

Our water, our waste, our town

Supporting civil society to engage in urban water and sanitation reforms

7

Working with financial institutions

This section explains the role international finance institutions (IFIs) play in urban water and sanitation reform. It outlines the challenges of working with IFIs, summarises the World Bank's project cycle and suggests actions CSOs can take at each stage of the cycle.

Working with financial institutions

Part one: Why civil society organisations need to work with financial institutions

Urban water and sanitation reforms work best when civil society organisations (CSOs) liaise with many different partners, particularly citizens and local politicians. The most important partners are often international finance institutions (IFIs). They provide financial support and knowledge for reforms.

Development banks often urge countries to reform their water sectors

as a condition for loans. Governments may have asked the banks to finance investments or reforms or the banks may simply want to let the country know that funds are available for this purpose. The banks may request that steps are taken to ensure the money they invest is used as effectively as possible.

This section will help CSOs to get a thorough understanding of IFIs suggest ways of working with them.

Part two: Conditions of lending from financial institutions

If, for example, a city needs more bulk water, and this can be obtained through an expensive pipeline, an IFI may be prepared to lend the money to pay for that pipeline.

In poor countries, the World Bank lends this money at ‘concessional’ rates (low or no interest and long repayment periods) through the International Development Association (IDA). Before granting the loan, the Bank investigates whether this is an efficient use of funds.

If the water distribution system in the city leaks because of its age or poor

maintenance, the newly produced bulk water will be wasted once it enters the system.

These issues would be revealed by an IFI study. They would suggest that it might not be a good investment. The IFI will usually propose a series of conditions to improve the situation overall which, if implemented, would meet their requirements to be able to offer funds. Conditions could include:

- Passing legislation to make the utility more autonomous
- Making the utility more accountable through the creation of new institutions such as an Asset Holding Company to manage assets and investments,

- an operator to manage the water delivery system and a regulator to help set tariffs
 - Revising tariff levels and structure to bring the utility ‘closer’ to financial independence by ensuring it recovers costs and that all members of society can afford a minimum amount of water
 - Engaging a private company to manage parts of the water distribution system such as billing and revenue collection
 - Restructuring of the public utility – a ‘turn-around’ that improves levels of service, internal culture and customer service ethics
 - Creating performance contracts between public agencies (government and public utility) or customer charters spelling out how the relationship with the operator and its customers will work
 - Putting in place a leak detection and repair system
 - Introducing metering to generate information about how the system is used and encourage careful use of water at critical points in the network and by consumers
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Part three: Challenges of working with IFIs

i. A difference of opinion

IFIs argue that conditions like those outlined in part two are necessary prerequisites to ensure that investment is used for its agreed purpose and not wasted. CSOs argue that some of these detailed steps limit the powers of the borrowing government and have been used as a way of making it easier for the international private sector to take over water and sanitation reforms. There is a long history of CSOs disagreeing, and coming into conflict with governments and IFIs over such issues.

ii. Assumptions made by IFIs

During the 1990s, and early parts

of this century, some IFIs assumed that only private operators can improve water and sanitation performance. However, some spectacular failures have set back reforms and investments by years. This has relaxed IFIs’ position on using the international private sector. Meanwhile, the multinationals’ interest in the sector has dwindled. In recent years more attention has been paid to assessing how public utility reforms can be achieved and what are logical roles for the private sector.

iii. Favouring multinationals

When multinational private operators work in developing countries they can benefit from profits, huge contract fees and generous bonuses. This means there are fewer opportunities

to develop local expertise. Loans and revenues that could have been reinvested in the local economy become part of the international private sector's profit and are sent overseas.

iv. Lack of support

IFIs have, in the past, given inadequate attention and support to documenting and promoting how well-performing public utilities have improved their operations.

What CSOs can do to improve IFIs' conditions

- ✓ Assess the extent to which conditions remove responsibility from the government – which has ultimate responsibility for economic and social development, including water sector policy and strategy – and transfer or open it to the IFI's influence above citizens' concerns
- ✓ Demand a public debate and discussion over the volume, terms and conditions attached to IFI financing
- ✓ Assess the reform options being proposed. Are they designed to ensure water delivery to and affordability for the poorest of the poor?



Checklist 7.1



Challenges of working with IFIs

Can you think of any other challenges to working with IFIs which aren't mentioned above? Brainstorm ideas for 10 minutes.

Exercise 7.1

Part four: The eight steps in the World Bank Project Cycle

The World Bank is the oldest and largest IFI.

When the World Bank works with a country with the aim of reforming a

sector and investing in it, it follows a series of eight steps. Each of these provides an opportunity for CSOs to have their say.

We have outlined these steps here because they are often a model for other IFIs, including the African and Asian Development Banks.

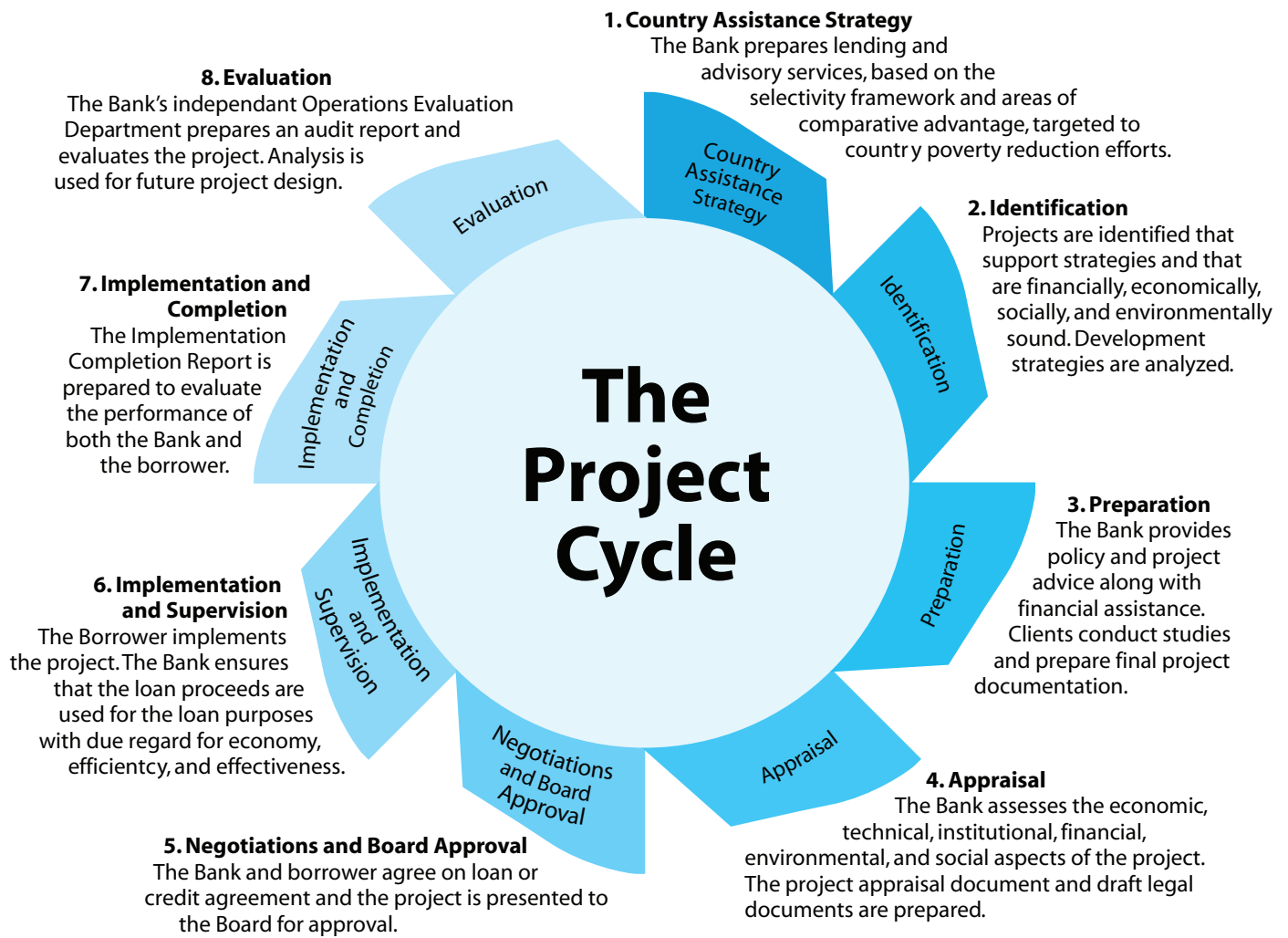


Figure 7.1
The World Bank project cycle
Source: <http://web.worldbank.org>

Phase one: Steps 1 – 3

1. The Country Assistance Strategy (CAS)

The CAS sets out the World Bank's plans for working with a country based on an assessment of its development priorities. It is prepared every three to five years. The World Bank explains where it is willing to invest money. This may or may not include water services. If it does, the Bank will examine options for reform with government. This is more likely to happen if water and sanitation feature in the country's Poverty

Reduction Strategy Paper (PRSP). Countries that have indicated a willingness to adopt a public-private partnership approach to investment decisions in their PRSP are more likely to receive such investments.

2. Identification

The World Bank identifies the best way to go about reforming the particular sector they may fund. For water services, this could mean considering private sector participation. The Bank may commission studies to determine the strengths and weaknesses of

the current system.

studies that have been conducted or research undertaken. At this point, the World Bank has made no commitment to finance a project.

3. Preparation

The World Bank provides policy and project advice and presents loan options, based on any

What CSOs can do to help in the early steps of the World Bank project cycle



Checklist 7.2

- ✓ A CAS is prepared through a consultative process. But often these consultations are not as open as CSOs would hope. Prepare as much as possible for these consultations and work with other CSOs to monitor the process and influence the content and direction of the final document
- ✓ Find out if World Bank studies are taking place in your country. Use suitable opportunities, such as sector meetings, public consultations and meetings with government or utility officials, to find out about and try to influence them
- ✓ Ensure World Bank studies are pro-poor; that they examine the impact of proposed reforms on the poor, options for serving the poor, and plans for consumer representation
- ✓ Press for transparency and consultation

- In Ghana and Ukraine, CSOs were critical of the procedures involved in the awards of contracts to international water companies.
- In Delhi, CSOs criticised the process of selecting of an international consultancy firm to oversee the water reform process.

Case studies of CSOs criticising reform

Phase two: Steps 4 - 5

At this stage, the World Bank has agreed a course of action with the government and starts the process of preparing a project to be financed by a loan. Engineers, lawyers, legislative experts and economists employed by the World Bank visit the country concerned. They offer opinions to government on what investment is needed, what changes need to be made to legislation, what new institutions should be established, and which existing ones should be changed. This team will sometimes, but not always, include someone responsible for designing services for the poor.

4. **Appraisal**

All of the above research will culminate with the drafting of an appraisal document. At the World Bank, this is called a Project Appraisal Document (PAD). This 50 to 100 page document will be used to present the project to senior management of the IFI. It's a long and technical document with many annexes.

The appraisal usually contains a section outlining a Social Assessment of the proposed project. This section, and sometimes an accompanying annex, should include options for serving the poor. The IFI team should also describe their consultation and how poor people have been involved in the project. The quality of this section will vary according to the knowledge, resources and commitment of the team.

5. **Approval**

Once the PAD is complete it is reviewed by World Bank staff, and sent to the World Bank Board for Approval. Only after the project has been approved is the PAD made public. PADs for about 2,000 projects are available on the World Bank website, under Projects and Operations. After the PAD has been approved, detailed loan negotiations then take place between the World Bank and the government.



Checklist 7.3

What CSOs can do when interacting with IFIs

- ✓ Offer assistance to the World Bank or IFI team to address issues of serving the poor. Team members may lack the time, funds or expertise to adequately determine the needs of the poor or develop options for serving them. They may welcome your assistance. You'll be able to influence the project and the PAD – the document that serves as the 'negotiated contract' for the project between the government and the IFI.

Clarify at the outset:

1. That you expect to be a partner, be consulted and actively participate in key decision-making processes
 2. That you do or do not necessarily agree with the strategy adopted but you will seek to influence the design of the reform and to try and improve any features which are not pro-poor
 3. That you wish to understand the process better and that your unfamiliarity with it cannot be used as an excuse to exclude you
 4. That your organisation or NGO alliance has constraints (you may not be able to meet tight deadlines because you're working on many other things and you will not be bound by confidentiality - you have a duty to consult and report to the groups of people you represent)
- ✓ Remember that IFI teams are more used to working with companies and consultants who do not need to consult members of the public
 - ✓ Be clear that as a CSO, you cannot be treated as a contractor, and be honest about your constraints. Ask to have the process and timelines explained to you
 - ✓ Use Right to Information legislation to get information from government on World Bank projects
 - ✓ Approach the World Bank to find out about any projects your country/town/city might be involved in. Their transparency and access to information rules often provide for more openness than the host country
 - ✓ Visit the World Bank's Public Information Centre in your country
 - ✓ Go to the World Bank website. It contains information on all projects that are being considered or are active

- ✓ **Meet with World Bank teams or country directors. An alliance of CSOs always has a better chance of obtaining a meeting, and an invitation to talk about and explain the project is more welcome than a summons to defend it**
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Case studies of CSOs working with the World Bank

- In Nigeria, the World Bank is working with CSOs to reform water services in Lagos. CSOs are working on a customer feedback scheme and are contracted under a component of the World Bank loan.
- In India, a retired civil servant, working with an umbrella NGO alliance called Delhi Right to Water Group, used the Right to Information Act to obtain more information about a project funded by the World Bank.

An international accounting company was chosen to be consultants to Delhi Water Board in the process leading up to reform of the service and the possible privatisation of part of it. The World Bank was alleged to have influenced the selection of the accounting company. The NGO alliance pushed for a court case which ordered this disclosure. Opposition to the proposals grew and they were withdrawn under threat of public protests such as payment strikes.

Phase three: Steps 6 – 8

6. **Implementation and supervision**

The project gets underway. The World Bank monitors the project using its national and international staff and provides ongoing support to government.

7. **Implementation and completion**

The Bank prepares an implementation completion report to evaluate the performance of itself and the borrower.

8. **Evaluation**

The Bank's Independent Evaluation Group (IEG) within the World Bank, prepares an audit report and evaluates the project.

Analysis is used for future project design. But the evaluation of a project's impact on poverty reduction, particularly for water and sanitation investments, is mostly overlooked.

What CSOs can do to ensure the implementation and monitoring of IFIs' projects are pro-poor



Checklist 7.4

- ✓ Work with the IFI. Once the project is designed it is implemented by government and not the IFI, which may be reluctant to respond to issues of concern raised by CSOs. But IFIs do continue to monitor and direct project implementation. When this happens – usually every six months – CSOs may meet with IFI representatives, or even try to become part of the evaluation team, usually led by the project's task team leader
- ✓ Become familiar with the appraisal document. This will allow you to monitor whether the project is being implemented as planned
- ✓ Become familiar with performance agreements and contracts that are part of the conditions of the loan. This will help CSOs to see whether their terms are being met
- ✓ Get involved in the eight stage process early. It is important to get involved before step four, preferably at step two or even one. Components of the project may well be re-considered and re-designed, so even if service to the poor or consumer representation were poorly conceived at the outset, there are still opportunities to bring about changes. But being pro-poor from the outset is much better
- ✓ Get involved in the evaluation of Bank-supported projects. It is much more useful when locally-based individuals or groups evaluate the impact of a project than an external evaluator who is unfamiliar with the local environment. Focus should be on the impact the project has on the poor

Exercise 7.2



World Bank Project Cycle

Divide the workshop group into three. Each group should take one of the three stages of the eight-step World Bank Project Cycle. Think about ways your CSO could get involved in the processes in that stage. When the time is up, come back to the main group and share your ideas by nominating spokespeople to write them on a flipchart.



Recap

By now you should...

- Understand why it is important to work with financial institutions
- Be aware of the conditions and challenges of working with financial institutions
- Have an understanding of the eight steps in the World Bank Project Cycle