

## World development report – submission from Oxfam International

20 December 2002

This submission is made on behalf of Oxfam International, a confederation of twelve Oxfams based in Australia, Canada, Ireland, the Netherlands, Belgium, the United States, the United Kingdom, Germany, Hong Kong, Spain, New Zealand and Quebec. We welcome the opportunity to comment on the draft World Development Report and look forward to commenting further on the subsequent re-draft that will be released early next year. We believe it is important the World Development Reports are written in an open and participatory manner given their influence in shaping development policy and the amount of resources spent on researching them.

We believe access to basic services is being eroded in many countries by a combination of deepening poverty, economic stagnation, and the emergence of more virulent diseases, conflict and the fiscal crisis of governments. Oxfam has undertaken a number of pieces of research in recent years to examine the structural barriers against poor people's access to basic services. A number of studies are cited in this submission and references are listed at the end.

We have chosen to divide the submission into comments on the overall approach of the World Development Report draft that we have seen (dated September 24, 2002), and some specific points on education, health, water, GATS and the World Bank and IMF's role in the privatisation of basic services.

In summary:

- Improving access to basic services such as health, education or water are essential if the Millennium Development Goals are to be met. The UN has said US\$ 50 billion is needed each year between now and 2015 to reach the Millennium Development Goals (MDGs). The WDR must recognise determining the most effective means of service delivery is important, but the question of how to scale up service delivery is critical if the MDGs are to be met. One thing is very clear, without substantial additional financing, developing countries will not be able to reach the goals.
- Oxfam is concerned that the primary focus on basic service provision must be on equity. User fees should not be imposed for education or basic health services. Although exemption mechanisms are often recommended where user fees are applied, without the additional investment in institutional capacity to manage them effectively, these mechanisms have proved ineffective.
- In the case of water, if user fees are to be charged, exemption mechanisms will require real investment on the part of the government and the delivery body involved. Access to water is essential not just for domestic use, but in the case of particularly the rural poor, it is vital to their livelihoods. The World Bank and IMF have played a critical role in promoting the private provision of water already – this must be acknowledged and the WDR must fully reflect the case both for and against the private provision of water services.

- The WDR needs to acknowledge the potential impact of GATS and recommend that developing countries be able to protect their ability to determine public policy on the provision of basic services. Oxfam would like the WDR to support our position that the so-called new issues (investment, competition policy, transparency in government procurement, and trade facilitation) are not added to the already over-loaded WTO negotiating agenda at the 2003 WTO ministerial meeting in Cancun.
- The World Bank (and IMF) is not a neutral party in the discussion on provision of basic services as a whole. They have funded many reform programmes aimed at improving basic service delivery, and controversially, have often recommended a greater role for the private sector and/or the imposition of user fees. Recent Poverty and Social Impact Assessments undertaken by the World Bank and DFID show that in most cases the assessments looked at how to carry out privatisation reforms, not whether they are the best solution. This approach must not be replicated in the WDR – it is essential there is a genuine examination of when (and if) privatisation is most appropriate.

### **1. Overall approach of the World Development Report**

In the draft report, the starting point appears to be that state delivery of basic public services is the norm, but that states are failing in many cases to adequately deliver these basic services and alternative mechanisms need to be found. We would agree there are enormous gaps in the coverage of current services in many developing countries. However, one of the questions raised by a number of civil society organisations in the WDR NGO consultation meeting in London (on November 6, 2002) was the extent to which this analysis could be uniformly applied. Many participants were concerned that the draft report unfairly implies the public sector is inefficient and potentially corrupt. It does not pay sufficient attention to the lack of government investment in basic services and the low wages public sector workers may receive despite their commitment to deliver a high quality service.

The draft report seeks to differentiate between methods of provision of health, education and water services, however this differentiation appears arbitrary, and lacks sufficient acknowledgement of the context-specific factors that influence the decision on how best services could be provided. For example, the report says user fees are not appropriate for education, but could be appropriate for both health and water services. We would suggest that user fees should not be encouraged for education or basic health services, and that in all three sectors, clear provisions to ensure that the most impoverished are exempt from payments must be a priority (see section on user fees below).

The report fails to acknowledge how costly the reforms are that it proposes in all sectors, and the need for additional resources over and above the projected cost-savings produced by improving the efficiency of public service delivery. It proposes the contracting out of water and (in some cases) health services to private providers who would be regulated by the state. However it does not acknowledge the investment that may be required to prepare these state services for sale or how costly it will be to set up the regulatory frameworks required, or build the capacity of public sector workers to manage them. In addition, governments may decide to give tax breaks to these newly privatised companies, further decreasing the revenue generated from the sale.

### **2. Education**

Oxfam has produced and contributed to a number of studies on education provision in developing countries, it also has a growing education program of its own. Our research has

found that education is highly valued by poor people because it had the powers to create better opportunities for individuals, their families and their communities. However, in most of the areas in which we work households struggle to find the resources needed to finance their children's' education, and even where user fees have been abolished parents still have great difficulty meeting additional costs such as uniforms and books.

We are concerned the draft WDR report does not explicitly support the abolition of education user fees, rather it says (on page 17), "in primary education, the consensus is that user fees may do more harm than good." The draft report goes on to say there, "should not be a blanket policy on user fees," for all sectors. Given that this report is envisaged as one that will influence Bank operations, we would expect the report to fit with current World Bank guidelines that support the abolition of education user fees. Indeed the World Bank's user fees policy states: "The World Bank does not support user fees for primary education and for basic health services for poor people."

In addition, there is no acknowledgement in the draft report of the costs of improving the quality of the education service and the capacity of education services to address growing demands. These issues are particularly critical given the impact of an expansion of the service following the abolition of fees. For example, the abolition of fees in Malawi in 1994 led to an almost doubling of enrolments. In Uganda, a similar abolition at the start of the 1997/1998 school year led to an increase in enrolment of nearly three million children. In both countries, the move to free education was accompanied by serious problems. Classrooms became seriously over-crowded, teachers and textbooks were in chronically short supply, and, initially, schools lost an important source of revenue.<sup>1</sup> Children and their parents want a high quality education – without sufficient investment after the abolition of fees, there is a danger children will simply drop out of school again.

It is estimated there is a US\$5 billion financing gap in meeting the education MDGs.<sup>2</sup> The World Bank has been instrumental in developing the Fast Track Initiative (FTI). The FTI is designed to encourage donors to better co-ordinate their financing for education and to support countries with strong national education plans. The World Bank's President, James Wolfensohn said in a World Bank press statement (June 12, 2002), "Now it is up to the G-8 and other donors to follow through and provide the financing necessary to make this education Fast Track work. For generations to come, the children of the world will thank them for it." However despite the highest levels of support for the World Bank support for the Fast Track Initiative, the WDR draft makes no mention of it and no hint that financing mechanisms to achieve the education Millennium Development Goals (MDGs) will be discussed in the final document. The discussion of scaling up service provision and financing at least as important as a technical discussion about how services are best delivered

Another issue missing from the WDR draft chapter on education, is a discussion of the differentiation in cost and provision of primary, secondary and tertiary education. The report does not seek to distinguish between them in terms of access, cost, and service providers yet there are very different issues associated with each of them. For example, while the report says it favours the provision of free basic education, there is no comment on whether secondary or tertiary education should also be free, and if not, how it should be provided and

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<sup>1</sup> *Education Charges: A Tax on Human Development*, Oxfam International 2001

<sup>2</sup> *Broken Promises? Why donors must deliver on the EFA Action Plan*, Oxfam International 2002

to whom. As part of the 2000 GATS negotiations (see section below) tertiary education is an area that could be liberalised.

Similarly there is no analysis of the additional factors (including cost) associated with overcoming the dramatic gender gap in education that affects many of the most populous countries and is a very real barrier to meeting the Millennium Development Goals, especially the goal of gender equity in education by 2005. Girls continue to make up the majority of children out of school and user fees are a major factor in their exclusion. More effort still needs to be made at the international, national and local level to convince those in authority, parents, and the girls themselves that educating girls is both a good investment and an inalienable right.<sup>3</sup>

In addition, the draft report needs to examine in more detail the necessity of improving the quality of education services. In the draft (page 38) it cites teachers' availability and the quality of their instruction as important. However questions of quality also need to assess: availability of teaching materials; the language of instruction; teachers' salaries; curriculum design; school infrastructure and facilities; academic performance of pupils; high standards of discipline among teachers and children; and provision of school meals to those who may need them.

Finally, we look forward to seeing more details on the "scaling up solutions" that the draft report mentions (page 41) such as, "creating a political coalition for pro-poor educational reforms." We are members of the Global Campaign for Education that includes such coalitions in developed and developing countries, and we support the work of local partners who seek to increase political support for education. We also work with communities to improve local management of schools, and improve the quality of training and resources available for teachers. In some cases we have financed school buildings, materials and water and sanitation facilities in order to address the education needs of some of the poorest members of the community. However, we firmly believe that it is the state's role to provide a free, high quality education and that any political coalition should have that as its goal.

#### **User Fees**

Oxfam believes that user fees should not be imposed for either education or basic health services. Exemption mechanisms are often recommended where user fees are applied, however without the additional investment in institutional capacity to manage them effectively, these mechanisms have proved ineffective. The WDR should categorically oppose user fees in for education or basic health services.

In the case of water, we believe service provider must recognise that the costs of water services will not be able to be met by many of the world's poorest citizens. Public spending must ensure the access of these groups. If user fees are imposed, any exemption mechanisms will require real investment on the part of the government and the delivery body involved. Access to water is essential not just for domestic use, but in the case of particularly the rural poor, it is vital to their livelihoods. All their needs must be fully taken into account.

Overall, we believe the draft WDR, as with previous World Bank documents, confuses citizens' ability to pay with a notion of citizen's rights to certain services. We consider it the role of the state to provide basic services to its citizens and those services should be financed through a range of means, principally through taxation, with exemptions for the poorest of society. Affordability needs to be based on need. In particular, there needs to be an analysis of basic service costs and the livelihood patterns of poor people, including the seasonal dimensions of income flows, labour demands and illness.

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<sup>3</sup> *Oxfam Education Report*, Oxfam International 2001

Similarly, cost recovery mechanisms must not be seen as a substitute for further government investment in key services. As Oxfam research in Yemen concluded, “government resources still have to cover capital costs as well as some of the running costs of health care, to ensure that the quality of essential care is not compromised.”<sup>4</sup>

The WDR draft report describes cost recovery as a mechanism of improving the accountability of service providers. However improving accountability depends very much on the political context within which the basic services are provided and how basic service provision is implemented. Accountability is hard to achieve when the service delivery agency is a monopoly.

### 3. Health

The draft report’s chapter on health recommends a number of pro-poor strategies to improve delivery of health services. It also states, “out-of-pocket spending represents a large share of health expenditures and pushes households into poverty.” Our own research would concur with this statement and we would welcome a final report that focuses on how to ensure the very poorest have access to basic health need, starting with the abolition of user fees. We have seen how health expenditures dramatically impact poor households’ budgets and can lead to coping strategies that include: cutting food rations; selling assets such as cash crops or livestock; and in more extreme cases to sending children to relatives or begging food.<sup>5</sup>

The current World Bank policy on user fees states, “the Bank supports the provision of free basic health services to poor people. In the case of immunisation, maternal and child care, and certain programs for TB, HIV/AIDS, STI, and malaria that have large benefits for the community and vulnerable groups, the Bank discourages user fees and helps countries to finance these activities using other measures.”

However, during the 1990s the World Bank itself supported cost recovery policies in the health sector as a means to finance necessary reforms at a time of widespread economic distress in developing countries.<sup>6</sup> *A longer description of the experience of Zimbabwe is included in the box below.*

The example of Zimbabwe’s introduction in the early 1990s of user fees in health services demonstrates the importance of matching a service provision strategy to the political, economic and social conditions of an individual country and the specific sector that it is targeting. We have included the case study in some detail as it illustrates very well the different factors that influence whether or not health sector reform will be effective, and the inherent difficulties with charging user fees for health services. We hope that the experience of managing reform in Zimbabwe, and other such reform programmes, will persuade the World Bank to consider advocating the provision of free health services at the point of access, targeting the very poorest in society.

The experience of Zimbabwe in the early 1990s is also relevant to other African countries experiencing a crisis in government finance where there is slow economic growth combined with rapid population growth and large external debts. Regionally sub-Saharan Africa has by far the worst malnutrition and health indicators, yet its average spending on health services is only 4.9% of GDP or US\$41 per capita.<sup>7</sup>

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<sup>4</sup> *Cost Sharing in Primary Health Care: Lessons from Yemen*, Oxfam GB, 2002

<sup>5</sup> *Ibid* and *Access to Basic Health and Education in Uganda*, Oxfam GB 1997

<sup>6</sup> *Cost Recovery and Equity in the Health Sector: the Case of Zimbabwe*, OUP, 2001

<sup>7</sup> *World Development Indicators*, The World Bank, 2002.

## Background on Zimbabwe's Introduction of User Fees for Health Services

The Government of Zimbabwe (GOZ) followed World Bank advice to adopt a health sector reform strategy in which cost recovery played a central role – the financial target was to raise the equivalent of 15-20% of recurrent health expenditures through cost recovery. The charges to be levied included increasing out-patient charges; introducing fees for outpatient visits at all facilities including nominal payments for rural clinics; and charging for all drugs provided to outpatients and those hospitalised. The policy was introduced in two stages: in 1991 health facilities were instructed to strengthen revenue collection operations; three years later (despite a growing body of evidence showing the negative impacts that the reforms had already had on the poor) charges were substantially increased at all levels of the system. As a result of these policies, charges for basic consultations at rural clinics rose 550% and antenatal charges rose 900%. However, no additional resources were added to the health budget during this time, rather the revenue raised through cost recovery went to the Ministry of Finance not the Ministry of Health.

### The results of cost recovery

A 1992 GoZ survey of 25,000 people (5,000 households) found that within a year of the introduction of the new policy in August, 1991 there had been an 18% decline in the number of patients visiting the health facilities and a 40% decline in ante-natal attendance. In intensively poor areas around commercial farming, there was a 64% decline in attendance. By October 1992, 17% of households reported a case of diarrhoea among children in the past two weeks and 13% of these cases were being treated at home despite householders acknowledging they were serious enough to warrant professional medical care. The most common reason for home treatment was inability to afford medical care (58%).

While this pattern cannot be simply cited as cause and effect, in the absence of countervailing evidence of demand displacement the link between cost recovery and declining use of health facilities appears to have been strongly correlated during this period. For example, in March 1993, cost recovery for diarrhoea was suspended when a cholera outbreak began, resulting in an immediate rise in the number of diarrhoea cases treated in medical facilities. When charges were reintroduced in December 1993, there was a 17% decline in attendance over the next six months and a rise in the number of respondents to a GoZ survey who said their reason for not seeking treatment was that it was too expensive (from 7% to 22%).

Delayed treatment was the most common response to cost recovery and in particular, poor women minimised antenatal care unless confronted with an emergency. Between 1990 and 1993 there was a 30% increase in the number of women giving birth who had not received ante-natal care, although the number of births overall was the same. Another pattern observed was the rise in non-completion of treatments by patients. Between 1990 and 1992, the average stay in hospital fell from seven to four days and a GoZ survey in 1992 found that almost one-third of patients could not afford to complete the full course of treatment for asthma, high blood pressure and diabetes.

Cost recovery failed on its narrow objective to raise additional resources. At a national level, the Ministry of Health recovered less than 2% of recurrent costs in 1993/4 – less than in 1990. At the district level, primary health centres and hospitals were managing to recover between 0.5% and 3.5% of costs during 1992/3.

### Why did cost recovery fail?

The economic context within which cost recovery was introduced exacerbated the decline in overall health care. The economy in Zimbabwe during the early 1990s did not grow strongly as the government and the World Bank predicted, but rather experienced a significant slump. This led to increasing hardship, especially amongst the poor. Rural wages declining by 40% in real terms between 1990 and 1993. In 1992, rural households in arid and semi-arid areas had suffered from a loss of livestock of more than 50% and the 1995 drought brought more misery with crop failures of up to 75% in some areas. Meanwhile the poor in urban areas had also suffered from increasing unemployment and a drop in wages (by an average of 20% between 1990 and 1995). One survey of the very poorest urban areas found there had been a drop in income of 55% between 1991 and 1992.

In addition, government investment in public services declined rather than increased: between 1990 and 1995 per capita spending on health declined by 40% to reach \$13, and spending on drugs also fell by a third despite increasing poverty and rising HIV/AIDS rates. The wages of health staff also declined by a third over the same period.

The exemption system for health payments failed because its threshold was set far too low to protect the rural poor. The health sector reforms were also poorly sequenced. The Social Development Fund designed to protect

the poor was only introduced in 1992; a year after cost recovery, and processing exemptions took between 6 and 8 months. The exemption system incurred very high transaction costs. To apply for an exemption required visiting a Department of Social Welfare office. The journey to such an office could be between 40 and 100 km—a journey that, even if not incapacitated by illness, was too costly for many of the poorest to make. Cost recovery systems were also unevenly applied – some facilities waived fees on a discretionary basis, others refused to accept any exemptions – and this contributed to patients’ reluctance to go to facilities. In addition, the exemption scheme was poorly explained to the public. In 1993 only a third of the population had heard of the scheme, by 1995, 75% were aware of the scheme but only 21% of those surveyed said that they applied for assistance (although it was estimated that between 50 and 60% were eligible). The overall conclusion from this is that unless there is a very simple target mechanism in order to identify the poor, the administration of such a system is very large and potentially reduces overall returns.

The Government of Zimbabwe withdrew the imposition of user fees in rural health clinics in 1995 in response to the catalogue of problems described above. The World Bank had also urged the withdrawal of user fees, recognising the need to better protect the poor.

Summary of case study in *Social Provision in Low-Income Countries: New Patterns and Emerging Trends* Edited by Germano Mwabu, Cecilia Ugaz and Gordon White published by UNU/WIDER, OUP 2001. See chapter on “Cost recovery and Equity in the Health Sector: The Case of Zimbabwe.”

## Water

Providing access to water is one of the most critical development challenges faced by the international community. Today, 1.3 billion people do not have access to safe drinking water. By 2035, this figure could rise to 3 billion people. With increased populations, the demand rises. At the same time, industrial activities are threatening supplies. Most of those denied access to water live in Sub-Saharan Africa, South Asia and East Asia and many are from rural communities.

The recent General Comment made by the UN Committee on Economic, Social and Cultural Rights stated the human right to water entitles everyone to sufficient, affordable, physically accessible, safe and acceptable water for personal and domestic use. It noted water is a limited natural resource and a public commodity fundamental to life and health and that it should be treated as a social and cultural good and not primarily as an economic commodity. Further, that where water services are operated or controlled by third parties, states must prevent them from compromising equal, affordable and physical access to sufficient, safe and acceptable water. To prevent such abuses an effective regulatory system must be established which includes independent monitoring, genuine public participation and imposition of penalties for non-compliance.

The draft WDR report’s section on water says, “the role of PSP [private sector participation] in raising accountability for the public sector has not been tapped sufficiently,” (page 49). It goes on to say that, “increasing responsiveness and accountability to clients and in particular to poor people will require greater separation of roles between policymakers and service providers,” (page 51). Overall, the section suggests that private provision of water services would be the most efficient means to improve water supply. In its report to the World Water Forum in the Hague in March 2000, the World Commission for Water recommended, “a greatly increased role for the private sector in providing water services for people, irrigation and electric power,” seeing it as a key mechanism for bringing about reform in this sector. It called for full-cost pricing of water use and services in order to encourage private sector participation and limiting the use of subsidies to welfare provisions targeted only at ensuring poor and marginalized groups can afford to pay for their water.

The situation in many developing countries can lend itself to an assumption that privatisation of water supply is a panacea – and the draft WDR report would suggest that it follows this assumption. However, the production and delivery of water by municipal or state companies has been found to be inefficient. Many poor people become dependent upon private vendors who may operate on the black-market. The price of such privately sold water can be between US\$2 - \$3 per cubic metre, some 12 times higher than the price of subsidised piped city water. In Luanda for example, recipients of piped water pay less than 1 cent per cubic metre, whilst those without connected water supply may pay as much as US\$16 per cubic metre for untreated water delivered by tanker. Systems of delivery can be poor and often loss is sustained through leaks. As governments are unable to make the profits necessary, it becomes very costly to supply water.<sup>8</sup>

The privatised sector of the water industry is currently dominated by a small group of multinationals, the biggest members being the French Vivendi and Suez-Lyonnaise des Eaux. Large multinational water companies have benefited enormously from the move towards private provision of water services. The British company, Thames Water, currently has a US\$3.5 billion overseas project portfolio including projects in Puerto Rico, Brazil, Turkey, South Africa, China, Thailand and Indonesia. As water supplies become more precious, so to do they guarantee big profits to those that own them. Monsanto, for example, plans to earn revenues of US\$420 million and a net income of \$63 million by 2008 from its water business in India and Mexico.<sup>9</sup>

Given the dominance of this market-place by a few large multinationals, there is a legitimate concern that instead of improving access to potable water to the deprived millions, private companies could take advantage of their monopoly power and either price water tariffs beyond the reach of poor people or 'cherry pick' their customers according to cost effectiveness criteria including their ability to pay. Evidence of this is mounting. In the Czech Republic, water rates increased by more than 100 per cent in the first three years of a concession to a subsidiary of UK-based Anglian Water.

Meanwhile, the World Bank and IMF are already very involved in the reform of the water sector, something that is also not reflected in the current WDR draft report. In a random review during 2000, it was discovered that IMF loan agreements with twelve borrowing countries - including Benin, Guinea-Bissau, Honduras and Tanzania - stipulated conditions imposing water privatisation of cost recovery requirements. Currently the World Bank has outstanding commitments of about \$20 billion in water projects. Of this, about \$4.8 billion are for urban water and sanitation and \$1.7 billion for rural water and sanitation.<sup>10</sup>

The draft WDR does not examine in any detail the potentially negative impacts of private provision of water supplies, or ways to overcome them. It also makes no mention of the Bank and Fund's role in promoting the private provision of water services. The report will be severely lacking if it does not tackle both sides of the argument on private sector provision of water services.

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<sup>8</sup> *The General Agreement on Trade in Services: Development Tool or Development Wound? A background paper for the OI Trade Report*, Oxfam GB 2002

<sup>9</sup> Ibid

<sup>10</sup> Ibid

## **GATS**

The WDR draft report talks in broad terms about the role of the World Trade Organisation and the International Financial Institutions, however we believe that there should be some much more specific recommendations for both on how they influence the provision of basic services.

We are concerned by the enormous imbalance in global trade between developed and developing countries which is exacerbated by the service industries' investment in developing countries without a commensurate movement of labour out of developing countries to provide services elsewhere. Services are the fastest growing component of trade and foreign direct investment (FDI). Global expenditure on education services are upwards of US\$2 trillion; on healthcare, over \$3.5 trillion and on water, over \$1 trillion. Eighteen of the top one hundred economies in the world are service sector companies. In 2000, this sector accounted for nearly 20 per cent of world trade and three-fifths of FDI flows. Growth however, has been disproportionate. The US, Canada, the EU and Japan account for over three-quarters of the world trade in services, the EU being the biggest exporter. By contrast, only some developing countries have seen growth in their service exports and this has been in specific sectors like travel and transportation services where they still face stiff competition from industrialised countries. Most have remained net importers.<sup>11</sup>

Given that the current GATS 2000 negotiations will significantly affect the provision of public services, there should be specific recommendations on GATS within the WDR 2004. These negotiations are particularly focused upon (a) expanding market access commitments - which include access to public services like health, education, water and energy; and (b) tightening governments' scope for domestic regulation of foreign investors.

Oxfam is also concerned by the discussions at GATS 2000 around applying an objective 'test of necessity' to whether or not government regulation is justified. Governments must be in a position to make their own judgements as to how their citizens can most effectively gain access to basic services. Where a government considers it most effective to permit a foreign corporation to supply the service, it must be able to determine the terms and conditions of the privatisation scheme as well as to regulate the activity of the supplier. Limitations placed on domestic regulation will hamper governments' abilities to set its policy objectives on the service industry in a way that maximises benefits to its citizens. Instead, the 'test of necessity' will ensure that the key factor to be accounted for is whether or not the foreign suppliers' entry into the market or their ability to maximise profits are restricted. We are concerned that such provisions under GATS will restrict the policy choices open to developing countries in the drawing up of national poverty reduction plans such as the PRSPs.

Oxfam believes that the WDR 2004 should recommend the interpretation of Article I(3) of GATS (that states services supplied in the exercise of governmental authority are excluded from GATS) is strengthened to ensure that services supplied in the exercise of governmental authority are excluded from GATS. At present, the definition is ambiguous in that it may only excluded services which are completely non-commercial, absolute public monopolies.

Further, the WDR 2004 should acknowledge that GATS provisions may impede a government's ability to ensure equitable access to basic services by all and limit public consultation on how services are provided. For example, differentiated services provision

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<sup>11</sup> Ibid

may contravene discrimination provisions. In Bolivia the government has privatised water provision, leading to an increase in coverage but also an increase in price. The government now wants to divide water provision into two zones so that in areas that are commercially viable, private operators can deliver the service, subject to tariff regulations. Meanwhile, in areas that are not commercially viable, local government authorities can deliver the service. The central government can finance universal access either through consumer subsidies or transfers to local government. It is not clear that either option would be deemed non-discriminatory under GATS.<sup>12</sup>

Finally, the WDR should acknowledge that the nature of GATS commitments are such that where a government has already privatised a particular element of its public services, it may be 'locked-in' to further liberalisation of this service and be forced to open it to foreign investment. Again, this could limit a country's ability to set its own policy on the provision of basic services.

We would like to see the World Bank, through the WDR report, recognise the importance of enabling developing countries to protect their right to provide basic services themselves, particularly to the poorest members of society, and not to be curtailed in their policy choices by GATS. We think that the WDR 2004 should reflect this opinion and state clearly that the so-called new issues (investment, competition policy, transparency in government procurement, and trade facilitation) should not be added to the already over-loaded WTO negotiating agenda at Cancun. We believe that WTO agreements on these issues would not benefit developing countries, but instead would deny them the right to use the development policies used by industrialised countries in the past.

#### **Education and GATS**

To date, three countries have included further liberalisation of educational services in their GATS 2000 proposals: the US (the lead exporter of education services, the trade generates some US\$7 billion per annum for the country), Australia and New Zealand. Although education services is sub-sectored as primary, secondary, higher (tertiary), adult and other education, all the focus has been on the latter three given that these are the segments that have a degree of private participation, offer lucrative markets and possibly pose the least obstacles in terms of market access and domestic regulation. Liberalisation commitments have also been made with regards to primary and secondary education in some cases, and whilst they may not be subject to further opening in this round, it could happen in the future.

Even with regards to tertiary education though, the commodification of education is alarming, particularly for developing countries. Entry by foreign suppliers through commercial presence can have a number of destabilising effects. For many developing countries, a key purpose of education is to create a sense of national unity, the benefit of which to the social, political and economic development of a country should not be underplayed. Private education provided by foreign suppliers does little to meet this purpose. The focus upon generating a profit has meant thus far that curricula are designed in industrialised countries without recourse to local input and choice of courses and delivery tends to reflect global industry demands. Students accessing such services do so primarily to gain a stronger foothold in the employment market, both nationally and globally, and courses written in industrialised countries are designed to meet this aim. The significance of the latter is its potential contribution to 'brain-drains' from developing countries to the industrialised world (be it in terms of actual migration as well as shifts from domestic, local grown industry to multinational corporations). Local academic institutions also suffer where local academic talent is drawn towards private foreign institutions that offer better pay and benefits packages. In such institutions, local academics are expected to concentrate efforts upon delivering courses rather than pursuing broader academic interests like research thus stunting a nation's intellectual growth.

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<sup>12</sup> *Rigged Rules and Double Standards: Trade, Globalisation and the Fight Against Poverty*, Oxfam International, 2002

Liberalisation of the big growth area - online learning - also poses significant challenges to developing countries since it may play more of a role in widening rather than narrowing the divide between the haves and the have-nots. To access online learning means having access at a minimum to a telephone line and a working computer. In forty-nine countries, there is less than one telephone per hundred people. Thirty-five of these countries are in sub-Saharan Africa. The UNDP Human Development Report 2001 estimates that industrialised countries, with only 15% of the world's population, are home to 88% of all Internet users and that in South Asia less than 1% of people are online even though it is home to one-fifth of the world's population. Whilst public provision of online learning services may or can be expected to take into account such factors given the negative impact of disenfranchisement upon the social and economic development of a nation, it is unlikely that profit-motivated private foreign providers will. Finally, one of the dangers posed by the perception of education services as a tradable commodity rather than a public good is that some governments may see fit to relinquish their responsibilities towards its provision. Such an outcome would undermine the goal of increasing the proportion of GNP spent on education and overall progress towards meeting the education MDGs.

Summary of example in, *The General Agreement on Trade in Services: Development Tool or Development Wound? A background paper for the OI Trade Report*, Sumi Dhanarajan, Oxfam GB 2002

### **The World Bank and IMF's role in the privatisation of basic services**

Under pressure from multilateral development banks and the international financial institutions, many developing countries have reformed the provision of their basic services and resorted to depending upon the private sector, especially multinational corporations. While there are of course instances where the public sector can be inefficient, Oxfam recommends the WDR 2004 examine in more detail exactly when and where privatisation is the most efficient and equitable option.

The problem with private provision of services is that the primary motive is to maximise profits and thus private providers' strategies and operations are designed to meet this end rather than to guarantee equitable access.<sup>13</sup> For example, multinational water companies that enter privatised water sectors often state their preference for supplying urban areas where populations can afford higher water tariffs. Infrastructure services particularly require huge investments and initially bring relatively low rates of return, so the profit focus becomes all the more defined. It is fair to say that in some circumstances, privatisation has led to greater efficiency in the provision of basic services and this explains the faith place in its as a solution. Its long-term efficiency however in meeting basic needs in an equitable manner requires a strong regulatory framework and governance infrastructure. A combination of weak regulation and a monopolistic market (which many utilities services are) can have a very negative impact upon poor people's access to services. In particular, women and children bear the greatest burden where privatisation of public goods threaten access. In the case of water, where tariffs push prices beyond what is affordable, they have to go farther to collect water, often resorting to untreated sources. This in turn impacts upon their health as they become exposed to water-borne diseases.

In the past year there has been considerable controversy surrounding the World Bank's new private sector strategy. Recent Poverty and Social Impact Assessments carried out by the World Bank and DFID found that privatisation of services was not being examined as simply an option to improve service delivery, rather the point of the PSIA in almost all cases was simply how to privatise.

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<sup>13</sup> *The General Agreement on Trade in Services: Development Tool or Development Wound? A background paper for the OI Trade Report*, Oxfam GB 2002

In Armenia, for example, the study is clear from the outset that it will not look at alternatives to water privatisation, as this has been agreed with the Government under already existing Structural Adjustment Programmes with the World Bank. Instead it will confine itself to 'suggest policy intervention measures that could mitigate the negative social consequences of reforms'.<sup>14</sup> Meanwhile similar reform programmes, such as water privatisation in Georgia, continue to be implemented without any systematic assessment of how they will impact on poor women and men, and what other options are available.

PRGFs with critical conditions on areas such as labour reform (Bolivia) or teacher salaries (Honduras) are being renegotiated with no plans to carry out PSIA. In the case of Honduras, the World Bank's Economic and Financial Management project supports, "the establishment of modern regulatory frameworks and strengthening of regulatory authorities to consolidate private sector participation in the provision of public services" (July 2002, World Bank project portfolio). The Bank also has a "Public Sector Modernisation Structural Adjustment Project (PSMSAC) which supports reforms "aimed at increasing efficiency and effectiveness of a weak and overtaxed public sector, in part through promoting greater private participation in the delivery of key services." (World Bank Honduras Country Brief, 1999).<sup>15</sup>

Together with the specific examples in the section on private provision of water services, the examples above illustrate the way in which the World Bank and IMF are part of the debate around basic service provision, not neutral players. The WDR needs to reflect the role that they play and to examine how best to assess when privatisation of basic services should take place, not simply how.

## **Conclusion**

We believe that the WDR 2004 could provide a useful analysis for the types of basic service provision that can be introduced by both developing and developed countries.

In its discussion of financing for basic services, the WDR 2004 needs to address a range of options rather than focussing too narrowly on revenue raising through cost recovery. A better way for developing countries to raise resources for basic services could be to promote inter-sectoral allocations away from unproductive expenditures such as subsidising loss-making parastatals, and cut back on other significant parts of government spending such as large defence budgets.<sup>16</sup> Another option open to governments is to improve revenue raising through more efficient tax collection and in particular, examine the effectiveness of reducing corporate tax rates (a favoured method of trying to encourage investment but one that has not always proved very successful). Finally, an examination should be made of intra-sectoral allocations to ensure adequate expenditure on primary health care and basic rural facilities, rather than a concentration on large-scale hospitals and urban facilities.

As donors move increasingly from project to programme support, we envisage that donors' support will remain essential to helping finance the recurrent costs inherent in basic service provision. Similarly, through more debt relief, countries' recurrent costs for basic services can be more effectively and predictably financed for future generations. The WDR 2004 must look at these issues in more detail and make realistic assessments of the costs of financing the

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<sup>14</sup> *Analysing the impact of reforms on poverty: ownership and options*, Oxfam International, 2002

<sup>15</sup> *The PRSP in Honduras*, forthcoming Oxfam research

<sup>16</sup> *Oxfam Poverty Report*, Oxfam UK and Ireland, 1995

achievement of the MDGs and the vital role that donors need to play through long-term financing for development.

However, one critical piece missing from the WDR draft is the role of the World Bank and IMF themselves. Together they have been responsible for the massive overhauling of public sector provision in many countries through structural adjustment programmes and continue to have a strong influence on the development of state infrastructure in the many countries to which they lend resources and provide technical assistance. The World Bank is, by its own admission, the largest source of funding for health and education of any donor. The World Bank must make clear how this report will impact its own operations and the programme and policy design of both the World Bank and IMF, if the report is not to be simply an academic exercise in ideal basic service provision.

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