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***After Privatisation: What Next?  
An assessment of recent World Bank strategies for urban water and  
sanitation services***

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## Abbreviations

CAS	Country Assistance Strategy
CDD	Community Driven Development
HIPC	Highly Indebted Poor Countries
IAP	Infrastructure Action Plan
IBT	Increasing Block Tariffs
IFI	International Finance Institution
IMF	International Monetary Fund
MDGs	Millennium Development Goals
OBA	Output Based Aid
OECD	Organisation for Economic Co-operation and Development
OED	Operations Evaluations Department
PAD	Project Appraisal Document
PCN	Project Concept Note
PID	Project Information Document
PRSP	Poverty Reduction Strategy Paper
PSIA	Poverty and Social Impact Analysis
PSP	Private Sector Participation
VDT	Volume Differentiated Tariffs
Watsan	Water and Sanitation Sector
WB	World Bank
WSS	Water and Sanitation Sector

# *1. Introduction*

## *Background*

Water is a universal concern, touching everybody's lives: in order to survive, access to water is essential. The quantity, quality, accessibility, affordability and sustainability of the sources of water that we use impacts on our well-being, our health and our social and economic status. Water is an issue which defines our cultures, our traditions and the structure of the societies that we live in. Despite the vital importance of these services, 1.1 billion people do not have access to safe water and 2.4 billion have no access to adequate sanitation. The approaches to water delivery that national governments, international financial institutions, NGOs and the people themselves are following are clearly failing in their efforts to ensure access to these services.

Water and sanitation services have been growing in importance, which can be seen in the increasing number of movements, conferences, organisations with a water focus, and the development of a right to water. The first World Water Forum was held in Marrakech in 1997, the fourth is to be held in Mexico in March 2006 – the debates at these forums have become more sophisticated, and more pressing, as the access to safe water continues to elude a significant percentage of the world's population.

Because of the need for water to survive, people are prepared to pay a significant amount of their income and time to ensuring that they get enough to quench their thirst, cook their meals, and for personal hygiene. Expenditure on water will take precedence over many other needs. In times of scarcity, water, even unsafe water, will still be purchased, at prices far above what is 'affordable', and probably at the cost of other important expenditure, such food, health or education.

This somewhat special nature of water consumption, and to a lesser extent, sanitation provision, is part of what makes the delivery of these services both essential and an indicator of how effective, egalitarian and non-discriminatory the social and governance structures of a society are. The efficient delivery of water and sanitation is essential for economic productivity and the health of a nation's workforce. Where water services are managed equitably and successfully, this is an indicator of good governance practices, that some attempt is being made towards equality of distribution, at least the protection of those who have least.

Water is both an economic good, which people will pay significant amounts for domestic and economic reasons, and a social good, which cannot be replaced by any other good. It is this dichotomy that has frequently led to problems in defining how water services should be managed when considering delivery approaches and options, and which has led to disagreements as to whether water should be sold only as a commodity, priced according to demand, availability and the real cost of delivery or priced according to need and ability to pay.

A further recent development is the acceptance of the right to water, recognised by the UN Committee on Economic Social and Cultural Rights in General Comment No.14,<sup>1</sup> which has ensured that the rights-based approach to development is discussed within the water sector. While there are misplaced fears that this right to water implies that water must be available

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<sup>1</sup> UN Committee on Economic, Social and Cultural Rights, General Comment No.14, November 2002

for free, the real benefit of the right to water is that its recognition puts delivery of water to all as a monitorable responsibility of all States party to the convention of human rights.

The debates on the commodification of water have been compounded by the question of how water services should be managed, whether they should be publicly or privately managed (and in a few cases, whether the infrastructure should be privately owned). The focus of the discussion has been on issues of equity, and the moral or ethical reasons for holding water and sanitation in public hands and whether there are in fact good reasons for allowing services to be privately managed for reasons of efficiency and equity. Of late, the debate has been somewhat reduced, due to the lack of private sector interest in water and sanitation services in developing countries, leaving the core issue of improved access to the poor in sharper relief. When considering access to services for the poor, it has been found that it is largely irrelevant who manages the services, as urban water utilities are not generally reaching the most vulnerable and marginalised groups. The majority of sector reform are still failing to address this crucial issue, whether public or private management or ownership is advocated.<sup>2</sup>

Due to the above debates, and high-profile failures of private sector participation in water services in the last few years in the cities of developing countries (notably in the Philippines, Brazil, Argentina, and recently Tanzania), the International Finance Institutions (IFIs) such as the World Bank have started rethinking their strategies of support for water services. The World Bank is at least nominally reducing conditions for taking loans for water sector support, which previously demanded private sector participation.

The changes in IFI strategy also have to be seen in the context of an increased focus on poverty alleviation in general and access to safe water and sanitation services in particular. This is due to the setting of the Millennium Development Goals (MDGs) and also an increased emphasis on good governance and decentralisation processes. While these issues will not be debated in depth in this paper, they are an important aspect of changes in direction of development policies.

This paper considers World Bank policies and projects in urban areas of developing countries to see what the impact of these developments have had on World Bank theory and practice, and whether the World Bank is succeeding in contributing to poverty alleviation in its water and sanitation projects.

### *World Bank*

The World Bank approach to development in the 1990s and to the present day has been based on a belief that a market economy will encourage economic development, which will in turn create more employment and less poverty. Loans made by the World Bank have been making in relation to the delivery of services, including water and sanitation services, have therefore focussed on opening up the markets for electricity, communication, leading to significant private sector participation in these services, and to some privatisation. These loans are almost without exception large in scale and scope, and with projects of between US\$5 million and US\$500 million.

However, there is an increasing recognition within the World Bank that for poverty alleviation, an issue increasingly on the agenda since the setting of the Millennium Development Goals, these market-led approaches are not always appropriate, and that alternatives must be sought.

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<sup>2</sup> Gutierrez et al, *New Rules, New Roles: Does PSP benefit the poor*, WaterAid and Tearfund, 2003.

This has led, not to a complete rethink within the World Bank of how development policies should now be developed, but to a flowering of numerous ‘add-on’ policies and strategies which attempt to address some of the more significant failures of World Bank policy to date.

One of the drawbacks of the market-led strategy was the relegation of governments to playing a less central role in the management of the services, but still playing an important role in regulation and investments. It was perceived by the World Bank and other IFIs that poor governance, including lack of capacity and corruption, was responsible for the inadequate performance of state-run services. By putting the services into private hands, these issues could be avoided. This has now been recognised as unrealistic, with the realisation that involvement of the private sector is no guarantor of non-corrupt or equitable practices. New approaches have been developed to promote good governance, which will then provide an opportunity to improve the state’s role in regulating and controlling the delivery of services, even where they are privately managed.

It has also been recognised that there have been unforeseen, negative impacts of the large-scale projects funded by the World Bank, which has led to the design of pre-project analysis, which aims to examine some of the issues such as impact on the poor. One of these tools is the Poverty and Social Impact Analysis which aims to ensure that issues of poverty are being addressed by projects planned and to iron out any negative impact that the projects may inadvertently be creating.

A further criticism of previous World Bank policies has been the number of ‘conditionalities’ set by the donor bodies before countries are able to access a loan. The World Bank has carried out a review of the conditionalities that it employs, and aims now to set fewer conditionalities on countries wishing to take a loan, with a new aim of ‘country ownership’ of policies and strategies developed through the loan design process. One of the most common conditionalities was that public utilities be privatised in some form. While the World Bank is still very eager to involve the private sector in delivery processes, there are signs that it is prepared to accept that due to negative public pressure or the simple lack of private sector interest. Loans will still be extended to countries which do not want to involve the private sector.

The World Bank tool-kit for the privatisation of water services, developed by the Water and Sanitation Programme, is currently being updated to take more account of the needs of the poor and unconnected when developing the contracts for the private sector participation, and the consultants designing and negotiating the contracts more and more include specialists who try to ensure that the needs of the poor are addressed in the legal documents.

There have also been developments in terms of social development processes within the World Bank, for example Community- Driven Development (CDD), a process well known to NGOs and civil society organisations. These social development strategies are generally tacked on to the development of the usual World Bank projects. In the case of CDD, they are designed to assist in the delivery of services to those who are unlikely to get access to water and sanitation in the short- or medium-term by the larger loans used for major infrastructure provision.

This paper assesses the World Bank’s new strategies for dealing with the newly emphasised goal of poverty alleviation through improved infrastructure. There are criticisms that the World Bank’s new stance is superficial and that the World Bank is still pushing private sector participation and the marketisation of services and is still failing to recognise the central failure to reach the poor, the marginalised and the vulnerable. The promotion of ‘country ownership’ is criticised as being ‘white-wash’, and countries are being given a Hobson’s choice of either loans provided according to World Bank policies or no loans at all. It has been argued that CDD does not reach the poorest and requires an unrealistic amount of

conditions before communities or their NGO partners are able to access funds. The Poverty and Social Impact Analysis is not universally applied and does not challenge World Bank orthodoxy.

There is further a general question about the independence of World Bank policy – those giving the advice are also those approving the loans. Even where outside consultants are employed, they tend to come from a World Bank paradigm, and local consultants are seldom employed. There is also criticism levelled at the World Bank that due to the very nature of their existence, they are able to make mistakes, change policy direction, have failing projects and still collect repayments on the loans given out. This makes for a very comfortable position for the World Bank and those who invest in her. The World Bank can act as both judge and jury, so large-scale experiments can be carried out without undue concern for the outcome.<sup>3</sup> The performance of a task manager or transaction advisor within the World Bank is judged more on the success of closing on a loan than the subsequent success of that loan.

### **Millennium Development Goals**

The Millennium Development Goals (MDGs) were developed in response to the Millennium Declaration of 2000. They have played an important role in focussing development efforts on the poor and pushing water and sanitation up the development agenda in the last few years. This has put extra pressure on the IFIs to improve and prioritise their financing for water and sanitation delivery processes. At present it is calculated that a further \$10 billion per year will be required to reach the goals, which represents at least a doubling of the current levels of funding. It is also however recognised that in order to reach the MDGs, there must be a different approach to funding, rather than simply increased funding. A further concern relating to the MDGs is that the spirit of the goals implies that we should be trying to reach the poorest in our efforts to ensure access to water and sanitation, and not just those whom it would be easiest to connect.

All too often, water sector reform in the form of the improvement of water services in urban areas focuses on improving water and sanitation services for those who are either already connected or who live in areas which are easily connected to main supplies. Very seldom will services reach areas which are hard to reach, far from existing networks or living in extralegal settlements.

2005 marked the beginning of the UN Decade on Water for Life, the main goal of which is to promote efforts to fulfil international commitments for water and water-related issues.

### ***Structure of the Paper***

This introduction has outlined the issues that this paper will consider. The second section of this document discusses new approaches and strategies that the World Bank has been developing in recent years to replace the market-led private sector participation strategy, and whether these will be successful in contributing to poverty reduction in the urban water sector. Do these new approaches represent a real change? The paper will present case studies of recent projects which still require private sector participation, and then go on to discuss some of the more socially aware projects that have been developed. The final section draws conclusions from the different approaches of the World Bank and assesses whether these

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<sup>3</sup> The same criticism of lack of accountability can also be aimed at NGOs, although the scale of their impact tends to be far more limited

approaches represent a significant change or whether World Bank projects are failing to have an impact on improving access to safe water supply and adequate sanitation for the poor.

## *2. World Bank - New Approaches?*

### *Background to promotion of private sector participation*

World Bank approaches to development have changed over the last two or three decades, moving from a strategy of supporting the state during the 1980s, to one of bypassing the state and favouring the private sector in the 1990s, to the current process of trying to find a middle ground, using both the private and the public sector to support the necessary reforms to improve water delivery systems.

In order to understand the role that the World Bank has played in the past and plays at present it is important to recognise that it was first created with a focus on economic development, and loans that were disbursed had to fit strict economic criteria.

During the 1980s, the World Bank loaned money to governments to improve their water and sanitation supply systems. The loans were intended to assist in the reform of state-owned companies, not by privatising them but through improving management processes, preventing corruption and streamlining service delivery. This process was largely unsuccessful, in part due to a lack of political will on the part of governments to change power structures and systems of privilege. Money earmarked for water and sanitation infrastructure went unspent because governments were unable to plan and budget the process.

Towards the end of the 1980s, the World Bank's policies started to move towards a neo-liberal approach, which saw the liberalisation of trade and services as the most efficient way of side-stepping the issues of corruption, seen to be a characteristic of public management. The private sector was seen as the solution, being independent of the political processes that prevent governments from charging realistic prices for services and also bringing in much needed investment to the sector. This process was applied to all forms of previously state-managed enterprises, from energy and telecommunications to natural resources, and of course, water and sanitation.

This was part of the general shift towards the increased private sector involvement stipulated in conditions for loans from the major International Financial Institutions (IFIs) in the 1990s. This coincided with the massive Structural Adjustment Policies of the IMF, which prescribed considerable fiscal restraint, a significant reduction in investment in social services, including water and sanitation, and a focus on economic growth policies, which included support for local and international private sector.

By the late 1990s and early 2000s, the cracks in the practice of privatising water and sanitation services in cities of developing countries were beginning to show, with some high profile failures. It had become clear that stipulating private sector participation in water and sanitation delivery systems was not the silver bullet that was hoped for.

### *Why has private sector participation (PSP) failed?*

It is not the aim of this paper to assess the advantages or disadvantages of private sector participation per se, or take a particular stand on the issue, but to discuss whether new approaches designed to take the place of private sector participation will be more successful in delivering services to the poor and assisting in the attainment of the MDGs. However, it is worth taking a look at the assumptions that were made regarding the ability of the private sector to manage water and sanitation services and what went wrong.

The World Bank has been vilified by numerous civil society and non-governmental organisations for pushing the private sector participation in the water sector without due regard to the conditions in each country and without due recognition of the fact that the lack

of access to water is an issue of poverty and unequal distribution. The processes which have been followed to date have made the simplistic assumption that the imposition of pure market forces on a necessity such as water will result in an improvement in access for all, including the poor. This is not the case without considerable regulation and intervention. Private sector processes have been imposed as an ideology, a faith that market-driven processes are the most appropriate strategy for regulating and managing discrepancies in distribution. This blanket assumption is now changing and there is recognition of the need for expansion targets that reach the poor, appropriate tariff structures that safeguard access for the poor and other interventions to ensure a more equitable distribution.

Private sector participation in water supply in the cities of developing countries has also failed because international water corporations soon realised, after having their fingers burnt, that there was in fact little profit to be made from business which required a great deal of financial resources, but which would bring minimal returns and only over the long-term. The high level of risk connected with the long-term investment necessary, and the limiting conditions made on service operators to serve not just the better-off areas with existing connections, but also connect those in the poorer areas, turned an attractive proposition into a potential loss-maker. There was also a problem of standards of services being too high for the poor to pay for and no solution to this particular problem through introducing more flexibility in terms of technology or scrapping the policy of full cost recovery which governed pricing policy.

Additionally, water is not a good that service providers should necessarily want to sell more of in order to make more profit. It is a finite resource in many countries, and therefore there should be no encouragement to expand the market and sell more water. There is rather a need to limit consumption where it is currently excessive and improve the equity of the distribution so that those without access or with limited access receive a more appropriate amount of water. Further to this, in almost all instances, there is an unacceptably high incidence of unaccounted for water in the form of leaking pipes, which needs to be reduced. Therefore, frequently, an improved and more equitably distributed water supply does not necessarily require an increased amount of water, although it will almost certainly require increased numbers of customers or consumers.

Water is also not seen as a particularly relevant service to be privatised as the commercialisation of services relies on the deliverable goods being open to a capital market. Water is inherently a monopoly, sourced locally, and delivered through costly cleansing and delivery systems. In England and Wales, a false monopoly has been created by making water companies in discrete areas compete against each other for the lowest prices – but customers themselves have no choice as to who delivers their water services.

As a result, even where countries or city governments have agreed to follow policies of private sector participation, there has not been the necessary amount of interest from the private sector to ensure that the bidding process is realistic and based on competition. In Dar es Salaam, for example, there was only one tender that was acceptable – the other tenders had either withdrawn previously or were not appropriate. The market-led competitive nature of the bidding process was therefore significantly undermined.

Additionally, private sector participation was unlikely to be successful in many developing countries due to poor regulatory structures. While in England and Wales, a strong and generally effective regulatory system, OFWAT, has been developed to ensure high standards of water delivery, and to manage tariffs and other policy issues, this vital role demands a capacity which is not readily available in many developing countries. A government that is not capable of delivering water and sanitation services equitably and effectively is unlikely to be able to regulate the private sectors' attempts to achieve this. The majority of private sector

participation processes failed to address this issue. This is of course, also a problem for public sector provision.

While there has been successful privatisation or private sector participation of water and sanitation services in developed countries, this is generally after the initial costs have been paid to build the necessary infrastructure. In developed countries, the vast majority of the population can afford to pay for full cost recovery, although there is still some debate about whether consumers are paying enough to pay the environmental costs. In developing countries, for many, paying the full cost for water services will have a negative impact on their ability to pay for other needs, such as food, housing health and education. This has a worse impact on women and children, the marginalised and the vulnerable than on other groups.

### ***Accepting decreased emphasis on private sector involvement and increased emphasis on social requirements***

The World Bank has admitted that the private sector participation policies for the delivery of water and sanitation that were followed during the 1990s have frequently failed and that there needs to be a new approach to ensure that the problems that this policy have met with are resolved. While recognising that the private sector participation policy has failed to meet expectations, the thinking behind a move away from private sector participation is not to refute the basic premise that the operation of water and sanitation services should be more economically robust, but that the lack of interest, and the high risks associated with water and sanitation delivery are failing to engage the international private sector as hoped, due to a lack of good returns and high risk associated with the business of water and sanitation delivery.

Following the failure of the private sector to successfully and equitably delivery water and sanitation services, the World Bank has had to find a new approach to supporting strategies for the delivery of water and sanitation, and particularly for addressing the issues of services for the poor, which were seldom tackled under private sector participation processes. Having tried supporting publicly managed services in the 1980s and then relegating the state to a more minor role and pushing privately managed water and sanitation service delivery in the 1990s, the World Bank is trying largely to address the issue in a more balanced manner, looking beyond satisfying technical and economic needs, to addressing also social needs, although it has yet to accept a rights-based approach. The World Bank is also allowing for increased state autonomy through processes such as the Poverty Reduction Strategy Papers, assisting in decentralisation processes and focussing on reaching the poorest. These are brought together into a methodology or framework for understanding the complexities of the delivery of water and sanitation within an environment of weak government, weaker private sector and a significant section of the population without access to safe water and sanitation, which is having a negative impact on health, the economy, education and vulnerable population groups.

Consequently, the approaches taken by the World Bank and other IFIs in assisting governments to deliver these services must also attempt to address these key issues of good governance. It will always remain the responsibility of the state to deliver water and sanitation to all residents, recognising the social and economic benefits to a regular, high quality supply of water and access to adequate sanitation, and it is this role of the state that must be supported by any new strategies.

The World Bank has recently been considering how best to combine the two approaches of working with governments to improve infrastructure provision and also to utilise the approach of capitalist intervention in service delivery, to produce a process which creates the

opportunity for more people to be served at an affordable price, while charging those who can afford to pay a more realistic price that covers the true cost of delivering services.

There are a variety of strategies that the World Bank is taking. Retaining the World Bank's ideological following of neo-liberalism and the capital market, the new approach is the 'commercialisation' of water services. This is a more acceptable face of the marketisation of water and sanitation services, as the operations remain in public hands, and a new operating body is created. This will be separate from the local authority, a ring-fenced body which can operate independently of the local authority, and which reinvests revenue raised through service charges into water and sanitation, rather than allowing these funds to be used for other purposes, such as roads, transport or other costs.

Secondly, there is pre-project analysis of the type and size of loan that a country requires is planned in a more inclusive way, and includes tools such as the Poverty and Social Impact Analysis (PSIA) to ensure that issues of poverty are being addressed by projects planned.

There is a claim that fewer 'conditionalities' are being made on countries wishing to take a loan, with a new aim of 'country ownership' of policies and strategies developed through the loan design process. While the World Bank is still very eager to involve the private sector in delivery processes, there are signs that it is prepared to accept that due to negative public pressure or the simple lack of private sector interest, loans will still be extended to countries which do not want to involve the private sector.

The tool-kit for the privatisation of water services, currently being updated has a greater focus on reaching the poor and unconnected. The consultants designing and negotiating the contracts more and more include specialists who try to ensure that the needs of the poor are addressed in the legal documents. New strategies have been created for using and targeting subsidies for the poor, a move away from the previous aim of full cost recovery, although the two are not mutually exclusive, as will be discussed later.

One area which the World Bank does not mention in its projects or policy documents is the currently high profile rights-based approach, an issue which is enjoying a particular resurgence at present due to the increasing international recognition of the right to water.

### **Right to Water**

The right to water has become the new focus of many non-governmental organisations' campaigns since the acceptance of the CESCR General Comment No.15<sup>4</sup> on the right to water by the UN Committee for Economic, Social and Cultural Rights.

The right to water has yet to be openly embraced by the World Bank although there are elements within the organisation which are ready to support the basic tenets of General Comment No.15. The lack of commitment to the right to water has been expressed by people within the bank due to the fear that the right to water implies free water. Following the debate on privatisation which has consumed much of the debate on delivering the much-needed water and sanitation to poor, unserved households, there are few who wish to re-enter the debate through the back door. However, the right to water has become a rallying issue for many NGOs and has also helped to focus the development debate on the need for water and sanitation for economic growth.

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<sup>4</sup> UN Committee on Economic, Social and Cultural Rights (CESCR) General Comment on the Right to Water, CESCR, 22 November 2002

The General Comment on the right to water does not in fact in any way threaten the approach to water and sanitation delivery as espoused by the World Bank, and is fully in line with their policies. The rights-based approach would however strengthen some of the newer policies which the World Bank is exploring such as community driven development and increased community participation in decision-making. Taking on a more rights-base approach would also have a positive impact on the development of pro-poor policies

This paper will attempt to assess whether or not this approach of commercialisation, combined with the other new strategies will have a greater chance of success, particularly when addressing the needs of the poor than previous approaches.

### **Privatisation, private sector participation, commercialisation – the key issues defining these different approaches**

Privatisation of an industry generally refers to the complete transferral of all assets from public hands into private. In the water sector, this has only really taken place in England and Wales, where all assets were sold to private companies.

Private sector participation refers a range of different arrangements, from the transferral of part of the assets in a concession, or transferral of management responsibilities, in the case of management contracts or lease contracts. These contracts will be time-bound, depending on the level of management. The simplest form of private sector participation, which public utilities themselves frequently use (for example, Porto Alegre and Durban) is service contracts, where limited aspects of work, for example construction, are contracted out to private companies, generally in these discrete cases, to the domestic private sector.

Some NGOs find the reference to ‘Private Sector Participation’ to be an attempt to soften the impression of what is essentially a transfer of power from the state to the private sector, and would prefer to refer to all instances of private sector participation as privatisation. The World Bank tends to refer to privatisation only when referring to full privatisation, as in England and Wales.

Commercialisation refers to the transformation of a public company into a commercial concern, creating a operational and management body separate from the local authority that had previously been managing water services. This new body, fiscally ring-fenced from the local authority, is then run on a commercial basis, generally with the aim of full-cost recovery from tariffs.

Prior to this policy of commercialisation, a publicly-managed service operator would have accounts combined with other operations of the local authority, and would be able to use resources gained from water services for other activities. This has long been the case in Germany, where water services effectively subsidise public transport.

Whatever the private sector involvement is in the delivery process, and whether or not the private sector owns particular assets, it remains the responsibility of the national government to ensure that the residents have access to water and sanitation services. This responsibility is clarified in the UN General Comment No.15 on the right to water. Ownership of the water source itself almost invariably remains in the

hands of the state, although there is often disagreement about the right to access water sources. This has led to considerable problems, for example in Cochabamba and in some instances in India, where the state has sold off land or water sources to private companies, preventing communities from accessing water.

### *World Bank Evaluations*

The World Bank itself has recognised, due to the high-profile failures and through its own evaluations processes, that private sector participation in water and sanitation services has not delivered the improvements in water and sanitation delivery that were hoped for. In 2003, the Operations Evaluations Department of the World Bank (OED) evaluated the World Bank performance in the delivery of water and sanitation<sup>5</sup> against four objectives: to help governments achieve least-cost solutions to infrastructure needs; to foster institution building; to help institutions achieve financial viability; and to ensure a minimum supply of safe water to the poor.

Following a poor assessment of the achievement of these goals in an evaluation covering projects from 1967-1989, the World Bank attempted to transform its approach, looking at 'efficient, sustainable service for all'. This was to be primarily through private sector participation, regulatory reforms and a move towards involving users in 'the selection and administration of the systems'.

The review of projects 1990-2001 concludes that the delivery of an 'efficient, sustainable service for all' has been 'uneven', although the indicators are beginning to improve, with projects beginning to show more sustainability, although this is still low (40% likelihood of sustainability, compared with 32% at the last evaluation).

In terms of the privatisation strategy, the OED findings show that the ratings of sustainability are not 'substantially different' from those of any other sector, and the sector is not any 'riskier' once the effects of the 'dual economic good/social good' nature of the sector has been taken into account. This would appear to be a significant caveat.

While the water sector comes last in comparison with other sectors in the ratings of whether or not a project is sustainable, this is explained by the OED that tariff setting is politically influenced, as governments do not want to appear to be putting rates up unfairly, and socially influenced because water is a basic human need, which cannot be replaced by any other good. The OED finds that governments will frequently use water as a political tool and are not keen to put rates up for the middle and upper classes who receive a highly subsidised service. Therefore, according to World Bank logic, the failures in achieving sustainability and the lack of success of private sector participation cannot be blamed on the private sector per se, but on the fact that the rules of the market are not being followed in the case of water and sanitation services. Meanwhile, the OED recognises that water and sanitation services share some characteristics with the energy sector (in that water is an economic good) and with the social sectors such as health and education (in that water is also a social good).

The evaluation also suggested that projects are being carefully selected, with the World Bank closing those which are not performing and only accepting projects where there is good political support from the national government, which leads to a high apparent success rate. This conclusion tallies with the fact that the amount of funding made available for water and sanitation services was reduced during the 1990s,<sup>6</sup> the years when the privatisation of

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<sup>5</sup> World Bank OED Efficient Service for All? An OED Review of the World Bank's assistance to water supply and sanitation, World Bank, 1 September 2003

<sup>6</sup> <http://web.worldbank.org> accessed 8th February 2006

infrastructure services was high on the agenda in the World Bank. As water services are politically and economically risky, it is understandable that the World Bank pulled back from financing them.

The evaluation also notes that the regulatory frameworks developed by the World Bank have been poor, and where there is a good regulatory structure, this has been developed without World Bank assistance. World Bank pricing policies have not been followed, which has increased the risk for private investors and operators, and which has been a disincentive for the private sector to invest in or manage the services.

The OED report states that the private sector strategy has not been well followed, there has not been the institutional reform necessary for financial reform and that without the financial incentives for improved service that the private sector involvement brings, there can be no improvement. Also, demand for services has been overstated, presumably because the low-income areas have not been addressed, which has an impact on the amount of possible revenue to be made, and there continues to be political interference in the setting of tariffs.

As some of the improvements in performance are due to closing bad loans, there is a great need to expand the portfolio in order to reach the MDGs: the evaluation recognises that there is a problem in that the areas which are in most need of assistance, where access to safe and adequate water and sanitation is at its lowest are also the areas with the least capacity and where reforms to the sector are the slowest.

The OED evaluation recommends that regulation of water supply and sanitation sector must move from prescription to implementation, as only a handful of countries have put effective regulatory bodies in place, both for quality and economic regulation. The report comments that most regulatory systems are not able to withstand political interference, which is a problem for private sector investors and operators. Tariffs should at least be adjusted each year for inflation and this is not happening at present.

Despite the problems and failures outlined above, the OED evaluation finds that private sector participation has shown promising results and remains an important tool to improve coverage and quality, although it cannot be seen as a panacea. The report comments that “the wholesale questioning of the justification for PSP is ill-advised, but the unrealistically high expectation from clients and Bank staff must be tempered”, implying that privatisation is still a policy that should be followed, but that it should be better managed to ensure benefits for all. The evaluation goes on to say that:

“Continued promotion of PSP is sensible as PSP offers the promise of more transparent performance by operators; faster gains in coverage, quality, efficiency and sustainability; and accelerated development of regulation”.

Crucially, the evaluation also finds that there need to be better instruments to ensure better services for the poor, including how to manage subsidies, modify the tariff structures, use low-cost technologies and extend direct subsidies to pay for all or part of investments which will provide services for the poor. Output Based Aid (OBA) approaches should assist in this, as this aims to provide incentives for (presumably private operators’) success in delivering to the poor (to be discussed later). These approaches would of course also be available to public sector operators. The evaluation recognises that, “in addition services to the poor will often require informal small-scale solutions in order to reduce costs to levels that are affordable”,<sup>7</sup> opening the door to a review of standards and the possibility of greater flexibility when designing for different income groups.

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<sup>7</sup> World Bank, OED, Efficient Service for All? An OED Review of the World Bank’s assistance to water supply and sanitation, World Bank, 1 September 2003 p.32

Essentially despite the many problems that private sector participation in water services has thrown up, the World Bank feels confident in promoting it further. This is not the conclusion drawn from these findings by critical World Bank watchers, who feel that the evidence gathered by the World Bank itself on private sector participation is enough to point the way to more public engagement.

### *Infrastructure Action Plan*

This evaluation has, however, led to changes within the World Bank's policy and strategies, which are in part outlined in the World Bank's Infrastructure Action Plan of 2003. The Infrastructure Action Plan outlines the main approaches planned for all types of infrastructure provision, and includes a section focussing on water and sanitation. As has been seen in the OED evaluation, water and sanitation services are recognised as having different parameters compared to other sectors, due to the social and political aspects of water and sanitation delivery. There is recognition of the importance of the public sector as private investment has traditionally been low in this particular sector, such that less than ten percent of investment has actually come from the private sector.<sup>8</sup> From this it would appear that the World Bank plays down the importance of private sector involvement in the sector, while trying to expand the market for the private sector in seeking new financing sources.

In recognising the current limitations for private investment in water and sanitation services and following the recent high profile failures of the last few years, depending on the context, the World Bank is now working again with the public sector.

In terms of ensuring that the services reach the poorest, the World Bank has introduced a range of instruments, which can be used for either private sector management of services or the commercialised public sector. One of these areas is the acceptance that a sustainable service with full cost recovery is only possible in the long-term and that repayment periods for World Bank loans need to be much longer term in recognition of this. Subsidies, which were previously rejected as producing an unsustainable operation in World Bank ideology, are now becoming more acceptable, as long as they are well targeted. There is also recognition by the World Bank that there needs to be major investments made in order to increase access for the poor, and this investment should not be paid for by the newly created users in the short or medium term, if at all.<sup>9</sup>

There is also now a long-term aim to fund sub-sovereign entities, as the International Finance Corporation (IFC) currently does, in order to ensure that the funds are reaching the bodies responsible for water and sanitation services, and to continue the promotion of decentralisation. This would be seen as a useful approach in those cases where private sector, local or municipal bodies are in a better position than the national government to act proactively. This would allow the World Bank to expand on a previous approach, whereby private sector participation was seen as way of circumventing national government policy, allowing the delivery of water to all, not just those with land tenure, and not just to those with political influence.

The private sector is seen by the World Bank as being only driven by the profit motive, so that if the right agreements are drawn up, political interference and corruption would be reduced. The problem with this questionable ideal is that there is in many countries or cities a strong political economy, which is both hard for those from outside to comprehend and which tends to be well-organised in terms of protecting political elites.

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<sup>8</sup> EU Presidency Statement – Financing for Development (15th September, New York)

<sup>9</sup> World Bank Infrastructure Action Plan, 2003, p. 3

There is a further question-mark over this policy, in that it denies national sovereignty, while encouraging the process of decentralisation. It must be asked why governments are being side-lined, and whether this is a good long-term strategy for good governance.

### *Public or Private Sector?*

The commercialisation approach now being promoted by the World Bank in those countries where either privatisation is not politically acceptable or there is a lack of private sector interest or capacity is based on the premise that water is an economic good, which must pay for itself. The Operation Guidance for the public and private sector in water and sanitation services,<sup>10</sup> one of the World Bank's series of Guidance Notes, developed following the publication of the Infrastructure Action Plan, outlines some of the necessary approaches for 'commercialisation'.

The basic tenet of this Guidance Note is that there will only be sustainable access to safe water supply and sanitation where there are financially viable service providers. This means that there must be sufficient revenues from billing and from other resources, such as government subsidies, for both operation and maintenance and for further expansion of the networks or treatment plants. The focus of this Guidance Note is not on the private sector per se: rather that it is not as important who runs the utility as how it is run; the goals are a economically efficient, financially viable and environmentally sustainable service provision, rather than the tariff policy or reform of the utilities.

According to this Guidance Note, the previous model of direct public management models, where asset ownership and service provision are concentrated in a single entity, such as a department or ministry have in general proven to perform poorly, and allowed too much political interference and corruption.

There is a range of options for changing the institutional structure to improve on this. The simplest approach is to create a ring-fenced department, which holds separate accounts from the rest of the local/municipal authority, and has a certain level of autonomy for day-to-day management. Management oversight remains with the 'owner' – the municipality – which is then of course also prone to political interference.

An alternative is to create an autonomous statutory body, which requires a change in legal status. The functions of asset ownership (the local government, management oversight (a board) and the services provision function are separated.

The most advanced approach is the establishment of the utility as a government-owned enterprise, which then operates under company law. This creates the greatest separation between the state (political interference) and the running of the company, which is run as a commercial business.

For any of the above scenarios to be successful, there needs to be independent management oversight, good incentive schemes, and the companies must be held accountable, with full public disclosure of results.

Where the commercialisation of water services is to be successful, a realistic medium-term performance improvement plan is developed, which addresses reduction in non-revenue water, bill collection, staffing levels, tariff levels and structure, subsidy levels and mechanisms, service to the poor and the recovery of operations and maintenance costs and depreciation and financing costs.

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<sup>10</sup> World Bank, Public and Private Sector roles in Water Supply and Sanitation Services, Operational Guidance for World Bank Group Staff, World Bank, April 2004

Key measures for a reform programme to bring about a more sustainable financial situation might include an agreed programme of tariff increases that keep the ability to pay of different segments of the population in perspective; predictable, performance-based allocation of tax revenues for targeted and well-justified subsidies; and appropriate incentives for service providers to improve billing and collection performance and more generally to reduce costs.

The World Bank recognises in this Guidance Note that in many countries, tariff adjustments to reflect the true cost of service will have to be implemented gradually, during which time government transfers will be required to bridge the gap between overall revenue and costs.

Also, it is recognised that even where the private sector is involved, the water supply and sanitation sector will continue to require public funding, either because of difficulties in raising tariffs to cost-covering levels or because there are social or other objectives that cannot be met through cross-subsidies.<sup>11</sup> The implication for this is that even where the private sector is involved, there is considerable risk being carried by the public sector.

This can be through tax-payer financed funding for investing in an expansion of the services, or in subsidies to poor households. Where the government bears the risk, there may be guarantees to extend the term of debt financing for private water supply and sanitation projects or political risk guarantees to commit to agreed contractual frameworks. This begs the question why governments would be interested in involving the private sector when the larger share of the risk and the investment remains with the government anyway?

Measures for strengthening or more formally incorporating small-scale service providers should be undertaken as part of a broader strategy for extending services to poor and unserved households, in order to make this affordable. This Guidance Note also recognises that for the most part, those living in poorer areas or settlements will not be reached by water and sanitation services, but will need to rely at least in the short-medium term on on-site sanitation and perhaps boreholes, which may need to be funded separately from the main project funds.

A further issue recognised by this Guidance Note which is significant for the delivery of water and sanitation is the necessity of resolving issues of land tenure in order to resolve wider issues of service delivery, although there is no analysis of how this can be achieved equitably. Critics comment that the World Bank has a tendency to see the solution to land tenure issues as simply handing out ownership papers, which ignores the often deep complexities behind extralegal settlements. There is also mention of the importance of creating good stakeholder dialogues, so that civil society can be involved in decision-making, particularly where this relates to levels of service delivery.

According to the above mentioned Guidance Note, there is also evidence of selection bias, with only the more profitable firms being sold to the private sector.<sup>12</sup> Despite the fact that studies have shown that there have been overall profits made by the firms, there have been very few studies of welfare impact, partly because there is insufficient data available from before the privatisation processes. Where there have been benefits, the distributions of benefits has not been even, with new owners always benefiting, and generally worsened wage differentials post-privatisation.<sup>13</sup>

In a recent World Bank discussion forum on how to improve the performance of state enterprises,<sup>14</sup> there was a general conclusion that despite public perceptions, privatisation has brought positive returns, and should not be discarded. In order to really capitalise on this, privatisation needs to be better tailored to local conditions, with better regulatory frameworks

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<sup>11</sup> *ibid.*, p.8

<sup>12</sup> World Bank, Public and Private Sector roles in Water Supply and Sanitation Services, Operational Guidance for World Bank Group Staff, World Bank, April 2004, p. 94

<sup>13</sup> *ibid.*, p. 102

<sup>14</sup> <http://rru.worldbank.org/Discussions/topics/topic69.aspx>

and mechanisms to ensure access to the poor. While the conclusions from the discussion were that privatisation should not be scrapped, there was the occasional dissenter's voice, even from within the World Bank. One contributor made the comment that, "some have argued that since governments can never be good owners, we should privatize [public enterprises]. The botched up privatization transactions have taught them a costly lesson—incompetence is transcendental. Inefficient and ineffective governments are incompetent in whatever they do. ... Another reason for poor performance of (public enterprises) is the poor investment made in governance of (public enterprises)." The same commentator went on to say that there are higher rewards in the private sector, so it is more likely to be pushed, and that there should be more investment put into exploring how to improve public enterprises.<sup>15</sup>

It was, however, agreed in this discussion that the institutional framework is more important than issues of ownership.

### *New funding instruments*

Whatever way you look at it, there is still considerable emphasis on improving the access of private sector to the water market, including finding new ways of mitigating risk for the private sector. There is a constant search for new funding instruments, as evidenced by the Camdessus report, *Financing Water for All*, which identifies new financial instruments as a priority area.

This is despite the recognition that there is little private sector finance available and that the public purse is the only realistic way of getting more financing. 90% of investment in the water and sanitation sector is public, with less than ten percent of financing for public services coming from the private sector.<sup>16</sup>

As most funding comes from the public purse, it is essential that there is not a decline in this public spending, particularly on issues such as water services, which has occurred when going through 'fiscal adjustment episodes'.<sup>17</sup> The IMF has requested the World Bank to look into the pay-offs of increased deficit and increased budget spending on essential services.

This search for private finance therefore appears to be a red herring. There is certainly little evidence of the link between private sector participation and private finance for water and sanitation. The World Bank document on *Implementing the Infrastructure Action Plan* states that private sector participation is favoured to "to increase the efficiency and performance of infrastructure service providers".<sup>18</sup> There is no mention of the advantage of private sector participation bringing access to extra finances for water and sanitation.

The World Health Organisation has published figures which suggest that \$1 invested in water and sanitation would give an economic return of between \$3 and \$34,<sup>19</sup> illustrating another aspect of the importance of adequate water and sanitation, not just for health but for economic development. However, it is unclear who benefits from this economic development, and this could be a reason why the private sector is not committing significant funds to the water and sanitation sector.

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<sup>15</sup> Trivedi, Prajapati, World Bank discussion on how to improve the performance of state enterprises, 3 November 2005, <http://rru.worldbank.org/Discussions/topics/topic69.aspx>

<sup>16</sup> World Bank, *Infrastructure Action Plan*, World Bank, May 2003, p.3

<sup>17</sup> *Infrastructure and the World Bank*, report prepared for the 25 September 2005 World Bank and IMF Development Committee Meeting, para 51

<sup>18</sup> World Bank *Implementing the World Bank Group's Infrastructure Action Plan*, World Bank, 13 September 2003, p. 7

<sup>19</sup> [http://www.who.int/water\\_sanitation\\_health/wsh0404summary/en/](http://www.who.int/water_sanitation_health/wsh0404summary/en/) accessed on 8 February 2006

## *Forms of guarantee for private sector participation*

There have been efforts made by the World Bank to improve the performance of private sector participation, in the main in the shape of new forms of guarantees, to encourage the private sector to invest in services, including water.<sup>20</sup> These include the use of Partial Risk Guarantees, which can be used to protect private investors against the impact of government policies, such as tariff structures, policies against disconnections and changes in law. There is also Foreign Exchange risk Mitigation offered to protect investors against foreign exchange risk. The issue that this paper will discuss in greater detail is that of Output Based Aid (OBA).

### *Output Based Aid*

One of the new aspects of the World Bank's relaxation of its previous private sector-led approach is the analysis that there are those in the 'market gap' who will benefit from improved service delivery, but that there are also those for whom the market-based delivery of water will always be unaffordable. The Output-Based Aid approach is aimed at those people who cannot afford to join the water 'market' and are identified by being beyond the 'affordability frontier'. These people inhabit an 'access gap' and need subsidies in order to be able to access water at an affordable rate.<sup>21</sup>

These subsidies would be available in the form of Output Based Aid, a grant available from the World Bank, to be administered by the government and payable to the operator for outputs of households connected or quantities of water delivered to poor households. This is a significant contrast from general World Bank policy, which looks at financing as inputs, rather than disbursing financing for specific outputs. The World Bank has also traditionally seen subsidies as a stumbling block to financially sustainable water and sanitation services, and has also recognised that it is hard to target for the poor (rather than the middle income groups, which is where the majority of subsidies are received).

In developing an approach of Output Based Aid, the World Bank is admitting that as the universal delivery of water is socially desirable, but not commercially viable, there must be a subsidy paid to cover the cost of connection, which may be all that is necessary to bring those in the access gap to an affordable level of service, with the hope that in the long-term these subsidies will be able to be phased out. The payment of this subsidy would be linked to the specified output of additional connections for a target group, creating an incentive to make new connections to the poor. Output Based Aid relies on the development of good financial incentives to ensure that despite the cost of managing and delivering subsidies the poor gain access to services. While there is no particular reason why this approach should be highlighted for use with private sector participation of services, this is where the World Bank is making use of it. This approach has been used for water services in Chile<sup>22</sup> and in Guinea.<sup>23</sup> In the case of Chile, this has been successful largely because the vast majority of the urban population already has a connection to the water supply, so it easier to ensure that subsidies reach the poorest. The case of Guinea was not so much Output Based Aid as is currently being attempted, but looked more at providing finance to the private sector company to assist in bridging the gap between tariffs at the beginning of a process of improving water supply, and the tariffs as they must be set for cost recovery. A significant amount of funding (\$16 million) made available from IDA for this subsidisation

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<sup>20</sup><http://web.worldbank.org>, accessed 2nd February 2006

<sup>21</sup> Brook Penelope J. and Suzanne M. Smith, editors, *Contracting for public services: Output-based aid and its applications*, World Bank, September 2001

<sup>22</sup> Gómez-Lobo, Andrés, *Making water affordable, Output-based consumption subsidies in Chile*, in *Contracting for public services: Output-based aid and its applications*, World Bank, September 2001

<sup>23</sup> Penelope J. Brook and Suzanne M. Smith (editors), *Contracting for public services: Output-based aid and its applications*, accessed from World Bank website 1 February 2006.

Clearly, OBA needs to be well and realistically targeted, and there is little evidence to suggest that the approaches for ensuring that the subsidies related to OBA will not suffer from the same problems that most other subsidies suffer from – namely that they have a tendency to land in the pockets of the better off, rather than the poor for whom they are intended.<sup>24</sup> This is particularly a problem where there are significant numbers of people, predominantly the poor, without connections to the water supply.

### *Cost recovery and subsidies<sup>25</sup>*

The World Bank now accepts that cost recovery for water and sanitation may never be appropriate in some instances, as the health and economic costs of not having adequate quantities of safe water will outweigh the losses through subsidies.<sup>26</sup> While poor people now pay more per litre (sometimes paying more in absolute terms) than those who have a piped supply, this does not mean that they should be paying as much as they are.

Willingness to pay is still a current measuring tool for the World Bank although it is clear that the a minimal amount of water is price inelastic – meaning that in order to get a minimal supply of water, people are prepared to pay whatever necessary. This can significantly skew willingness to pay studies. The question should rather be asked how much people can afford to pay without other needs such as education, health, food etc. then losing out. Affordability is defined in a variety of ways, and each country should have its own indicator for the affordability of water, for example in the UK, paying more than 3% of income on water and sanitation is unaffordable. In developing countries, the figure is more likely to be 5-10% of household expenditure.

Subsidies are popular but costly – water subsidies amounted to 0.5% of GDP in India - but they are made available in recognition of the inherent value of water and sanitation to health, education, the economy etc and also for political popularity. A sudden increase in tariffs will hurt the poor, and so where subsidies are to be reduced this needs to happen over time, although realistically this may never be achieved. Even raising prices by 150% would increase the number of the poor by 3%,<sup>27</sup> but would frequently still be insufficient to reach cost-recovery.

Most subsidies are actually regressive and need to be better targeted in order to make sure that it is the poor that benefit. However, they can be prohibitively costly to administer if they are better targeted. A better way of ensuring that the poor have access may be removing barriers to access, for example through legalising illegal settlements.

Connection subsidies are effective if they encourage those without connections to connect, but this has yet to be studied. Subsidies can also be linked to a service level. There is no correlation between consumption by poor households and non-poor households, surprisingly, which makes it hard to target quantity related subsidies.

Billing systems should be adapted to the needs of low-income households, approaches for this might include increasing the frequency of billing, financing connection costs and assist households to use water more efficiently.

A significant proportion of utilities operate subsidies which are below cost recovery for operation and maintenance: even where there are Increasing Block Tariffs (IBT) or Volume Differentiated Tariffs (VDT), the highest tariffs are often below full-cost recovery, which generates substantial subsidies to the better-off.<sup>28</sup> Generally the subsidies are worse than

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<sup>24</sup>Kate Bayliss and David Hall, Unsustainable conditions the World Bank, privatisation, water and energy PSIRU 07 August 2002.

<sup>25</sup>Komives, Foster, Halpern, Wodon, Water, Electricity and the Poor – who benefits from Subsidies? World Bank, 2005.

<sup>26</sup>World Health Organisation, Evaluation of the costs and benefits of water and sanitation improvements at the global level, 2004

<sup>27</sup> Komives, Foster, Halpern, Wodon, 2005 Water, Electricity and the Poor – who benefits from Subsidies? World Bank, 2005, p. 150

<sup>28</sup> Ibid., p. 166

having a random subsidy system in terms of whether the poor benefit. VDT is marginally better than IBT, but still acts as a regressive subsidy.

A good approach which is progressive is service-level targeting, whereby the poorer areas have a lower and therefore cheaper level of service, for example, standpoints rather than a household connection, but this may provide a lesser quality of water and may have political implications. However, this can often be a realistic approach in the short to medium-term.

Connection subsidies are more efficient than consumption subsidies, being based on providing a free or low-cost connection, as this is often a stumbling block for poorer communities. When combined with geographical subsidies or means testing, these become even more progressive. There is however still a problem if not everyone connects, perhaps for reasons of legal tenure.

Subsidies should be compared in terms of targeting efficiency with other social welfare strategies, as social welfare strategies tend to be easier to target. Studies have shown that although they are generally not effective in terms of targeting, subsidies do have a marginally progressive effect on overall income distribution.

According to the World Bank document, *Implementing the Infrastructure Action Plan (IAP)*,<sup>29</sup> cost recovery for water and sanitation services remains the goal, but avoiding the use of mechanistic approach, with efforts to be responsive to the local context and conditions. The World Bank has recognised the need for greater flexibility and that there is no one-size-fits-all approach to service delivery. The IAP recommends that the identification of a strong, well-targeted subsidy system that does not discriminate against those who do not have land tenure. Many tariff options have been explored. The IAP finds in conclusion that the most effective impact on access to services for the poor would be in legalising residency and therefore improving land tenure and improvements to alternative systems for supply.

### *Privatisation Toolkits, developments from 1997 to 2006*

In 1997, the Water and Sanitation Programme (WSP), a quasi-independent body of the World Bank brought out a toolkit to help practitioners to design the contracts for private sector participation in water and sanitation. A new toolkit for privatisation in the water and sanitation sector is currently being developed by the WSP, and the fact that it specifies that it is for privatisation of water services is an indicator that the World Bank is still considering privatisation of water services as an important aspect of their water sector delivery approach.

However, the to-be-published toolkit contains a far clearer picture of how to assist the development of contracts which include pro-poor strategies.

The 1997 toolkit mentions that the poor may need assistance in the form of subsidies in order to get a connection, or to pay for the cost of water delivery, but does not go into more detail than this. The proposed toolkit focuses more on engaging stakeholders, particularly the poor, unconnected and women, and NGOs who may be working with these groups. This is not to say that a certain level of realism has not crept in – in realising that there is also increased public dissatisfaction in private sector participation, there is now a section on how to deal with engaging stakeholders, how to work with the media and other tools of communicating unpopular policies.

Other new areas in the draft toolkit is the suggestion of looking at a ‘social impact model’, along the lines of PSIA, and it identifies ways of ensuring that target setting does not just lead to ‘cherry-picking’ those households which are easiest to connect, and which are more likely

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<sup>29</sup> World Bank *Implementing the World Bank Group’s Infrastructure Action Plan*, World Bank, 13 September 2003

to provide future revenue for the company. The draft toolkit recognises that the provision of below-cost tariffs and subsidies has benefits for society and outlines how tariffs and subsidies should be designed so that they are more likely to reach the poor.

The draft toolkit also talks about levels of service, ensuring that there is a range of service levels, which are better able to suit the needs of the population. This will then range from household connections to standpipes, and which would then have variable tariff levels. There is a clear need to set incentive targets, which encourage the operator to connect areas that are not yet connected, for example using the approach outlined by OBA.

While households should be encouraged to choose their own standard of service, according to what they can afford to pay for, the private operator would be within their rights only to deliver the service level that they think that they can get a profit from. So, for example, if a household was prepared for the higher service of a household connection, but use so little water that the operator did not make a profit from this, then the operator would be able to reduce the level of service to a standpipe.<sup>30</sup>

While this toolkit is clearly aimed at the private sector, most of the ideas within it could also be used in directing the public sector into better ways of working with the poor and other issues of contracting. This toolkit is possibly aimed particularly at the private sector because there is more opportunity for defining responsibilities in engaging the private sector than with there would be with public sector management.

### *Conditionalities*

The World Bank has recently completed a review of conditionalities that it applies to its loans.

This review comes to the conclusion that there are fewer conditionalities, but recognises that some of the conditionalities have been replaced by other forms of condition, which may not appear to be so strict, such as ‘country ownership’ but which in fact are still World Bank led. This study confirms the view from many NGOs<sup>31</sup> that while conditionalities are not set in the same way, the World Bank still has a considerable amount of control over how projects are developed, particularly in those countries where the civil society is either weak or sidelined by governments.

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<sup>30</sup> World Bank, draft toolkit 2005, p. 80 (to be published)

<sup>31</sup> such as the Canadian Catholic Organisation for Development and Peace

### *3. Privatisation or Commercialisation*

#### *Commercialisation?*

Following the above discussion on World Bank studies and plans for water and sanitation services, it is perhaps too hasty assumption to state that there has been a move away from promoting private sector participation. Where, in fact, has this new approach of commercialisation been put to use? And will it lead to an improvement in the performance of World Bank loans – will this approach bring greater benefits to the poor?

Following a review of some of the latest (since 2003) World Bank water and sanitation projects,<sup>32</sup> there is evidence of both a continuation of a privatisation approach, as well as a move towards commercialisation of state owned enterprises. It is unclear what governs the promotion of one strategy over the other, other than a suspicion that the World Bank will push for private sector participation where there is the political will for it and interest from the private sector and will look at continued state managed provision where privatisation processes are not publicly or politically acceptable, or where there is insufficient financial incentive for the private sector to be interested. It is, unfortunately, not always easy to assess the projects for involvement of the private sector, as euphemisms, such as ‘third party system operator’ are used, without making it clear what this refers to.

However, neither the commercialisation of state owned utilities, nor the process of privatisation is any guarantee that pro-poor policies will be followed, and it is here that the old mistakes of the World Bank are made apparent. Despite much soul searching from the World Bank on why privatisation has been so unpopular and what could be done better to put right the mistakes that have been made, there seem still to be many projects which are failing to make the necessary commitments in order to ensure that projects reach the poor.

#### *Commercialisation: Nairobi Water and Sewerage Institutional Restructuring Project*

The purest form of water sector reform through a commercialisation process is the Nairobi Water and Sewerage Institutional Restructuring Project,<sup>33</sup> a three year project of \$15 million, a relatively small amount for a typical World Bank project. The aim of this project, according to the Project Information Document<sup>34</sup> was to set up the new structures including the Nairobi Water and Sanitation Board and the new operator to run the water supply, the Nairobi Water and Sewerage Company (NWSC), according to the Government of Kenya Water Act. This will be autonomous and ring-fenced, and in the longer-term, accessible to private sector investment and management. The Government of Kenya (GOK) has its own sector wide framework for the first time in order to support this. This is the first project to test the new framework, so if it works, this could be used in other cities.

The Water Act of the GOK stipulates making water and sanitation service provision autonomous, mobilising investment for extension of services, and working in partnership with community-based organisations to deliver services to unserved areas. The project has been designed to fit in with Kenya’s Poverty Reduction Strategy, for which water and sanitation

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<sup>32</sup> Few of these projects are dedicated water and sanitation projects, the majority are cross-sectoral urban infrastructure projects, with transport and other reforms included, but where water and sanitation are a significant component of the projects. These projects are presented in a table in Appendix One.

<sup>33</sup> World Bank, Project Appraisal Document, Government of Kenya, Nairobi Water and Sewerage Institutional Restructuring Project, 7 May 2004.

<sup>34</sup> World Bank, Project Information Document, Government of Kenya, Nairobi Water and Sewerage Institutional Restructuring Project, 10 March 2004.

are crucial components. This also fits in with the Country Assistance Strategy, as water and sanitation are crucial for economic growth.

Also, until there is an improvement in levels of service, tariffs will not be raised. Nairobi is seen as a high visibility area and so it is important that this is done well. Consequently this project is prepared to abandon full-cost recovery in order to improve services to the poor and to improve quality of service to the rest of the population.

This project relies on a Specific Investment Grant (SIG), and will focus mostly on institutional restructuring including ring-fencing the service provider. Once this has been achieved, it is envisaged that there will be a lease-PSP arrangement, which will take over the commercialised structure, once the right environment has been created for investment in the operation.

According to the project appraisal document,<sup>35</sup> one of the potential (and substantial) risks of the project is that the GOK will fail to agree on a long-term management option for sustainable operations and safeguarding investments. This presumably refers to the possible opposition from civil society that the GOK and the World Bank will get to privatising water and sanitation provision, and which has already ensured that the project is one of commercialisation initially rather than private sector participation from the start. To minimise this risk, the project intends to run a public information campaign and encourage support of the processes and decisions through stakeholder consultations. This is also why this project is being limited initially to institutional restructuring, and there is no planned investment in the actual infrastructure at this point. Although in the future, the plan is to use grant funding to allow for extension and improvement of services, so that this can happen quickly.

A major goal of this project is to reduce unaccounted for water (UFW), which will make a significant amount of water available for distribution, which can be sold and will improve the operating revenues of the operator. This will be done through replacement of components on distribution systems and other aspects which will improve UFW. By the end of the project, there should be an operating profit and it is expected that demand will still far outstrip what is available. The project will support preparatory work for the next loan, which will be used for investment in future connections.

Illegal connections will be 'rationalised', and illegal users be offered to become regular customers. There will be a payment to the Kenya City Council for use of its fixed WSS assets.

This process is still in the early stages and it is unclear what will happen once the new structures are put in place. In the project documents, it is clear that private sector participation remains an option, although there is considerable public opposition to this. Plans for how the poor will access water and sanitation services are not detailed in these documents, and there is no component which directly addresses the needs of the poor, which suggests that either alleviating poverty is so central to the project that it doesn't need to be mentioned or, more likely, that while it is intended that the project will address the needs of the poor, this is not specifically addressed, and so is unlikely to take place in any meaningful manner.

Aspects such as the 'rationalisation' of illegal connections will need to be monitored, as it is highly likely that these illegal connections are providing water to slum settlements, and depending what is meant by rationalisation, this could have an impact on access to water for the poor.

The World Bank has also funded a project to bring waterpoints to one of the squatter settlements, Kibera. However the sustainability of this project has been brought into question

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<sup>35</sup> World Bank, Project Appraisal Document, Government of Kenya, Nairobi Water and Sewerage Institutional Restructuring Project, 7 May 2004.

through the ‘water mafia’ taking over these waterpoints and charging exorbitant prices for the water. Essentially, this project did not take sufficient notice of the local conditions or include real community participation.

### *Commercialisation in Kampala, Sierra Leone, Mexico*

Other World Bank projects which are focussing on commercialisation processes, but which do not have a specific component or consideration for the serving the poor are the proposed Kampala Infrastructure and Institutional Development Project, Sierra Leone Power and Water Project and the Mexican Modernization of the Water and Sanitation Sector – Technical Assistance Project of July 2005. For all of these projects, there are future plans for private sector participation, in the words of the Project Appraisal Document for the project in Mexico, “given the necessary social, political and financial conditions, this program would pave the way for some form of private sector delivery in service delivery and financing”.<sup>36</sup> Of these projects, the Kampala project is the only one to mention civil society participation:

“This [project] will provide technical and financial support to a coalition of civil society organizations (NGOs, CSOs, Private Sector Associations, Universities etc.) to effectively participate in the strategic and budget planning processes of KKC [Kampala City Council] in order to increase budget responsiveness, accountability and transparency to KCC's constituents.”<sup>37</sup> As this project is still at the proposal stage, there is no indication of how much this component will be of the whole project, or what this component will precisely entail.

However, there is an interesting aspect to the water sector in Uganda, in that the National Water and Sanitation Corporation, an autonomous parastatal, has, according to a recent World Bank Institute report, changed “from being a fiscally and operationally dysfunctional utility, to a financially sustainable efficiently service provider”,<sup>38</sup> in an attempt to avoid a planned private sector takeover. The same report traced “NWSC’s progress from its near privatisation at the end of last century to its current situation where it has developed enough capacity to provide consultancy to water utilities on the continent”.<sup>39</sup> The WBI also noted the use of local over international expertise turned the corporation around. The NWSC provides services to other African countries through its external service unit and has recently been part of the team of companies that won the controversial management contract in Ghana. While the NWSC website is highly informative, there is no mention of policies for serving the poor. UN-HABITAT through its Water for African Cities Programme is beginning to address this particular issue.<sup>40</sup>

### *Business as usual: Ghana, India, Nigeria*

The examples given above demonstrate that commercialisation processes are supported by the World Bank and, in the case of Uganda’s National Water and Sewerage Corporation, can already be shown to be financially successful, to the extent that the World Bank is considering reinstalling their private sector participation approach, in order to engage with the effective management systems that have been set up.<sup>41</sup>

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<sup>36</sup> World Bank, Project Appraisal Document, Government of the United Mexican States, Modernization of the Water and Sanitation Sector – technical assistance Project, July 2005, p. 5

<sup>37</sup> World Bank, Project Information Document, Kampala Infrastructure and Institutional Development Project, June 2004, p. 4

<sup>38</sup> <http://www.nwsc.co.ug/news.php?storyId=495> accessed 8 February 2006

<sup>39</sup> *ibid.*

<sup>40</sup> further information available from [http://www.un-urbanwater.net/kampala\\_uganda.htm](http://www.un-urbanwater.net/kampala_uganda.htm) accessed 8 February 2006

<sup>41</sup> <http://www.nwsc.co.ug/news.php?storyId=495> accessed 8 February 2006

There are however also examples of recent projects which are continuing to develop and fund projects which focus on making use of private sector participation.

The well-documented<sup>42</sup> World Bank Ghana Urban Water Project<sup>43</sup> has been vocally contested both nationally and internationally. The urban water sector in Ghana has been in need of reform for many years, with the World Bank promoting private sector participation. However, this has been meeting equally strong opposition since the inception of the latest World Bank project, the Urban Water Project, in 2000, in the main through the National Coalition Against Water Privatisation (NCAP). The main complaints made by NCAP include first and foremost a strong dissatisfaction at the policy of privatisation, but beyond that NCAP notes the lack of focus on serving the poor, the unacceptable hiking in rates which are being put forward by the World Bank project, which will lead to further poor health issues. In the four years since the project was first presented, NCAP has had considerable success in limiting the extent of the private sector participation, from a lease contract to a management contract of only five years. This will probably be the necessary interim step to a lease or affermage contract, which will follow at the end of this project. The version of the project that was finally accepted in July 2004 claims to have a poverty focus, but there is in fact no mention of civil society participation, other than a need to develop a 'Communications Needs Assessment',<sup>44</sup> which appears to focus more on damage limitation than an open transparent strategy of stakeholder engagement. There are complaints from the members of NCAP that while the World Bank claims to have had stakeholder meetings with civil society, this has only taken place with organisations which are not against the privatisation process.

While there is now a pro-poor programme planned to improve targeting, this is rather limited. According to the Public Utilities Regulatory Commission, "it is not expected that these improvements [to the service] will impact on those who are currently deprived of direct access to service".<sup>45</sup>

The above case seems to be a curious case of promoting private sector participation against public opinion, particularly as the project does not take the needs of the poor into account, which is the main reason for public dissatisfaction with the project. Critics have pointed to the fact that there is more funding available for the Government of Ghana provided the private sector participation process is followed, which could explain why the government has chosen this approach, while modifying it to make it slightly more palatable to the voters.<sup>46</sup>

Two other urban water sector reform loans, namely Karnataka in India and in Lagos, Nigeria, have private sector participation as a mainstay of the new project agreements, in the case of Nigeria with no reference to ensuring that the needs of the poor are considered, and in the case of Karnataka, these references are severely limited.

In the case of Nigeria, the Second National Urban Water Sector Reform Project, while in the original concept note for the project mentions the needs of the poor, and the significant proportion of the population who are without access to services (estimated at 50% in the urban areas, 20% in the peri-urban areas), the Project Information and Appraisal Documents do not mention how the needs of the poor will be addressed or how civil society groups will be involved. The project documents focus on the technical details and how the private sector will be involved in the process. The documents make the claim that it is unlikely that tariffs will need to be raised, as with the extra capacity created with improved water treatment plants

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<sup>42</sup> For further information see also The Report of the International Fact Finding Mission on Water Sector Reform in Ghana, August 2002, accessible at [www.citizen.org](http://www.citizen.org) accessed on 14 February 2006.

<sup>43</sup> World Bank Project Appraisal Document, Ghana Urban Water Project, 1 July 2004

<sup>44</sup> *ibid.* p. 12

<sup>45</sup> from <http://www.pambazuka.org/index.php?id=30961>, quoting Public Utilities Regulatory Commission, Social Policy Strategy for Water Regulation, February 2005, p. iv, accessed 7 February 2006

<sup>46</sup> Canadian Catholic Organisation for Development and Peace, World Bank Conditionality in Water Sector Privatisation, June 2005

and upgraded distribution networks, there will be more customers (without defining who these targeted customers are) and more water sold.

There is significant civil society dissatisfaction with this process, which is now being drawn together under the umbrella organisation the Civil Society Coalition Against Water Privatisation in Nigeria (CISCAWP). They agree that there is a point of principle that water should remain in public hands. Secondly there is an unacceptable lack of transparency in the development of the project, with no documents available for scrutiny, and legal frameworks for the involvement of private sector being rushed through the courts. There is also concern that the private sector is being given powers of access to private homes to fix pipes, or disconnection of primary schools on no-payment of bills. The civil society organisations ask that given the poor track record of PSP in other countries, why should they believe that Nigeria will have a different experience in terms of tariff raising beyond levels of affordability, particularly given that the tariffs will also be linked to the foreign exchange rate in order to protect the private sector. CISCAWP demands that the World Bank backs down and backs out of the corporate driven support for Water privatisation, and that privatisation ceases to be used as a condition for water and sewerage projects in Nigeria. They also demand recognition of the right to water in World Bank policies, and that all conditions demanding full cost recovery are withdrawn. They would like to see the role of the public sector and participation of civil society strengthened.<sup>47</sup>

Given that the project documents give no mention of ensuring that the poor are well-served by the project, in comparison for example with World Bank projects in Tanzania or India, it seems that these criticisms are pertinent.

There is a slightly different picture to be found in a World Bank project in India, the Karnataka Urban Water and Sanitation Sector Improvement Project, although there are signs that the outcome will be similar. While there is mention of creating incentive to serve the poor in the Project Information Document, in the project objectives, this is reduced to 'attaining increased consumer awareness of and support for water and sanitation sector reform'.<sup>48</sup> There is also recognition of the fact that urban water sector reforms have had problems before, namely that the borrowers (the government) have not had the capacity to manage the scale and complexity of reform projects. As a result, this project intends to start with three demonstration zones, which will be used as learning projects for the full project. This project is initially around sector reform, carrying out the ground work for future private sector participation.

There is a recognition of the need for public involvement, with monitoring being carried out on socio-economic and environmental effects of a continuous water supply, and exposure to a commercial environment, which translates into monitoring what sewerage needs are created by a continuous supply and the ability and degree to which customers are willing to pay for improved service. However, in the selection criteria for the demonstration zones, it is clear that they are not looking to reach the areas which are not 'scheduled' (the extra-legal settlements) or where residents do not currently have access to the main supply system ('expansion to new users are not eligible').

So while there is more recognition of the social and economic needs, and the need to engage the public, if only to gain their support for the project, there is no discussion around how to assist in serving the poor or identifying or addressing their specific needs.

In the project documents of the Tamil Nadu Urban Development Project, which has a strong water and sanitation component, there is a strong focus on 'economic liberalisation':

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<sup>47</sup> [http://www.polarisinsitute.org/polaris\\_project/water\\_lords](http://www.polarisinsitute.org/polaris_project/water_lords) accessed 8th March 2006

<sup>48</sup> World Bank, Project Information Document, Karnataka Urban Water and Sanitation Sector Improvement Project, 28 March 2003

‘The proposed project would directly contribute to the strategy by connecting financial markets with urban infrastructure, assisting in mobilising private financial resources, and by strengthening the financial and administrative capacity of urban local bodies to plan, finance and deliver services in a fiscally sustainable manner.’<sup>49</sup>

There is however no specific mention of whether this is through private sector participation or through a commercialisation process, although the importance of strengthening decentralisation processes is stressed.

These examples show that the push for private sector participation, without due concern for those who are not likely to benefit from improved water and sanitation delivery, is still current policy at the World Bank. There are, however, indicators that where national governments are not prepared to utilise the private sector, in the cases of Kenya and Brazil, other options (commercialisation of the public sector) are considered. The question must then of course be asked why Kenya and Brazil were not keen to involve the private sector. In the case of Brazil, which has social justice as a goal, it could be seen that this exclusion of the private sector is perhaps due to concerns about social justice, and equality of distribution, and this is reflected in the project documents, which have heavy bias towards serving the poor and creating a pro-poor environment, including land tenure regularisation and community participation processes. In the case of Kenya and the infamously complex political economy of Nairobi, not known for its concerns for the poor, their motives for not involving the private sector are perhaps more complicated.

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<sup>49</sup> World Bank, Project Information Document, Tamil Nadu Urban Development Project, 25 May 2005

## 4. Social Development Strategies

The World Bank has been slowly extending its expertise in the social development, attempting to get beyond its core specialisms of economics and engineering. As poverty alleviation has moved up the development agenda, so has there been increasing recognition of the importance of the social aspects of development being addressed in World Bank projects. This has led to some projects or country missions having social development specialists employed on the team to look into issues relating to access for the poor or the environment or other issues of justice.

However, a recent review of World Bank social development strategies by the World Bank<sup>50</sup> found that social scientists are not given enough weight within the otherwise technically skilled staff, and that there is a need to identify champions with the World Bank who take these issues seriously. The review also found that there is a common criticism that social development specialists need to have more hands-on experience in-country, rather than directing from the World Bank's head office in Washington.

There is a clear sense within the World Bank that although it has been found that projects with social development aspects are more successful,<sup>51</sup> there is still a strong antipathy from many of the engineers and economists that the requirements for social development end up more as policing of the projects than full involvement: the social development specialists are more inclined to criticise than find solutions.

Some of the issues that have been revealed through the increased involvement of social development specialists have been well-known to NGOs and civil society organisations working with the poor. One of the most significant of these issues is that of land tenure and the problems of service delivery to extralegal settlements, where the residents are frequently invisible to the state. In terms of water and sanitation, legal restrictions that work against expansion of services to the poor need to be removed, such as inappropriately high cost technologies, legal tenure and other regulations. Governments need to be encouraged firstly to see the poor in a different light, accepting them as full citizens, with full rights, including the right to water. Until this happens, it doesn't matter how water is delivered, or what subsidies are put forward, it will not reach those without land tenure. This issue of a lack of land tenure continues to be a considerable and complex problem in many countries.

This section will consider a couple of the processes which have been inspired by this more poverty-focused approach, including Poverty and Social Impact Analysis, Community Driven Development and Cities Alliance, with cases of projects which make use of these social development approaches.

### **PRSP**

One of the ways that are available to state governments for defining their approach to issues such as private sector participation are the Poverty Reduction Strategy Papers (PRSPs). PRSPs were introduced in 1999, as a new approach to working with the Highly Indebted Poor Countries, (HIPC). These papers were to be a precondition of accessing debt relief (those countries which were to benefit from debt cancellation) and concessional financing, designed so that the low-income

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<sup>50</sup> World Bank, OED, Putting Social Development to Work for the Poor, An OED Review of World Bank Activities, World Bank, 2005, [www.worldbank.org/oed](http://www.worldbank.org/oed)

<sup>51</sup> *ibid.* p. 35

countries could outline their priorities of how the funds released from paying off the debt or from the concessional financing could be used to the most positive effect. The goal was for the PRSPs to be written by the countries themselves following extensive discussions between all stakeholders. PRSPs would also assist in harmonising policies between donors, ensuring that all donors and the country itself were heading for the same goals. As the Millennium Development Goals were developed, the PRSPs were also seen as an opportunity for scaling up delivery towards these goals and for uniting political commitment to development nationally and with other development agencies, including the World Bank, IMF bilateral agencies and NGOs.

There are currently 49 countries with PRSPs, half of which are Highly Indebted Poor Countries. Some countries are already revising their strategies; Tanzania, Burkina Faso and Uganda have already done so. A further 21 countries are in the process of developing PRSPs.

A review of the PRS process of the last six years has been carried out by the World Bank and the IMF, which has found that a gap remains between governments and their citizens. While there has been a broad public engagement, it has perhaps not gone as deep as it could have done, and there has not been sufficient discussion of alternative macroeconomic policy options.

While the PRS process was designed to assist national governments to set the agenda when taking loans from the donors, the World Bank/IMF report has found that there is still a tendency for the donors to set the development agenda, partly because the PRSPs do not set sufficient goals, but also because donors have ultimately the upper hand, and tend to prefer to provide funds for those social issues which deliver quick results.

The PRS process marks a significant change in the way that the World Bank influences government policy. They allow government decision-making, while greatly influencing how those decisions are made.

The PRS process does not challenge World Bank/IMF orthodoxy as their development is funded by the World Bank, and there is a comprehensive (1000 page) PRSP Source Book which dictates how to be written, leading to a remarkable similarity between widely diverse countries' PRSPs. There is also the criticism that they have developed too fast for any real debate within societies that are not yet accustomed to participation.

For water and sanitation, there is a further problem of institutional fragmentation (the fact that water and sanitation seldom come under the same ministry, there are several ministries responsible for aspects of both water and sanitation) and this has led to the WSS sector being marginalised in many PRSPs. Water and sanitation tend also to have a lower budget assigned to them than other poverty reduction priorities, such as health or education. Also, WSS tends to be funded more from project funding from external donors than from within the government. This leads to WSS being funded 'off' the government budget, a situation which the development of the PRSP was set up to avoid.

## *Poverty and Social Impact Analysis*

Poverty and Social Impact Analysis (PSIA) examines what the distributional impact of policy reforms will be on stakeholders, with a focus on the poor. Included in the analysis will also be issues of sustainability, risks to policy reform, and monitoring what the impact and social outcomes of policy reform will be. PSIA, while not a new approach, is being promoted at present in order to assist in delivering on the Millennium Development Goals, which demand more analysis and understanding of how policy reforms and development strategies actually impact on the poor and vulnerable. The MDGs and the current emphasis on poverty reduction have pushed the development debate to examine the distributional impacts of the pro-growth economic strategies which have been promoted by the IFIs. This analysis of distribution is the main aim of PSIA. PSIA is intended to be managed by the borrower governments, with support offered by the World Bank. The PSIA could either be a stand-alone document, or part of the preparation documents for a lending operation.

As ‘country ownership’<sup>52</sup> is seen as an important aspect of PSIA, capacity within the country may have to be developed to be able to carry out the analysis. This will include improving capacity in using tools and methodologies, analysing and understanding the results of the study and using the results to improve the distributional impact of policy reform.

While this approach has been welcomed by the development community, there are some criticisms. Firstly, PSIA is not a requirement for all World Bank projects: it remains a relatively new initiative, which is still to be widely accepted. Secondly, there is criticism that while this is a positive initiative, the overarching approach that the World Bank takes on the development of projects remains the same, and there is actually very little opportunity for the PSIA approach to have more than a peripheral influence.

In order to ensure the most independent findings of a PSIA, there needs to be an opportunity to analyse the possible impact of other, alternative policies, which may have a preferred impact. This would give the option of not just delaying the implementation of policy reform, but perhaps abandoning the policy reform for a better option. Without this, PSIA becomes a legitimising tool, rather than a tool to ensure poverty is a focus of policy reform. However, this is seldom possible, and the PSIA is given a narrow remit, mainly to study the impact of planned policies, with a comparative study of what the situation would be if there were no project, rather than an alternative project.

Rapid change, which may come about due to policy reform, is a major reason for increased poverty. The poor are not able to accommodate rapid change in their coping mechanisms. These will have more impact on women than on men. PSIA must recognise the risk to poverty implicit in change, the roles and responsibilities of different actors in conducting PSIA must be clear, civil society needs to be involved because they have an important voice, not just because they need to be persuaded of the rightness of specific policy reform and finally in order for PSIA not just to become a legitimisation of World Bank policy reform, there needs to be a greater understanding of what participation processes entail. Unfortunately, the reliance of the ‘economic intuition’ of the World Bank staff differs from that of other organisations, governments or even the poor themselves.

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<sup>52</sup> Willem Buiter, the Chief Economist of the European Bank for Reconstruction and Development stated at the Development Policy Forum in November 2004, that ‘country ownership’ tends to mean, “this programme is supported by the people who own the country”.

The UK's Department for International Development (DFID) has carried out a brief study on the themes and issues of PSIA's drawn from five DFID pilot studies,<sup>53</sup> only one of which, in Albania, is looking at water reform, specifically the removal of water subsidies.

The findings of this study were that it is possible to carry out a PSIA in a short time frame where the policy being studied is specific and not a broad framework. There have been good findings which have identified groups which will be negatively affected by policy reform, and for these, complementary 'interventions' have been included in the policy reform in order to limit the negative impact.

There was a further finding that key challenges of the PSIA process are the inclusion of 'counterfactuals' – what would happen if there were no policy reform; how to identify transmission mechanisms that can be followed through to assess the impact of a policy on household well-being; how to weight impacts on different groups – some policies may hurt all the poor a little, others only certain sub-sectors a lot.

PSIA's have not been in place for long enough to judge whether or not they are successful in improving policy making. In comparing with other research approaches, there is some hope that this will be better embedded into country processes, but the reality is that there have always been many studies done, mainly donor-driven, which are not owned by the government and are consequently of not much use. The PSIA is hopefully an approach which can improve discussions including NGOs and other development institutions which will aid transparency. Although the timeframe is narrow, there may be more expectations raised than this approach is able to meet.

PSIA needs to take account of the political economy of decision making in country, the past successes and failures in policy analysis, and how PSIA will be able to act independently, robustly and credibly in the national context, and what the institutional arrangements will look like to ensure this.

The DFID study found that due to the fact that social scientists are not given the same value as economists within the World Bank, there are inherent problems in the process of carrying out PSIA's. One of these is that social development specialists have to adapt their language to that of the economists in order to be understood or accepted, which does not bode well for a real change in the World Bank approach.

The World Bank recognises the need to ensure that local and in-country experts are used, but of course, this will not prevent the World Bank from having influence over these experts. There needs to be a new research commissioning agent which can act independently of the bank. Otherwise, as has happened with previous similar attempts, the World Bank will continue to ignore the criticisms of policy reform that it has succeeded in doing to date.

Eurodad has also carried out a study of PSIA,<sup>54</sup> finding that as a rule, the research is not done well, despite the fact that there are considerable resources committed to it at the World Bank. This could be related to the lack of local and in-country experts being involved, and because as a rule only one strategy is being analysed. Perhaps because of this, many developing countries see PSIA as an imposition of the donors.

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<sup>53</sup> Hanmer, Lucia & Barbara Hendrie Poverty and Social Impact Analysis (PSIA): common themes and issues arising from five pilot studies. Prepared for the Joint World Bank/IMF/DFID PSIA Workshop, October 15-17, 2002 DFID.

<sup>54</sup> Hayes, Lucy, Open on Impact? Slow progress in World Bank and IMF poverty analysis, Eurodad, Christian Aid, Save the Children and Trocaire, September 2005

As DFID found, most PSIAs were not sufficiently broad in their approach, examining minor policy variations or mitigation measures rather than different policy options. Further to this, the World Bank continues to choose the topics for PSIA, although this is beginning to change.

Unsurprisingly, given the economic bias of the World Bank, the Eurodad study also found that macroeconomic frameworks are not being analysed using PSIA, with too much emphasis being placed on economic reforms, rather than the social, political and institutional aspects of reform. Again, Eurodad makes the criticism that PSIA tends to be carried out by external researchers, there are not enough local researchers involved. This is a structural problem with the World Bank, where they cannot use local researchers for PSIA.

It is also clear that PSIA is very seldom used as a tool although there is considerable potential, if it is better used. PSIA has been used, for example, to inform the Bahia Poor Urban Areas Integrated Development Project in Brazil, as discussed later.

### *Community-Driven Development*

The World Bank makes funds available, generally as a grant or no-interest loan, for what they refer to as Community-Based or Community-Driven Development. These are generally a component of a wider project. Generally CDD has been a rural approach, but it has also been used in urban settings. For example in Dar es Salaam and in Mumbai, there are community-based projects working with those sections of the population who are unlikely to access water and sanitation through the main city-based project in the short to medium term (or even in the long-term in some of the areas of Mumbai). In both Dar es Salaam and Mumbai, community solutions include on-site sanitation rather than a connection to the mains service, and in the case of Dar es Salaam, the drilling of boreholes to serve communities, rather than connection to the main supply. These projects are managed jointly by the water utility, in the case of Dar es Salaam, the Dar es Salaam Water Supply and Sanitation Agency and NGOs, and in the case of Mumbai by the Mumbai Municipality and selected NGOs.

According to the World Bank,<sup>55</sup> the principles of CDD are as follows:

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

Although the Bank avowedly promotes CDD projects to empower communities, the quality and sustainability of service provision depends largely upon the capacity of local governments. A criticism of the process is that the capacity of the local government is undercut when CDD projects channel financing through communities instead of local governments, weakening the capacity of governments to regulate or manage development efforts. The benefit of this, is of course that where local governments are blocking

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<sup>55</sup> World Bank OED, "Rural Water Projects: Lessons Learned," Precis No. 215, Winter 2002. The Bank employs the term "Demand-Responsive Approach" (DRA) as well as the term "CDD".

development in certain settlements, having funding going straight to the community can circumvent this.

A further criticism is that any project carried out with World Bank funds will end up costing 3-4 times that which a community could carry out a project with assistance from other sources. This is a common criticism of World Bank projects generally, particularly pertinent in the sphere of local development in that they tend to employ expensive consultants based outside the country, rather than local consultants who are likely to have a better understanding of the needs of the local situation and communities.

Low sustainability of the World Bank projects as assessed by the OED, can also result from:

- Financing conditions that require communities to outsource service provision rather than to elect public service provision, which then leads to confusion as to responsibility for the services;
- Project governance is led by single-issue “user committees” that often short-circuit more representative, local decision-making and cater to vested interests. An internal Bank evaluation revealed that that non-poor groups are frequently the main beneficiaries of CDD projects;
- Excessive cost recovery requirements; and
- Ill-conceived contracts that trap communities into honouring financial obligations to poorly performing private service providers.

#### *Dar es Salaam Water Supply and Sanitation Project*

The Dar es Salaam Water Supply and Sanitation Project was agreed by the World Bank in April 2003, for which the main indicators focus on reliable, affordable and sustainable water supply and sanitation. This was originally to be achieved through a lease contract to a private operator. This operator has since been asked to leave the country, and Dar es Salaam Water Supply and Sanitation Authority has created a public body to manage the project while the issue of private sector participation is being resolved. The World Bank continues to support the project despite the change in approach, and it is unclear at this point whether the public body will continue in their role, or whether the bidding process (for which there was only one eligible bidder in the first round) will be repeated.

The relevance to this paper, in this case, however, is not who is managing the water supply. When the project was set up, it was already clear that improvements to the supply of water and sanitation would only take place in the long-term for the majority of unconnected communities living in the poorer settlements. For these communities, a community water supply and sanitation programme was developed, managed by NGOs already working in the city, with proven track records of delivery processes to these settlements. \$3 million was committed to this program, for the benefit of 50 communities. This represents 3.7% of the World Bank portion of the financing, and 2% of the total budget for the whole project. Unfortunately, there has not yet been an assessment of this project and the NGOs responsible for the CDD component are not allowed to discuss the project without permission from the borrower (Dar es Salaam Municipal Authority).

#### *Slum Sanitation Component of the Bombay Sewerage Disposal Project*

The Bombay Sewerage Disposal Project (BSDP) is a large scale project which has been ongoing for several years (started 1997, hence the name). Due to the nature of settlements in Mumbai, it was recognised that this large project would not be able to deliver sewerage services to the slum settlements, and that another solution, namely community-managed toilet

blocks would be the most appropriate solution in the short-to medium-term. As the Bombay Municipality had a poor history of managing these toilet blocks, the majority of which stand in a poor state of disrepair after three years of their constructions. There are NGOs active in the sector, working within the settlements and with experience of building community-managed toilet blocks. One of these is the Society for the Promotion of Area Resource Centres (SPARC), which, due to a previous experience of working with the World Bank was asked to take part in the bidding process for the construction of toilet blocks.

Rather than simply continuing with Mumbai Municipality on capital cost contributions, the World Bank insisted on having NGOs and CBOs compete against each other in three different steps: firstly to organise communities to bid for construction contracts; then to bid for designing and collecting funds for future maintenance of the toilet blocks and finally for the funds to build community latrine blocks. If you put in a bid for one part of the work, it was not permitted to bid for another. SPARC refused to take part, as this does not make any sense in terms of community processes.

Later, when the World Bank project as it stood had failed to achieve its aims, and after they had seen other successful work carried out in Pune, they were prepared to change the approach, and accorded NGOs the same status as contractors, scrapping their requirement that NGOs were not allowed to receive more than \$10,000, and allowing NGOs to take part in all three steps. In 2000, SPARC won the tender to build 320 toilet blocks, with a total of 6,400 seats. SPARC agreed to continue working with the World Bank despite difficulties because it seemed like an opportunity to change policies and approaches, but this was not an easy process. SPARC themselves comment on the difficulties of fulfilling all the requirements for the project, and that it was hard to raise the necessary funds for qualification. The system is not set up for CBOs and NGOs to engage, but despite this, they succeeded in doing the project well, building the necessary latrines, and hoped through the process to be able to influence World Bank policy in the future.

This process is therefore not necessarily replicable by other NGOs, as bank guarantees are required before funding will be released, and few NGOs will have the financial clout to access bank guarantees. SPARC exceptionally has access to a credit facility for community-based organisations, which facilitates loans for slum-upgrading projects. Without this, SPARC could not have tendered for the project. The lesson is that although the World Bank was essentially funding this project, the contractor must take the initial risk. There is no special condition to make it easier for community groups to take part. This clearly leads to difficulties of scaling up community-driven projects – demonstrating the funding gap, which must be filled before scaling up can take place.

‘Some officials of the World Bank have been particularly responsive to the concerns of poor people’s organisations and looked critically at the Bank’s own policies and procedures with a view to reforming them. Such willingness to introspect has been a positive feature of much of our recent interaction with the World Bank. As in the case of State agencies or the private sector, so in the case of the World Bank: we believe in the usefulness and need for protracted engagement over projects, procedures and policies in order to promote change that benefits the constituencies of the poor.’<sup>56</sup>

Engaging with the World Bank has led on some small scale to changes in their policies and has improved their understanding of what successful community-driven development can look like. However, in this case, the implementing NGO is very strong and has a clear approach of working with communities and were not prepared to give up their principles to meet World Bank requirements. Not all NGOs and civil society organisations are strong

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<sup>56</sup> Cities Alliance Project on Pro-Poor Slum Upgrading Framework For Mumbai, India, SPARC, June 2003.

enough to resist the approaches of the World Bank, which can have the impact of turning NGOs simply into service delivery agents, rather than representing the poor.

Interestingly, the World Bank report on the BSDP is very positive about the project and the involvement of the NGOs, not mentioning the difficulties that had to be overcome. This is a pity as learning from the problems encountered would have enabled the World Bank to improve their practices, rather than starting again from scratch elsewhere.

### *Cities Alliance*

Cities Alliance is a global coalition of cities and development partners committed to scaling up successful approaches to poverty reduction,<sup>57</sup> and is supported by a variety of states and multilateral organisations, including the World Bank and UN-Habitat. Much of the work of Cities Alliance seeks to engage development partners and financial institutions to gain access to capital to be used in sustainable projects that can promote and plan for the positive impacts of urbanisation. In 2005, Cities Alliance had \$16.4 million at their disposal, \$1.7 million of which was given by the World Bank. The World Bank's annual contribution is to rise to \$3 million in 2006, which will put it almost on a par with the contribution made by the United Kingdom. While Cities Alliance approaches development through multi-sectoral projects and good governance at the local or municipal level, water and sanitation will be crucial aspects of many of the projects. But it is this multi-sectoral approach which may be key to not only ensuring that pro-poor policies are followed, but which also ensures the success of the project.

Cities Alliance has also influenced the development of mainstream World Bank projects, for example in Rwanda and in Colombia.

### *Pro-poor development: Brazil, Colombia and Rwanda*

The World Bank project documents for Brazil, Colombia and Rwanda are all interesting for their very strong pro-poor focus, with indicators for success including legalisation of settlements and the inclusion of community development plans.

The Bahia Poor Urban Areas Integrated Development Project in Brazil,<sup>58</sup> a project of \$50 million, also focuses on alleviating poverty through improved infrastructure and institutional capacity building at state and local levels. The water supply remains in public hands. This project continues an integrated strategy of poverty alleviation, learning from lessons of other World Bank projects in Brazil. Cities Alliance has also committed considerable funds (\$5 million) to this project. Further to this, a Poverty and Social Impact Analysis was carried out, which focussed on the lessons learnt from Viver Melhor I of 1999-2004 in Ribeira Azul also in Bahia. The main questions asked focussed on what worked well in this project, whether the interventions were cost effective, whether the institutional arrangements, particularly with respect to the integrated nature of the project were appropriate, and whether the interventions were sustainable and what the impact would be on the poor over time.

This research has highlighted some of the key issues, one of which is a lack of cost recovery from the interventions, including for water and sanitation services. Land tenure registration has been successful, and there has been limited creation of new slums since the project has been implemented.

The most important lessons include the centrality of community participation for success. For the Bahia Poor Urban Areas Integrated Development Project, this will be an increased

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<sup>57</sup> <http://www.citiesalliance.org> accessed 6 February 2006

<sup>58</sup> World Bank, Project Appraisal Document, Bahia Poor Urban Areas Integrated Development Project – Viver Melhor II 31 October 2005

challenge as it represents a significant scaling up. A further finding is that there is reform needed for the land regulation process.

The Rwanda Urban Infrastructure and City Management Project,<sup>59</sup> a project of \$20 million, also discusses the importance of the decentralisation programme, in order to allow municipalities more control over the project, while recognising that this decentralisation process also has the impact of reducing available financial and human resources, and that this is need of support. The first indicators to be measured relate to delivering services to priority areas, and the main component of the project is for the implementation of priority infrastructure needs. These priorities are set by Community Development Plans prepared by local Community Development Committees. The Rwanda project is linked to Cities Alliance. As this project was only approved in October 2005, it remains to be seen if this approach will be more successful.

Both World Bank projects in Colombia with a water and sanitation sector aspect have services for the poor at the centre of the strategy. The first project, the Bogota Urban Services Project,<sup>60</sup> approaches poverty alleviation through transport, housing, essential services such as water and sanitation and also includes the need to address current levels of violence. The second project, the Colombia Water and Sanitation Sector Support Project<sup>61</sup> specifically mentions the Millennium Development Goals as one of the main reasons for the project, and while it is not a multi-sectoral project, it does have a strong focus on alleviating poverty amongst 'Strata 1 and 2', the poorest sectors of society in Colombia.

The approach taken in these three countries (and four projects) represents a significant change in approach for the World Bank, by putting community development approaches at the centre of what are considerable funds. Significantly, these projects are multi-sectoral in approach, recognising that poverty is only successfully and sustainably addressed where the many factors causing poverty and simultaneously considered. These projects also have significant community participation aspects to them, again recognising that poverty cannot be addressed unless those who really understand the risks, problems, and potential solutions, namely the poor themselves, are put at the heart of the process.

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<sup>59</sup> World Bank, Project Appraisal Document, Rwanda Urban Urban Infrastructure and City Management Project, 17 October 2005

<sup>60</sup> World Bank, Project Appraisal Document, Bogota Urban Services Project, 13 March 2003

<sup>61</sup> World Bank Project Appraisal Document, Colombia Water and Sanitation Sector Support Project, 22 March 2005

## *5. Conclusions*

This paper has examined some of the approaches which the World Bank has been following in the last couple of years, since the poor performance and widespread negative public perception of private sector participation has led the World Bank into assessing their strategies and finding new approaches for water supply and sanitation services.

These strategies include commercialising water and sanitation services while keeping them under public ownership and management, and approaches which have a specifically pro-poor focus, such as Output-Based Aid, Community Driven Development and Poverty and Social Impact Analysis.

In order to assess how much these strategies are being used or are being successful in addressing the needs of the poor, project documents of the latest urban water sector reform documents have been assessed, presented in the table in Appendix One. This paper asks whether the World Bank is making progress in ensuring that pro-poor processes are being promoted through their projects.

The most common thread in the projects is water sector reform, with projects looking at ways of making the water sector more economically viable and managed under principles of good governance, with the creation of regulatory bodies to prevent the worst excesses of political intervention.

Despite the World Bank's own findings that there have been significant failures in private sector participation, particularly when it comes to addressing the needs of the poor. The project documents show that there is still a strong likelihood that private sector participation will continue to be significant part of the World Bank strategy, where private sector interest exists. In certain of these cases, the needs of the poor are not adequately addressed, if at all.

Where processes of commercialisation of are specified, this is often as a short-term measure in order to prepare the newly reformed operator for future private sector participation.

There is limited evidence from the projects studied in this paper that a commercialisation process will be more pro-poor than one which follows a private sector participation approach. Those projects which rely on a commercialisation of the operator may not feel the political need to show that they are also addressing the poor. This seeming contradiction can be seen in the amount of effort that has been put into the soon-to-be-published toolkit for privatisation, which outlines a range of different options for good incentives to ensure connections in those areas which have currently no access to water. It is however clear that many of the approaches suggested by the tool-kit would also be relevant to a commercialisation process and could therefore be marketed as such.

The issues most significant to addressing the needs of the poor are the barriers which exist preventing the poor from accessing water and sanitation services, which are political will and lack of recognition of needs and rights of the poor. The World Bank has identified these barriers, such as land tenure, the need to have flexible service levels and flexible billing processes in their research documents and in small-scale projects. However, these strategies are only used in the most progressive of their projects, and issues of land tenure are only understood in terms of ownership of land, rather than simpler processes of regularising land tenure. While good governance is a strong part of urban sector reform, it often does not go far enough to reach the poor.

The projects with the strongest pro-poor focus are those which are not single sector, but are multi-sectoral, focussing on poverty alleviation in terms of a wide range of social needs, such as transport, housing, electricity and water and sanitation. These projects are therefore

designed with poverty alleviation in mind rather than simply improvement in the efficiency of the water sector.

In order for the benefits of water sector reform to reach the poor, a poverty alleviation focus must be a core consideration of the project. At present, while there are strategies developed by the World Bank to address this, they are not universally used and comparatively small amounts of money are dedicated to these aspects of a project. The Operations Evaluations Department of the World Bank itself recognises that social scientists are not given sufficient weight compared to economists and engineers and that champions need to be identified within the World Bank to push the social concerns. As social development specialists are still sidelined in favour of economists, the World Bank is accused of instituting policies such as the Poverty and Social Impact Analysis without either making them compulsory or allowing them to exploit their full potential. Economic concerns, rather than the more complex social and political issues continue to be the key concern to the World Bank.

While the World Bank has considerable experience in working with a wide range of governments, there remains a suspicion that much of the work that they carry out is based on their technical expertise and not on a deeper understanding of the particularities of the political economy in the countries and cities where they work. This means that they can be accused, while claiming to have abandoned the one-size-fits-all approach, to having failed to understand some of the more nuanced aspects of social, economic and political concerns in the cities where they work. Unless and until the World Bank as a whole starts to listen to those people within its structure who understand the needs of the poor and how they can be included within water sector reform, there is not much hope that the policies that the World Bank follows, whether private sector participation or commercialisation, will produce the results that are needed. The concern should be to reach the MDGs in its spirit and not just the letter, which means not simply increasing access to those who are easiest to reach, but those who are the most difficult to reach. If this is done effectively, it will be a short step to reach those less-poor.

There is a criticism that the World Bank with its economic focus and requirements for dispensing large-scale loans is simply not suited for issues of delivery of essential services for the poor. However, it is apparent that the skills and commitment do exist within the World Bank – unfortunately they appear to be under-utilised and given a secondary status. Considering the centrality of the Millennium Development Goals, and their focus on poverty reduction, it is remarkable that the World Bank is still producing projects with an urban infrastructure focus which do not have poverty alleviation as the main purpose of the project. If this were the focus, the manner of providing the services, whether through private sector participation or public management, would be irrelevant. The profit motive of the private sector can be assured through the various risk guarantees that the World Bank has developed. The requirement for full-cost recovery and limited subsidies has been lifted through the related Output Based Aid.

With the central importance of safe and reliable water and sanitation services for economic, social and political development, the time has come for the World Bank to focus its efforts where they are most needed – with the poor. There is clearly movement in this direction, with the development of projects concentrating on community development, as shown by the projects in Bahia and Rwanda, but this shift needs to be consolidated in all World Bank projects, and the amounts of money dedicated to these processes increased. Projects such as the reform of the sector in Ghana and Nigeria demonstrate the extent to which the World Bank is continuing to follow policies which do not have poverty alleviation or the attainment of the Millennium Development Goals at their core.

The use of tools such as Output Based Aid and Poverty and Social Impact Analysis should be the rule rather than the exception. Considering the massive financial and human resources at the World Bank's disposal, and the considerable amounts of knowledge deposited with the World Bank, governments and their partners, whether private sector, NGO or civil society, should the World Bank not be better at ensuring social, economic and political development for the poorest?

*Appendix One: Table of World Bank Water Projects 2003-2005*

<b>World Bank Project Titles</b>	<b>Date approved</b>	<b>Amount of WB contribution (US \$ in millions)</b>	<b>Public sector reform</b>	<b>PSP</b>	<b>Integrated project or just water and sanitation</b>	<b>Pro-poor policy/ Participatory approaches</b>
Ghana Urban Water Project	1 July 2004	103		X	Watsan	None
Nigeria Second National Urban Water Sector Reform	1 July 2005	200		X	Watsan	None
India – Tamil Nadu Urban Development Project	5 July 2005	300		unclear	Integrated	None
Tanzania – Dar es Salaam water supply and sanitation project	29 May 2003	132		X	Watsan	Community development project component worth \$3 million
Uganda – Kampala Urban Water Sector Improvement Programme	proposed		X With future plans for psp		Watsan	Civil society participation mentioned
India – Karnataka Urban Water Sector Improvement Project	8 April 2004	39.5			Watsan	Limited mention, but “expansion to new users non eligible”
Kenya – Nairobi Water and Sewerage Institutional Restructuring Project	17 June 2004	15	X With future plans for psp?		Watsan	none
Brazil – Bahia Poor Urban Areas Integrated Development Project	6 December 2005	49.3	X With future plans for psp?		Integrated	Poverty alleviation as a key goal Includes Cities Alliance and a PSIA
Rwanda Urban Infrastructure and City	10 November 2005	20	X		Integrated	Priorities set by Community

<b>World Bank Project Titles</b>	<b>Date approved</b>	<b>Amount of WB contribution (US \$ in millions)</b>	<b>Public sector reform</b>	<b>PSP</b>	<b>Integrated project or just water and sanitation</b>	<b>Pro-poor policy/ Participatory approaches</b>
Management Project						Development Plans. Includes Cities Alliance
Colombia Water and Sanitation Sector Support Project	22 March 2005	70		X psp in urban areas	Rural and urban watsan	Poverty-focussed coverage expansion
Colombia – Bogota Urban Services Project	13 March 2003	100	X But will increase psp		Integrated	Community participation, urban upgrading
Mexico Modernisation of the Water and Sanitation Sector, Technical Assistance Project	4 August 2005	25	X Preparati on for psp		Watsan	Not significant
China – Chongqing Small Cities Infrastructure Improvement Project	16 June 2004	180			Integrated watsan and transport	none
Sierra Leone Urban Water Supply Supplementary	16 June 2005	3.2		Only paym ent to contractors	Watsan	
Sierra Leone Power and Water Project	01 July 2004	35		X	Watsan and power, rural and urban	none
Ethiopia Water Supply and Sanitation Project	11 May 2004	100	X Will limited psp. Decentral isation emphasised		Rural and urban watsan	Yes, in rural areas but not in urban areas

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