

ADB's water woes

by Richard Mahapatra

ADB should know the water market before it attempts 'water sector reform'

A quick check on water sector reforms and the MDBs

- Water is a fundamental right
- Any water sector reform has to start from this reality
- At the same time in developing countries like India the water sector is dominantly informal
- So water sector reform means structural change in the water economy and institutions making it more formal
- Formalisation means extensive restructuring of institutions and redefining of the concept of public good and government roles
- Multilateral lending for water sector reforms focus more on formalisation and commercialization but without factoring in the dominantly informal character
- So there is growing gap between policy and practice in projects
- This threatens the sustainability of the intervention

ADB's water policy

ADB's Water Policy, approved in 2001, describes water as a “socially vital economic good”. ADB water policy covers water utilities, sanitation and other water infrastructure (e.g. irrigation). It promotes full cost recovery, water entitlements and “tradable water rights”, and private sector participation. The policy also ushered a “new generation” of water projects for the Bank. These include water policy reforms that promote private sector participation (PSP) in water supply/sanitation in such countries as Sri Lanka, Nepal, Bangladesh, Pakistan and India.

Thus the policy involves three basic issues: new policy evolution, making laws to implement it and setting up institutions that carry this policy in a sustainable manner. In developing countries like the South Asian countries this means total restructure of the water law, policy and administration. As each and every country – similar in informality of the sector – has her own set of water policy, law and administration, ADB's water policy is in direct interface with country strategy. How it adapts country system decides the policy's viability and sustainability.

Why should it deal with water economy?

ADB's water policy defines water as a 'vital economic good.' Thus it must understand and debate the economy of water in its implementation areas. Without this there are chances that it ends up without its objectives attained. The three case studies of ADB funded projects in India, Bangladesh and Nepal conducted by the Wateraid clearly show that the policy suffers from compatibility with local socio-economic characters.

Also without understanding the water economy, the intervention will create a system of institution and economy that would be in direct conflict with local situations.

The water economy

Any water sector reforms that involve intervention in institutional as well as in water economy, must keep in mind three guiding principles:

1. Water institutions of a country at any given point of time depend critically upon the level of formalisation of water economies. Formalisation here means the proportion of the economy that comes under the ambit of regulatory influence of institutions created for this purpose.
2. In this sense, water sectors are highly informal in primitive economies, and become more formalized as national economies grow.
3. The pace of water sector formalisation in response to economic growth varies across countries and is determined by a host of factors, including likely the degree of population pressure on land and water resources, extent of dependence on farming for livelihoods, macro-economic policies, the nature of the state. How much difference these make in the pace of formalisation of water sectors is difficult to say; however, it is clear that India cannot have Europe's level of formalisation of its water sector at its present state of economic evolution. This is true for other South Asian countries also.

The low level of interface between its water institutional arrangement and its water economy best indicates the level of formalisation of a country's water sector. Informal water economies are marked by heavy dependence of water users on self-provision (through private wells, streams, ponds) or informal, personalized exchange institutions, community-managed water sources, absent or limited use of price or user charges to recover costs of service provision or resource use, or to guide resource allocation or to clear markets.

In contrast, in highly formalized water economies, as in Europe and North America, self-provision disappears as a mode of securing water service; all or most users are served by service providers who form the interface between users and the institutional environment. Volumetric supply and economic pricing are commonly used in highly formal water sectors for cost recovery as well as resource allocation. Here, water emerges as an industry.

To understand how informal India's water economy is we can discuss the large nation-wide survey done by the National Sample Survey (NSS 54th round) in June-July 1998. It is based on interviews with 78,990 rural households in 5110 villages throughout India to understand the extent to which they depend upon common property and government land and water resources for their consumptive and productive uses. It showed that only 10 percent of water infrastructure assets used by survey households were owned by households or owned by government/community but not managed by either. If receiving domestic water from tap is an indicator of getting connected to a public water supply system, the same survey also showed that over 80 percent of rural households self-supplied their domestic water needs, and were not connected with any public or community water supply system. In urban households (in a sample

of 31,323 households), the situation was the opposite; 3/4th were connected to a public water supply system.

This makes it clear that rural water economy is totally informal while the urban water economy is getting formalized. But at the same time we must keep in mind that most of the new urban areas are primarily rural in nature thus has the same rural structure. This is also partially true in case of Nepal where ADB is helping projects in small towns. These small towns are primarily rural.

Contrast this with a highly formalized water economy of Switzerland. Seventy percent of its population is urban; the country is facing constant reduction in industrial workers and farmers. Probably 15-20 percent of the Swiss population was linked to public water supply as far back as in the 18th century; today 98 percent of the Swiss population is linked to public water networks and 95 percent is connected with wastewater treatment facilities. Switzerland spends 0.5 percent of its GNP annually in maintaining and improving its water supply infrastructure; and its citizens pay an average of CHF 1.6 /1000 litres of water (One CHF=0.786 US \$). Per capita water bill Swiss pay annually is around CHF 585, which is higher than the per capita total income of Bangladesh. A network of municipal, corporate, co-operative water service providers serves all its water users.

So it suggests that water institutions that exist in a country or created by various interventions depend, besides several other factors, on the stage of formalisation of its water economy, which in turn depends upon the overall economic evolution of that country. Water institutional arrangement found in India, Bangladesh and Nepal are unlikely to be found in Europe or America. So any project to initiate water sector reforms has to keep it in mind and cannot be a duplication of successful models in another economic context.

Some major arguments against the ongoing water sector reform projects popularly referred as 'privatisation of water':

1. Cost-recovery principle is not consistent with the basic needs of poor and water-stressed people
2. This place the economic objectives above the socio-ecological characters of water in local context
3. Institutional arrangement is biased against the poor Local governments, which are the one to sustain the reforms, have not been adequately involved with the projects. Thus making them unsustainable.
4. A common design is adopted everywhere thus making it unsuitable in many places. This leads to rise in cost of water supply and also breakdown in institutionalization of the project.

Cost recovery: is it possible?

ADB's policy of cost recovery (governments are also trying to do so) assumes special interest in such informal situation. This is based on the presumption that cost would reduce wastages and also make the system work sustainably. On the other hand while initiating projects multilateral agencies like ADB and World Bank have not done any homework on the current level consumer payment and efficiency of existing service delivery.

Governments have failed to properly maintain ageing water infrastructure. According to the World Bank, the developing countries loses as much as 50 percent of its municipal water through system leakage. As clean water supplies have diminished, competition for them has been growing, usually between expanding urban areas and rural users. For example, in India in

at least 15 cities including Bangalore and Hyderabad, people from periphery rural areas are protesting against uses of water sources for supply to urban areas. To sum it up: there is a crisis of management in the sector instead of absence of it. So any project, whether funded by external agencies or by government's own resources, is bound to trigger protests and the local governments would refuse cooperations.

Then comes the question of making water a profitable service. Experiences in India in water sector reforms throw an important question: why economies fail to undertake the appropriate activities if they had a high pay-off. India's water sector is replete with situations where appropriate activities can potentially generate a high pay-off and yet fail to start; in contrast, much institutional reform being carried out will not likely to work because it entails high transaction costs and low pay-off.

However, effective water pricing, which sets water prices high enough to discourage waste, remains a highly sensitive issue in low-income countries, where most people depend on irrigated agriculture for their living. Even so, socio-economic development in water-scarce countries may depend critically on more rational distribution of scarce supplies. According to most civil society groups, commodification and pricing of water might lead to worsening of the present situation hampering the access to safe drinking water among weaker sections of the society. According to them, when access to drinking water is considered as a basic human right, then any kind of price on water would stop these weaker sections from accessing water at all.

In Orissa, a state in the Eastern part of India, a local water governance structure, termed in local parlance as "Pani Panchayat", influenced by the World Bank, was tried as a model to manage water resources. However, 'model pani panchayat' never had any election. Ironically, the control over water resources is reported to be swiftly moving in the hands of powerful landlords and contractors. In this scheme of things it is the small farmers who faces bankruptcy and ruin.

In a predominantly informal water economy such as India's, the transaction costs of enforcing a water law effectively are so high that these attempts have had to remain cosmetic, essentially setting 'targets without teeth.' This is exactly what will happen to ADB/World Bank water sector projects: targets would be set and be met but for a period after which would collapse. This is due to the fact that the project design has not taken into consideration the local reality and has been done uniformly everywhere. Indeed, laws and policies are often written to minimize transaction costs by progressively removing clauses that bite and are likely to be extensively violated, thereby reducing the effective regulatory power of a law.

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