

4. POLITICAL ECONOMY OF SECTOR POLICY REFORMS

This section draws on a number of interviews conducted with World Bank task team leaders and other key informants along with a review of key literature. These provided the starting point upon which the conceptual framework, presented above, had been developed. The discussion follows the categories of the framework presented above, with cross-references to the case studies. For each case study, a matrix is presented which summarizes the reform context, the reform arena and the reform process. A read across the matrix shows how the interests of actors and operation of institutions relate to the political and economic interests at play. The matrix also highlights whether there were any champions of change motivated to influence reform discussions and progress and to what extent the process of reform was able to unsettle or support stakeholder positions and drive institutional change. The section attempts to help development practitioners to answer the following four questions, as mentioned in the introduction:

- What are the most significant political and political economy risks to policy reform?
- Why do these variables operate in a given country and sector context?
- How do these variables operate and impact policy reform processes and outcomes?
- How could these variables be addressed through effective management of political economy risks and opportunities?

4.1 Agricultural Sector Reform

4.1.1 *Reform context*

It is widely recognized that making agriculture work for development requires supportive political economy conditions. Public policy in the agriculture sector has in many contexts been characterized by subsidies, protection and state interventions in markets and production chains. Reform proponents have been promoting a market-driven, state-assisted, civil society-influenced agricultural sector grounded in technological and institutional innovations. Managing the political economy of agricultural reform while maintaining an open mind to competing policy prescriptions that lay claims for growth and equity requires a continuous learning approach.

Agricultural sector reform is about efficiency and distributional equity

Governments have traditionally intervened in agricultural markets in order to improve sector coordination and efficiency and, not least, for political and historical/cultural reasons. Today, almost all countries in the world, including most high income countries, have forms of agricultural protection and subsidies with, reform proponents argue, often huge costs to the rest of the economy. Two reasons for this, especially in developing countries, are the rising rural-urban income gaps, which can result in severe political tensions, and the demand for cheap agricultural products by urban populations. States with weak fiscal capacity are strained in meeting both the demand for transfers to address the income gap and the demand for cheap products. This makes agricultural policies in developing countries highly politically sensitive. Agricultural sector reform aims at enhancing efficiency and reducing the cost to public agencies. Reforms involving withdrawal of marketing boards and other parastatal agencies aim at creating an environment which will foster the development of private competitive markets in agriculture and marketing. Reforms are also motivated by fiscal sustainability concerns in cases where parastatals are a financial drain on public agencies⁵⁰.

Discussions regarding the distributional impacts of agricultural sector reform are generally based on assumptions that enhanced rural productivity will increase incomes and well-being, with positive knock-on effects for

⁵⁰ For example, of the total food subsidy of the central government to the Food Corporation of India in 2001, 57 percent represented the costs of holding stock (Lundberg, 2005). In some cases, such as in Lint, Coffee and Produce Marketing Boards in Tanzania in the early 1990s, such unsustainable inefficiency led to collapse and bankruptcy.

local economies. Liberalization and private sector participation is predicted to increase farmer incomes through enhanced competition, more effective input and output marketing, and price rewards for quality produce. Thus, three main areas of reform intervention can be distinguished⁵¹:

- Prices: liberalizing prices for inputs and outputs, eliminating subsidies, removing trade restrictions with the aim of allowing domestic prices to reflect world prices. The case of rice tariff reform in Indonesia illustrates this.
- Quantities: removing regulatory controls and other quantity restrictions in input and product markets, allowing the private sector to participate, removing restrictions on movement of goods (for example, export bans), and relaxing quotas and licensing arrangements; and
- Institutions: restructuring public enterprises and eliminating or restricting (usually to information provision and the maintenance of strategic stocks) the role of marketing boards⁵², and improving regulation through performance contracts. The cases of cotton sector reform in Burkina Faso, groundnut sector reform in Senegal and crop board reform in Tanzania analyze reforms of marketing boards, while the case of the cotton sector reform in Burkina Faso is an example of introduction of a performance contract.

The significance of the reform context to groundnut sector reform in Senegal illustrates the importance of understanding political economy linkages to broader historical institutional, political and macro-social characteristics (see Box 2). Where this is the case there may be considerable resistance (sometimes in a covert form) to technically driven policy reforms which aim, for example, to reduce public funding of parastatal or publicly-owned companies. The feasibility of reform under these conditions will often depend on the extent to which principles of transparency and oversight by legitimate democratic institutions can be strengthened both within the sector, and in country-wide governance systems.

⁵¹ Lundberg, 2005.

⁵² This restructuring will often have significant direct impacts on prices for consumers and producers, for example in cases where governments previously controlled prices through parastatals (Lundberg, 2006).

Box 2: Peanuts, politics and the state — the political economy of agricultural marketing in Senegal

Groundnuts were at the centre of the cash economy of Senegal from the early colonial era, with heavy investment by the state in developing production as the backbone of a monetized economy. From the colonial era on the rewarding of political allies was among the major functions of the groundnut marketing system. The various Islamic brotherhoods and marabouts were instrumental in the spread of groundnut production, and were granted extensive tracts of land for this purpose. After independence the government steadily increased its control over the sector by promoting state-linked co-operatives as the cornerstone of the production system. In 1966 a new public agency, the Office National de Coopération et d'Assistance pour le Développement (ONCAD) was created and given a legal monopoly over the marketing of groundnuts. During the 60s and much of the 70s the economy continued to be heavily dependent on groundnut exports and French support. From the 1980s on the IFIs played an increasingly important role, and sought to implement a program of adjustment policies which aimed, inter alia, to: increase rates of indirect taxes; increase input prices and reduce producer prices for groundnuts; make operation of marketing agencies more efficient; limit the growth of public employment. In the mid-80s ONCAD, performing poorly and laden with debt, was disbanded and its functions divided among other organizations, Groundnut marketing was transferred to SONACOS, a firm jointly owned by the government and private oil processing firms.

One of the features of the groundnut marketing system was its use to distribute benefits during election years. Village level co-operatives and the input supply and crop purchase arrangements that supported them were pillars of the system which provided political support to successive regimes from the 60s through to the end of the 90s. Attempts by the World Bank to push through orthodox 'privatization' measures in relation to SONACOS in 1996 and 1998 were frustrated as the political economy conditions were not yet ready to allow for an adequate level of government support. Although SONACOS was finally sold in 2005, the legacy of the unsuccessful privatization attempts in the 1990s contributed to slow progress in this area.

The key lessons from this experience for donor action in relation to sector reform are:

- A major issue delaying reform in the sector was a lack of consensus on the impact on poor farmers. The Bank should have undertaken analytical work on these issues sooner, given the importance for rural livelihoods.
- Understanding the macro political context can be very important. Sector institutions can be critical to the political support base of key organizations, through employment, provision of subsidized services, or straightforward monetary incentives. The links between clientelist dynamics in the sector and in the national institutions need to be understood in order to carry out an effective policy dialogue.
- If clientelism is deeply embedded within the sector, and closely linked to powerful national interests, then attempting to push through reforms which have a purely technical rationale is unlikely to be effective. Instead, a strategy is needed which will steadily reduce the scope for patronage through a range of sector or national measures. At the sector level these might include strengthening corporate controls and management systems. At the national level this is likely to mean a range of measures to promote transparency and accountability, including strengthening the following key areas: internal and external audit functions; the capacity in media and civil society for policy research and advocacy; parliamentary oversight functions; public financial management systems.
- Patrimonial dynamics in national politics may simply be beyond the reach of development dialogue. There are cases where donor agencies have to wait, and make sure that they do no harm and do not impede progress within the country's own systems of accountability and governance.

Sources: Interviews with World Bank staff, Gray (2002)

Institutional reforms are central in policy reform

Agricultural reforms remain an important part of national strategies, featuring strongly in most Poverty Reduction Strategy Papers (PRSPs) in those countries that have prepared such. PRSP-era reforms in agricultural markets are likely to focus on institutional issues of governance and performance, particularly on deregulation, support for the private sector, and on risk management through insurance. Direct interventions, that characterized the structural adjustment years, are less on the agenda today. This means that the reform of institutions is now a particularly significant element of overall policy reform in the agricultural sector, with policy reformers looking more practically at enabling the environment for institutions that lead to efficient

and inclusive markets. Similarly, the WDR on Agricultural Development⁵³ highlights the relevance of political economy issues and the potential for policy reform to create space for bottom up voice and mobilization.

*“To use the new political space created by democratization and decentralization and exercise political voice, smallholders and the rural poor need to form more effective organizations. To strengthen capacity for policy implementation, countries have to identify the combination of demand-side and supply-side governance reforms that best fit their specific conditions. Sound agricultural development strategies require stronger capacity for policy analysis and evaluation, and a commitment to evidence-based policy making”.*⁵⁴

Institutional reforms in the case study examples mostly focus on marketing boards and other parastatal or quasi-governmental organizations that intervene directly in agriculture. Parastatals continue to dominate food markets in Africa, particularly in Francophone Africa and to a lesser extent in Southern Africa. The Agricultural Development and Marketing Corporation (ADMARC) in Malawi, the Food Reserve Agency in Zambia, and the Grain Marketing Board in Zimbabwe, for instance, are still heavily involved in domestic food markets.

Table 2 illustrates the key criteria through which the political economy aspects of the agriculture sector case studies have been assessed, and which in turn served as heuristic tool to inductively develop the political economy framework, presented in Chapter 3.

⁵³ World Bank 2008d

⁵⁴ World Bank 2008d, p 265

Table 2: Agricultural sector reform case studies against political economy management criteria

Case Study	Reform Context				Reform Arena				Reform Process		
	Scope of reform discussions	Institutions	Stakeholders	Economic interests	Political interests	Dialogue and Decision-Making	Champions (Change agents)	Bank's influence			
Burkina Faso, cotton sector	Privatization of state-owned company exploit less-developed cotton areas and revoke monopoly of cotton company. Privatization was initiated slowly from within starting with producers taking up a third of SOFITEC capital in 1999.	Vertically integrated institutions organized through SOFITEC (distribution, procurement, R&D, transport, ginning, marketing etc.). This institutional model lacks institutional transparency, open to corruption and protection of individual political interests.	Director General (DG) of the cotton company: had an interest in success of reform (high prices in zones, stable sector). Head of farmers union widely recognized and supportive (farmers owned major share of SOFITEC). Minister or Commerce was largely undecided and got involved at a late stage.	Reform was expected to increase rents for farmers, SOFITEC and government (via taxes).	Political interests were not evidently driving the reform process beyond a recognition of the political capital to be made from stronger predicted agricultural performance.	All key stakeholders were closely involved in the reform discussions, which enabled a consensus-driven approach to reform.	Minister of Finance and Director General of SOFITEC as "pragmatic champions" driving the reform process once it was under way. SOFITEC was taking a key role in the reform process which contributed to building trust among many actors.	General limited donor involvement. Bank's sustained engagement in long-term dialogue brought influence over reform.			
Senegal, groundnut sector	Privatization of state-owned company, SONACOS, which was the leading operator in the groundnut business. Groundnut production/marketing has benefited from state support and protection (cheap credits, subsidized seeds and fertilizers).	The sector operates institutionally to distribute cash income to rural sector during the electoral cycle. Privatization has not been accompanied by private sector institutional change - no private sector engagement in input supply, commercialization or marketing as expected.	Minister of Agriculture opposed privatization. Limited trust of Ministry of Finance in SONACOS' capacity. Religious organizations have a significant influence in groundnut sector	Some political actors were believed to profit from arrangements financially.	Close connection of the political cycle with groundnut production: (e.g. distribute cash income to the rural sector).. SONACOS was also believed to be used to maintain political support base.	Lack of consultation and participation during the PRSP process and subsequent reforms.. Skepticism towards further liberalization supported by unfavorable distributional impacts for poor farmers.	No influential champions of change identified	Climate of distrust between World Bank/IMF and the Government due to two failed privatization attempts in the 1990s.			
Tanzania, crop board reform	Government Task Force established to review performance of crop boards (successors of marketing boards) to address agricultural market distortions after liberalization in 1990s. PSIA reviewed crop board roles and funding to produce crop-specific reform options rather than implement prescribed measures.	Governance and performance of crop boards has a high profile, dominated by powerful interests. Liberalization created institutional vacuum, with slow private sector participation. Many smallholders were without input/output markets, while crop boards engaged in marketing (buyer of last resort). Crop boards were not downwardly accountable to their constituents in the crop industries.	Stakeholder and institutional mapping helped to identify opponents and supporters of reform. Crop Boards were in favor of the status quo. Technical level: Task Force (Ministry of Agriculture Ministry of Cooperatives) supported reform. Political level: Ministry of Cooperatives: opposed reform, Ministry of Agriculture supported reform.	Crop Boards drew revenues from industry (e.g. cess, licenses, property), but were only accountable to Ministry of Agriculture, and feared loss of relevance, and power over industry with increased private sector participation.	Skepticism towards market economy and adherence to socialist principles and traditions in parts of government and small-holder producers. Government motivated by populist concerns about the interests of favored constituents.	Early and continuous stakeholder consultation. Government and donors promoted reform ownership and broadened support for policy change. PSIA as joint study between Government (Task Force), EU and WB, and support from two universities; approach enhanced reform ownership.	The Government (Task force and political level in Ministry of Agriculture) and donors (EU, WB) were broadly supportive of reform and acted as change agents	Crop board reform was included in the PRSP (rural and agricultural sector strategies) and in a donor supported Poverty Action Framework.			
Indonesia, rice tariff reform	The government expressed an interest in raising tariffs on imported rice. Bulog (the public agency) advocates increasing the import tax on rice from the current Rp 450/kg to Rp 750/kg. A PSIA was conducted to look at reform options and predicted impacts.	In 2000, Bulog's monopoly on rice imports was abolished, but still dominates with 75% total imports. Legislative elections in 2004 brought in a "pro poor, pro-growth" program. No mechanism exists to systematically link sectoral approaches to poverty into an overall framework of macro-economic policy analysis. In this vacuum, policy making remains institutionally controlled by powerful interests	Government bodies advocating a high tariff (Bulog, Ministry of Agriculture) were found more powerful within government than those which advocated a low tariff, or no tariff at all (incl. Ministry of Economy and BAPPENAS, national planning committee). The Poverty Reduction Committee (KPK) was responsible for the PRSP but could not be mobilized effectively to act on the basis of the PSIA findings.	The PSIA does not articulate whether and how stakeholders' support for reform is being influenced by rent seeking behavior.	Beyond confirming the politicized nature of policy making in Indonesia, the PSIA does not articulate whether and how stakeholders' support for reform is being influenced by political vote-seeking behavior.	There was limited dialogue around the PSIA process. A workshop was held in mid-October 2002 to provide a forum for discussion of results of the CGE modeling the PSIA outputs. While there was good attendance from academics, and donors, fewer stakeholders from Government and civil society attended than anticipated.	The donors struggled to mobilize champions of evidence-based policy making. The entrenched positions of the stakeholders were not unsettled by the PSIA. The Indonesia PSIA had limited success with the 'reference group' made up of civil society and government to champion the PSIA and ensure the results were taken up.	Limited influence as Indonesia is not eligible for PRSC or PRGF mechanisms. IMF blamed for continuing poor economic performance following the 1997 economic crisis. PRSP preparation was not linked to IDA access, thus not a prerequisite for CAS preparation.			

4.1.2 Reform arena

An institutional vacuum can be created when reform processes towards privatization of public services or liberalization of previously state-controlled markets are started too early or without adequate process planning. An example of this, and how the Bank addressed the problem, is the agriculture reform process in Malawi (see Box 3 below). If the public sector ceases to provide services in a situation where the basis for private sector participation, such as credit markets and contract enforcement measures do not exist or are dysfunctional, the consequences for the people dependent on those services can be severe. Markets, to the degree they appear, may be distorted with for example private monopolies or they may simply be inadequate for rural producers in terms of logistics.

Reforms often have direct impacts on the preservation and allocation of rents and therefore directly challenge vested interests. For example, removing a government's control over prices, leaving price setting to market forces, will remove the indirect taxation of producers through holding prices below the market level. This can at the same time undermine the rent seeking position of interests within parastatals as their mediating role is eroded by the introduction of market forces. As has been observed "Many reforms are designed to reduce or eliminate the rents accruing to small groups of privileged interests. However, these are precisely the policies that are most likely to be fought by the groups that have relatively more influence on the process."⁵⁵

Institutions: The challenges of transition

Pressure to undertake agricultural reforms can build up in different ways. Institutions, such as land tenure and agricultural marketing systems, are the product of historical factors and conscious policy decisions over time. As local and global conditions change, the performance of these institutions may be affected. Moreover, evidence may emerge that particular institutions are inefficient or inequitable, thus prompting political pressure for reform — both internally and externally.

Government-controlled agricultural marketing systems, which may have been established to generate revenues for government or to protect producers from perceived exploitation, have over time become loss-making, unresponsive to changes in the market, and skew functioning of market/industries to reward quality produce with higher prices. Continuing subsidies to loss-making entities maintain inefficiencies and divert government budgets from other priority expenditures. Unresponsiveness has knock-on effects on the efficiency of the entire agriculture sector and represents a major obstacle to agricultural growth.

Because vertically integrated agricultural systems in primary agricultural economies have such huge economic and political institutional significance, a technocratic approach to reform will always be unlikely to succeed. Reforms threaten long-standing institutions and affect the distribution of rents and power. In the case of the Burkina Faso cotton sector reform, for example, the vertically integrated institutional model of agricultural production and distribution operates relative effectively, but is associated with public monopoly, a lack of transparency and the possibility of corruption and protection of individual political interests. The controversial nature of these reforms within popular debate presents additional political risks to governments, with the threat of political resistance and social tensions. These tensions may constitute a political threat for national governments and make them less likely to engage in reforms⁵⁶.

A particular challenge to marketing board reform is the modification of institutional functions which can occur in a transition of ownership — including formal and informal duties and responsibilities. For example ADMARC in Malawi supplies significant services to rural areas, prompting fears that private operators might be unwilling to take over this service provider role, leading, in the absence of alternative forms of public or parastatal provision, to rural market failures and social externalities (refer Box 3).

⁵⁵ Lundberg, 2005

⁵⁶ World Bank, 2006e

Box 3: Evidence-based Policy Making: Malawi ADMARC Reform

Since the late 1980s, agricultural markets in Malawi have undergone several reforms. Prices for agricultural produce and inputs have been liberalized to allow for private-sector participation, as have agricultural marketing services. The state's Agricultural Development and Marketing Corporation (ADMARC) was restructured and it sold off many of its assets and began closing some of its unprofitable markets. However, private traders have not uniformly stepped in where ADMARC's state market presence was removed. Significant controversy surrounded subsequent recommendations to reduce ADMARC's marketing role further, and possibly to sell off a considerable portion of its marketing infrastructure. First, the government and civil society expressed concern about the existence of market failures in remote areas, noting that if these remote markets were closed because they were inefficient, it would be unlikely that they would be replaced by private traders because transportation costs are high relative to the return on maize sales. There was also concern that ADMARC fulfilled an important service by maintaining adequate food storage for preventing shortages during the lean seasons. In addition, the government had concerns about the political implications of closing down ADMARC's markets because the public perception of ADMARC's importance in agricultural marketing and food security was much higher than its actual importance.

Given the sensitivity of the issue and the potentially massive impact on the poor and vulnerable groups in Malawi, a PSIA was undertaken in 2001/2002. The PSIA revealed that private traders, both large-scale and small vendors, were progressively replacing ADMARC as buyers/sellers of crops, especially in markets with well-developed infrastructure. Large-scale traders were few, and specialized mainly in the purchase of cash crops. Small-scale unlicensed traders were many and provided an accessible marketing channel for buying and selling of maize in the rural areas. These small vendors had to some extent bridged the gap left by ADMARC's inability to provide reliable and efficient marketing services.

However, ADMARC markets in rural areas appeared to play an important role as distribution networks for affordable maize in the lean season and in times of famine, in providing benchmark prices, in providing a reliable source of inputs, and in the purchase of crop produce from farmers. Even in areas where private traders were particularly active, notably border markets, the withdrawal of ADMARC might have had negative consequences for food security and regular access to inputs. Maintaining ADMARC in its current form, however, was wasteful as its services were not required in less remote areas of the country where private sector activity was already well established. On the other hand, completely eliminating ADMARC facilities would ignore the fact that well-functioning market institutions and infrastructure did not exist uniformly throughout the country.

The PSIA partly addressed the objections to privatization raised by government and civil society. The study also increased awareness of the emphasis placed by the World Bank on maintaining social services and to address market failures in remote areas. The findings were widely debated early January 2004, with broad participation by civil society and donors. Not to postpone negotiations for a new World Bank credit, the government decided to repeal the ADMARC Act prior to wide dissemination of the findings of the PSIA. Although the repeal of the Act did not in itself introduce any changes to the operation of ADMARC, in the absence of a clearly articulated government plan for ADMARC reforms it raised wide concerns across civil society. The findings of the PSIA were subsequently incorporated into the new World Bank Structural Adjustment Program, approved in April 2004. The upshot is that the restructuring separated ADMARC's social and commercial functions so that they are managed by separate institutional entities with lean organizational structures. In line with this agreement, the government has recently set in motion the process to restructure ADMARC.

Source: Kutengule, Milton, and Antonio Nucifora and Hassan Zaman. 2006. Malawi. Agricultural development and marketing corporation reform. Coudouel, Aline, Anis Dani and Stefano Paternostro. *Poverty and social impact analysis of reforms*. Washington D.C.: World Bank

At the micro-level, local institutions can be replaced by powerful rent-seeking actors imposing new institutional arrangements and distorting the intended impacts of reform. Political economy analysis at the micro level can test assumptions about the distributional benefits of reform and identify risks and opportunities at the local level. For example, in remote areas that are not serviced by private traders farmers can be left without access to input and output markets (market closure), or private traders can fold increased transport costs into farm gate prices thereby lowering farmers' income, or private sector monopolies can emerge.

In Senegal, following the dissolution of the state-owned groundnut purchasing agent SONAGRAINES, private speculators took advantage of government cash advances distributed under a new "farm gate" marketing system. Private agents were able to buy the crops at less than the official price, instead proposing to pay cash for a small portion of the crops and giving 'vouchers' for the rest. Farmers who tried to sell directly in local markets were confronted with representatives of the same speculators who brought down their product prices still further. Most of those left holding 'vouchers' could not get paid since many private intermediaries had vanished. The impact on the local economy and on household welfare was devastating.

In the case of rural social institutions, these are often underpinned by power dynamics based on hierarchical age, ethnic and gender relations, which in turn mediate poor people's livelihoods and access to resources under policy reform. Understanding the ways in which such power structures affect the functioning of local institutions (such as cooperatives, markets, and households) is important for a full appreciation of the likely impacts of reform measures.

Actors and their economic and political interests

A range of actors is involved in reforming agricultural markets. In addition to the marketing boards and government ministries, departments and agencies, stakeholders include private traders, small farmers (sometimes organized in a union-type organization), civil society organizations, and donor agencies.

Marketing boards have traditionally been important instruments for political clientelism, particularly in the run up to elections. Marketing boards are not inherently opposed to liberalization, but their attitude towards reform is contextual. They consider their own future roles and powers and those of other players, policy alternatives, institutional relations with Government and the perception of international organizations and donors. Furthermore, the interests and influence of individuals in the boards or government, plus their income sources, accountability and organizational status (public, quasi-government, or industry regulators) are factors determining how marketing boards respond to policy reform proposals.

Options for liberalization and privatization can be hampered by the reluctance of politicians to relinquish control over public or parastatal companies (see Box 4 for an illustration of this in the cotton sector in Chad, and the Tanzania case study in Annex 1). Also the case of the groundnut sector reform in Senegal, illustrates a political economy where the state-owned company played its traditional role as an instrument to distribute cash income to the rural sector during the electoral cycle to enhance political support by rural voters.

Box 4: Managing the political economy of reform through PSIA in Chad

Reform Arena: The Government of Chad adopted a reform program in the cotton sector in 1999, to complete a reform process that was launched already in 1986. The objective was to improve the income of cotton farmers and enhance their efficiency in cotton production through the liberalization of the sector, including the privatization of the parastatal *Cotontchad*. Aware of the difficulties in implementing similar reforms in other African countries, the Government approached the World Bank for assistance in analyzing the likely poverty and social impacts of the proposed reform. A preliminary stakeholder analysis based on interviews with members of civil society, academics, retired *Cotontchad* employees, and intellectuals showed that while the Government was clearly interested in improving the efficiency of the sector, it did not want to lose its hold over cotton production. The president as de facto owner of *Cotontchad* was openly opposed to the privatization. He was supported by the French who still held a consistent number of shares of the parastatal and effectively maintained a monopoly for the supply of inputs and credits.

World Bank's approach to the Reform Process: Once familiarized with the main political economy issues, the controversy around the reform, and the real stakes at play, the World Bank team opted for an approach that would rely on informal yet legitimate sources of information, and to proceed in a low-key manner. The team decided not to conduct a self-standing political economy analysis as this might have triggered negative attitudes and reactions against the entire PSIA exercise. Instead, a preliminary analysis was conducted in-house by the Bank team during mission travel and through key informant interviews. An international consultant and a local consultant then conducted a more in-depth stakeholder and institutional analysis that investigated potential constraints and opportunities that could influence the progress of the reform process and its intended outcomes. This political economy analysis early in the project proved to be essential in order to tailor the World Bank's support to the Government's reform needs.

Source: World Bank, 2003c; Authors communication with PSIA TTL.

Notwithstanding the ideological stance or legitimate arguments of politicians against privatization, this position can be based on rent seeking or political clientelism. Withdrawal of state intervention in agricultural markets often threatens opportunities for rent seeking amongst a range of stakeholders. Parastatal agencies are obviously often direct losers in a liberalization process. Understandably they are reluctant to reform themselves out of the income, privileges and

rents that come with the job⁵⁷. In general, parastatals may lose rents when their functions change from direct intervention to providing information and regulation. In Tanzania, the crop boards, and the political level of the Ministry of Agriculture and Food Security and the Ministry of Cooperatives opposed the reforms that would reduce their controls over private agents and require greater accountability to producers in service delivery. The study realized that more direct engagement with stakeholders at the political level could have reduced some of the delays in the subsequent policy decisions on reform design and implementation⁵⁸.

Rent seeking may not be a significant issue from the perspective of equity or growth objectives - the cause of small inefficiencies. However, it can get out of hand and bring about structural collapse, as the Indonesia rice sector case illustrates. “Bulog”, Indonesia’s state marketing board, achieved remarkable success in making the country self-sufficient in rice production, and arguably stimulated rapid economic growth through intervention in input, credit, and output markets. By the 1980s, however, Bulog’s mismanagement and corruption had become widely recognized.

Governments are obviously motivated by the interests of the powerful constituents. For politicians, agricultural reform is often a balancing act between the needs and interests of urban consumers and rural producers. Agricultural reform proponents seek to shift the balance in favor of small rural producers by removing what they see as price distortions that subsidize urban consumers. But since urban consumers are often better organized and more influential than rural farmers, politicians can be reluctant to redistribute rents away from the urban constituency. This prompts governments to keep prices of agricultural products low thereby taxing producers directly or indirectly⁵⁹.

Powerful interests can block price reforms based on the likely shift of rents, even in the face of a large number of reform supporters and/or compelling evidence that reform is a good thing. Two of the cases provide examples:

- In Indonesia, a PSIA was conducted to generate evidence on the likely distributional impacts of an increase in the rice tariff. A computable general equilibrium (CGE) modeling exercise concluded that a tariff increase would have a net negative impact on poverty as rural producers and laborers were net consumers of rice. Nonetheless the state commodities logistical agency “Bulog” and the Ministry of Agriculture supported the policy.
- In Mozambique, cashew nut processors and their urban workforce were major opponents of reform, contributing considerably to the failure of some key aspects of the reform despite much support within Government, and arguably to the detriment of a voiceless constituency of small farmers (refer Box 5).

Box 5: Powerful opposition to cashew nut sector reform in Mozambique

The cashew sector is a major cash crop in Mozambique. It is the main source of income for over one million peasants who grow cashews and sell them either to domestic processors or to traders, who export them for processing abroad. Cashew production dropped dramatically during the country’s civil war (1982-1992), experiencing a further drop in 1997, mainly due to bad weather. In its 1995 Country Assistance Strategy (CAS) Report, the World Bank required Mozambique to liberalize cashew marketing and exporting in order to satisfy the “base case” conditions and qualify for approximately \$400 million of loan assistance. It was assumed that the liberalization would increase the producers’ share of the export price, farmers’ income, increase cashew production, and enhance export value. In reality, the gains from the reform were offset by efficiency losses that have resulted from the idling of processing plants, which led to widespread unemployment. In contrast to the expectations, a large number did not find employment, contributing to the overall failure of the reform. While part of the failure can be attributed to technical matters, such as pricing signals, political economy issues are frequently cited as main reasons for the disappointing outcomes of the liberalization. Powerful urban and industrial interests — processors and their urban workforce — had been joining forces against the World Bank, the government, and a much larger but voiceless constituency of small farmers. Liberalization was bitterly opposed by some parts of the local cashew-processing industry, which employed about 10,000 people. The processors waged a well-organized political and mass media campaign, in alliance with the anti-government press, claiming that export tariffs on raw cashews were insufficient to protect their livelihoods. Moreover, the liberalization of the sector was perceived as World Bank policy, i.e. something the government had to do because it was required for IMF and World Bank lending rather than government priority.

⁵⁷ Lundberg (2005) notes that for this reason it may be necessary to directly compensate those who are laid off by the dissolution or privatization of parastatal agencies, even if the prospects for subsequent employment are good.

⁵⁸ Government of Tanzania and World Bank, 2004

⁵⁹ Lundberg, 2005

Lacking credibility due to popular perception that this was a policy foisted upon it by the World Bank and IMF, the Government struggled to “sell” the liberalization by disseminating reliable data and encouraging debate. Had this opposition to the reform been anticipated, compensatory mechanisms could have been worked out beforehand. Seminars and public information campaigns might have helped to build support for the government’s position, illustrating the advantages of liberalization for the rural poor, and demonstrating that the reform policy is mindful of the long-term interests of all parties in the sector.

Sources: World Bank (1998); McMillan et al (2002).

4.1.3 Reform process

The reform process is understood as the forms of participation, communication and decision making through which policy reform is negotiated and implemented. The quality and extent of dialogue is crucial, as is the sequence and timing of actions. Equally important are the human agents, the presence of champions of change, and their actions.

Dialogue

The interests of actors and operation of institutions often overshadow the technical or economic case for reform. Stakeholder interests are keenly defended and embedded institutions are resistant to change. The reform process unsettles the status quo, realigns interests and challenges existing institutions.

The way reform options are introduced and discussed influences whether and how they are contested and, in successful cases, ultimately resolved. For example, if civil society is excluded from the policy process it can oppose reforms on the basis of an expectation, which may be groundless, that existing livelihoods and entitlements will be threatened. Of course civil society may also oppose reform because it is in fact poorly conceived or implemented by government and donors – in which case a process of dialogue should help to rectify these problems. The cases illustrate the potential value, in terms of reform outcomes, of a longer-term process of engagement on reform.

- In Burkina Faso, with a favorable political and macro-economic environment, all key cotton sector stakeholders, were closely involved in the reform of the sector, which enabled a consensus-driven approach to reform that was sufficiently flexible to accommodate the interests of the various stakeholders involved.
- The Tanzania PSIA of crop board reform tackled vested interests by embedding the study in a process of active policy dialogue, coalition building and reform ownership, from the study’s design stage through implementation to dissemination.
- The high levels of protests that accompanied Mexico’s agricultural reform of the maize sector were addressed constructively through ongoing policy dialogue which resulted in a political solution and policy change (see Box 6 below).

Champions of change

The case studies underline the significance of “champions of change”, in the form of individuals and alliances that can foster “coalitions for change” and maneuver between political-economic vested interests to reform a sector. Champions of change for one reason or another have an interest — or can be persuaded that they have an interest — in the success of a policy reform and have been shown to be very influential in supporting change. In the Burkina Faso case, the Director General of SOFITEX, the national cotton company, proved to be crucial to the success of the liberalization by seeking consensus with the Government (he was former Deputy Minister of Finance) and by creating a relationship of trust with the producers and other actors.

Box 6: Agricultural Reform in Mexico

Throughout the 20th Century, maize held a special importance for the Mexican economy. Tortillas, made from maize flour, were an important staple and a primary source of calories and protein for many Mexicans, especially the poor. Maize, produced for sale or consumed on-farm, served as the foundation for rural livelihoods in much of Mexico over many generations and is therefore closely tied to Mexico's cultural heritage. More recently, the effects of decades-old policy reforms are changing the role of maize in Mexican society.

Those reforms are closely tied to the role of CONASUPO, a Mexican agriculture parastatal that regulated many important food-crop markets in Mexico. The parastatal was established in 1965, but its antecedents go back to the 1930s. From that time, state regulatory activities in agricultural markets increased continuously until the debt crisis of 1982. By the 1980s, CONASUPO managed markets for barley, beans, corn, oilseeds, rice, sorghum, wheat and powdered milk. A common pan-Mexican price was established annually for many crops, international trade was restricted, and CONASUPO served as a buyer of last resort. CONASUPO managed the storage and transport of many crops as well. At the same time, CONASUPO was charged with keeping food prices affordable and subsidies were paid out to maize millers and other processors to keep consumer prices low. These twin objectives proved tricky, since higher farm prices mean more costly subsidies.

A reform process, which would ultimately lead to the demise of CONASUPO followed an oil boom in 1982, an ensuing debt crisis, and from 1988 a period of market-based reforms. The CONASUPO reforms accelerated in the period immediately before and immediately after the launch of the North American Free Trade Agreement (NAFTA) in 1994. The government started a phased withdrawal from key commodity markets and by 1990 CONASUPO ceased operations in oilseed markets and consumer subsidies on wheat bread were dropped. By 1991, price supports for nine field crops were eliminated, and CONASUPO operations were limited to beans, maize and powdered milk. A program to privatize CONASUPO storage facilities began as well. Even so, government interventions did not stop entirely, and a new agency, ASERCA, offered targeted marketing subsidies in key areas.

Public engagement in the debate around these large-scale reforms was high, featuring lobbying on issues such as the price of farm equipment, and protests from impacted communities. Politically, all discussions became focused on NAFTA, as fears mounted that Mexico would be flooded by less expensive maize (and other products) from the US. The US did not flood the Mexican maize market, however, because the structure of NAFTA ensured that trade reforms would come slowly to maize, beans and other key crops (the Treaty allowed for initially high tariffs and low import quotas, designed to protect domestic markets) and because the peso underwent a significant devaluation in 1994, shifting the terms of trade in favor of Mexican agriculture. Around the same time, the government began PROCAMPO, a program that delivered direct income payments to farmers in lieu of price supports. Moreover, much of the yellow maize coming into Mexico from the United States was taken up as feed for a growing poultry and hog production, leaving the food markets to domestically produced and consumer-preferred white maize.

Still, with the passage of time, links between the Mexican and US maize markets have strengthened and prices have become more closely tied. More significantly, the decades-long process of market reform has brought about changes in agricultural markets and in labor markets that encourage scaled-up agricultural operations and non-farm income activities over traditional labor-intensive farming practices. Incomes outside of agriculture are generally higher and many households have been able to take advantage of new opportunities. Even so, not all households are well-suited to change; nor are some traditional approaches. Protecting vulnerable households and preserving cultural heritage are therefore important components of Mexico's reform policies.

Source: Authors' interview with task team.

The World Bank's influence

The Bank has experienced many frustrations with effecting change in the agriculture sector when the benefits of the proposed reforms, in terms of growth and poverty reduction, often seemed so apparent to Bank task managers. The historical use of conditionality instruments has resulted in many frustrations for task managers, as in the case of Mozambique (Box 5).

⁶⁰ Much of this section draws on Yunez-Naude, Antonio. 1998. "CONASUPO: The Dismantling of a State Trader", unpublished.

Bank influence has proved most successful where it has entered into long-term dialogue as part of the reform process. This was the case in Burkina Faso, where the cotton sector was privatized and liberalized in close collaboration of key stakeholder that enabled a consensus-driven approach to the reform between Government, Bank and other stakeholders. The pace of reform was gradual, a clear statutory framework was created by government that allowed the privatized cotton company to invest in research, extension, and equipment over the long-term, and all key stakeholders were closely involved from the beginning. Equally important are communication within the donor community and the value to reform progress of IFIs and donors “singing from the same hymn sheet”. An example is the Senegal groundnut sector case, where distrust between World Bank/IMF and the Government due to two failed privatization attempts in the 1990s was combined with a lack of cooperation between major donors involved in the sector. There was a lack of consultation and participation during the PRSP process and subsequent reforms were hampered as a result.

The significance of in-depth political economy analysis informing Bank behavior and influence in this sector emerges strongly through the case studies. In the case of cotton sector reform in Chad, for instance, the political economy analysis early in the project proved to be essential in order to tailor the World Bank’s support to the Government’s reform needs. In Tanzania, the Bank used the empirical evidence of the political economy and distributional impact analyses to stimulate the debate on crop board reform and address powerful interests that opposed reform and defended the status quo. The analyses influenced the Bank’s policy and budget decisions of its third and fourth Poverty Reduction Support Credit (PRSC3, PRSC4). In Madagascar, elements of the Country Assistance Strategy (CAS) design were built on the recognition of the need to understand the political economic context of reform, rather than treating political variables as exogenous. The World Bank country team commissioned a senior, locally-respected, independent research team to investigate the nexus between governance and politics (see Box 7 below). The study found that the President’s political support base was narrowing and identified a personalization of policy issues as an issue, with the reform agenda too closely tied to a specific individual.

Box 7: Political Economy of Reform in Madagascar

The World Bank has worked with the Government of Madagascar to develop a Country Assistance Strategy (CAS) that will provide a roadmap for the strategic focus of World Bank support over the next three years (2007- 2010). Madagascar is at a critical point in its history, as it has emerged from decades of authoritarian rule into a democratic governance system seeking liberal economic norms. This transition provides both opportunities and risks.

A World Bank Country Assistance Strategy Retreat identified multi-sectoral efforts, particularly, governance, as an area in need of greater attention and improvement. In order to facilitate this process, the World Bank country team commissioned a study of political economic context of upcoming elections (Marcus and Randrianja, 2006). The report was concerned with how effectively citizens and internal stakeholders are engaging the policy-making process. It considered how the current Malagasy social and political context affects governance (for example, for the efficient and equitable delivery of public services) and explored whether there is space for open debate and participation in policy-making. In order to address these questions this report undertook a political analysis of institutions in relation to democratic and governance goals, looking especially at the ethnic make-up and nature of political parties, coalitions and alliances that support or reject reforms, and state-civil society engagement.

The report draws out nine primary conclusions about governance and political challenges, and proffers recommendations for the Bank about particular areas where it may be well-placed to help resolve them, including recommending the promotion of good governance through support to popular accountability mechanisms. The analysis concludes that the relationship of the executive with other branches of government, including those with lower levels, and the quality of relationship between the state and civil society, government and opposition as critical dimensions of governance that require further attention. The report also argues that Madagascar’s weak civil society, nascent electoral system, inchoate political parties, combined with informal coalitions and alliances within the government, and divided views about reforms make governance and democratic reforms vulnerable.

Source: Marcus, Richard R. and Solofo Randrianj. 2006. Madagascar structural political analysis as an input for a Country Social Analysis and Country Assistance Strategy. Prepared for the World Bank AFT: ESSD 2. Washington D.C.: World Bank.

4.2 Water Supply and Sanitation Reforms

The focus in this section is on reforms towards increasing the scope of private sector participation in water service provision⁶¹. Public-private partnerships (PPP) vary in scale and scope, ranging from long-term concessions to so-called “soft” forms of service and management contracts⁶². Rather than juxtaposing privatization and public ownership, reforms of water services exhibit varying degrees of public and private management. Under PPP, reform discussions focus on technical issues (such as service provision and tariff setting) and on the type of utility management⁶³ that governs the service provision.

Although the case study focus of this section is on water supply, much of the discussion and analysis is relevant for sanitation too, being part of the water supply-sanitation nexus. According to current estimates, over 2.6 billion people do not have access to basic sanitation and hygiene. Following a 2005 World Bank study⁶⁴, global investment will have to increase to at least US\$ 2 billion to meet the MDG target. However, there is on-going concern that governments, at many levels, are not devoting enough attention and resources to sanitation services. While there are no general figures showing on- and off-budget expenditures in that sector at regional levels, evidence at the country level illustrates that investments and expenditures in sanitation are very low compared to those for water supply and other infrastructure services. Additionally, existing sanitation investments and service provision are not always pro poor. Efforts to increase access in service provision can benefit better-off urban residents at the expense of urban poor, slum dwellers, or the rural population. On the other hand, there is general consensus and evidence on the economic and health benefits of adequate sanitation services. Many documents suggest that governments’ limited sanitation expenditures are determined largely by political, rather than technical or economic constraints in the context of competing demands for resources.⁶⁵

The World Bank has a sanitation-related portfolio of US\$2.6 billion, with sanitation lending currently representing 35 percent of the Bank’s Water Supply and Sanitation (WSS) Sector Board Lending. Investments are lowest, however, in those regions arguably with the greatest needs, Africa and South Asia. The World Bank is also committed to “traditional” urban sewerage and wastewater treatment, which is not inherently well targeted to meet the needs of those without access to sanitation⁶⁶. Key questions for sanitation are how to increase investment into the sector and provide sanitation services that are more pro poor, which are not only technical but more often political economy issues⁶⁷.

The 2006 World Bank study on lessons of infrastructure⁶⁸ identifies two political economy challenges for the Bank in regard to private participation in infrastructure. The first challenge is that governments are reluctant to charge tariffs that cover costs, and the second is the need for a fuller understanding of the factors that influence how public opinions are shaped regarding World Bank operations. The study recommends that “be-

⁶¹ The World Bank and other development organizations have carried out a substantial number of studies and analytical work on water supply and sanitation reforms and reforms of utilities in general.

⁶² See Ringsok et al, 2006 for a more detailed discussion of types of water supply contracts.

⁶³ Privatization in the sense of sales of public assets is not on the policy agenda, having been carried out previously only in the United Kingdom and Chile.

⁶⁴ Kolsky et al., 2005

⁶⁵ See Kolsky et al, 2005 and UNDP, 2006

⁶⁶ The Bank faces a number of internal and external constraints to developing sanitation projects, and has established a Sanitation, Hygiene and Wastewater Advisory Service to facilitate the planning and implementation of sanitation and hygiene projects or components (Kolsky et al, 2005).

⁶⁷ To further investigate this, the Bank is conducting a comprehensive multi-disciplinary analysis on the ‘Political Economy of Sanitation’, combining the perspectives of sanitation, social development, and economics. This work will include country level applied analyses and an overview report which is expected by the end of 2009.

⁶⁸ See World Bank, 2006b

fore reforms are launched, extra attention should be given to (a) analyzing who will win and who will lose; (b) reducing the risks of corruption; and (c) understanding public perceptions and adopting a communications strategy”⁶⁹.

4.2.1 Reform context

A shift from mega-concessions to management and lease contracts

During the 1990s, private sector participation was promoted widely as the solution to water sector problems in developing countries, providing expertise and investment to rehabilitate infrastructure and expand coverage. Between 1990 and 2005, private investors committed US\$50 billion to more than 380 water infrastructure projects⁷⁰. Between 2000 and 2007, there was a surge of new private water operators from developing countries, with 250 new entrants into the market, according to a forthcoming study on 15-years’ lessons of urban water Public Private Partnerships⁷¹. There are now 160 million people served by private water operators in developing countries, up from an estimated 96 million in 2000. Out of this 64 million net increase, 90% correspond to contracts signed between governments and national operators. Increased local service provision changes the political economy of the water sector, as social accountability and public perceptions change. In the past, services were often provided by international or (multi)national companies which tended to be unaccountable to their customers who in turn may have often perceived the provider’s operating principles to be biased towards profit-maximization rather than adequate service provision. While regional or local private providers still work on a commercial basis, their accountability to customers and customers’ willingness to pay for their services both seems to be higher. Among the factors driving success of local PPP’s are responsible behavior towards local populations and keeping up dialogue with local governments, thus ensuring local preferences are met⁷².

Since 2001, large investment projects have declined markedly in the face of hesitancy in financial markets and the impact of financial crisis in East Asia and Argentina. So the “era of mega-concessions” seems to be over, while those remaining concession projects — such as in Colombia, Malaysia and Peru - are more likely to be based on a mix of public and private financing. During the same period from 2001 to 2007, the number of water sector projects has actually increased. Many of these new projects take the shape of PPPs in management and lease contracts, and new operations are designed that run across the entire spectrum of public-private partnerships in infrastructure provision⁷³. PPP arrangements vary and include:

- **Concession contracts** for complete private sector coverage of operation and maintenance (O&M) and infrastructure investment, recovered through consumer tariffs;
- **Lease-affermage contracts** in which the private operator generates an operating surplus sufficient to cover their remuneration, while the government covers investments;
- **Management contracts** in which the private operator covers O&M, and government covers investments, with O&M recovered through tariffs and investment via taxes and donor funds; and
- **Public service provision**, with O&M and investment funded by government. — covered by tariffs, taxes, and donors.

PPP arrangements allow private operators to focus on improving operational efficiency and viability while leaving public authorities responsible for raising investment financing, which it can often obtain on better terms from donors⁷⁴. This shift has also allowed a broadening of focus from high density urban water projects (with a premium on extending services to the urban poor) to include low density, low income “greenfield” rural projects where development impacts are high. It is now recognized that rural communities

⁶⁹ World Bank, 2006b

⁷⁰ Marin and Izaguirre, 2006

⁷¹ World Bank, 2008b

⁷² Pers. Comm.. with Sr. Water and Sanitation Specialist; World Bank in 2008

⁷³ World Bank, 2006b; Bhatia and Gupta, 2006.

⁷⁴ Marin and Izaguirre, 2006

are willing to pay for and manage water supply and sanitation services when offered choice and voice in the design of delivery and financing mechanisms⁷⁵.

The Bank's strategy: transparency, contract enforcement and improved performance

The Bank's approach to improving water supply and sanitation services acknowledges the significance of an institutional enabling environment for sector effectiveness. The four-pronged World Bank Water Sector Strategy includes an emphasis on institutional strengthening for improved service quality and delivery:

*"[...] where developing countries have steadfastly pursued sound policies and created supportive and sustainable institutions, they have made remarkable progress in expanding the reach of water and sanitation services."*⁷⁶

When this strategic vision is operationalized through PPP in water supply and sanitation reform, the Bank emphasizes principles of transparency and contract enforcement, underpinned by improved contractual and regulatory frameworks⁷⁷. The rationale is that a contract with a private sector operator reduces opportunities for "top slicing" and becomes more transparent to monitor and enforce. At the same time, performance is expected to increase as incentives shift, with utility providers becoming more accountable, commercially oriented, creditworthy, and customer-focused⁷⁸.

Table 3 illustrates the key criteria through which the political economy aspects of the water sector case studies have been assessed, and which in turn has served as a heuristic tool to inductively develop the political economy framework, presented in Chapter 3

⁷⁵ World Bank, 2004e

⁷⁶ World Bank ,2004e

⁷⁷ See Baietti et al, 2006 for a fuller discussion.

⁷⁸ World Bank, 2004e

Table 3: Water supply and sanitation reform case studies against political economy management criteria

Case Study	Reform Arena					Reform Process		
	Reform Context	Institutions	Stakeholders	Economic interests	Political interests	Dialogue and Decision-Making	Champions (Change agents)	Bank's influence
Jordan, Amman	<p>Scope of reform discussions</p> <p>Management contract to improve the performance of urban water supply. Previous projects failed to improve sector performance and efficiency.</p>	<p>Institutional context of water reform dominated by Water Authority of Jordan (WAJ), a statutory body with financial and administrative autonomy. Institutional shift through incentives and sanctions bundled up in performance-based contract.</p>	<p>Water resources development and management are vested in the WAJ. No structured identification of opponents or supporters of reform. Evidence that non-payers among middle-class opposed reform.</p>	<p>Opposition to reform from non-payers who will lose out on benefits of more effective management as they (being illegal consumers) will be cut off from network.</p>	<p>Although the performance improved considerably, the water authority still believes that private management is not solution to Amman's water problem and will attempt alternative public management.</p>	<p>Limited dialogue and information dissemination to address bad reputation of private management.</p>	<p>Highly politically influential Ministry keeping reform on track despite often changing ministers.</p>	<p>Bank used a relatively small and "expensive" (IBRD) contribution of \$55 million within an overall donor package of \$255 million to "buy a seat at the table" and provide technical support.</p>
Argentina, Salta Province	<p>Concession contract awarded in Salta province in 1999, after international tender.</p>	<p>Concession of the state water companies to Provincial executive Branch of Government, 1996</p> <p>Political and macroeconomic crisis, followed by civil unrest (2001). Background of failed PPP attempts in the region</p>	<p>Pro-reform provincial government. Some local governments were opposed to the concession but the provincial government engaged them directly in talks and turned the situation round.</p> <p>MECON, S.A., a local construction company, won the concession in partnership with the public utility of the state of Parana in Brazil, so developing itself into a strong and committed local utility provider.</p>	<p>Rents protection did not play a major role in blocking reform progress.</p>	<p>The provincial government realized the political currency to be gained through a progressive and developmental intervention in infrastructure provision.</p>	<p>Reform was seen as a collaborative effort to be gained between provincial and local governments, civil society and the concessionaire "make things work".</p>	<p>Provincial government as steady and continuous supporter of the reform effort – even in the times of crisis in 2001.</p>	<p>No World Bank involvement.</p>
Albania	<p>Decentralization and public and private utility management.</p> <p>Political pressure to address urban water sector issues. Implementation of 2002 Decentralization law incomplete and slower than expected.</p>	<p>Decentralization expected to bring institutional transformation through changes in incentives and accountability, but will take time & water sector reform is dependent on this</p>	<p>No interests in local Gov'ts to take over utility assets unless they have confidence in the policy environment and future investment (current uncertainty due to incomplete decentralization on roles, investment volumes and timetable of asset transfer). MoPW and MoI each want to keep control over future investment funds. Local gov'ts are reluctant to take over unprofitable or insolvent utilities. Utilities benefit from status quo.</p>	<p>Reform aversion in Gov't central level: no decision yet which ministry will control investment funds after decentralization is implemented; local gov'ts are reluctant to take ownership of utility assets. Utilities have no incentives to reform as they receive operating subsidies from central gov't.</p>	<p>Some central government entities resist decentralization due to loss of power and decision-making in the water sector. Local governments in cities with public utilities have been conservative on tariff increases because of concerns over public reaction.</p>	<p>Civil society involved through participation in Social Assessment during project preparation. And can engage directly with utility managers through Consumer Panels. Communication campaigns. Demonstrations against tariff rises without quality improvements in 2003.</p>	<p>The MOIGD demonstrated strong commitment to pushing through reform. Government will look to scale up elements of this four-city pilot with private utility management to the national level.</p>	<p>Reform included in PRSP; supported by Bank's Municipal Water and Wastewater Project (2003), and scaled up through DPL (2007). Bank marshaled evidence via a water sector PSA (linked to MWWP) that supported debate on different sequencing and pacing of reform; is part of analytical underpinnings of DPL (2007).</p>
Bolivia, La Paz and Cochabamba	<p>Reforming government capitalizing state enterprises. Water supply and sanitation rehabilitation for three municipal utilities; poor performance in La Paz and Cochabamba, so President pushed 30-year concession management contracts for these municipalities.</p>	<p>Institutional context characterized by political interference in tariff setting, keeping tariffs unsustainably low. Private sector participation overturned under popular protest, prompting re-nationalization.</p>	<p>Municipal utilities privatized by pro-reform municipal governments. Opposition from middle class consumers, informal water vendors and poor consumers facing high connection charges.</p>	<p>In Cochabamba, the exclusive transfer of water services to the concession holder jeopardized important vested interests, including truck vendors and cooperatives who no longer had a source of water for their business.</p>	<p>Political interference in concessionaire tariff setting due to concerns over popular reaction. President cancelled La Paz concession in 2005 in the face of widespread civil unrest. Opposition to water resource investment in Cochabamba forced a climb down and cancellation of the concession by the Mayor</p>	<p>From 2001, Civil society opposition to the concession was powerful and well-organized prompting a government climb down. In Cochabamba, tariff increases by the concessionaire sparked "war over water" forcing tariff reduction.</p>	<p>Pro-reform actors in national and municipal government initially successful in pushing through reform.</p>	<p>In 1991-1997 the Bank funded a \$35 million urban water rehabilitation credit for the utilities of three major Bolivian cities: La Paz, Santa Cruz, and Cochabamba. Condition of loan was a tariff increase to sustainable levels.</p>

4.2.2 Reform arena

Institutional reform in the case study examples was intended to fundamentally shift elements of authority and accountability away from large, centralized inwardly-accountable public authorities to smaller, decentralized outwardly-accountable private operators. Water provision then relies, in theory, on the water consumers that are paying tariffs and who can hold service providers accountable and demand performance improvements directly from them.

Because water supply is an essential public good, the politics around it are often forceful. For example, politicians will try to retain control of tariff setting, sometimes based on legitimate social concerns, other times to please their constituencies. Private sector vendors will resist an expanded and more reliable water network coverage that will be bad for their business. An important supply-side political economy aspect of urban water supply and sanitation is that investment requirements for source development, mains, and sewerage and treatments plants will typically be substantial and have long-term effects on finances as well as on general urban development issues.

Institutions: Changing incentives and accountability

In many countries urban water supply management and tariff setting has been controlled by a central agency or utility. Introducing PPP management contracts that also bring tariff reform entails a shift away from reliance on taxes and donor funds to income from utility customers. Some reformers find that costs for service provision should be fully recovered through tariffs, and that all consumers must be tariff-paying utility customers⁷⁹. If politicians are reluctant to raise tariffs due to political reasons, the consequences for water supply sector reform can be terminal if not combined with other measures, such as improvement in collection rates and enlargement of customer base by charging all consumers (including those that are exempted, such as public institutions); decrease in unaccounted for water; and improvements in service quality such as increased service hours.

Centralized public water agencies or utilities can resist tariff reform because of an aversion to accountability to the customers, which can be the result of various things, including tradition, perverse incentives, etc. For example, accountability relations emerged as a key issue in the Delhi case where accountability and contract enforcement were notably absent, and on a smaller scale in the Burkina Faso case study:

- In Delhi, the parastatal Delhi Jal Board (DJB), created in 1998, is the primary provider of piped water supply and sewerage services, serving a total of 1.5 million water connections and an estimated 1.3 million sewer connections. In the early 2000s, DJB performed poorly by any standards: water was supplied intermittently (despite ample production capacity) and was of poor quality. DJB operation indicators were all extremely weak and revenues were insufficient to cover operating costs, let alone capital expenditures. DJB relied heavily on Government financial support for both recurrent and capital expenditures. The Bank, approached to finance a water supply and sanitation project, was ready to support a minimal reform based on: (i) an improved accountability framework through the unbundling of the functions of regulator, financier, owner of assets and provider of service — hitherto concentrated in the hands of the state government; (ii) the contracting of operation and maintenance in pilot zones to professional operators; (iii) more transparent financial transfers based on actual outputs in terms of improved service; and (iv) a gradual move towards full cost recovery. But the project ran into trouble for a number of reasons: little political and staff buy-in, a vocal campaign by anti-reform groups against the deployment of foreign consultants, and fears among middle-class residents about tariff hikes, with each of these fueling the others. Eventually, this led to the government deciding to shelve the project.

⁷⁹ However, a point of debate is whether the cost of service provision includes depreciation of head works and replacement costs.

- In Ouagadougou Burkina Faso, (as in many poor cities) many families depend upon on-plot facilities (pit latrines and septic tanks) rather than sewers to meet their sanitation needs. Such onsite facilities require periodic emptying (“desludging”), usually provided by the informal sector. Although sludge can be rich in disease-causing organisms, the workers and owners of sludge emptying trucks have little or no incentive to carry sludge long distances to the central treatment works - instead, sludge is dumped in the nearest ditch or watercourse, with the consequent risks of disease transmission. For this reason, the sanitation department of the National Water Agency has been exploring both the construction of decentralized sludge treatment works, and the use of financial incentives, to create conditions where it is both financially and practically easy for the informal sector to “do the right thing” and deliver the sludge where it can be treated and rendered safe.⁸⁰

An example of institutional change in a context of decentralization is Albania’s water sector reform.

- In Albania, the government embarked on decentralization to improve the effectiveness and efficiency of water supply and sanitation service provision. The 2002 National Law on Decentralization mandates local government with the provision of water and sanitation services and tariff setting authority, but reform progress is slower than expected. Reasons include: an uncertain policy environment (with incomplete information about new roles and responsibilities for both central and local government); unprofitable water companies; and a political tussle over the control of future investment streams between the ministry responsible for decentralization and the line ministry for water supply and sanitation. As a result it became necessary to clarify provisions for asset transfer, financial viability, and the legal framework to ensure the success of the water sector reform. Decentralization, which entails fundamental changes in institutions, incentives and accountability, will take time and the water sector reform process is dependent on this.

The Albania case study, along with the case of provincial reform in Argentina discussed below, highlights that the changes in central-local government relations in a decentralization process is an important starting point for institutional change in both central and local sector agencies. However, an example of the complexities involved in establishing functional PPPs in a context of urban decentralization is the case of public toilets in Ghana (Box 8). Here the establishment of appropriate public sanitation was blocked by a combination of institutional inertia, decentralization without fiscal decentralization, privatization of small, but only semi-independent public services, political patronage systems, and rent-seeking behavior.

⁸⁰ Personal communication with Senior Water & Sanitation Specialist, ETW, World Bank in 2008

Box 8: “Toilet wars”: urban sanitation services and the politics of public-private partnerships in Ghana

In Accra and Kumasi in Ghana public toilets consistently have been poorly managed and the site of local political conflicts — toilet wars — despite efforts at franchising them and community management. Despite nearly 20 years of experiments with various forms of public toilet management by political groups, to community businesses, to direct management by the Sub-Metropolitan Districts the actual situation had not changed much as of early 2003.

By the mid-1980s, there were 384 and 400 public toilets in Accra and Kumasi respectively, used by 38 per cent of the population in Kumasi, and 25 per cent in Accra (all in the poorest areas). At that time, structural adjustment started rationalizing the public sector work force, affecting sanitation laborers who used to clean the toilet facilities. District and Metropolitan Assemblies were mandated to collect user fees for the cleaning and maintenance. However, a high number of public toilets lacked adequate financing or fee income for maintenance. Problems were exacerbated by the continuing funding crises and never-ending retrenchments in the decentralized government system. This reinforced the appeal of a franchising or contracting-out policy to relieve local government authorities of the maintenance burden and offer prospects of an improved revenue stream.

PPP policies began in the 1990s and toilet management and maintenance were formally “privatized” in 1994. Franchising and sub-contracting of revenue-earning public services became extremely popular with the newly elected local political elites. They had potential for boosting public revenues. They also rapidly became prizes in the political patronage networks of the city governments. The franchises involved revenue-sharing agreements between the franchisees and the Sub-Metropolitan Districts (SMDs), and remained one of the few sources of revenue still under the control of the latter. SMDs now rely on the toilets for around 60–70 per cent of their total revenues — which nevertheless remain totally inadequate. Contracts were supposed to be given to registered local companies with demonstrated capacity, but in practice beneficiaries have tended to be the Assembly Members. Often they used front companies which were “community businesses” employing local people. Many were former leaders of Committees for the Defense of the Revolution (CDRs) from the 1980s, who continued to be dominant in local politics — which were (and remain) officially “non-party”. “Toilet wars” erupted when new generations of Assembly members challenged the dominance of the old CDR leadership. Public toilets became politically protected business opportunities which, like taxis or bars in other cities, were given out as political favors. Privatization led to a decline in the power of officials and increase in the power of politicians and contractors, who now form a nexus of patronage relations that it is hard for officials to challenge.

From 2000 onwards, the new government’s policy emphasizes “real”, transparent and competitive privatization, in contrast to the franchising policies of the 1990s. Two new Metropolitan Chief Executives for Accra and Kumasi were appointed, hoping that this would ensure implementation of the radical privatization policy. But this brought the new Chief Executives into conflict with established local political networks, even within their “own” party. Full scale political conflicts developed between Assembly Members and the Chief Executives, principally over their stated intention to introduce full transparency into the tendering procedures. The arrival of new cohorts of elected Members simply produced new, often violent conflicts between former and new Assembly members deriving from “direct action” takeover battles for physical control of the toilets between groups associated with different Assembly Members.

Community groups in the poorest districts were frequently created by or dependent upon local politicians and in some cases were part of an urban “political machine”. Thus the normal logic of electoral politics, where politicians are punished for poor performance when they don’t bring government jobs and amenities to their localities did not operate. Instead, the privatization of the revenues generated by essential public services such as public toilets was siphoned off by politicians who either owned or protected them, in order to buy the support of crucial opinion leaders and community “vote-brokers”. The actual performance of the service becomes less important than the privately distributed pay-offs it generates. The lack of party competition in Ghanaian local government also reinforces the power of well-connected politicians to punish community groups who step out of line, as well as to reward those who accept the benefits on offer. So the public toilets continue to remain overflowing and unemptied for months on end.

The political power of elected members and city officials, community politics and the patronage opportunities offered by this form of privatization are inextricably linked and cannot be “depoliticized”, least of all at the community level. It is only when these realities are recognized that different and perhaps more effective policies can be developed.

Source: Based on excerpts from “Toilet wars”: urban sanitation services and the politics of public-private partnerships in Ghana by Joseph Ayece and Richard Crook, IDS Working Paper 213, December 2003.

Actors' interests and influence: political and economic interests

Opposition to water sector reform often comes from the urban middle class who benefits from existing subsidies. It is not uncommon that 30-35 percent of connected users pay below the cost price for water. In Honduras, for example, decentralization of the non-functioning national water utility caused active opposition amongst different stakeholders, notably the middle class⁸¹. Since the urban middle-class is an important constituency for some politicians, they work to keep their tariffs low. Thus political obstacles to reform are often bound up in a “socio-political contract” between governments and vocal and influential middle-class constituents. An interesting discrepancy between “willingness to pay” for water versus “unwillingness to charge” is found in many cases. Willingness to pay studies conclude that poor consumers are willing to pay for piped quality water, as they often already pay more for non-networked water if they are not connected. However, governments' frequent reluctance to charge higher tariffs is based on political pressures to keep tariffs artificially low. Lack of political will to impose tariffs that cover operation and maintenance costs can also be due to perverse incentives or patronage as illustrated in the La Paz case study where political interference in concessionaire tariff setting derailed a process which had been extending coverage to poorer parts of the city.

These concerns can influence decision-making and actions by bureaucrats, who may avoid unpopular policies, such as raising tariffs and enforcing collections, in order to retain their positions. In other cases political interference is more direct. A recent study on well-run public companies examined water utility management in Mexico, where the utility was very well run and getting better, before the mayor changed and threw out all the staff, at which point its performance began to deteriorate⁸². This is why utility managements and especially regulators should be legally independent entities with at least some financial independence.

In some countries, the water service agencies and utilities are overstaffed, like many other government agencies are⁸³. Public sector unions then typically oppose reforms to protect the jobs of their members. In this context, a major discussion point between the Bank and borrowers, that is outside the scope of the present study, is the financing arrangements for the typically very substantial financial burden of compensation for lay-offs.

Public institutions, such as schools, hospitals or military bases are often exempted from paying their water bills and politicians can be reluctant to abolish such exemptions, on various grounds. If the ministry of local government, for example, through the water utility enforces bill collection from the ministry of energy, it can expect a similar treatment from the electricity company, and being short of funds to pay for years of arrears, it may experience being without power. Instead public institutions are sometimes seen to make ‘debt swaps’ between for example the water and the electricity utility, or the water utility and the telephone company. However that is not always possible, for example if a decentralization process has changed responsibilities and transferred liabilities from central government agencies to local governments. In the Albania case, one reason why local governments are reluctant to take over asset ownership of water utilities is that many have electricity debts that had been incurred by central government, but that would need to be serviced by local governments if they accept the asset transfer. These very real problems should be transitional, but they point to the importance of sequencing, timing and coordination of reform interventions in any particular sector.

On the positive side, political interests can also present opportunities for institutional change, if motivated by improving coverage and development outcomes, or by the realization that price increases can bring better quality services which can give political returns. Politically-driven change can break the cycle of opposition to reform, unsettle institutions and bring about change. The Salta Province concession in Argentina illustrates this well.

⁸¹ Personal communication with Senior Water and Sanitation Specialist, ETW, World Bank (2008)

⁸² Kingdom, 2006

⁸³ In Tegucigalpa, Honduras, for example, 1,100 people are employed in the sector when the ideal number would be closer to 300 people. Personal communication with Senior Water and Sanitation Specialist, ETW, World Bank in 2008.

In Argentina⁸⁴, the Salta administration, with one of the poorest of Argentina's 22 provinces, was motivated to water sector reform by concerns of coverage and public health. It used imaginative means in its role as the concession granting authority to change the institutional set up in a way that would progress towards universal coverage. Water Sector Reform in Salta started after the provincial legislature delegated the power to define the rules and procedures to concession state water companies to the Provincial Executive branch of government in March 1996. Under the Argentine legal system, provinces have the authority to delegate responsibilities for water and sewage service provision to municipal authorities, yet neither the regulatory framework nor the concession contract provided for the involvement of local governments. Undaunted, the provincial administration developed a transaction strategy, that was designed to build bridges between the municipalities, user organizations and the concessionaire. Salta Province learned from the failures of mega-concessions in Latin America in the 1990s. As a result, coverage increased from 76 percent to 96 percent for water supply and from 54 percent to 84 percent for sanitation, while the number of municipalities served by the concessionaire was increased from 43 at the beginning of the concession to 56 in 2005. The achievements made toward the objective of universal coverage are notable in part because the concession took place in a poor province, and because it survived a major economic crisis in the country.

Economic rent-seeking behavior can be a significant factor in water supply and sanitation reforms. Examples abound. In an institutional context with low transparency, poor contract enforcement and weak accountability, large investments provide opportunities for "top slicing". Poorly monitored tariff streams can be diverted. Illegally connected customers can pay utility staff to avoid being cut off. Approaching and working with these incumbents can be challenging, and some may actively block reform.

Economic interests at the micro level center on rent seeking in non-networked areas mediated by powerful stakeholders aggressively defending their interests, sometimes with "mafia-type arrangements"⁸⁵. Private water vendors make a living out of selling water at ten times the unit price. In some instances, the staff of the non-functioning utility sell water illegally to vendors. In Karachi, for example, utility staff are not working effectively and are operating an informal system, while in May 2004 in Chennai, no water was distributed formally, but there were 11,000 tankers distributing water in the city.⁸⁶

The playing out of these economic interests can have positive and negative implications for the poor. In Delhi, tariffs are purportedly set at low levels to "protect the poor against large water bills". But the DJB water bill is only part of the water budget of households who typically spend about 1.5 times its amount on "substitutes to piped water investing and operating boreholes, pumping, storage and disinfection equipment". Indeed, the poor and in particular the slum dwellers suffer most from the bad service that results from the low tariff and as they cannot finance construction and operation of such substitutes and often have to supplement their meager allocation of piped water from expensive private vendors.

Through decentralization and social mobilization, the number and type of stakeholders that exert their interests and influence in the reform increases, institutional arrangements change, accountabilities shift and the complexity of design and implementation of water sector reforms increases. For instance in Albania, decentralization gave local governments the sole mandate to provide water and sanitation services. However, a major stumbling block to the water sector reform has been the political economic risks posed by diverging interests -within and outside government- including central government resistance to relinquish authority, and the reluctance of many local governments to take over water utilities that are unprofitable, and indebted or insolvent. Additionally, the water sector witnessed changes in number, type and size of private service providers in recent years. There is a growing number of local and regional companies, from developed but also increasingly from developing countries, and of small-scale or informal providers that operate in the water supply and sanitation sector⁸⁷. This calls for innovative and flexible approaches to lending and non-lending activities by the Bank.

⁸⁴ Saltiel and Maywah, 2007.

⁸⁵ Personal communication with Senior Water and Sanitation Specialist, ETW, World Bank in 2008

⁸⁶ Personal communication with Senior Water and Sanitation Specialists in ETW and SAR, World Bank in 2008

⁸⁷ World Bank, 2008b

4.2.3 Reform process

The complexities of political economy of reform in the water supply and sanitation sector highlight the need to tailor analysis to the country and reform context. Secondly, it calls for a flexible and pragmatic process approach.

Dialogue and Decision-making

Civil society organizations (CSOs) are very involved in the water supply and sanitation sector in many countries. The “water as a human right” debate has motivated advocacy CSOs in Ghana, Bolivia and elsewhere to raise legitimate concerns regarding water supply accessibility and affordability under reform processes (see Box 9 for an account of these issues in Ghana). CSOs, being part of society – both local and global - naturally have their own internal tensions. Shifting alliances, for example between global public sector unions, the social justice movement, former service delivery NGOs turning to advocacy (e.g. WaterAid, Oxfam), and local consumers’ associations are commonly seen.

Box 9: Civil Society Organizations in the Water Sector Reform in Ghana

In 1995 the Government of Ghana (GOG) began stakeholder consultations to examine options for reforming the country’s urban water supply sector. Poor financial and commercial performance meant that the sector was unable to generate enough revenues to sustain itself. Only 51 percent of the urban population had access to improved water supply. The most pressing problems were a lack of entrepreneurship in management, high levels of non-revenue water, poor billing collection, and weak financial management. Starting in 1998, the Government undertook broad stakeholder consultations that included CSOs, donors, the Ghana Water Company and civil society. The outcome was a recommendation that a private sector option should be examined for the urban water sector. Eventually a management contract was considered.

Given the long period it took to get the management contract to bid, the government saw communication as an important component of implementation, and hence a communications strategy was developed based on solid research. A household survey showed that consumers were more concerned about water availability (41 percent) and water quality (32 percent) than price (5 percent). Eighty-one percent responded that unreliable water availability was the biggest problem with their water supply. The majority of respondents felt that both local and international private sector participation benefits Ghana (86 percent), and 81 percent anticipated positive impacts as a consequence of Private Sector Participation (PSP) in Ghana’s water sector. However, 33 percent of the respondents considered the government to be the most trusted party to manage and operate water delivery systems. The government was aware of the challenge to broaden the PSP debate and communicate key decisions to its citizens, as well as to the active NGO community in the country. Negative media coverage both domestically and internationally, and vocal opposition from civil society groups, highlighted legitimate concerns about profiteering of the private sector and access for the poor.

The Ghana Water Project then launched a Public Education and Communication Program. A Water Communications Committee, made up of managers of various water-related entities, was established to coordinate and ensure consistency of messaging. The Program consisted of three parts: (i) community rallies for Resident Associations; (ii) tailored workshops and presentations to media, Members of Parliament, NGOs, women’s groups, labor unions and religious interests; (iii) production and dissemination of TV documentaries and radio talk shows. A public debate ensued between the NGO-sponsored National Coalition Against Water Privatization and a pro-PSP coalition inclusive of resident associations, professional associations, and individual citizens. The latter marched in the street urging the government to speed up implementation of PSP reforms. A management contract was signed in November 2005 with a consortium of private companies to manage the country’s largest 84 urban water systems.

Legitimate citizen concern continues to encourage transparency and public oversight of the contract to ensure quality of service. Communications is now the responsibility of the consortium. It remains to be seen if they have the capacity to manage the communications challenges they continue to face, while remaining accountable to consumers so that communication means more than simply an effective marketing tool.

Sources: *Communication for Water Reform: A Guide for Task Team Leaders*, DevComm, World Bank; “Ghana Water Restructuring Project: Public Opinion Poll Findings”, PowerPoint presentation, World Bank, June 2004; *Communications Strategy for the Ghana Urban Water Project – 2005*, Communications strategy, World Bank.

In some cases, and ironically in the eyes of pro-reformers, the interests of rent-seeking stakeholders can coincide with the actions of civil society groups against reform. In Bolivia and in other cases, civil society has opposed both tariff increases, drastic staff reductions and exclusion of the poor and criticized the assumed

high profit for the private sector. A lot of the criticism was directly aimed at the World Bank which was seen as forcing privatization.

This shows the importance of public perception for the reform design, implementation, and evaluation. Lessons from two decades of infrastructure reform identified this as a particular political economic challenge⁸⁸. Perceptions are not only based on empirical evidence, but also on the way reform issues are debated, decided, implemented and evaluated. This calls for public debate of reform options that not only consults, but actively engages civil society, ideally at design stage. During the decision-making process, it then requires a systematic process to address concerns that civil society has with the design, implementation or sustainability of the reform.

Dialogue can be improved through evidence-based approaches that move beyond the ideological rhetoric over private sector participation. From a pro-reformer's perspective it is not so easy, however, to demonstrate that higher tariffs will lead to a higher level of service, especially in areas which are already connected to the water supply system. Consumers experiencing relative deprivation understandably can become quickly aggrieved if service does not improve when prices rise, as the case of tariff increases under pilot PPP in Albania illustrates⁸⁹. If the quality of services deteriorates after the PPP has been put in place, consumers are likely to complain, which of course is their legitimate right. However, the issues of 'price-to-quality of services' relative to other public services, and the pricing structure and tariff increase amplitude can have drastic effects, especially in a volatile political environment, as illustrated by the La Paz case.

- In Bolivia, a state-of-the art poverty-focused management concession in La Paz extended the network to poorer consumers in La Paz and El Alto and built in long-term pay back for connection fees. Within three years, water coverage had increased to almost 100 percent, and within five years, sewerage coverage rose to 76 percent. At the end of 2000, more than 80 percent of new water and sewerage connections had been made in the cities' poorest areas. However, support began deteriorating once the connection fee was increased for new consumers in 2001 through political interference and in the wider context of national unrest over gas tariffs. Civil society opposition, mobilized by a neighborhood councils network under organization of president Abel Mamani, was so successful that the President of Bolivia cancelled the La Paz concession in 2005 and Mamani himself was later that year appointed Minister of Water.
- The Salta province concession in Argentina demonstrates that it is possible to move to a more institutionalized form of participation in water sector reform. The unique structure of the Salta concession promoted a reform arena of collaboration and partnership between the provincial government, the concessionaire, the regulating agency, municipalities and citizens throughout the concession process. In the context of widespread regional opposition to privatization in Latin America, the achievements made toward the objective of universal coverage are notable in part because the concession took place in a poor province, and because it survived a major economic crisis in the country.

Champions of change

As in the agricultural sector, the "champions of change" factor is important in water supply and sanitation reforms. Identifying such champions is an integral part of managing political economy constraints in reform processes. It is worth remembering that champions might be placed well outside the agency or even the sector in which reforms are being planned or implemented. In Amman, Jordan, despite a relative high turnover in cabinet posts⁹⁰, the water sector reform process had continuous support from political actors. The monarchy sanctioned and championed reforms and was a crucial actor in their preparation, design and implementation. Similarly, powerful stakeholders at the macro level are not necessarily influential in reform implementa-

⁸⁸ World Bank, 2006b

⁸⁹ This refers to an assessment in late 2003. As part of the ongoing reform process supported by the MWWP, improvements in water supply have occurred in Fier, Saranda and Durres over the last 4 years under the management contract.

⁹⁰ Ministers last for an average of eleven months and there have been seven Ministers of water over the past 7-8 years.

tion; as evident from the Delhi case, recognizing this distinction therefore ensures that “one speaks to the right people”⁹¹ and that the appropriate arguments are used with different interest groups.

- In Delhi, the DJB Deputy Chief Executive Officer, mandated by the state government of Delhi, assembled a small team of reform oriented DJB staff to actively design the reform and initiate a broad consultation on its objectives with key stakeholders, including politicians, DJB management and staff, the media, customers and slum representatives. But they may have underestimated: (i) the capacity of groups within the Government and DJB to derail what by Indian standards was an innovative reform that would have shifted the focus from the delivery of additional water supply and sanitation infrastructure (the preferred and familiar model) to the managerially more challenging improvement of the water supply and sanitation service ; (ii) the determination of vocal groups within the civil society to obstruct a reform for which World Bank support had been requested, and their successful fear-mongering about lack of transparency and alleged tariff hikes; and (iii) the support by better-off customers for a reform that they were led to believe, by the negative publicity, would result in higher water bills for them. In retrospect, the consultation might have been broader and earlier in the design process, and the communication more strategic and proactive.
- In Salta province, Argentina, the provincial government did not give in during many critical moments, especially during the macroeconomic crisis when opponents to the concession called for its cancellation. The provincial administration’s commitment ensured continuity and coherence in the reform process. In the context of broader social upheaval and widespread protest elsewhere in the region over privatization of water services, incentives were in place for the agencies involved to craft and implement a reform that would contribute to social cohesion rather than division. Through the reform, the provincial government hoped to unite and solidify its power base among a diverse group of political parties and social groups. The stability and steadfastness of the provincial government has been a key factor in maintaining the concession’s success.

The influence of the World Bank

The influence of development partners in the water sector is changing and in some cases gaining traction as it becomes more flexible and process-oriented. The Bank’s 2002 Action Plan brought about a policy change, discussed above⁹², and reflected in a recent publication on “Infrastructure: Lessons from the Last Two decades of World Bank Engagement.”⁹³ This signaled important learning and represented something of an admission that “we were wrong on water sector reform”⁹⁴.

Amongst government partners, the Bank has a greater opportunity to be seen as a useful catalyst in the reform process rather than resisted as an outside player imposing an external blueprint solution. This sea change has also been well-received by CSOs, impacting partnerships and sector dialogue. For example, on occasion, CSOs have aligned with the Bank against domestic incumbent interests.

As part of these newly-stated commitments to flexibility, the Bank has also learned that reform processes can benefit from an incremental approach. In Vietnam, when city water riots tipped the politicians into action, an incremental approach to institutional reform was adopted. A small part of the water supply systems in two cities was improved before attention moved to the next area. This has taken several years and highlights that even with the best intentions, one cannot turn things around overnight. The approach taken by the Bank in both the Vietnam and Cambodia water sector projects was to engage directly with the beneficiaries, and through this demonstrate to the politicians that there was support for the investment at a given tariff level.

⁹¹ Personal communication with representative of PPIAF, World Bank in 2008

⁹² See also Marin and Izaguirre, 2006

⁹³ World Bank, 2007a

⁹⁴ World Bank, 2006b, Personal communication with Senior Water and Sanitation Specialist, ETW, World Bank in 2008

Box 10. Demonstrating viable tariffs and meeting water needs in Vietnam – rural water supply

Despite Vietnam's sustained growth in recent years and a major reduction in poverty, more than 400 out of 627 district towns (with population ranging from 4,000 to 50,000) lack any form of piped water supply, and residents must rely on untreated well or river water. Provincial water companies responsible for serving district towns have only limited resources which they tend to focus on major cities.

In 2002, the World Bank's Public-Private Infrastructure Advisory Facility (PPIAF) provided a technical assistance grant of US\$ 406,000 to pilot a new way of providing water supply to two district towns. The aim was to test the viability of a new approach to delivering financially sustainable, customer-focused services — a demand-driven approach in which each community would determine the best way to deliver services for which its residents were willing and able to pay. As the project owner, the provincial water company would select a contractor through a competitive process. That contractor would carry out the detailed design work on the water supply system, construct the system, and then operate the system for a specified lease period.

At the heart of the pilot initiative was an extensive effort to engage the communities and other stakeholders, using a range of tools. These included socioeconomic surveys alongside surveys to assess demand, willingness to connect, and willingness to pay. The consultation process also included discussions of two customer-oriented issues. First, the communities had a choice of two household connection options, one requiring that customers pay an up-front connection charge and then lower rates for water, and the other involving no connection charge but higher rates. Both chose the second option. This option also included a minimum consumption charge for each connection equivalent to five cubic meters a month, a mechanism to demonstrate potential customers' commitment to using the service once connected, raise confidence and reduce the commercial risks for the operator. Second, the communities, understanding that prices would increase over time as a result of inflation, were asked whether they preferred annual but smaller price increases or less frequent (such as every three years) but larger price increases. Both communities opted for annual increases, and this choice was incorporated into the project design. After the bidding process, the contracts were awarded to local private providers in both pilots in January 2006. These operators — currently in the construction phase — are expected to begin delivering water to consumers by January 2007.

Source: Kingdom, Bill and Paul Reddel. 2006. Meeting water needs in Vietnam. How engaging communities can help lead to viable projects. *Gridlines* No. 10. PPIAF. Washington D.C.: World Bank.

The Bank has also shown that it can help to marshal evidence that will bring influence over reform discussions and decision making. The Bank's engagement in Albania's water sector reform through the Municipal Water and Wastewater project, the Public Expenditure and Institutions Review and a water sector PSIA helped to influence the sequencing and pacing of the reform, and informed the Bank's design of a Development Policy Loan (2007).

In contexts where the Bank does not have a seat at the table as a lender on water reform, it has on occasion been able to influence the reform process. In the Amman Jordan case, for instance, the Bank was able to maximize its influence in a context where it was seen as a lender of last resort. In this case, the Bank used a relatively small and "expensive" (IBRD) contribution of \$55 million dollars within an overall donor package of \$255 million to "buy a seat at the table", creating a forum for it to share its expertise, and contribute to the design of the reform package.