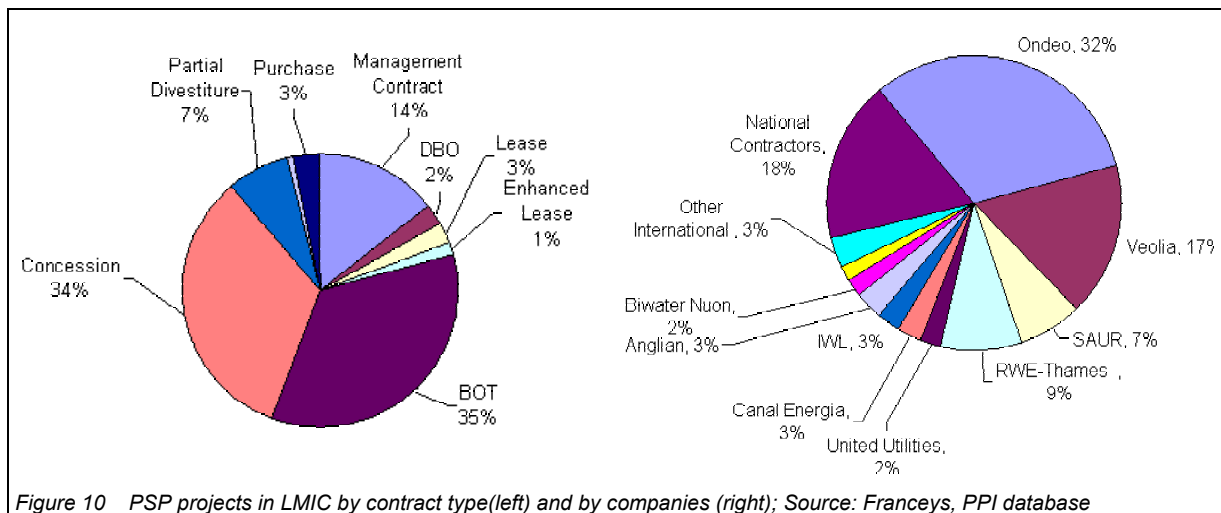


Figure 10 PSP projects in LMIC by contract type(left) and by companies (right); Source: Franceys, PPI database

Not a major player at the moment

In comparison to the \$3 billion ODA through bilateral and multilateral aid for the water sector, the often cited private sector as a potential source of funding the water sector, especially water and sanitation services, contributes at present at best 5 percent of all water services provided globally.¹³ Direct project finance lending from the international finance sector to water projects was only \$153 million, which is less than 0.3% of global project finance lending in all sectors.¹⁴

The limitations of the private sector were also recognized at the Bonn Water Conference: “The World Bank’s database on Private Participation in infrastructure, whilst it shows that private investment in water and sanitation in developing countries to date totals \$25 billion also reveals that none is in South Asia, and almost none is in Africa. Yet these are the two regions in the world without adequate water and sanitation services. This indicates that private sector investment is at present insignificant at providing basic water and sanitation services to the very people who most need it”, stated Michael Meacher, British Minister for the Environment in his key note speech.¹⁵

Declining private investment

Annual investment flows to private infrastructure projects in developing countries are down. Projects have been renegotiated and some have been re-nationalized or cancelled. The decline begun 1997 in the wake of the East Asian financial crisis, and by 2001 only 44% of the levels

¹³ Rahel Cardone et.al./Environment Resources Management, Financing the EU Water Initiative, 2002, p18

¹⁴ Camdessus 2003, p27

¹⁵ International Conference on Freshwater, Bonn 2001, “Water – a key to sustainable development”, Conference Report p71

seen were at their peak.¹⁶

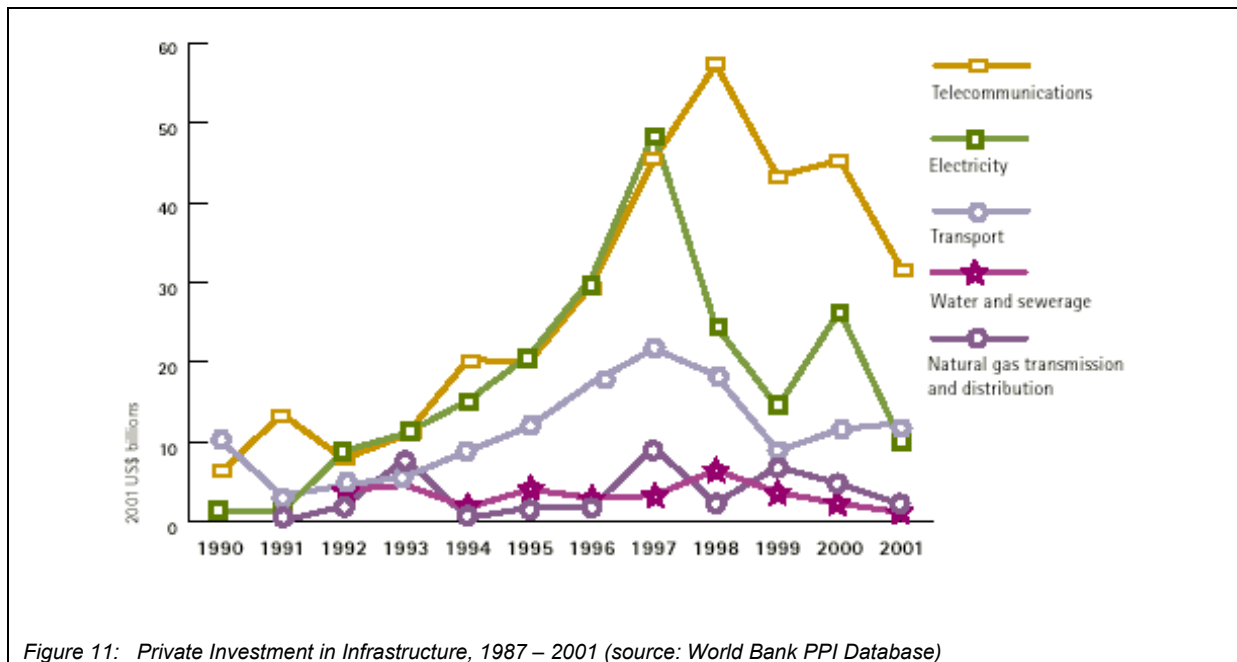


Figure 11: Private Investment in Infrastructure, 1987 – 2001 (source: World Bank PPI Database)

Increasing Renegotiations

Renegotiations of private infrastructure projects became current normal: As a survey of the concession contracts in Latin America shows, as many as 55% of transport concessions and 74% of water concessions in Latin America were renegotiated during the period from 1985 to 2000.¹⁷ In 66% of all renegotiations, the private operator requested renegotiation, in 10% both, the private operator and the government and only in 24% was the government the driving force for the renegotiation.

The average time to renegotiation in water concessions was only 1.6 years. Normally, first price-revision (e.g. renegotiation) is planned 5 years after contract. The comparison to other sectors puts the water-contracts at the place with the shortest time to the first renegotiation: Time to renegotiation in the average of all renegotiated concessions is 2.19 years and in the transport sector 3.32 years.

A look at the contract features in relation to the renegotiated concessions in the water sectors shows, that (a) 81.9% of the concessions were awarded to the bidder that offered the lowest tariff, (b) 85% of the contracts contained investment requirements, (c) 25% contained performance indicators and (d) in 87.5% there was no regulation authority in place.¹⁸

The high renegotiation rates show a possible opportunistic behavior. The world bank report states: “Once an enterprise has been granted a concession in an infrastructure sector – and the bidding competitors are gone – that enterprise may correspondingly be able to take actions that “hold up” the government, for example through insisting on renegotiating the regulatory contract ex post, or through regulatory capture. The extensive informational advantages that

¹⁶ Clive Harris, World Bank; Private Participation in Infrastructure in Developing Countries. Trends, Impacts and Policy Lessons, Washington 2003, p6

¹⁷ Guasch, J. Luis. 2003. Granting and Renegotiating Infrastructure Concessions: Avoiding the Pitfalls. The World Bank, Washington DC.

¹⁸ Estache Antonio, J.Luis Guasch, Lourdes Truiillo, Price Caps, Efficiency Payofs, and Infrastructure Contract Renegotiation in Latin America, Policy Research Working Paper 3129, World Bank August 2003, p 15

the enterprise possesses over the government (as well, likely, as over other potential operators), and its perceived leverage vis-à-vis the government in a bilateral negotiation is a powerful potential factor to seek renegotiation of the contracts and secure a better deal than the bid one.”¹⁹

Conclusion

- *The role of Private Sector contributing to the MDG's has been overestimated while the problems have been underestimated. The figures make obvious, that the gap in financing the MDG's can't be filled by the Private Sector alone. Even in the projects, where the private sector is involved, most of the project funds come from development banks and ODA. The main share will be paid by ODA and the public sector. The remaining question is, which part of the funds should be implemented by the Private sector.*
- *The financial risks in terms of foreign exchange risks at the end always have to be paid by the consumers. Therefore this risk can only be mitigated for all stakeholders if there is a local capital market where loan interests are paid in local currency. As the local capital markets are underdeveloped, innovative and creative mechanisms have to be tried.*²⁰

2.3 How much water per invested cent – are the funds for water being used efficiently?

Under the title ‚Efficient, Sustainable Service for All?‘ the World Bank’s own evaluation department (OED) published in September 2003 a review of the banks assistance to water supply and sanitation.²¹ It is the first sector evaluation after introducing the PSP-policy²² and focuses selectively on the performance of the WSS portfolio, the impact of Bank assistance on regulatory and pricing reform as well as private sector participation.

The active WB portfolio consists of about 100 dedicated²³ water supply and sanitation projects, and another 150 non-dedicated²⁴ projects with significant water supply and sanitation components. The WSS-portfolio review covering the last decade comprises 142 dedicated and 162 non-dedicated projects approved in the 1990-2001 period; the focus of the evaluation is predominantly urban.²⁵

¹⁹ Guasch, J.Luis, Jean Jacques Laffont, and Stephane Straub; 2002; Renegotiation of Concession Contracts in Latin America“, p4

²⁰ One such model could be the Netherlands Water Board Bank Success Factors in Self Financing Local Water Management, ed. by Dutch Association of Water Boards, 2003

²¹ OED Sept 2003, Efficient, Sustainable Service for All? Report Nr 26443

²² The last full WSS-sector evaluation by OED was done in 1992

²³ Dedicated water supply and sanitation lending is under projects mapped to the Water and Sanitation Sector Board.

²⁴ Non-dedicated projects are mapped to other sector boards within the World Bank.

²⁵ Comprehensive OED evaluation of Rural Water Projects was published in 2000: Rural Water Projects: Lessons from OED Evaluation, OED Working paper No 3

Sector	# Projects	# Projects as share of total (%)	Commitments (Constant US\$ million)	Commitments as share of total (%)
Dedicated WSS				
Urban Water Supply	52	17.1%	4,063	30.7%
Sewerage	26	8.6%	1,821	13.7%
Water San. Adjustment	24	7.9%	1,628	12.3%
Other WSS	16	5.3%	1,142	8.6%
Rural WSS	24	7.9%	1,079	8.1%
Total Dedicated	142	46.7%	9,733	73.5%
Non-Dedicated WSS				
Urban Development	57	18.7%	1,646	12.4%
Environment	21	6.9%	954	7.2%
Social Protection	55	18.0%	533	4.0%
Agriculture	17	5.6%	154	1.2%
Other Sectors	12	3.9%	225	1.7%
Total Non-dedicated	162	53.3%	3,512	26.5%
GRAND TOTAL WSS	305	100.0%	13,292	100.0%

Figure 12: World Bank Dedicated and Non-dedicated Water supply and Sanitation Lending, 1990-2001²⁶

a) *Findings in project outcome, sustainability, efficiency and serving the poor*

The rating of the WSS projects finds that portfolio performance has remained on a relatively low level and also below average compared with other World Bank sectors. The project outcome rating finds only 64% satisfactory (compared with 58% in the period 1980-1990) while in the sustainability rating only 40% are judged as 'likely sustainable' (compared with 32% in the period 1980 – 1989) and the next 26% as 'uncertain sustainable' (36% in the precedent period).²⁷

Table 3. Outcome Ratings for Dedicated Water and Sanitation Projects			Table 5. Sustainability Ratings for Dedicated Water and Sanitation Projects		
Decade	1980–89	1990–01	Decade	1980–89	1990–01
Satisfactory	58%	64%	Likely	32%	40%
Unsatisfactory	39%	34%	Uncertain	36%	26%
Not Available	0%	2%	Unlikely	19%	30%
Not Rated	3%	0%	Not Rated	13%	4%
			Total	100%	100%

Figure 13: Outcome Ratings for dedicated WSS projects (left) and Sustainability Ratings for non-dedicated WSS projects (right) (source: OED 2003)

Efficiency – in terms of reduced water losses – is a crucial element for sustainable water resource management. But efficiency seems to be of little concern. In fact, only 15% of the dedicated loans and credits list efficiency and reduced water losses among their objectives and or components and the only case where it is mentioned in non-dedicated projects, is mentioned in relation to collection efficiency.

²⁶ OED 2003, p4

²⁷ OED 2003, p9

Serving the poor has not been effective in urban areas: “a large proportion of projects in the sample, particularly those in urban areas, have been ineffective in implementing pro poor policies that foster access to services.”²⁸

b) Evaluation of new World Bank sector assistance paradigms

In order to improve the weak performance of world bank assistance to the WSS-sector the world bank introduced three new core paradigms and evaluated them for the first time in the OED September 2003 report. The main reason for the problems of the public provision was seen in the only reliance on the public sector and its various risks like monopoly, corruption, political interference, absence of effective supervision, supply-driven approach and politicized tariff setting.²⁹

The first two new paradigms cover the goal of *Sector Regulation* aimed to assign each function in the water provision to a different branch of the government and service providers. The principal idea is to separate the power between legislation, operation and controlling in order to achieve power balance and improved accountability. The legislative authority is part of the political process whereas the regulatory authority is exercised independently of the legislative process. This sector regulation is independent from the question if there is a private or public provider. The two main functions of regulation are seen in quality regulation and economic regulation. They are important for the provision of water by both public and private providers.

- *Quality Regulation* to ensure accountability of service providers and separation between the regulation and the operating responsibility. The evaluation now finds that “in the few cases where quality regulation was developed under Bank-financed projects it proved impossible to establish a statistically significant correlation between the existence of quality regulation and project performance.”³⁰

Concerning the link between PSP and regulation where the contract itself specified performance criteria, it proved ‘insufficient to withstand the macro-economic and political pressures.’³¹

- *Economic Regulation*, based on explicit and predictable pricing policies where tariff levels and structures were predicated on the efficient costs of service and where an effort was made to track which consumers received how much of subsidies. From a consumer’s standpoint and especially from the perspective of the poor, this economic regulation is crucial. “The present study showed that such economic regulation is practically non-existent in countries with active Bank water supply and sanitation projects.”³²
- The third paradigm, *Private Sector Participation*, was introduced by the World Bank to avoid the instability of public water supply and sanitation agencies as well as to offer competition to the public providers. PSP is mentioned in 31% of the dedicated WSS projects (= 44projects) as objective, 38% (54projects) contain loan components dedicated for PSP and 17% (24projects) of all dedicated WSS projects have PSP as explicit loan conditionality.³³ PSP was the third new paradigms (besides quality regulation and economic regulation).

28 OED 2003, p19

29 OED 2003, p11

30 OED 2003, p13

31 OED 2003, p13

32 OED 2003, p12

33 OED 2003, p5

Although sector regulation in PSP is also closely linked to the sector regulation it is often seen as vehicle to promote sector regulation. The OED portfolio review found that 20 projects (14 percent of the dedicated WSS projects) included sector regulation as a component of the project, and 11 projects (8 percent of the dedicated projects) included regulation among the objectives of the project. All projects with an objective or component to improve regulation also had private sector participation, and it can be inferred that PSP is a main driver of Bank action to demand or convince the client of the need for regulation.³⁴ Regulatory regimes and agencies have been created with the explicit task of monitoring compliance by private operator – but the concept hasn't worked so far: it is unrealistic “to expect it to become an accepted part of the sector in the course of one Bank project with an implementation period of as little as five years. In reality it requires a decade or longer”.³⁵ Since privatization is done much faster, the conclusion has to be drawn, that implementation of the new paradigm has failed so far.

c) *Performance comparison between public and private utilities*

An important sector of the actual OED report is the comparison of performance indicators under Bank-assisted projects with and without PSP. Two points should be mentioned here:

- (a) Projects with and without PSP both show improvements under OED perception: the changes are quite similar for the two groups of projects.

Performance Indicator	With PSP		Without PSP	
	Before Project	After Project	Before Project	After Project
"Service-for-All"				
Water Supply Connection Coverage	66%	80%	70%	86%
Sewerage Connection Coverage	38%	48%	32%	41%
Share of Connected Households receiving continuous service	68%	94%	Not available ¹⁹	Not available
Share of Connected Households receiving disinfected water	82%	97%	Not available	Not available
"Efficiency of Service"				
Unaccounted Water	53%	46%	40%	38%
Employees per thousand water households connected	8.2	4.2	7.6	4.4
"Sustainability of Service"				
Financial Working Ratio	0.77	0.70	0.71	0.66
Share of Wastewater treated	7%	13%	9%	31%

Legend:
 Unaccounted Water = (Metered Water Production-Metered and Estimated Unmetered Consumption)/Metered Water Production
 Employees per Water Connections = Number of Regular Employees/Number of Households Connected/1000
 Financial Working Ratio = Cash Operating Costs (excluding depreciation)/Operating Revenue
 Share of Produced Wastewater Treated = The percentage of total wastewater produced (not necessarily collected) that receives any level of treatment

Figure 14: Performance progress in projects with and without PSP (Source: OED)

Concerning environmental sustainability – measured by the percentage of wastewater treated – the OED figures show faster progress for non-PSP-operators with improvement

³⁴ OED 2003, p14

³⁵ OED 2003, p15

from 9% to 31% compared to the rise from 7% to 13% for PSP projects: “Investments in sewage treatment are heavily dependent on the availability of concessionary financing since such investments are generally not financially profitable. It could be expected that private operators will put a lower priority to sewage treatment as compared to investments in water supply that will be easier to make profitable.”

It has to be kept in mind, that these results emerged on a basically positive perception of PSP and not from an NGO’s and civil society group’s standpoint opposing the PSP-concept itself. For example, the sustainability rating for Buenos Aires is positive, whereas in many NGO reports it is a negative example of PSP.

- (b) The second point we have to raise here are the consequences drawn in the report: Initially, the performance comparison between PSP and non-PSP-projects lead to the conclusion that “PSP is not a sine qua non for improving service coverage and quality, and the efficiency and sustainability of services”³⁶. Nevertheless, finding four in section ‘the way forward’ concludes: “continued promotion of private sector participation is sensible as PSP offers the promise of more transparent performance by operators; faster gains in coverage, quality, efficiency, and sustainability”³⁷. No wonder, the Bank doesn’t really know what should be done to achieve the MDG’s: “It is less clear what the Bank’s strategy will be to achieve these targets... The greater and more difficult challenge will be how to expand the portfolio from the present low level of new commitments while maintaining an improved performance”³⁸.

Conclusions

- *Regulation and independent controlling is equally important for public and private providers. They have to be developed independently from PSP and before a decision has been taken; PSP – as experience shows – is not an appropriate tool to introduce sector regulation.*
- *The fact that implementing ‘pro poor policies’ has failed especially in urban areas is worryingly as there is one of the serious bottlenecks reaching the MDGs. The evaluation doesn’t specify if this failure is linked to public projects, to PSP-projects or to both types, deeper analysis from all stakeholder views and corrective measures are needed.*
- *There is no doubt about the fact that it costs money to bring water to the people and to maintain the systems – paid by ODA, loans, tariffs, taxes or whatever. The sustainability of a system is linked to the question of sustainable financing by the consumers, the community, or through taxes. As the consumers have to pay (at least for O&M and replacement) and as the basis for calculation has to be the full cost of water provision, three elements are crucial for social responsible pricing policies: (1) Investment: the consumers must have a choice of options so that they can decide the level of service they want and they can afford (2) O&M: access to information about the costs of the system and co-determination of water price (3) Subsidies: clear and transparent mechanisms (and implementation) on subsidies / cross-subsidies for connection and consumption have to be developed in a participatory way in order to guarantee an affordable minimal consumption for everybody.*
- *The observation made by the World Bank that PSP is not a panacea, has not yet led to*

³⁶ OED 2003, p27

³⁷ OED 2003, p32

³⁸ OED 2003, p30

the necessary consequences in its policy. In addition, the PSP-concept has to be improved in a process where all stakeholders are involved.

- *As there are successful public operators, it is important to analyze the success-factors and to apply them in other cases. There are not enough efforts made to learn from this experience. The only exception at the moment is a study currently in execution by UNESCO-IHE³⁹.*

2.4 *IFI lending strategies and their impact of resource allocation efficiency*

To complete the analysis of actual allocation of funds for water projects we have to look at the policy level where the priorities for development assistance are set. As the provision of water to the poor is in the center of interest, we focus on the Poverty Reduction Strategy Papers (PRSPs) since they are becoming increasingly important in the development process. PRSP offer a broad framework for external aid and funding priorities for government budgets. The process leads away from a project-based approach towards sector-wide approaches to address poverty. Given the fact, that water supply and sanitation often is not prioritized in government agenda and inadequately represented in the budget (some countries spend less than 1% for the WSS sector), the development of PRSP offers an opportunity to direct more attention and resources to basic water services.

After exploring some linkages between water and poverty the question emerges what the impact of the PRSP processes on the allocation of funds to the WSS sector has been.

One of the findings of a recent study on 10 PRSP-initiatives in Africa shows, that water supply and sanitation has a low priority in the PRSP-papers even though water investments are perceived as basic needs at the grassroot level; water supply and sanitation has received inadequate and limited attention in the PRSP initiatives, barring the case of Uganda.⁴⁰

The question arises why water has no priority on the majority of PRSP agendas. WaterAid mentions, "in sub-Saharan Africa one of the reasons WSS has been so poorly represented in PRSPs to date may be that many African national governments rely on bilateral overseas donor support for their WSS sectors. At present at least, this tends to fall outside PRSP frameworks."⁴¹ As a consequence, the sector actors often do not have strong links with the central ministries and local government authorities responsible for planning and priority setting.

An second possible reason is seen by some in the World Banks PSP policy: "From a stakeholder viewpoint, there is resistance on the part of many constituencies in borrowing countries to the privatization push by donors and creditors."⁴²

³⁹ The general purpose of the project is to identify and analyze well- functioning models of public service provision; to identify lessons from best practice examples; and to propose a public sector reform agenda on the basis of those lessons.

⁴⁰ Water and Sanitation Program (WSP), Water Supply and Sanitation in PRSP Initiatives: A Desk Review of Emerging Experiences in Sub-Saharan Africa, 2002

⁴¹ Geraldine Terry, Belinda Calaguas, WaterAid 2003 Financing the Millennium Development Goals for domestic water supply and sanitation, p18

⁴² Nancy Alexander/Citizen's Network on Essential Services, Who Governs Water Resources In Developing Countries?

A Critique of The World Bank's Approach to Water Resources Management, June 2002

Basic principles for the development of PRSP

Country-driven:	with governments leading the process and broad-based participation in the adoption and monitoring of the resulting strategy
Results-oriented:	identifying desired outcomes and planning the way towards them
Comprehensive:	taking account of the multi-dimensional nature of poverty
Long-term in approach:	recognizing the depth and complexity of some of the changes needed
Based on partnership:	between governments and other actors in civil society, the private sector and the donor community

Figure 15 Basic principles for the development of PRSP⁴³

Looking at the concept of PRSP development, there was the promise at the beginning in 1999 to integrate national and local civil society groups to represent the interests of their constituencies. Additionally, the first of five core principles makes clear that the countries should be in the driving seat: Core principle one: “country-driven — involving broad-based participation by civil society and the private sector in all operational steps”.⁴⁴ Never before the role of civil society in policy-making has been formally legitimized in this way. But for NGO’s participation is not realized and they bring up this point repeatedly. An evaluation, done for DFID, concludes: “In the majority of countries, participation by civil society in the PRS process has, as yet, been limited and superficial”⁴⁵. Even where space was provided for civil society groups to voice their opinions, these did not have an impact on resulting policies. According to WaterAid In the water supply and sanitation sector, civil society involvement was particularly limited. When it did happen it was uncoordinated with other civil society action on PRSP’s and was active only towards the end of the process.⁴⁶

Types of participation in PRS processes

Participating in the consultation process for the PRSP can involve a variety of actions, depending on the capacity of the organization, including:

- in sector working groups or technical teams to deliberate and draft text for PRSP
- contributing background papers, information and analysis to the drafting committee, especially from perspectives of poor people
- back or commenting on consultation documents and drafts
- workshops to provide information on PRSP and/or solicit information
- other organizations to contribute to, or comment on drafts
- coordinating and facilitating the response from sectoral networks to drafts of the PRS
- information on contacts and updates on the PRS process
- being an information hub for others
- national and zonal meetings and workshops, which bring together government officials and civil society, to advocate particular issues

Figure 16: Participation in PRSP (source: WaterAid 2003)

⁴³ IDS policy briefing (issue 13), Poverty Reduction Strategies: A Part for the Poor?, April 2000

⁴⁴ <http://www.worldbank.org/poverty/strategies/overview.htm> (1.10.2003)

⁴⁵ quoted in Belinda Calaguas, Mary O’Connell, Poverty Reduction Strategy Papers and Water: failing the Poor? WaterAid 2003, p3

⁴⁶ WaterAid 2003, p3

The process is to be instigated by developing countries themselves, but it is increasingly a requirement for HIPC countries seeking debt relief. Putting the PRSP in the context of World Bank lending policies it has to be kept in mind that the leading document is not the PRSP but the Country Assistance Strategy (CAS). It is „the central vehicle for Board review of the Bank Group's assistance strategy for International Development Association (IDA) and International Bank for Reconstruction and Development (IBRD) borrowers. The CAS document (a) describes the Bank Group's strategy based on an assessment of priorities in the country, and (b) indicates the level and composition of assistance to be provided based on the strategy and the country's portfolio performance. The CAS is prepared together with the government in a participatory way; its key elements are discussed with the government prior to Board consideration. However, it is not a negotiated document.“⁴⁷ Therefore, the PRSP has indicative and not decisive character, able to influence the CAS policy.

Conclusion

- *PRSP preparation and procedures have to enforce participation and effectively include the civil society. The result will not only be an improved PRSP but also learning effect for the civil society an important step to cooperate among stakeholders towards sustainable development.*
- *Bilateral donors should therefore facilitate civil society consultation in the PRSP process*
- *Bilateral and multilateral donors should contribute to the integration of the WSS sector in the framework of the PRSP's.*

3. Proposals to attract additional funds to finance the MDG's on water and sanitation

3.1. 'Financing water for all' – Camdessus-Report

The Camdessus-Report was released at WWF3 in Kyoto and led to discussions and disputes. While professionals and politicians had reservations to some points or aspects, the civil society representatives rejected the paper as a tool to secure private profits with public funds. The question here is how the ‚Financing Water For All‘ report can mobilize financial resources to bring water to those most in need and how it deals with the crucial points mentioned at the beginning.

No poverty focus

Most of these facts described above can be found in the report of the Camdessus-Panel too and it concludes: „There is clear evidence that so far water has suffered from a lack of financing, particularly at grass-roots and local level, and a lack of monitoring at national and global level.“⁴⁸

Nevertheless, the Camdessus panel didn't draw consequences from this finding. A real focus on financing water and sanitation for the poor is lacking, no concrete proposal is made on this goal.

Also water professionals like Richard Jolly, Chair of the Water Supply and Sanitation Collaborative Council (WSSCC) are complaining about this missed opportunity to set the focus right: „There is need for strong emphasis on reallocating shares directed to priorities for the

⁴⁷ <http://www.worldbank.org/html/pic/cas/whatis.htm> (1.10.2003)

⁴⁸ Camdessus2003 p14

poorest... After Johannesburg, the agenda changed. To double the funds with business as usual will not be enough. To the goal of water was added sanitation and attention to hygiene. Most important, small scale local approaches and priorities for the poorest becoming central.”⁴⁹ In addition, he points to the fact, that there is no emphasis on the need for ensuring decisive roles for women in management, decision making, planning and design of projects and systems, including their financing arrangements.

To provide a basic standard of water supply and sanitation as a first step it is important to look at the full range of already existing and approved low-cost technologies and solutions. Not only because they are cheaper, but also because they can be realized on a local basis with contribution from the people and local resources without tapping external loans which have proved to be often harmful to the interest of poor countries.

Missing participation approach

Experience in water projects shows that active involvement of the community / the users are crucial for the sustainability of the project not only in technical terms (maintenance) but also in social (management) and financial terms.

What generally is lacking is the emphasis on participatory decision-making processes. This participatory approach is one of the agreed Dublin Principles but not seen as a pillar of water service provision in this paper. Participation is more than consultation; Participation requires that stakeholders at all levels or the social structure have an impact on decisions at different levels of water management. Consultative mechanisms alone, ranging from questionnaires to stakeholder meetings, will not allow real participation. But – to mention only one point – if consumers can decide on the level of service they want (and they can afford) it is more likely that they are able to pay for it and more likely that they will pay afterwards. In successful water projects – in rural areas as well as in urban slums – participation is one of the crucial factors for success.

There is a need for legal frameworks that allow for participation of all water users. Access to information as well as transparency is basic for effective and accountable governance.

Focus on large projects

The basic approach in the panels report is based on large projects and on Private Sector Participation as the two main pillars of reaching the MDG's. Most of the reflection and proposals are focused on the question how to remove disincentives for the private sector. “Even if it is clear that one cannot expect a significant private role in the rural sector or for very scattered communities, it is equally obvious that in a world of very rapid urbanization, their role, for all the above reasons, can be decisive”, the report states.⁵⁰ What is not taken into consideration here is the fact that already now about 70% of the urban people live in poor conditions and above all the number of poor dwellers in informal settlement will increase while companies feel disincentives serving people in areas where tariffs fall below costs. In these areas projects have proven to be successful that were planned and realized on a low cost level together with the consumers and with NGO's and/or with local small-scale water providers. Additionally, experience shows that dealing with slums and informal settlements is at first a political problem: Illegal settlements are often not served because governments fear that this may somehow imply official recognition of the right to live on the land they occupy. They

⁴⁹ www.wsscc.org/download/Camdessus%20document.doc
⁵⁰ Camdessus2003 p33

have to be recognized as dwellers (without making the link between water and land-right) and become part of governments planning (including PRSP).

This is normally not what the private sector is looking for: “The intensive, time-consuming nature of project financing leads to large economies of scale. Indeed scale is a major impediment to private sector lending to the sector. Although there may be many small water projects, banks will typically want to see projects exceeding \$50 to 100 million as a financed cost, for this reason.”⁵¹ To expand water coverage to urban slum areas, new models have to be developed.

Focusing on Private Sector Participation

Besides the call for public funding of privately operated assets – “ODA should be available to facilitate water projects managed by private operators under public control and could be used to expand networks or fund revenue shortfalls on a diminishing basis under a concession. Alternatively, aid could be used to finance investment in assets owned by the public and operated by the private sector”⁵² – three measures are suggested to promote PSP.

- a) First new financial instrument proposed by the panel is the *Devaluation Liquidity Backstopping Facility*, as a method of mitigating the risk of foreign exchange fluctuations in water project. This proposed facility is a mechanism to pay upfront the cost of currency devaluation. Guarantor disbursements would create sovereign debt. The national government would recoup reimbursements by levying a special surcharge on water tariffs. This facility therefore pays upfront the cost of currency devaluation at the place of the private operator until the consumer pays it back; the consumer has to pay a price for water that is determined to some extent by the international market. For the consumers this remains an expensive way to get water. Only the way of generating funds in local currency can make water affordable for the consumers in the long term. Although the Panels report mentions the this fact, it does not – besides general recommendations to strengthen the local financial market – explore any innovative mechanisms to raise more funds in local currency in the near future.
- b) The second tool is a *Revolving Fund* to finance the preparation and structuring costs of complex projects, including legal, financial, and technical advisory costs. The Fund would be replenished by the public partner on the award of the project to the successful bidder. No doubt, the proposed Revolving Fund addresses a serious problem existing in all water supply systems in bad condition: the lack of information about the existing assets and the detailed demand. Comprehensive assessment of the present status and situation must be the first step to the improvement of the situation. Therefore it is important to design such a Fund without tendency towards PSP but with a clear focus on a) involving all stakeholder in the analysis in order to gain a comprehensive understanding of the situation and b) exploring different technical and organizational alternatives for the improvement of the water supply system in order to have a choice of options. Otherwise it is nothing than subsidy for the private operator.
- c) The third proposal concentrates on the extension of existing Risk guarantees offered by MFI's, governments and export credit agencies. “The panel is strongly of the belief

⁵¹ Camdessus2003 p28

⁵² Camdessus2003 p33

that one of the most important ways in which MFIs can increase funding for water is through the much greater use of their guarantee programmes to leverage other kinds of finance”⁵³ One example is the export risk guarantee: “The OECD could incorporate into the Arrangement a requirement that 2%/3% of aggregate export credit agencies credit be directed annually to water projects. This could provide incremental funding of an estimated \$1.5 to \$2.5 billion annually for water projects in the developing countries.”⁵⁴ Besides this, other risk pooling mechanisms are proposed as well as the idea to list guarantees as ODA in the DAC – an idea that is rejected even by the Dutch government: “We don’t agree with the recommendation to admit guarantees as part of ODA. If the Development Assistance Committee allowed guarantees to be reported as ODA, this would, in our opinion, undermine OECD’s ODA targets”⁵⁵

All these guarantees and facilities are measures to protect private operators and their business risks. Additional measures have to be added to mitigate the risks of the public sector. Since these proposals are the only detailed instruments the report remains unbalanced in its scope. Reaching the MDG needs efforts from all players, a fact that should lead to detailed models and instruments for all players.

New conditionality

While the panel has detected the problematic nature of conditionality and rejects the practice of combining loans with the obligation to cooperate with a private operator, it introduces indirectly the same effect through the two proposed instruments, the Devaluation Liquidity Backstopping Facility as well as the Revolving Fund.

Halfhearted against corruption

Though the panel discusses the problem of corruption and admits its occurrence in the water sector, there is no serious measure taken against it. The panel trusts in ethical codes and voluntary declarations alone although the latest OECD-investigation on the effectiveness of voluntary approaches shows, that “there are only a few cases where such approaches have been found to contribute to environmental improvements significantly different from what would have happened anyway. Hence the effectiveness of voluntary approaches is still questionable.”⁵⁶

Given this result it is questionable why not more serious measures/penalties are taken for example by putting the company in case of corruption on the World Bank’s list of the ineligible firms.⁵⁷ A look at this list shows, that more than half of the firms ineligible to receive Bank contracts due to fraud and corruption are based in the U.S. or the UK as of November 2002.

‘Black and White’-view of governments

The single-edged negative perception of the public sector is striking. There is no doubt that the public sector often isn’t performing well, corruption is a serious problem and that political

⁵³ Camdessus2003 p26

⁵⁴ Camdessus2003 p31

⁵⁵ Agnes van Ardenne, Dutch Foreign Minister,

http://www.minbuza.nl/default.asp?CMS_ITEM=9BB6769B990E4598A3D0390460139D9BX3X37698X06

⁵⁶ OECD, Voluntary approaches for environmental policy, Geneva 2002

⁵⁷ <http://www.worldbank.org/html/opr/procure/debarr.html>

interference worsens the situation. As it is written here, it reminds us at the last decade when ‘private=good’ and public=bad’ was en vogue.

Not mentioned in the panels report are the functioning public utilities although there is no doubt about the fact that public managed utilities can be successful. An assessment of the success factors of these utilities would come up with input for public sector support and improvement.

Pricing policies / subsidies

Cost recovery is a key element to sustainable financing of water services, the panel states. It also recognizes that this concept has its limits, subsidies and cross-subsidies in the water-sector are inevitable, as J.F. Talbot, the SAUR-CEO also realized: “water pays for water is no longer realistic in developing countries: even Europe and the US subsidize services.”⁵⁸ What is missing in the Panels report is a concept how such subsidies could be designed in favor of the poor. Full cost pricing is much easier to calculate than to design socially adapted and differentiated tariffs. There are ways to explore, how tariffs and subsidies can be discussed and negotiated in a transparent and participatory way on subsidy-levels and the way in which they should be administered.

Decentralization

The report states that many countries decentralized the responsibility for water management but not the necessary financial competences and capacities. Indeed, the decentralization process is still at the beginning in many countries and a real challenge. In the report, this is seen only as ‘sub-sovereign-risk’ for investors.

Although decentralization is popular because of the perception that devolving responsibilities and fiscal resources to local government promotes efficiency, accountability and democracy – decentralization of basic services in developing countries has a troubling record. The main problems include resources and capacity. Resources: (a) Central governments often do not provide sufficient fiscal transfer to local authorities (many times worsened by the fact, that IMF often requires borrowing country central governments to restrict transfers to local governments, regardless of the extent of the decentralized responsibilities), (b) the local authorities have no or limited tax bases. Capacity: local authorities often lack experience and expertise in delivering services for which they previously had no responsibility.

The consequence is often privatization as it seems to lesson governments burden: “When local governments face increasing social demands without receiving corresponding increases in resources or capacity, they have strong incentives to unload these political liabilities onto the private sector. Unfortunately, local governments are even less prepared to negotiate and regulate private contracts than national governments, which themselves have shown serious limitations in governing private providers.”⁵⁹

Limited risk analysis

Risk analysis was made extensively from the private sector view. Not mentioned are the different risks to the public sector or to the poor, for example the risk of tariff increases, no better service, health risk, the risk of increased debt for the government etc.

⁵⁸ Talbot 2002

⁵⁹ CNES, Kessler Tim, Alexander Nancy; Financing and Provision of Basic Infrastructure, <http://www.servicesforall.org/html/water/BA.shtml>

These risks have to be added in order to get a more complete picture of the existing risks and take adequate measures to protect the poor.

Back to large dams

After the World Bank's dissociation from the World Commission on Dams report in its newly approved water resource strategy⁶⁰, the emphasis of the importance of financing major hydraulic works can be found in the panels report, too, without any reference to the WCD-recommendations. "A reengagement in this sector by MFI's and donors would be welcomed by authorities and beneficiaries in the recipient countries. A positive sign of the tide turning was the commitment by the World Bank in its Water Resources Strategy for a reengagement with this kind of "high-risk/high-reward" infrastructure and the preparation of "a new business model which puts development risk first, and which aims at timely, predictable and transparent decisions".⁶¹

Kader Asmal, former Chair of the World Commission on Dams (WCD) and current education minister in South Africa, threatens to withdraw his patronage of the Global Water Partnership (GWP) because of the recent Camdessus-led World's Panel report on financing water infrastructure. He does this in a strong letter to GWP chair, Dr. Margaret Catley-Carlson. Mr. Kasmal is both astounded and disappointed that the report chooses effectively to ignore the framework of five core values and seven strategic priorities proposed by the WCD. He is also unhappy that the only reference to the WCD report - in a footnote - is clear "misrepresentation and potentially damaging". He feels that the Camdessus report has missed an opportunity, and as a high profile product of the GWP it puts him in a difficult position. I will, regretfully, have to reconsider my patronage of the GWP"⁶²

The results: a mirror of the panels' composition?

Crosschecking the outcome with the composition of the panel, there remains little surprise: Bankers around the table together with representatives from water companies form the vast majority of the panel. No women, no civil society from the south was at the table.

a) The World Bank's response to the Camdessus panel's report

In a World Bank paper from May 2003⁶³ as well as in a strategy-paper from the World Bank and IMF's joint Development Committee⁶⁴ the Bank draws consequences from the panels' recommendations. Besides a critical review of the so far realized PSP-projects and the potential of the private sector ("The Report is overoptimistic on the prospects of attracting quantum increases in private sector financing, given the current economic climate") a strong emphasis on this model in its sector assistance strategy remains: "The Bank Group will continue its model of encouraging private sector participation as a means to increase the efficiency and

⁶⁰ World Bank, Water Resources Sector Strategy: Strategic Directions for World Bank Engagement, Washington, February 2003, p40ff

⁶¹ Camdessus2003 p26

⁶² <http://www.irc.nl/source/item.php/1714>

⁶³ World Bank Group Response to the Report of the World Panel on Financing Water Infrastructure Chaired by Mr. Michel Camdessus, May 2003 p2

⁶⁴ WB DEVELOPMENT COMMITTEE (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund On the Transfer of Real Resources to Developing Countries); IMPLEMENTING THE WORLD BANK GROUP INFRASTRUCTURE ACTION PLAN (with special emphasis on follow-up on the recommendations of the World Panel on Financing Water Infrastructure), Washington September 13, 2003

performance of infrastructure service providers; financing inefficient public utilities without a clear reform agenda will remain part of the past. However, reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision and reaching the poor.” The main advantage of the private sector is not seen any more in bringing in new capital but efficiency and performance.

According to this paper, “the Bank in some cases will continue to lend to well performing public utilities, including to subsidize connections and consumer charges for poor households. Cost recovery – via tariff increases and greater reliance on targeted subsidies (when necessary) – remains a goal. However, there will be greater flexibility in determining the period of time over which tariff increases are imposed. In cases where private sector participation is a key component of Bank Group activity, there will be more focus on the institutional design of the private participation in infrastructure arrangement and capacity-building, both for the private service provider and regulatory agencies.”

The concept of PSP will face some additional modifications: (a) On the financial side, the bank “will develop different transaction models for public-private partnerships and look at ways in which to allocate currency, regulatory and payment risks more equitably”. (b) “The Bank Group is expanding the use of output-based aid (OBA) as a way of combining public and private finance to expand the provision of water supply and sanitation services. Output-based aid links the payment of subsidies to the outputs or results actually delivered to provide a sharper focus on intended objectives, to improve incentives for efficiency and innovation, to enhance accountability in the use of public resources, and to create opportunities for mobilizing private financing.” At the moment, there is only few experience with OBA in the water sector⁶⁵ (unlike to other sectors). The concept of OBA works better the easier the output can be observed and measured (for example number of connections). As outputs become more complex or subjective (like service level, quality etc), monitoring becomes more difficult and the likelihood of undetected non-compliance or contractual disputes grows. In addition sustainability limitations for poor countries are raised by the World Bank itself: “Since private concessionaires would require credible long-term financial commitments, doubts about the sustainability of such a scheme could limit its application in water concessions for many developing countries.”⁶⁶

Besides the general agreement to the reports’ general tenets and conclusions, the WBG response points especially to the panels’ support of the WBGs’ intention to resume lending to essential high-risk/high-reward surface and underground water storage projects (i.e. big dams) as it is stated in the new World Bank Water Resources Sector Strategy. The World Bank will use a more effective business model, but does not take reference or make use of the work of the World Commission on Dams.

3.2. *EU Water Fund*

Besides the Camdessus Panel’s propositions on financing the MDG, the proposed EU Water Fund with a special focus on Africa as it was announced on the Johannesburg summit and declared by the EU Commission in April 2003⁶⁷ is another actual proposal to make progress in achieving the Millennium Development Goals. According to the EU Commissions rec-

⁶⁵ WorldBank, October 2002; Output Based Aid; Possible Applications in the Design of Water Concessions

⁶⁶ WorldBank, October 2002; Output Based Aid; Possible Applications in the Design of Water Concessions, p13

⁶⁷ COMMUNICATION FROM THE COMMISSION TO THE COUNCIL AND THE EUROPEAN PARLIAMENT (Com(2003)211 final) Establishment of an EU Water Fund; 23.4.2003

ommendation the procedure could end in a final decision in early 2004 on the release of the one billion Euros for the proposed fund.

The architecture of the EU Water Fund is based on three pillars:

- a) *One billion Euros*: The Commission proposes allocating 1 billion euro from the EDF reserve, provided for by the Cotonou Agreement. The Fund should be a flexible answer to the need in the water sector and act as catalyst to attract other donors, including bilateral, multilateral and private money. The following points have to be considered as weaknesses
 - Although it is a first step to finance water for all, the fund does not raise additional money for development assistance but redirects ODA money to the water and sanitation sector. Additionally, the concept of tapping the EDF reserve could become – if generalized – becomes a danger for the security of the EDF.
 - Tied aid: access to the fund is linked to compliance with the ‘good governance’ principle. Given its imprecise definition, this conditionality could become a source of dispute and conflicts between the African countries and the EU.
 - Although it is a positive initiative and absolutely needed to take concrete steps to finance the MDGs it has to be remembered that the manner in which this decision was taken by the European Union undermines the spirit of partnership and dialogue of the Cotonou Agreement.
- b) The creation of an *Executive Agency* to manage the new Fund. The proposed executive agency not only selects the projects but also is involved in their implementation and evaluation. Instead of adding one more agency to the existing long list of implementing agencies (with possibly conflicting development philosophy), it would be more helpful to base on the existing mechanisms (and try to make them more innovative and efficient than contribute to confuse the situation). Most important for the fund is to concentrate on its core business defining clearly how the different players in the water sector – governments, local authorities, NGO’s/CBO’s, etc – access to the fund.
- c) *Private sector participation*. The proposed EU Water Fund is designed in the same direction as the World Bank financing policy and the Camdessus panels’ financing architecture, neglecting the fact that the private sector (and the most important companies are EU-based) has not proven to be more efficient to really serve the poor, especially in African countries where consumers are poor and most of those without access to water live in rural areas or urban slums. To meet the real needs of the water sector, assistance has first to look at the most effective way of improving water services before deciding the tools to solve the problems.

On fourth September 2003, the EU Parliament adopted a non-binding resolution with 356 votes in favor, 10 against and 25 abstentions on water management and the creation of a European Water Fund⁶⁸. In the resolution, some important points are brought forward to the Commission that seek to shape the EU-initiative in a more democratic, sustainable and accountable manner.

General remarks question the PSP-concept and call for the right of the countries to decide their water management system (the numbers in brackets refer to the text of the motion):

- (4) ...solutions focusing on the privatization of drinking water supply put forward by donors have failed
 - (5) ...the public-private partnership (PPP) system, whereby the public authorities retain the ownership of the infrastructure and conclude a management contract with the private sector – securing access for all and ensuring publicly transparent pricing – should not be viewed as a panacea, but as one among several ways of providing improved access to water;
 - (7) ...need for a pricing system which allows everyone access to the water required to cover essential needs and ensures efficient use of water by giving users responsibility
 - (8) ... a serious assessment of the privatization of water services in developing countries, including the social, economic and environmental impact, is essential; and calls for this to be carried out urgently, in order that the findings can be taken fully into account in the negotiations on the GATS agreement;
 - (11) ... a revision of Articles VI and XXI of the GATS agreement is needed in order to protect the right of each developing country to decide freely on its method of water supply, according to the collective national or regional interests of the population concerned
 - (12) Encourages the Commission and the Member States to call on the World Bank and the IMF to end their policy of making privatization of water management and supply services a condition of grants and loans and to accept the national right to decide freely on its method of water supply, whether this is private, public or a mixture of both
 - (15) Insists on the need for local public authorities to be given support in their efforts towards establishing an innovative, participatory, democratic system of public water management that is efficient, transparent and regulated and that respects the objectives of sustainable development in order to meet the population's needs;
- Concerning the European Water Fund, the resolution mentions – among others – the following points:
- (22) ... the fund must make it its main objective to support the water policy of the beneficiary countries, which must be based on democratic management and equitable distribution
 - (23) ...appropriate measures must be taken to ensure that insolvent people are not deprived of such access;
 - (26) Calls on the ACP countries to hold national and regional consultations involving representatives of civil society and local private players with a view to devising appropriate strategies to meet the socio-economic needs of the population;
 - (27) Calls on the Commission and the ACP countries to present a joint proposal concerning the specific implementing mechanisms for this fund – infrastructure types, management bodies and financing systems;
 - (28) ...success of the fund depends on participation by its beneficiaries, who must be involved in the processes of design, implementation, monitoring and assessment, as well as in the management and control of the European fund;
 - (29) Calls for the ACP countries' debt to be cancelled and the money thus released to be used to fund basic water supply and purification infrastructures;
 - (30) Calls for a feasibility study of an international system along the lines of the levy on consumption of mineral water in Europe and the ACP countries (between half and one eurocent on every bottle produced);

⁶⁸ Motion for a European Parliament Resolution on the Commission communication on water management in developing countries and priorities for EU development cooperation (COM (2002) 132 – C5-0335/2002 – 2002/2179(COS))

Criteria for a successful design for the EU Water Fund:

The EU Water Fund is in a stage of discussion and preparation. It must be the goal to influence its design and the criteria to access the fund's resources. From a NGO point of view the following criteria have to be met:

- Set the right priorities
 - o This fund should focus on the lack of finance for the really poor communities as analyzed in chapter one.
- Access to the Fund
 - o No conditionality towards PSP in the concept of the fund.
 - o The fund has to be accessible for local authorities as well as for CBO's and NGO's
- Project requirements
 - o Priority should be given to small scale projects in rural areas and urban slums
 - o Community / user participation in preparation and management of the water and sanitation supply system (including the social dimension)
 - o Focus on low cost technologies and technology choices for users
 - o Obligation for sanitation components in the projects
- Management of the Fund
 - o Transparent procedures
 - o Joint management EU-members and ACP-members

NGO's from the EU together with their counterparts in the South should elaborate a detailed proposal on the criteria for access to the fund as well as its management as contribution to the discussion.

4. Conclusion and policy consequences

‘More of the same’ is not enough to reach the MDG’s. Six areas of action emerge:

First: Set the right priorities

To make the financing of the MDG a realistic vision, we need a reallocation of funds and a broader range of instruments. A real focus on providing water to the poor and to areas with greatest needs makes a change in action and in priorities necessary as the outcome of Chapter two shows. For Africa for example, aid has not only to double (as it is said for the whole sector) but also at least to triple if MDG-goals shall be achieved.⁶⁹ Additionally, the Millenium targets are only reachable, if low cost technologies are used. In order to keep track with the MDG-goals, a more effective reporting-system has to be put in place too.

Second: No pre-determination

Providing water to people needs a flexible approach based on an in depth analysis of the given situation, the players involved and their potential. A choice of options should be elaborated before deciding the way to go. Pre-determination – towards PSP as well as to any other operation model – is not helpful to find the most appropriate solution and therefore has to be removed. Equally, conditionality imposed by the world bank, investment facilities or by bilateral donors has to be removed, too.

Third: Accountable governance

Good and accountable governance in water is key for sustainable water services in economic, social and ecological dimensions. This is only achievable with transparency and participation, one of the Dublin Principles. This principle has to be respected as it is crucial for sustainability in different ways: If civil society can take part in the development of a PRSP, water will be brought on the agenda. If users can take an informed decision about the service level they want, they are more likely to be able to pay for it. If consumers are informed about costs and can take influence on the design of tariff structures and subsidies they can better contribute to the costs.

Fourth: Make better use of existent funds

The low impact of invested funds in the WSS sector has to be improved. There is ample evidence from the field⁷⁰, showing how low cost projects, community participation in planning, decision-making, construction and management of the assets are most important to improve sustainability. Additionally, community development, the so-called ‘soft elements’ of development and water supply have to be addressed accordingly. Successful projects in slum areas show that this approach also works in an urban environment.

Fifth: reverse the downward trend

In most bilateral donor budgets, the WSS sector is actually at best remaining at a relatively low level around 4-6% (Germany: around 10%) with an increasing proportion for sector reform and governance issues. Considering these additional tasks and the growing importance

⁶⁹ Henri Smets/Water Academy France; The Costs of meeting the Johannesburg Targets for Drinking Water; October 2003, p 81

⁷⁰ For example the detailed case study of the Swiss NGO Helvetas, 25 steps to safe water and sanitation, Helvetas Zurich 2000

of activities on the river basin level and transboundary water issues – this leads to less money for water supply and sanitation projects and makes it important to allocate a greater proportion of the ODA funds to the WSS sector.

The downward trend of the second half of the nineties in ODA-spending for water has to be reversed and then expanded. The goal should be to double funds for water or to spend at least 10 USD per capita per year.

Sixth: explore creative financing models

Additionally mechanisms have to be explored and used to make enough funds available to reach the MDG's for water.

Debt-for-water-swap mechanism

Given the large discrepancy between the amount invested in meeting the MDGs and the amount paid out on foreign debt, there might be a reasonable case for creating a “debt for water” swap mechanism for the HIPC countries in Africa, subject of course to agreement by creditor nations. This idea was first launched six years ago by the German Advisory Board on Global Change: “Exploit every opportunity for reducing the debt-servicing burden on developing countries threatened by water crisis, and examine possible links to water policy programs (debt for water security swaps)”⁷¹. Later on it was brought into discussion by the GWP in the Framework for Action. However, no further action has been taken on this point. Debt swaps are a mechanism to reduce the debt loads of poor countries in exchange for investment in basic infrastructure services. Since many developing countries spend over 50% of their GNP annually on debt payments, debt swaps are a useful way to instigate reform towards sustainable development while increasing capacity to maintain and further the reform process. As part of the World Bank's Debt Initiative for Highly Indebted Poor Country (HIPC) debt swaps can be a useful means to ensure investments in the water sector. The concept is also supported in the resolution of the EU parliament. Civil Society should bring this idea to public in order to make it a political issue.

⁷¹ WBGU, World in Transition, Ways Towards Sustainable Management of Freshwater Resources, Annual Report 1997, Berlin 1999

<i>Annex 1: Acronyms</i>

ACP	African Caribbean and Pacific countries
CAS	Country Assistance Strategy
CBO	Community based Organization
CRS	Creditor Reporting System
DAC	OECD-Development Assistance committee.
GWP	Global Water Partnership
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFI	International Finance Institutions
LDC	Least Developed Countries
LMIC	Low and Middle Income Countries
MDG	Millennium Development Goals
NGO	Nongovernmental Organization
O&M	Operation and Maintenance
OBA	Output based aid
OECD	Organisation for Economic Cooperation and Development
OED	Operation and Evaluation Department
PRSP	Poverty Reduction Strategy Paper
PSP	Private Sector Participation
SES	Socioeconomic Status
WB	World Bank
WBG	World Bank Group
WCD	World Commission on Dams
WWC	World Water Council
WWF3	World Water Forum 2003, held in Kyoto/Japan
WSS	Water Supply and Sanitation
WSSCC	Water Supply and Sanitation Collaborative Council

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Annex 3: Investment estimations

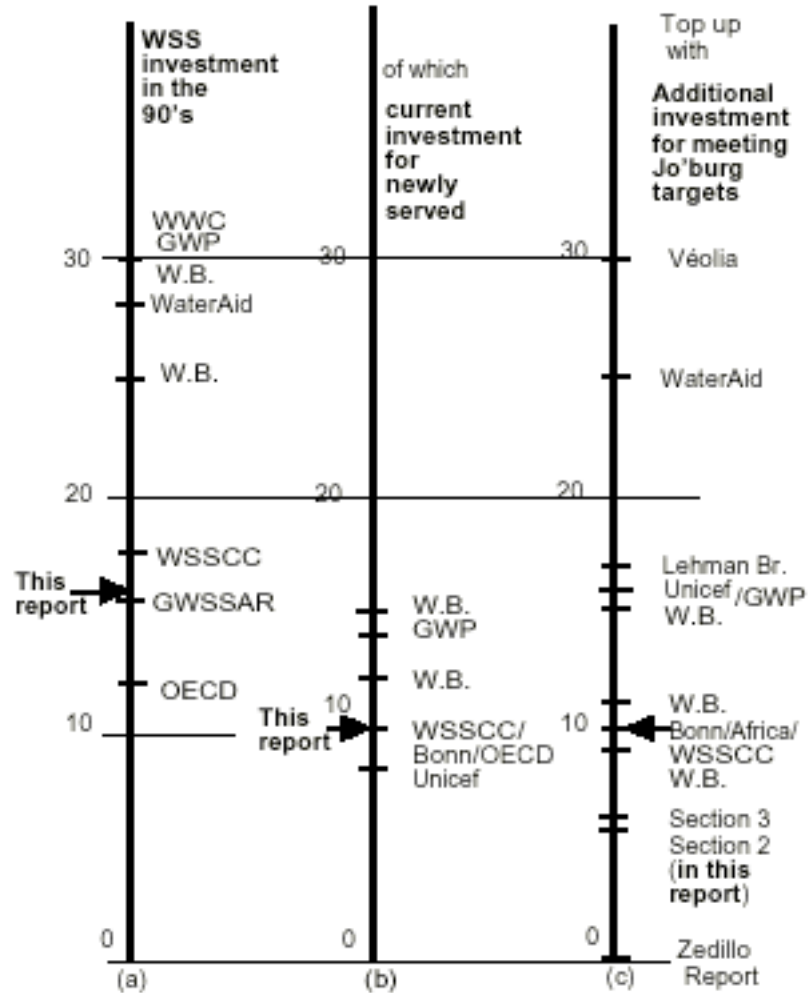


Figure 4. Various estimates for :

- a) investment in WSS in the 90's of which :
- b) current investment to serve the unserved ;
- c) additional investment to be made for reaching the Johannesburg targets for water (in addition to current investment).

in \$ billion per year invested in developing countries

Source:
Water Academy France / Henri Smets; The Costs of meeting the Johannesburg Targets for Drinking Water; October 2003