

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: March 15, 1999

TO: Javed Burki, John Redwood, Danny Leipzinger, Gobind Nankani, Myrna Alexander, Olivier Lafourcade, Orsalia Kalantzopoulos, Andres Salimano, Isabel Guerrero

FROM: John Briscoe, Senior Water Advisor

EXTENSION: 3-5557

SUBJECT: **Water Resources Management in Brazil and LAC – Results of a Roundtable**

SUMMARY:

The Bank and OED are assessing the implementation of the Bank's 1993 Water Resources Management Policy Paper (OED in the lead) and preparing a Water Resources Sector Strategy for the Board (Bank responsibility). The process is designed to get detailed feedback from stakeholders in our borrowing countries on what we are doing and how we are doing it. The first of these consultations were held last week in Brasilia with about 60 people – politicians, government officials from all levels, NGOs, trade unions, professional associations and the private sector. It focused on our water work in Brazil, but also drew some general conclusions for LAC.

There will, of course, be feedback and discussions with many of you further down the line. However I thought it might also be helpful to give you a quick, undigested, unvarnished sense of what we heard. The most important caveat was that this forum was not one in which to try to determine whether all the statements made were completely accurate, or the only view on the subject. Rather, the intention of the roundtable, and of this report, was to "take the pulse".

To the Bank's Board:

- you are encumbering the borrower with too many "made-in-Washington" conditionalities which have to be applied no matter what the actual situation on the ground;
- you are paying too much attention to the concerns of developed country constituencies, and not treating developing countries, even major clients like Brazil, as equals.

To Bank management in general :

- you are giving our borrowers and staff conflicting messages – on the one hand, be responsive to our clients; on the other hand, pay attention to an increasing number of regulations and directives which have nothing to do with the demands of our clients.
- the methods for assessing project performance during and after implementation are too focussed on disbursement and dollars. This is diverting your talented staff and the borrowers away from dealing with stakeholders and with substance, and often means both inflexibility and erroneous judgements about the contribution of projects.
- the focus on portfolio quality is in serious danger of generating a portfolio of "well-performing projects" which don't address the critical, difficult, development issues and thus have limited development impact;
- there is an overwhelming demand from the client that the Bank stay involved with the difficult and controversial issues (such as inter-basin transfers and dams, in the case of Brazil), even when this exposes the Bank to criticism.

To management of the Brazil Department:

- Your staff in the water sector are doing an exceptional job in Brazil.
- The Bank has a clear and appropriate strategy for water resources management in the Northeast. The Bank has played an important role in water resources management in the Southeast, but there is no clear strategy for future Bank involvement.
- The Bank needs a Water Resources Sector Strategy for Brazil which builds on the above, but which also describes how we make choices – the issues we focus on, the places we work in, the tools we use and the partnerships we engage in. It is essential that this be discussed with the full range of stakeholders and that our lending and non-lending work be derived from and consistent with it.
- You need to operate as "one Bank", not several Banks within the water sector and a different Bank in each sector;
- You need to balance the emphasis on private sector participation with a similarly-committed emphasis on the public side – in developing and implementing public policies, and in developing government capacity for regulation and management.

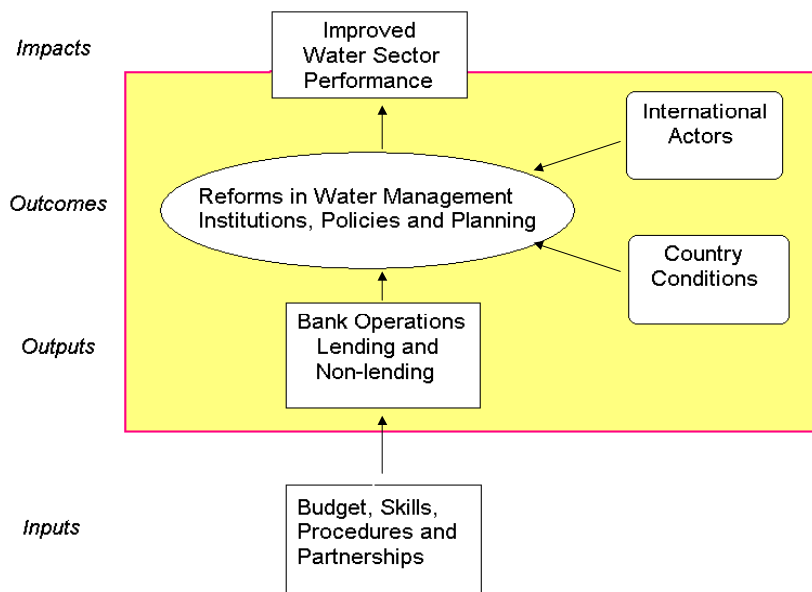
The Background:

In 1993 the Board approved our Water Resources Management Policy Paper (WRMPP). OED is preparing a report to the Board on experience with implementing the Policy Paper. The Board has also requested a Sector Strategy for Water Resources in FY 2000. With the guidance of the Bank's (informal) Water Resources Sector Board, I am leading the Bank's side of this effort. (I and my colleague Greg Browder, work closely with Keith Pitman and Monica Scatasta) in developing a common approach and a common set of data.

The framework:

There are a couple of assumptions behind this work. The first is that, as illustrated in Figure 1, it is country conditions which matter most in determining what happens. Second, a variety of external partners have a role. And, third, the Bank's contribution, in terms of lending and non-lending services, can be understood only in this context.

Figure 1: Approach to assessing the impact of the Water Resources Management Policy Paper



The methodology:

The Water Resources Management Policy Paper (WRMPP) includes almost a hundred policy recommendations. For the purposes of the assessment, these are collapsed into three groups, corresponding to a widely-understood and agreed-upon set of principles (the so-called "Dublin principles"), which are: that water is a unitary resource which needs to be dealt with in a comprehensive manner with particular attention needs to be given to the environment; that management needs to be done at the lowest appropriate level, with greater participation by users, private sector and NGOs; and that water needs to be managed as an economic resource.

We are assessing both country performance and Bank programs using this classification. The idea is not to try to quantify what can't be quantified, but to use a "traffic signal categorization" (red, yellow and green). The primary idea of the classification is not to rank, but to provide a basis for stimulating discussion on performance and its determinants.

The Brazil Focus Country Study

A central element in our approach is a set of about five "focus country studies", in which we can get beneath the necessarily-superficial desk analyses, and discuss with the people who know what has really happened, and how the Bank could do better. We chose Brazil for the first of these focus country studies. We chose Brazil for several reasons – because Brazil has made substantial progress in recent years, because the Bank has played an active role, because Gobind and his team and the Brazilian Government were open and enthusiastic collaborators, because I know the country and many of the actors, and because we could be sure that the Brazilian participants would speak their minds.

We held the Brazil Focus Country Workshop last week. It was a terrific event and confirmed, I think, that this is a good way of going about the task of both assessing the impact of the WRMPP (OED's task) and defining a Water Resources Sector Strategy (the Bank's task). Before the enthusiasm and findings congeal, I thought you might be interested in a review of the initial conclusions from the workshop.







We had about 50 Brazilian and about 10 regional participants. The Brazilians represented a wide spectrum of people – from politics (the congressman who led on water issues for the last decade), from Federal and State Government, from academia, from the national development banks (CEF and BNDES), from the private sector (mostly consultants) and from the NGO community (ranging from operational NGOs to anti-dam activists, to the trade unions). Externally we had representatives from bilaterals, the UN, and the OAS. (The most important absentee was the IDB, which was invited several times but did not attend.)

We had keynote speeches giving assessments of the performance both of Brazil and of the Bank-in-Brazil (a) from a prominent Brazilian water sector leader and (b) from our perspective. The bulk of the work at the Roundtable was done in groups, with each group deliberating on a set of questions which we put to them. We had terrific group discussions and superb reports back from the groups (to which we responded). And finally we had three very experienced water professionals from Argentina, Chile and Mexico present their views on "similarities and differences from the conclusions emerging for Brazil", with the focus on their experience with the Bank.

My reading of the conclusions:

The conclusions were remarkably consistent and coherent. And there was broad consensus that an initial reaction from us to these (on which this note is built) was “on the mark”. So here are the conclusions, organized along the lines of the questions we asked the participants to address.







Question: Is our assessment (see below) of the performance of the Brazilian water sector about right?







| <u>How has Brazil done in Water Resource Management?</u> | | |
|---|---|---|
| | <u>Policy</u> | <u>Practice</u> |
| <u>Comprehensive:</u> <ul style="list-style-type: none">• Some state and basin plans, national plan beginning• Ecological and hydropower not integrated into plans• Weak stakeholder participation• Lack of financing to implement plans |  Green |  Red |
| <u>Institutional:</u> <ul style="list-style-type: none">• State and national water laws—weak implementation• Laws for bulk water charges not yet approved• State and federal water councils, river basin committees—limited policy and planning influence• Fledgling water resource management agencies at state and national level |  Yellow |  Yellow |
| <u>Economic:</u> <ul style="list-style-type: none">• Heavily subsidized water resource infrastructure without explicit justification• Very limited bulk water charging• State Water Funds undercapitalized |  Yellow |  Red |

Answer: The participants liked this way of presenting data and shared the spirit (that the point of the ratings was more to provide parameters for a conversation than to nit-pick about the actual rankings). (Similar data were presented for the water and sanitation sector, for irrigation and drainage and for water quality.) There was general agreement with our assessment of performance in Brazil which is “considerable progress in getting things on the agenda and even policy, but much less in turning ideas into practice”. And there is least progress in dealing with water as an economic resource. (Neither problem is unusual in water reform processes, where the unit of measurement is typically decades.) Many were very frustrated at the pace of progress (10 years to get the National Water Law passed, and a seemingly interminable process to get the regulations written, for instance) and felt we had been a bit too charitable in our assessment. We pointed out that we were going to be examining reform in all the Bank’s borrowing countries and that there were few – very few – who had progressed even as far as Brazil! It was thus mostly a matter of perspective – the participants saw the glass as half empty, while we saw it as half full.

Questions on the Bank’s performance:

We started with a similar assessment of the performance of the Bank, always bearing in mind that we are just one actor (the framework presented in Figure 1). Our overall assessment (modified in part as a result of the discussions) is presented overleaf:

| Bank support for Water Resource Management in the Northeast | | |
|--|---|---|
| | <u>Policy</u> | <u>Practice</u> |
| <u>Comprehensive:</u> <ul style="list-style-type: none"> Supported state/river basin planning in Ceara, Bahia, and through ProAgua. Initiated participatory, real-time water management in Ceara Extensive planning in Ceara |  Green |  Yellow |
| <u>Institutional:</u> <ul style="list-style-type: none"> Helped organize water user associations and riverbasin committees in Ceara and Bahia, and through ProAgua Promote new legal and institutional framework for water management through ProAgua Created a bulkwater company in Ceara |  Green |  Yellow |
| <u>Economic:</u> <ul style="list-style-type: none"> Promote the principle of bulkwater charges No charges for agricultural water use Heavily subsidized water resource infrastructure Soft budgets for conveyance systems |  Yellow |  Red |

| Bank support for Water Resource Management in the South East | | |
|--|---|---|
| | <u>Policy</u> | <u>Practice</u> |
| <u>Comprehensive:</u> <ul style="list-style-type: none"> Supported river basin planning in Piracicaba, Paraiba do Sul, Iguacu near Curitiba Urban watershed management planning in Sao Paulo Integrated approach to urban water quality management: sewerage, solid waste, favella upgrades Minimal attention to broader state water resource management planning |  Green/ Yellow |  Yellow |
| <u>Institutional:</u> <ul style="list-style-type: none"> Modified state water law in Sao Paulo, Minas Gerais, and Parana to allow for local management committees Helped create inter-state committee in Paraiba do Sol basin Moderate attention to broader state water management agencies and institutional frameworks |  Green/ Yellow |  Yellow/ Red |
| <u>Economic:</u> <ul style="list-style-type: none"> Subsidies not transparent or explicitly justified Cost recovery mechanisms not clear Strong poverty components with favella improvements |  Yellow |  Yellow |

There is a clear and shared view of the Bank’s water resources strategy in the Northeast. The Bank has also played a major role in pushing Dublin-type water resources management in the Southeast. But this has been more ad hoc, and there is no clear strategy for future Bank involvement (and a lot of partners who believe this should be a major priority and are worried about the lack of clear signals from the Bank).

In terms of water-using sector strategies, there was broad consensus on the following:

- Northeast irrigation seems to be slipping off the Bank’s priority list, despite impressive achievements (such as the Jaiba project) and the new dynamism (most evident in Petrolina) of export-oriented irrigation. The Bank needs to re-evaluate this and be clear about its strategy.
- Water and sanitation – the recent (excellent) strategy is not widely known in Brazil, where there is a strong perception of a blind pushing of the private sector, without balance and without attention to the regulatory issues. The strategy (and this goes for all the others) needs to be much more widely discussed, both within the water sector but, more importantly, with civil society.
- Hydropower. The Bank has been heavily involved in energy sector regulatory issues, but with no reference to or connection with the water resources management issues. Again, there is a need for re-consideration, clarity, transparency and communication.

We examined the Bank's performance by asking the participants to address the following, deliberately provocative, set of questions:

How has the Bank helped and how can we do better?

Relevance:

#1: Are we doing the right things?
 ◦ right sectors? right issues? right places? right risks?

Effectiveness:

#2: Are we using the right tools?
 ◦ lending (soft/hard?); non-lending (analytic, training...)

#3: Do we make good use of partnerships?
 ◦ are we open? are we discriminate?

#4: Do we have the right people and organization to help?

#5: Are we using the Bank's access outside of the water sector?

#6: Are we dealing effectively with the political economy of reform?

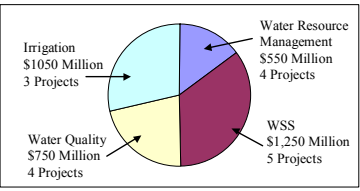
The participants provided us with very rich, nuanced and detailed feedback on each of these questions. This feedback is elaborated on below:

Question 1: Are we doing the right things?

Q#1: Are we doing the right things?

(a) Is the mix of sectoral activities about right?

Composition of New Water Projects: 1988-1998
 Total Number of New Projects: 16
 Total New Commitments: US\$ 3,600 Million



| Sector | Commitment (\$ Million) | Number of Projects |
|---------------------------|-------------------------|--------------------|
| Irrigation | \$1050 | 3 |
| Water Resource Management | \$550 | 4 |
| Water Quality | \$750 | 4 |
| WSS | \$1,250 | 5 |

Q1: Are we doing the right things?

(c) Are we focussing on the right issues?

Holistic principle:

- should we be pushing harder on environment?
- Are we doing enough to link across sectors?
 ◦ e.g. To hydro?
- To productive sectors (e.g credit and marketing?)

Institutional principles:

- are we pushing enough (or too hard) on private sector participation in urban water supply?

Instrument issues:

- are we pushing hard enough on financing, tariff, tradeable rights, cost recovery issues?
- Are we doing enough to ensure that the poor are served?

Q1: Are we doing the right things?

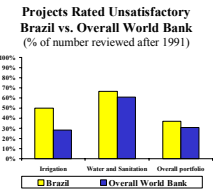
(d) Are we working in the right places?:

- Is the tactic of “backing reformers” (Ceara, SP... and then expanding to others (e.g. in Proagua) the right one?
- Do we have the balance right in terms of support at the Federal and State and Municipal levels?

Q1: Are we doing the right things?

(e) Is our portfolio too risky or not risky enough?

Projects Rated Unsatisfactory
 Brazil vs. Overall World Bank
 (% of number reviewed after 1991)



| Category | Brazil (%) | Overall World Bank (%) |
|----------------------|------------|------------------------|
| Irrigation | ~55 | ~35 |
| Water and Sanitation | ~75 | ~65 |
| Overall portfolio | ~45 | ~35 |

- Do we do too many projects that deal with the most difficult issues and look like failures at the end? or
- Is it the right thing to focus on the difficult and not worry too much about ratings?

Q1: Are we doing the right things?

(f) Are we putting the Bank's reputational risks in the right context?

- Are we steering away from controversial and difficult issues (such as dams and inter-basin transfers) when we could be making a contribution?

Answers on “right things?”:

There were two types of answers, depending on the participant. First were people (a minority, mostly from NGO and trade union background) who have not worked closely with any Bank projects. They tended to have an exaggerated distorted view of what the Bank was responsible for (most things that they didn't agree with!) and what the Bank could do (virtually everything they wanted to change in Brazil). There is obviously an enormous amount of outreach to do so that the public understands what we do and can do, better. That is not unique to Brazil!

The second (majority) group, had worked with the Bank in a wide variety of ways. In this group there was strong support for the Bank's activities in the sector. There was striking support for a particular type of conditionality (in short, implementing the National Water Law, the Bank's Water Policy Paper, and the Dublin Principles, all of which point in the same direction). The Bank's contribution was seen to be a direct result of the fact that the Bank brought a set of policy ideas (widely shared among Brazilian professionals) to the table, and that the Bank dialogued about these, pushed them into the political realm, and insisted on them in projects. This made, in the words of one senior participant the Bank an “irreplaceable actor”. (Comparisons were made with other external partners, and, in particular, the IDB. The general view was that in the past the IDB had not brought as much policy content to the table, but, happily, it was perceived that this had changed a lot in recent years and that the difference between the Bank and the IDB was narrowing.)

There was strong support, too, for the implicit Bank policy of “backing reformers” (in only a slight exaggeration, the “Ceara-Sao Paulo strategy”!) Since the great issue is turning ideas into practice, the participants urged that the Bank continue to select those who are committed to change. But there was concern that this strategy was not sufficiently transparent. Without well-established and transparent criteria, the strategy can (and is) criticized as being “pouring money into the Federal Government's favorite states”. The Bank was urged to make it clearer why it worked where it did.

There was substantial discussion of the issue of risk – in our projects, and to our reputation. As laid before the meeting by the Brazilian keynote speaker, there was a perception that the Bank was shying away from controversial issues (such as inter-basin transfers, dams and hydropower) because of perceived reputational risks to the Bank. There was remarkable consensus on this, including from the NGOs – the Bank is most valuable precisely where the issues are most difficult. And the Bank's “development effectiveness” is likely to be least if it deals only with the easy problems (although, paradoxically, this would mean that, given the way we judge things, our “portfolio performance” would be superior!) A couple of the groups expressed the opinion that the Bank paid too much attention to the concerns of its critics in industrialized countries, and too little to the realities and concerns of its borrowers.

In summary, there was broad support for what we do. The invocation was to “keep stressing policy, keep working with committed states, keep pushing on the institutional issues, and keep involved in the difficult areas rather than worrying unduly about your reputation”.

Question 2: Do we have the right tools and are we using them appropriately?

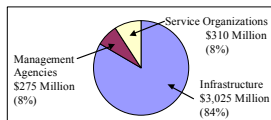
Question #2: Are we using the right tools and using them well?

Lending:

- Conventional loans? --The right mix of “hard” and “soft”?

Cost Breakdown of Bank Water Projects: 1988-1998

Total Commitments: US \$3,600 Million



Q2: Are we using the right tools and using them well?

Non-lending

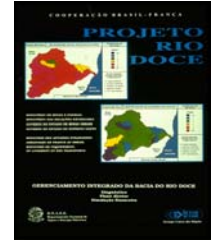
- Analytic work (e.g. on private sector in infrastructure, on bulk water pricing...)
- Study tours (e.g. Colorado tour)
- Foster partnerships, especially regional ones -- huge commonalities between implementation challenges in LAC countries (e.g. INBO, Global Water Partnership...)

Q2: Are we using the right tools and using them well?

Lending:

◦ Learning and pilots?

- Should we be doing more small-scale “adaptive lending”?
- Should we be letting other innovators (e.g. municipalities, NGOs, bilateral donors...) do the pilot and we just come in and scale-up?



Answers on “right tools”?

All discussion groups sent a strong message -- the criteria which the Bank used to evaluate the quality and performance of our projects are much too inflexible, and have little to do with what really matters in projects. This was expressed in many ways. First and most frequently, by the enormous frustration with the disproportionate attention given to disbursement as a measure of project performance both during implementation and ex post. Second is the imposition of a set of “concerns from headquarters”, which often have little relationship to the reality of the issues in the field. For example, there is an indiscriminate preoccupation with resettlement issues in many projects. Where these are real issues, they should obviously be addressed, but too often there is attention to these when they are of little real importance, and at the expense of dealing with other issues which are of much greater importance to the people (and to the mission of the Bank.) This general set of concerns was captured in the exhortation to “focus on outcomes, not processes”.

There was discussion on the mix of infrastructure and institutional components in our lending program. The general sense was that we had this about right – infrastructure was needed and “the hard” was needed as a lever in pushing the “soft” (institutional) issues onto the table. And there have been huge returns to the institution-building components of projects, such as the Ceara projects. All supported this thrust, but several groups suggested that this work be to address national levels of institutional and human resource capacity. For example, suggestions were made on developing a national approach to training community water resource managers, and that there might be a PADCT-type window (used successfully by the Bank to finance science-based capacity building) opened for the water resources sciences (broadly defined) in the CNPq (National Science Foundation).

There was strong support for the competitive and criteria-based processes which had been incorporated into a number of Bank operations – Prosanear, PMSS II, and Proagua.

There was bitter criticism, especially from the strong supporters of the Bank, about the straightjackets we put them in during implementation. There were many facets of this. They included:

- what they value from the Bank is the substantive knowledge and input of staff. They get this in the preparation process, but in implementation the same staff seem to be turned into machines for filling out forms, for monitoring disbursements, for neglecting what is central and focussing almost exclusively on requirements and processes. The most knowledgeable borrowers stressed that they understood that staff bridled under these same constraints. They had also heard the many good words about how the Bank needed to become more flexible and responsive, but they saw this as contradicted by ever-greater set of Board- and management-driven reporting requirements and ever-less focus on the critical issues which the reporting never captures. They felt that the attention to “improving portfolio quality” had not helped since the focus was always on disbursements, and never on “the unmeasurable collateral which is the real value of the Bank projects”. And they noted with dismay that the heightened awareness of “corruption” meant ever-greater attention to the already-excessive monitoring of dollars.
- the sound of the new instruments “adaptive...”, “learning and innovation...” sounded like what was needed, but they had not seen any evidence of this change in Bank operations in the field.

There was strong support for much more non-lending work. Several participants stressed that the Bank was “a huge factor in forming public opinion in Brazil”. A number of participants recalled a study tour of water management in Colorado which the Bank had organized for governors, politicians and senior policy makers several years ago. There are large returns from such activities.

There was substantial discussion of the “other drought” – that of creative thinking about public policies in Brazil today. Here there were several messages to the Bank. First, that the Bank had a major role to play, given the paucity of work on public policies in Brazil today. Second, however, was that the Bank was perceived as being almost exclusively concerned with issues like privatization, and very little with “the other side of the coin”, namely regulation, river basin management, how to serve the poor and, in general the “good government” environment that was even more sorely missing (in the eyes of many participants) than the work on private sector involvement.

Every group raised the issue of the need for a transparent Bank strategy for its work on water resources management in Brazil. It was universally agreed that this needed to be very specific – about what the Bank would do, where it would do it and how it would do it. It needed to specify how and why choices would be made (for example of places and issues). But it also needed to show clear relationships to other areas in which the Bank works – those closely associated (such as environment, power, urban and agriculture), and those which set the macro framework. Equally important, it needed to be discussed widely in Brazil, with stakeholders at all levels. It is clear that this would do a lot to improve the quality of the Bank’s work and the understanding of this by society at large, and that it would substantially help with the reality of disproportionate and often arbitrary power in the hand of task managers.

Question 3: Do we make good use of partnerships?

Q3: Do we make good use of partnerships?

- ◇ Help us define:
 - ◇ areas the Bank should not be involved in because others do it better (pilot projects?)
 - ◇ areas where the Bank should act alone (perhaps with Hacienda on financing of river basins?)
 - ◇ areas where there is synergy and it is productive to work with other partners (e.g in forging regional knowledge partnerships?)
- ◇ Tell us your perceptions:
 - ◇ Is the Bank perceived to be open to partnerships?
 - ◇ Is the Bank sufficiently discriminating in partnerships?

Answers on partnerships:

Participants included a wide variety of potential partners, both external and internal. Perhaps the most important finding from the discussion was the need to manage expectations about partnerships. The message “the Bank is committed to partnerships” has gone out and been heard far and wide. And it is generally welcomed. But this has raised a number of expectations which, when frustrated, will undoubtedly come back to haunt the Bank. There is much that is missing from such discussions. “Partnership” is often seen primarily as getting access to Bank financing for the “partners as contractors”. A number of potential external partners (such as the OAS and the UN system) perceive this to be a promise that their activities will be funded by the Bank.

Accordingly, a particularly important issue that needs to be clarified is how the idea of Bank-financed partnerships intersects with our procurement practices. On the one hand this means that potential partners need to be informed that our interest in partnerships does not mean suspension (when we are financing) of the principle of competitive bidding. And on the other hand, it means that we need to review and revise our procurement practices so that important new partners with a lot to bring to the table are not excluded a priori. A particularly important case here was raised by NGOs who work at the grass roots with communities on watershed management and other water quality issues. These NGOs are enthusiastic about being involved in grass-roots monitoring of project performance and impact. They reported that they were precluded from bidding on community-related services in Bank projects because of the (standard) requirements on having previously won large consulting contracts and having office space of a certain size. It appears that the result is alienation of an important constituency who strongly support the goals of the Bank project, but find that there are Bank rigidities which preclude them from working as full partners. (The NGOs perceive this to be something where our infrastructure sectors could learn from our social sectors.) It is also important to note that some of the NGOs expressed an unhealthy (in my view) sense that “we are the voice of the people and therefore the only ones qualified to work with them” and a hope that Bank financing for community-level work would not be subject to normal competitive bidding processes.

Many participants noted how important it is for the Bank to deal with a wide range of internal interlocutors in Brazil. As decentralization takes place and as civil society becomes more involved in water management issues, there will be more and more need for the Bank to engage with a wider range of interlocutors, within and outside of government. The participants recognized that this is something of a bottomless pit, and understood the need to be selective. What was necessary, they argued, was a need for transparency and information on what interlocutors the Bank was dealing with and why.

The participants noted that there is much to be learned from other countries, and in particular, other LAC countries in the reform process. Accordingly, there is high value in regional partnerships (such as the International Network of Basin Organizations, the Global Water Partnership) which document best practice, and develop networks of practitioners.

In summary, the participants generally welcomed the Bank's new openness to partnerships. But from the discussions it is clear that much more effort needs to go into managing the expectations which this has generated. Potential partners need much clearer signals on what "partnership with the World Bank means", especially when Bank funding for such partnerships is an issue.

Question 4: Do we have the right organizational structure and people?

Question #4:
Do we have the right organization and people?

Organization:

- ↳ we stress the need to work across sectors -- but do we do as we preach?

Staff:

- ↳ Right mix of external experience and domestic knowledge?
- ↳ Grey beards and young turks?
- ↳ Enough from reforming LAC countries (Chile, Mexico...?)
- ↳ Enough new blood?
- ↳ Too much new blood?
- ↳ What is perception of quality of Bank staff and changes over time?

Answer on "right organization and people?"

Most participants felt that the Bank had a highly qualified and dedicated staff, who brought new ideas to the table in Brazil. There also seemed to be general agreement that we had about the right skills mix, the right mix of external/internal and old/young staff. But there were a variety of perspectives on how Bank staff interacted with the variety of interlocutors in Brazil. In general interactions with government seemed to be good. And the majority of Bank staff actively sought out other interlocutors (the private sector, professional leaders, NGOs) and interacted well with them. Indeed, there were several cases where the Bank has played a major role in bringing civil society to the table. But there was still a legacy of the "old imperial Bank", and that image still persists in the minds of some of the participants.

In terms of organization in the water sector, the Bank was sharply and consistently criticized for "not doing what you preach". In particular, there was a common perception that the Bank still operated in cylinders in the water sector – the rural group and the urban group were seen as distinct and interacting only sporadically. And neither worked at all on hydro issues or with the energy group in the Bank. The

sense was not that everything had to be mashed together, but that when it came to water resources issues (where Dublin Principle #1 is “deal with the resource holistically”) the Bank did not walk the talk, and this substantially undercut the message it was sending to borrowers. In this, as in too many other instances, participants commented that “there are several Banks within the Bank”.

A related, broader point, emerged on the lack of effective management of staff. A number of participants expressed frustration at “the tyranny of the task manager”. This came out in many ways – in some cases where task managers were unreceptive to, for example, new relationships with civil society; in other cases where technical decisions were disputable. The common thread was that there was never a sense of accessibility of managers where these issues could be raised at a higher level. The result, once again, is not “a World Bank in Brazil”, but “many World Banks”.

Question 5: Is our work in the water sector in Brazil too sector-centric

Question #5:
Is our work in the water sector too sector-centric?

- Fabio’s question -- integration with Bank’s work on urban and even macro-economic work.
- The Bank is a big actor in the power sector, but our water work ignores the power sector because we don’t lend for hydro projects -- is this okay?
- Successful irrigation projects require more than water management -- do we make enough use of our links to issues like credit and marketing? (Petrolina/Jaiba)
- exploiting Bank’s privileged position (eg to Hacienda on river basin financing)?

Answer on “too sector-centric?”

Most participants felt that the Bank’s work on water in Brazil is too water-centric and that the Bank does not make full use of the Bank’s unique capability of “seeing things in a broader context” and making links across different sectors. A number of examples were cited – of urban water and sewerage investments being so vital for urban policy, and yet there being no apparent link amongst Bank’s work on water and urban; on the intimate relationship between irrigation modernization and agricultural credit and marketing, and, again, with little evidence of even discussion within the Bank on these links; on the importance of new mechanisms for financing river basin investments, and the lack of communication with the Bank staff dealing with the Finance Ministry on issues of earmarking and decentralization. (In many ways these underlie the discussions on the Comprehensive Development Framework in the Bank.)

It is important to stress that the participants did not see this as implying that there should be no specificity in Bank work or projects. The sense of the discussion was captured in the idea of “think global/act local”. Again, there was a sense of task managers focussed (reasonably) on their specific tasks, and of the absence of a strategic presence of Bank management.

Question 6: Are we dealing with the political economy questions adequately?

**Question #6:
Are we dealing with the political economy
questions adequately?**

- Do we pay enough attention to country realities (eg pushing water privatization before its time?)
- Do we pay too much attention to political constraints?
- How do we get this balance right?

Answers on political economy:

The general sense of the participants is that the Bank generally finds a reasonable balance in dealing with the political economy of Brazil. Here the choice of “dealing with reformers” was applauded as was the use of policy conditionality to support Brazilian reformers. But, as described earlier, there was a strong sense that this process needed to be much more transparent, and based in a Sector Strategy which is discussed with a wide variety of stakeholders.

There was also a clear sense that sensitivity to country conditions has improved substantially in recent years.

There was one consistent concern about the Bank’s political agenda in Brazil. It was generally (but not universally) appreciated that the private sector can and should play a greater role in the provision of infrastructure services, and it is appropriate that the Bank is involved in this in the urban water sector, irrigation and hydropower. But there was a strong sense that this engagement has been “driven from Washington”. Concern was expressed in several ways: that this push from Washington has meant that the Bank has not done enough to engage civil society in the discussion; that there has been insufficient attention to sequencing issues; that there was a “one size fits all” approach; and that there has been insufficient attention to balancing this push with a similar emphasis on getting the regulatory framework in place. (The experience of other Argentina and Chile, discussed below, is pertinent in this regard.) Of greatest concern was a sense among the participants of “imbalance” in the Bank’s emphasis. The sense of the meeting seemed to be that there was, if anything, too much pressure to move fast on privatization, and much too little pressure (if any) on other vital policy issues (such as passing the Water Law or passing the enabling regulations for this law). There was a pervasive sense that the State in Brazil has been dismantled, and that the Bank has done too little to help define and develop an effective modern state structure. This is particularly important in an area like water resources, where the public goods aspects loom large.

Observations from other LAC countries

In addition to the 50-odd Brazilians, very senior sector professionals from Argentina, Chile and Mexico attended the meeting. Their terms of reference were to listen to the discussions on Brazil, and then reflect on whether the messages emerging from the discussion were similar or different for their countries.

The Argentine participant opened his remarks with a tongue-in-cheek comment that it was a “sign of progress in the Bank” that the Bank now understood that the challenges in different countries were different! His remarks focussed on the Bank’s work in privatization of urban water services in Argentina, and echoed many of the concerns which had been expressed vis a vis Brazil – that the Bank had paid too little attention to “preparing the ground”, and that it had single-mindedly pursued this agenda while paying much less attention to issues of regulation, protection of the poor, and water resources management.

The Chilean participant provided an interesting counterpoint in several respects. In terms of urban water privatization, the Chileans had deliberately taken a two-step approach. First they had corporatised urban water services, using this as a way of developing regulatory capacity before major involvement of the private sector. Now privatization is being undertaken, but with (in contrast to Argentina) a functioning regulatory regime already in place. And, interestingly, Chile is now debating how to introduce concessions into irrigation. Second, in terms of water resources management, Chile had consciously not tried to solve all problems at once. In the early 1980s they developed the now-famous tradable water rights system. They understood quite well that a basin management capability was not in place, and that this would be necessary later. The Chilean experience with the Bank was almost uniformly positive. Chile has had a clear sense of what it wants the Bank involved in, and the terms of that engagement. The Chilean perception was that this was a “partnership among equals”. The perception in Chile is that the Bank provides global knowledge and excellent services on strategic issues. It is for this reason that, after not borrowing from the Bank for some years for water, Chile is now finalizing a technical assistance project with the Bank for development of its river basin management framework.

The Mexico participant stressed the central role which the World Bank had played as a partner to Mexican water reformers over the past 30 years. For the most part the Bank had played a central and appreciated role as a committed and competent partner, and one which was (and is) heavily involved in the cutting edge of sector modernization. The fact that the Bank invests a lot was stressed as a central element which cemented this mutual commitment. In the phrase of the presenter “policy without money is demagoguery”!

It was noted that each of these countries has served as a very important source of lesson-learning (both positive and negative) for others – Chile’s system of tradable water rights; Mexico’s irrigation district turnover; and Argentina’s concession contracts. Since these issues loom so large for Brazil, there is a powerful case for stimulating more regional interchange of experience.

Our off-the-cuff response at the roundtable

As should be evident from the above, the discussion in the groups was extremely rich, and the reports back from the rapporteurs excellent. This was not a forum for judging or resolving issues. Rather, the task was to listen, record and tell what broad messages we had heard. Accordingly, after these group reports, I gave an “off-the-cuff” response (a preliminary version of the points that are elaborated in this report) of “what we had heard”. I disaggregated these into three categories:

1. Concerns expressed that are beyond the control of Bank management (such as interest rates for loans to Brazil, and the use of proceeds of commitment fees);
2. Concerns that are generic to the Bank, and thus need to be raised with Regional and Bank-wide management (such as the “tyranny of the task manager”, and the lack of clarity of the terms of engagement in partnerships);
3. Concerns that are within the scope of the individuals and managers who work on Brazil (such as the development of a widely-discussed and transparent water sector assistance strategy which would describe how choices are made; turning best practice into standard practice; and reaching out to colleagues in related sectors to enhance the quality of our services).

The response from the participants to this necessarily schematic and initial presentation of what we had heard was that, by and large, we had indeed, “got the main messages”.

In conclusion

Finally, the Brazil Focus Country Study was a pilot for similar Studies which will be carried out in other regions. At the end of the roundtable participants filled out a questionnaire on their perceptions of the usefulness and quality of the event. All ratings were over 5 (on a scale of 1 to 6). And, most important of all, there was strong endorsement from all participants of the process of putting our partners at the center of a process of both evaluating our past work and in defining the Bank’s new Water Resources Sector Strategy. The proof of the pudding, of course, will be whether we actually internalize what we were told, and respond.

There are several ways in which our borrowers will “taste the pudding”. By mid 2000 they will have a review of how we have done in the past (OED’s job) and what our Water Resources Strategy will be (the responsibility of the Water Resources Sector Board). But most of the tasting will be more local and more immediate. It is with this in mind that we will be meeting, in early April, with regional water sector staff and managers to review the findings. And it is in this spirit that I wanted to give you some quick, undigested feedback on what we heard in Brasilia.

cc. LAC Water staff, Water Resources Sector Board, David de Ferranti, Ian Johnson, Nemat Shafik, Alex McCalla, Tony Pellegrini, Bob Watson, James Bond, Keith Pitman, Greg Browder, Jerson Kelman, Monica Scatata