VIKALP

Alternatives

JANUARY
2005

Focus I

The 60th Anniversary of the Bretton Woods Institutions

JANUARY 2005

Editorial

The year 2004 marks the 60th year since the founding of the Bretton Woods Institutions. The first Bretton Woods Conference was held in 1944. At the same conference, forty-four nations got together to set up the key international institutions- the International Monetary Fund (IMF), and the International Bank for Reconstruction and Development or The World Bank. With a backdrop of the end of the Second World War, these two institutions were formed so as to bring about the careful restructuring of the war torn countries, establishing economic cooperation and thereby maintaining a global order and climate that was conducive to capitalist development.

The World Bank's principle task was the reconstruction of the European economy post World War II. It also worked towards preventing the occurrence of a slump like the one in 1929 or the Great Depression in 1930. It systematically expanded the western economy and with these efforts, the focus has moved towards Third World development. In the developing countries, the World Bank has been involved with increasing the supply of infrastructure like roads, water works, electricity, harbours, schools, etc. More recently, the Bank has played a leading role in financing export oriented agriculture in the Third World and in particular the substitution with traditional subsistence farming for export oriented plantation and livestock rearing schemes.

Under their guidelines, the developing countries have instituted reforms in most sectors of the economy- agriculture, industry, trade and banking, finance and even the social sectors like health, education, etc. Through the prescription of the Structural Adjustment Program, the economy of these developing nations had hoped for a higher rate of economic growth. Higher rates of economic growth have been achieved, along with reduced rates of inflation in most of the developing countries like India, but at what cost? The overall effects have been disastrous. It has led to a decline of social security, increased the vulnerability of employed workers, brought about changes in livelihood and the quality of life. In short, the policies and the conditionalities imposed by the World Bank and its counterparts, have further enmeshed the wide spread poverty all across Asia, Africa, and Latin America.

The IMF has complemented the activities of the World Bank in their functioning. When the IMF was set up, it was described as the central institution that would manage the system of international payments and exchange rates among national currencies that enables business to take place between countries. It established a fixed exchange rate system which collapsed in 1971. It was only post the Mexican debt crisis in 1982 that the IMF became active again. It provided loans that saved countries which were on the brink of bankruptcy. In the process of providing these loans, the IMF has come to monitor the macro-economic policies of a country and thus even the structural policies that affect macro economic performance. With subsequent actions and policies, the IMF, the World Trade Organisation and the other member organisations have repeatedly impoverished the developing nations by liberalising trade and thereby reducing poverty and improving people's lives.

At present the **World Bank Group (WBG)** is made up of the International Finance Corporation (IFC), Multilateral Investment Guarantee Agency (MIGA), World Bank (or the former IBRD), the International Development Association (IDA) and the International Centre for Settlement of Investment Disputes (ICSID). This Group is one of the world's largest sources of development assistance. The global capitalist order that we see today, thrives on the directives that are issued by these institutions. The **IFC** promotes private sector investment in developing member countries, the **MIGA** is mandated to promote foreign direct investment by offering political risk insurance (guarantees) to investors and lenders, the **IBRD** provides development assistance and loans to projects that work in the areas of health, education, social development, good governance, protecting the environment, building institutions, supporting reforms to create a stable economic environment. The **IDA** provides the so-called soft loans (loans at 0% interest with a 10 years grace period) to poor countries. The **ICSID** provides facilities for the settlement (by condition or arbitration) of investment disputes between foreign investors and their host countries.

The entire group has come in for severe criticism from social justice groups and environmentalists in almost every sphere of their involvement. The World Bank's credibility has come at stake repeatedly, but like a monster it keeps raising its head. In its most recent *avtaar*, it has become involved with the policies in the water sector and the building of large dams. The Bank had clearly stated it position with respect to building large dams to the World Commission on Dams. Yet, it is the prime lending agency for the National Hydro Power Corporation projects in India. It has also begun to guide the policies that run the working of the water sector in the developing nations. With its 'active' involvement, it is steaming ahead to make water a tradable commodity and an economic good.

This issue of E-Vikalp 'celebrates' the Sixtieth Birthday of the Bretton Woods Institutions by critically analysing the World Bank's role in subversion of democracy and national sovereignty. We begin with articles that trace the history of the Bretton Woods Institutions. *"Unhappy Birthday: The World Bank and IMF at 60"* by Salimah Valiani and *Bretton Woods Institutions – 60 Years"* by Ajit Muricken outline a brief history of these Institutions and thus examine the role they play in the developing nations, over the years.

The chapter on *"King Customer? The World Bank's New Water Policy and Its Implementation in India and Sri Lanka"* examines the issues involved behind privatisation of water in these countries. Through its financial contributions and the position it holds, the World Bank plays a crucial role in the water sector and the policies involved in these countries. Ann-Kathrin Schneider and Uwe Hoering's paper outlines the World Bank's water policy since the nineties (the central aspect of which is the notion of water as an economic good).

The article on *"IMF and WB: The Destruction of Indonesia's Sovereignty"* discusses the effects of IMF policies on Indonesia as it aligned with America and the IMF in 1967. Once the island country became a Republic in 1949, President Sukarno had to reimburse a substantial colonial debt, which it did through a production structure based essentially on export crops. This made it dependent on the vagaries of international economic trade and in turn came the loan from the IMF and conditionalities alongside.

The Sixtieth Anniversary of the Bretton Woods Institutions

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- **The Struggle for Latin America's Water**

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- **Getting Mexico to Grow with NAFTA: The World Bank's Analysis**

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- **World Bank Brings Market Fundamentalism to Iraq**

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- **What Future for the IMF, the World Bank and the WTO? Reform the UN?**

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- **The Importance of the Bretton Woods Institutions for small countries**

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- **Symposium Summary: The Bretton Woods Institutions in the 21st Century**

http://www.brettonwoods.org/symposium.html

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- **International Conference- Dollars, Debt and Deficits: 60 Years after Bretton Woods (Press Release)**

http://www.bde.es/doctrab/confere/nota_prensae.pdf

- **The Bretton Woods Institutions after 60 Years- Some Thoughts on Markets, Governance, and the Role of the IMF**

http://www.oenb.at/de/img/dervis_paper_tcm14-17360.pdf

- **Twin Institutions need Reforms**

http://www.afrodad.org/archive/BrettonWoods.pdf

- **The World Bank's Knowledge roles: Dominating development debates**

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- **World Bank/ IMF Agreements Pressure Government to Privatise- BULGSA**

http://allafrica.com/stories/200412160137.html

- **Aid as Privatisation**

http://www.guardian.co.uk/print/0,3858,5075380-103677,00.html

- **The Private Sector in Ghana's Water- A Strategy to serve or steal?**

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Bretton Wood Institutions – 60 Years
Ajit Muricken

October 2004 marks the 60th founding Anniversary of the Bretton Wood Institutions (BWIs). The anniversary will be celebrated with great pomp, by the Bank officials, G7 countries and other beneficiaries of the BWIs. The people of the South have a different agenda; a loud call for their "retirement".

There has been no evidence of any such move on the part of these institutions to take a bold decision to retire. On the other hand these institutions not only wish to continue but have shown remarkable resilience to change and reform in spite of tremendous pressure internally and externally.

1.The Bretton Woods institutions founded in 1944 began with a mission quite distinct from their latter - day involvement in restructuring and reshaping the Southern economies along the neo-liberal agenda. The IMF's role was defined as the 'guardian of global liquidity'. In functional terms, it was meant as a watch dog, monitoring of member countries, maintenance of stable exchange rates and providing facilities on which these countries could periodically draw to overcome cyclical balance of payment difficulties. In the early 70's however after the US delinked the dollar off the gold standard, a new era of floating exchange rates was created that made the IMF's original mission superfluous. Subsequently, what unfolded over the years in essence was a strategy to discipline the Third World by the US administration through a new lending approach referred as "Structural Adjustment'. Thus, from mid 1980s, the IMF imposed '"structural adjustment'" policies became the vehicle for a programme of free market liberalization that was applied across the board to Third World economies suffering major debt problems.

The shift in IMF's role from serving as the guardian of global liquidity management, to serving as a fiscal disciplining mechanism controlled and managed mainly by the US that shapes the structure and mission of the BWI's along Western market oriented lines has had a major impact on Southern economies. The institution has been important arm of US global policy by exercising the financial and political leverage at its disposal.

2. Structure of unequal relationship

The decision making structures of the BWIs are devoid of democratic legitimacy and their constitutions are antidemocratic. Their allegiance to a very limited number of countries (of which only one, the United States, has the veto on any decision it may wish to block, even if all 183 other members wanted it to go forward) and the distribution of power within their ranks are incompatible with any truly democratic reform.

The developing countries have been disadvantaged by the policies of the BWI. A major reason for this is that they have been marginalized in the formal decision–making systems of these institutions, by the size of capital subscription. The five largest economies as a group have 45-47 percent of the votes as against the developed countries. They have the voting power to block all decisions requiring a majority and makes the decision making process unjust and undemocratic. The decision making processes are dominated at all stages by creditors who decide on the conditions for repayment, who closely monitor the implementation of conditions, and determine whether to offer rescheduling, or write off loans. Creditors act as plaintiff, judge and jury in their relations with debtors—with the IMF, as the agent of all creditors, playing the lead role. There is no independent assessor, arbitrator or 'receiver'. For many of the poorest countries, debts represent an unpayable burden. According to the World Bank, actual debt service payments are roughly half of those scheduled. In any normal creditor/debtor relationship these bad debts would be written off. Not so with sovereign debt.

3. Crisis of legitimacy

Since 1998 these Institutions have been undergoing a profound crisis of legitimacy. The effects of SAP (Structural Adjustment Programme), the programme of promoting sweeping privatization with an ideological preference for the market logic of profitability and efficiency and the privatization of essential services which creates inequality in access to health education and social economic exclusion due to policies imposed on periphery countries by the BWI has obviously cost these institutions their credibility on a massive scale within the countries concerned. The growing success of protest indicates that these institutions have been widely discredited which is why they must be dismantled.

Against these criticisms and protest from the Third World, the IFIs give the impression that they are reforming. This is a myth. There has been no shift in their two pillars of power: The neo-liberal ideology, which underpins their policies and programmes, and the voting power of the G7 countries used as weapons of influence in defining the policies of the IFIs.

The institutions are well entrenched in the economic and political life of the South. They continue to function on the direction of the G7 advanced economies of the North and not those of the 184 countries who are also shareholders. These institutions are everywhere with huge loans to governments with their conditionalities in a number of development projects – with their experts, consultants, executives, workshops and training programmes, development strategies and taking control over the planning and policy-making bodies of the National Governments and have now become "a virtual government".

The World Bank now maintains that it has moved away from the Washington Consensus to the post Washington Consensus. The term SAP is being done away with and is being replaced by poverty reduction and development strategy, and soon development policy lending with partnership and participation as their new slogans.

Beneath the hollow rhetoric of poverty alleviation, the Poverty Reduction Strategy Paper (PRSP) is upheld by the WB and the IMF as a comprehensive program for structural adjustment in the name of the poor. The policy material puts emphasis on rapid growth, the deregulation of monetary policy, the tearing down of the state sector in favour of private enterprises, deregulation of export-oriented growth and commercialization of land resource right.

Of the various elements, which made up the original Washington Consensus, the fundamental elements that constitute its core strategy aggressively pursued are:

1. Liberalization
2. Privatization and
3. Fiscal austerity leading to cuts in public spending

"Structural Adjustment has now been applied in more than 70 countries and has had such pervasive effects many of them widely acknowledged negative. "Structural adjustment programmes in these countries failed to achieve all their macroeconomic goals, and imposed severe social costs. Wealth became increasingly concentrated. Health and education suffered, even though they are the building blocks of human development, and essential to an assault on poverty. Safety nets were often used as tools of political patronage, and had a limited reach. One crucial missing factor was policies that would radically improve opportunities for income generation by the poor. The international environment – for example of third world debt and terms of trade – remained unresolved, and the burden of adjustment was placed entirely on developing countries."

The Indian Experience

The immediate compulsion for India adopting SAP was the balance of payment crisis that forced the government to initiate a series of economic reforms in July 1991. India accepted these loans to service its foreign debt. Since then a series of policy measures that include devaluation, liberal industrial policy, disinvestment policy, open foreign investment policy, liberalization of imports and privatization of domestic economy were based on the World Bank's Memorandum titled "Trade Reforms in India".

The prescriptions of the Bank included measures like the devaluation of the local currency, liberalization of the industrial policy, liberalization of imports and privatization of domestic economy including natural resources. These measures have only inserted the Indian economy into the Global Economic Order and placed it firmly (of course as a subsidiary entity) in the system of the new international division of labour. This process of liberalizing and opening the economy – sector after sector – to global capital rapidly changed the economic structure of the country.

Several studies on the adverse impact of SAP has shown that local industrial and agricultural sectors were unable to withstand the stiff competition from the inequitous global capital. It has also shown there is a clear link between IMF intervention and the crisis in the social sector, particularly increasing unemployment and impoverishment. The debt servicing has severely affected the states capacity to mitigate the negative fallout of SAP.

With the implementation of NEP, the Bank not only controls specific projects and sectors of the economy but, now commands the entire macro-economic policy including future directions. The entire policy package makes a significant departure from the past. The long cherished principles of growth with justice, social responsibility and accountability, equity and self-reliance have been rendered obsolete with the new slogans of “liberalization”, “privatization”, “globalization”, “efficiency” and “competitiveness”.

SAP and Women

The empirical evidence amply substantiate the case of female marginalization. This was generally the trend even before SAP. SAP has accentuated this process further.

The New Economic Policy is reinforcing trends of the informalisation of the female workforce, subcontracting and piece-rate production by MNCs greater utilisation in the informal sector, and increasing the number of women in the reserve army of labour. Other consequences of the Structural Adjustment Programme for women are of course unemployment, retrenchment, marginalisation in the labour force, increase in girl-child labour, prostitution and relegation to the low-wage and unorganised sectors, increased drudgery for poor women in acquiring necessities such as fuel and water.

Livelihood resources for women have clearly dwindled and new ways of curtailing their consumption have emerged even as the commodity market expands and proliferates. At the same time women have become the objects of numerous development and micro-credit policies. This period has seen a feminisation of subsistence agriculture as men move into wage work.

Subversion of Democracy and National Sovereignty

The democratic process itself is undermined as the real power to make crucial economic decisions are increasingly taken away from elected representatives. The formal parliament is sidelined and is replaced with a virtual parliament with representatives of TNC, IFIs, ADB and Corporate Houses.

WB/IMF have long ago realized the importance of nurturing bureaucracy and political leaders for them to have a strong leverage in Indian mainstream decision making.

The impact of this process is that the National Governments are loosing ability to initiate policies in the interests of workers, consumers, and the environment, as well as are unable to pursue fiscal, monetary, and industrial or planning policies that once assured relatively stable and equitable growth and national economic development.

Consider for example its latest strategy for India viz. the India Country Assistance Strategy (CAS). It identified the operations that the bank intends to finance in India for the period 2005 to 2008. Country Assistance Strategy imposes conditionality of reform and privatisation of key sectors without justification as basis of extending lending to central and state governments. Through such strategies and with its privatisation policy the World Bank is shaping India’s policy, economic and social environment. However, on August 7, 2004 representatives of social movements, and civil society organizations in Delhi issued a statement explicitly rejecting the strategy, as CAS is an affront to the social justice and democratic traditions and to national sovereignty. This illustrates how the bank consolidates its positions and institutionalises its control of the policy instrument in promoting its own economic growth model.

The second generation of economic reforms in India: After having successfully created a congenial ground for global capital to penetrate the national economy the reforms are now focusing more on trade in services and privatization of natural resources especially of water. In the rush to attract foreign investment, environmental regulations are now being liberalized. The failure to make environmental protection and sound natural resource management policy is now leading to unsustainable rates of resource exploitation.

The World Bank, the IMF, ADB and a few TNCs are now aggressively pursuing the agenda of water privatisation, by re-shaping institutional structures to ensure that investing in "water market" is a profit-making enterprise under the cover of altruistic principle of providing water and sanitary services to the millions of have-nots.

The agenda of the World Water Council with its World Water Vision suggest a paradigm shift from water being a common good, to it being treated like any other tradable good. Its use and distribution is determined by the market logic of profit. Adoption of full-cost pricing for water services as the "single most immediate and important measure" and the *only* way people can be made to realise the value of such a precious natural resource. The vision of these multilateral organisations that have a strong participation of the private sector – multinational corporations – advocates a globalisation of the water sources and a global control over management, utilization and supply of this resource. It also seeks to perpetuate, without question, the inequality in the access to water. This inequality, inherent in the logic of the water market, is a curtailment of the human rights of a large majority of the people in the world.

The current reforms in the water sector in the South have to be seen in relation to the GATS negotiations, scheduled to be finalised in January 2005. Countries all over the world, many under pressure from the World Bank and other financial institutions, are currently redrafting their water legislations to comply with the demands made in the framework of the GATS negotiations. After having agreed to open up their water sector as part of the GATS negotiations, it will be almost impossible for countries to reverse this decision and re-nationalise their water sectors.

The impact of this form of privatisation, however, has long term consequences for the poor and the marginalised. These include:

1. very high charges for services and utilities

2. cutting down or eliminating water service deliveries in areas which are not considered profitable or commercially viable

3. in this new scheme of things women will be most affected having to bear the burden of coping up with water stress

4. the bigger risk and damages to the environment

5. promotion of private monopolies and further concentration of natural assets and resources for elite consumption.

National Water Policy

In 2002, the government of India concerned with the water crisis in the country formulated National Water Policy 2002, which was a modified version of the 1987 water policy. The major change in the new water policy document from the earlier one is marked by the section on privatisation that toes the international line on water privatisation for the people.

The underlying policy assumption is that private sector participation will bring in the much needed financial resources, managerial skills and technology to the water service sector. This worldview as a solution to the water crisis proposes a model for water management that relinquishes all control over water resources to the private sector through commercialisation and privatisation of water resources. The institutionalisation of this type of model will inevitably lead to the cartelisation of India's fresh water resources and ecological devastation affecting the livelihood of rural communities and the urban poor entirely dependent on public utilities of water services by the State for their daily needs.

Priorities and concerns for social justice, equity, and sustainability or the environment have not, however, been reflected in the actual policy measures that the document puts forth. Further, the policy does not take into account factors like the fall in the water table and the deterioration of the quality of both surface and the ground water. It appears that all the problems related to this water crisis are reduced to one remedy only viz. privatisation - as the sole reason and solution.

BWI Reform or Transformation?

There are various debates going on in India with regard to the relevance and the future of these Bretton Wood Institutions. These debates are shaped and positions taken are along the following ideological lines viz. the right wing orthodoxy of neo-liberalism, the liberal and radical left positions respectively. These are as follows:

First: the neo liberal position argues that the continued presence of these institutions are vital for the economic growth of the country and that there is no alternative to these institutions especially in a world where the nation states are getting denationalised and vertically getting integrated into the global capital. An isolationist policy is therefore suicidal. There is also the ideological make believe propaganda that there is no alternative to the IMF/World Bank. The theory of the "TINA" syndrome has become the ruling ideology of the dominant and aspiring middle class and the intelligentsia who provide legitimacy to this neo-liberal position and make believe that these institutions are beneficial in the long run to overcome poverty and underdevelopment. This position is grounded in the changing character of State and class in India. The Indian National Bourgeoisie has abandoned their post-colonial economic vision of national capital formation and national markets and is now increasingly tied up with Global Capital and Market. The scrapping of controls on expansion meant that Indian firms could aspire to global economies of scale, while the lifting of controls on the outward movement of capital meant that it was easier for Indian businesses to think of internationalising their own operations. A company which wants to break into a new market abroad has to be able to withstand a period of initial losses before it can establish itself; to cover those losses it needs substantial reserves of foreign exchange, without which it cannot even think of expanding in this way. Even more obvious is the need of foreign exchange for companies, which are planning to invest abroad. For those companies, which were all set to become Indian multinationals, liberalisation was imperative to their future expansion and it believes that IFIs will create the necessary enabling condition in the Global Market.

Second: the Liberal Position posits the argument that these institutions should be given a chance for midcourse correction. In an increasingly interdependent world with most countries of the South adopting market friendly policies access to finance from these institutions are essential for economic growth and development. In accessing the banks resources, the logic that is presented is that the borrowing countries can also shape the bank's perceptions to meet the countries changing needs and work out arrangements, which are mutually acceptable to both the borrower and the lender. The bank "needs" us more than we "need" the Bank. IFIs are essential for long-term action to bring stability to the monetary system. Through pressure tactics and greater bargaining these institutions can be reformed.

Third: The left radical position. This position maintains that the current surge of globalisation is spear-headed by institutions such as the WB, IMF and TNCs i.e. capitalist institutions and these institutions are becoming agents of imperialism and symbol of subjugation. This position further maintains that these institutions have lost all credibility today and have outlived their historical mission as they had been created to manage the international payment system and help Europe reconstruct. The World however has changed very much since then and the IMF-World Bank economic orthodoxy has not resolved the economic recovery of the borrowing countries, with deep inequalities and poverty continuing to persist. These institutions are incapable of effectively managing today's international financial system – in particular their instability and volatility of exchange rates and exchange flows. The essence of the problem is international capital flows without any international control. The rationale for the formation of the BWIs was to regulate finance and trade. In fact, globalisation today has accentuated this crisis and is still without a solution in sight.

After all, any economic order is a human construct based on class interest, social creation and governed by social relations. Dynamics of human spirit and social processes are far too complex to be determined by any given single economic theory. Based on this analysis the left position argues that there is now the urgency for a new financial order and therefore these institutions must be left behind and replaced by new ones that are based on principles of equity, justice and accountability with democratic systems and processes.

Principle of Caution

While critiquing the role of the Bretton Wood Institutions especially by the NGOs of the North there is a tendency for them to fall into the trap of the single issue based and selective approach leading to the cause effect reductionism i.e. that these institutions are solely responsible and forced all the states to adopt the neo-liberal ideologies and policies (though this is partly true but not the whole truth). The principle of caution implies that our critique of these institutions should not lead us in legitimising or justifying the major responsibility of the G7 countries and large corporations in using these institutions as instruments for their hegemonic designs and agendas for capitalist economic growth.

Struggles and Resistance against BWI's Policies

As the sense of insecurity among the people grows, alongside persisting poverty, unemployment, increasing injustice and social exclusion it pushes the poor and deprived into a culture of protest, anger and violent civil upsurges. Various mass organisations in the country in recent past have risen against the BWIs policies of privatisation of natural resources. These policies are aimed at initiating reform in the water sector in developing countries by re-shaping institutional structures to ensure the entry of transnational corporations in the Water Market.

The increased awareness of water scarcity and the privatisation of their dwindling natural resources have given rise to new social movements, initiated by the affected communities across the country, and form the major arena of struggle in the country today. The dimension of these new struggles have economic, ecological and social dimension aimed to protect livelihoods, defend basic rights and reject the commodification of water and water resources whilst safeguarding common heritage and natural resources against the onslaught of economic globalism.

These struggles and resistance are inspired by a common ideological commitment that natural resources like water belong to the earth and for all species for all time and must therefore continue to remain a common property resource whilst reclaiming the control of common heritage for future generations. This ideological vision is aimed at recovering the "holistic vision" based on the traditional world view which is now under the threat of the global capital. The age of capital brings about rapid and tumultuous changes not only in social relations of human beings but also in relations of human beings with themselves and with nature. The original harmony and unity with nature is then altered into extractive and exploitative relationship that seeks to consume, subjugate, and enslave nature. In short, this begins a process of commercialisation and privatisation of what was originally a natural resource – an element of the environment.

These struggles emerged as a major rallying point in defending the communities' right to water and life. Realizing the fact that these struggles cannot be won at the local level of the community alone because of the increasing globalised nature of the water market, and its monopolization by the Transnational Corporations, these local struggles are increasingly acquiring international linkages. This makes it imperative to build up a global perspective and strategies to strengthen solidarity action across the globe.

Paper presented at International Conference on Bretton Wood Institutions – 60 Years
Liege, Belgium

October 1 to 12, 2004: Worldwide Days of Resistance to the IMF & World Bank

As the International Monetary Fund and the World Bank celebrate their 60th anniversary this 2004, movements from all over the world are mobilizing to express vigorous opposition to their policies and operations. The occasion of the spring meeting of these twin institutions in Washington DC last April was a high point of these initiatives, with protest activities held in the US capital as well as in various other countries.

We urge an intensification of protests towards a major convergence of efforts in the first two weeks of October, when these institutions are set to hold their annual meeting. Let us dub the first two weeks of October as **Worldwide Days of Resistance to the IMF-WB!**

Our global protests will coincide with the Annual Meeting of the IMF and the WB on October 1-4 and last upto October 12, a day of mobilizations in the Americas around injustices perpetuated on indigenous peoples since the landing of Columbus in the Caribbean Islands over 500 years ago.

We urge you to sign the attached manifesto and circulate it widely to raise people's awareness and understanding of the nature, role and impact of these institutions in the lives of people, communities and nations.

Let us work together and make these Days of Resistance a resounding cry for the end of the hegemony of these institutions.

Let us mobilize on these days for a massive demonstration of unity of the peoples of the North and the South in the struggle to build a new economic order founded on the economic, political and social empowerment of all people to live fully human lives.

On the 60th YEAR of the BRETTON WOODS INSTITUTIONS let us all shout:

IMF and WORLD BANK OUT!

IFI OUT!
10 June 2004

IFI OUT! is a global network/ movement of resistance against international financial institutions -- the IMF, the World Bank, the Interamerican Development Bank, the Asian Development Bank, the African Development Bank, etc.

If you would like to know more about **IFI OUT!** and the **Worldwide Days of Resistance Against the IMF-WB,** please write to **oct2004@ifi-out.org** or **www.ifi-out.org**

END 60 YEARS OF DESTRUCTION:
IMF-WORLD BANK OUT NOW!

Sixty years ago, delegates from governments of 45 countries met in Bretton Woods, New Hampshire, USA, and laid out a blueprint for redesigning the world economy. For the first time, globally binding agreements and institutions were forged, supposedly in the spirit of international economic cooperation. In truth, the meeting, dominated by the victors of World War II led by the United States, paved the way for a handful of powerful and wealthy Northern countries and governments to dictate on all of humanity the shape of the world economy as they saw fit.

Founding the institutions, Ruling the World Economy

The Bretton Woods Agreement created the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development or simply, the World Bank (WB), giving the mandate for these twin institutions to maintain a global order and climate conducive for capitalist development.

The IMF would enforce the agreed rules for a global financial and monetary system with the US dollar as the international currency, balancing between a rigidly fixed currency exchange system and a completely unfettered floating rate system. The World Bank, on the other hand, was originally constituted as the International Bank for Reconstruction and Development (IBRD) that would extend loans to war-torn economies and poor countries, for use in "development projects" and the "alleviation of mass poverty". [1]

The structures and decision-making processes that were established reflect the grossly imbalanced power relations between nations. Just like private corporations – voting power and rights of members are proportional to their "shares." Thus, the biggest owner of the IMF and the World Bank is the United States. In the World Bank, the single executive director representing the US control 20 percent of the votes as compared to the 7 percent of votes held between the two executive directors representing 47 sub-Saharan African countries.

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[1] The International Trade Organization planned at Bretton Woods failed to materialize because the US Congress refused to endorse it. Three years later, in 1947, the US and 23 other nations decided to sign the General Agreement on Tariffs and Trade (GATT). It was finally in 1990 when the World Trade Organization took over GATT as the lead agency liberalizing world trade that the triumvirate of organizations dreamt of 60 years ago was fully realized.

Several changes have taken place since the founding of the IMF and World Bank. Rules governing the world economy were adapted to emerging problems and new requirements of the global capitalist system, steps taken to enhance and reinforce the powers of these Bretton Woods institutions over the countries of the South.

In the 60s, the IMF system under which the US dollar was pegged to gold asked the member countries to tie their currencies to the US dollar. They began meeting with problems as the US buckled under the strain of its own economic difficulties and experienced speculation on its currency. By 1973, the IMF abandoned the vision of a stable international monetary system using the US dollar as the sole international currency.

New entities were added to the World Bank group in addition to IBRD -- the International Development Assistance (IDA), providing so-called soft loans to poor countries; the International Finance Corporation (IFC), extending finance and technical assistance to the private sector and mobilizing capital in international financial markets; the Multilateral Investment Guarantee Agency (MIGA), offering political risk insurance for private investors; and the International Centre for Settlement of Investment Disputes (ICSID), facilitating the dispute-resolution between governments and foreign investors.

For the greater part of the 20th century, the needs and requirements for the global capitalist order to thrive and prevail have been defined by these institutions. In turn, the paradigm and policies of these institutions have been determined by its most powerful members, the wealthiest countries of the world led by the United States.

Debt and Destruction

As oil prices rose in the early 70s, many of the developed countries cut back on demand for goods from South countries to pay for oil and reduce balance of payments deficits. Non-oil producing South countries reeled from the impacts of skyrocketing oil prices, coupled with the fall in the demand and trading prices of their key commodities.

On the other hand, northern and international banks and other financial bodies found themselves flush with enormous dollar surpluses accumulated largely from the quadrupling of the prices of crude oil. Driven by the need to invest the surplus capital, these financial institutions took advantage of the economic vulnerabilities of South countries and aggressively peddled loans. Relentless and indiscriminate, creditors showed no regard for internal democratic processes and even condoned the circumvention of national laws. Moreover, loans were lent irresponsibly to corrupt governments and to dubious projects which turned out to be either non-viable, damaging to communities and the environment, tainted with fraud and onerous terms, fuelling the self-aggrandizement of politicians and their cronies, or all of the above. Creditors also liberally extended loans to private corporations, but required government guarantees that conveniently ensured repayment through taxpayers' money.

More insidious, politically motivated reasons also pushed the high wave of lending in the 70s and 80's, as Northern governments used the IMF and the World Bank to promote their politico-military and economic interests in the South. In the face of strengthening liberation movements in the South, IMF and World Bank loans propped up repressive dictatorships and authoritarian regimes loyal to the U.S. such as Marcos' of the Philippines, Mobutu's of Zaire, Suharto's of Indonesia, and the successive dictators in Argentina. The ill-gotten wealth that these despots and their cronies pocketed through fraudulent and onerous debt transactions continue to be paid for by peoples of the South today.

The external debt of South countries grew enormously through the 70's, eventually leading to a debt crisis early in the next decade. A deep global recession ushered in the 80's with the demand for export commodities of South nations declining and interest rates soaring as a result of the floating exchange rate policy of Thatcher and Reagan. Only with Mexico's threat of default in 1982 was the extent and gravity of the debt crisis publicly acknowledged by the financial community. By then, many South countries were teetering on the brink of collapse or going through severe economic contraction.

The succeeding years would spell even more misery for South countries as debt payments continued to take an enormous share of government spending resulting in the deterioration of basic services and public utilities. A vicious cycle set in as governments borrowed in increasing amounts in order to service its debts.

The 90's saw the IMF, WB and creditor governments led by the G7 countries pushing so called debt relief programs.

The Brady plan of the early 1990's targeted countries hit by the debt crisis of the 80's including Argentina, Mexico, Brazil, and the Philippines -- transforming a big part of their commercial debts into bonds which are non-negotiable instruments with stronger payment guarantees. The Brady plan did not result in debt reduction, instead it allowed creditors to cut their losses, turn the debts into papers that could be sold and resold in the secondary markets to generate profits, and improve the debt indicators of target countries so creditors can lend to them again. In short, the Brady plan led to more borrowings and bigger debts. Less than a decade later, Argentina fell into another debt crisis, and the other countries are showing signs of following in its wake.

The IMF and WB unveiled the Highly Indebted Poor Country (HIPC) debt relief program in the mid 1990's. Despite changes in the original design and its re-launching as the enhanced HIPC in the late 1990's, this debt relief scheme is little more than a mechanism for creditors to clean their books and repackage the much criticized structural adjustment programs into "poverty reduction strategy papers" or PRSPS.

In 2002, the external debt of the countries of the South came to US$2.4 trillion, from US$580 billion in 1980. The four-fold increase in debt occurred despite these debt relief schemes, and debt payments by South countries of some US$4.8 trillion over the last 22 years.

Destruction through Structural Adjustment Programs, Conditionalities and PRSPS

As the Third World debt ballooned to alarming proportions, the IMF-World Bank held even greater sway over the cash-strapped and debt-saddled South. Using debt as leverage, the IMF and the World Bank compelled South countries to implement economic policies and programs labelled structural adjustment programs (SAPs). These economic policies come as conditionalities to loan packages and/or as requirements for positive credit ratings, which the rest of the financial community uses to decide on access to and terms of lending.

These SAPs not only seek to restructure economies around policies deemed necessary to ensure loan repayments. They also embody the cornerstone of neoliberal globalization, an ideology that seeks to open the world's economies and accord free entry and movement of global capital and goods to North governments, transnational corporations, banks and other financial entities.

Since the 50s, the IMF had already been overseeing compliance to SAPs as part of 'standby arrangements' for countries wanting to borrow Fund resources. The Fund emphasizes monetary and fiscal policies to address inflation and balance of payments problems such as tax and budget policies, public sector reforms, interest rate and foreign exchange rate policies, policies on international reserves and money supply. IMF policies have led to reduction in public spending on social services and the severe deterioration of public health, education, housing programs; privatization and corporatisation of public service institutions; massive lay-offs of public sector employees; regressive and anti-poor tax policies; higher prices of basic commodities.

For its part, the World Bank pushes wider and longer-term SAPs that include trade and finance liberalization, deregulation of industries and privatization of services and utilities. The Bank has not only imposed these policies on South countries as loan conditionalities; it finances these policies and provides the expertise and technical assistance required.

The disastrous impacts of these policies are well-documented. Entire communities, especially those of indigenous peoples' have been dislocated. Sovereign control over national resources has been eroded and damage to the environment is now widespread. The majority of poor people worldwide are suffering the loss of livelihoods and jobs, declines in incomes, increasing prices of basic goods and services, increasingly narrower access to health care, education, decent housing and other social needs because of privatization. Women and girls in particular, are experiencing greater marginalization and impoverishment.

Numerous testimonies, evaluations and studies bear witness to the almost genocidal effects of SAPs. Some of these evaluations have even involved the World Bank in an official capacity. Typical of their propensity for duplicity, the IMF-World Bank recognizes the "social impact of adjustment" but has given no quarter in the continued pursuit of their programs and policies. SAPs were instead made to undergo some face-lifting in the year 2000, re-emerging as Poverty Reduction Strategy Papers (PRSPs) that are required for HIPC and for loan approvals. However, the policies have remained essentially the same and the dual purpose of ensuring loan repayments and giving industrialized capitalist free rein over the economies of the world remain as well-entrenched as ever.

The UN already had these grim statistics to report by the 90s:

- 1 billion people live in absolute poverty
- 100 million persons are completely homeless
- 800 million persons go hungry every day
- 1.75 billion people are without access to safe drinking water
- 1.5 billion persons are without access to primary health care

Today, a decade later, even a few quality of life indicators speak volumes about the conditions of practically all South countries which have implemented or are in the process of implementing policy prescriptions and projects of the Bank and the Fund:

- Nearly a billion people entered the 21st century unable to read a book or sign their names
- The lives of 1.7 million children will be needlessly lost this year [2000] because world governments have failed to reduce poverty levels
- An estimated 790 million people in the developing world (two-thirds of whom reside in Asia-Pacific) are still chronically undernourished
- 7 million children die each year as a result of the debt crisis
- 1.3 billion people live on less than one dollar a day; 3 billion live on under two dollars a day; 1.3 billion have no access to clean water; 3 billion have no access to sanitation; 2 billion have no access to electricity.
- A mere 12 percent of the world's population uses 85 percent of its water

The list of increasingly wretched and inhuman conditions that have come in the wake of structural adjustment is endless. It provides a resounding indictment and incriminating proof of the destructive nature of IMF-World Bank policies.

World Wide People's Resistance to the IMF-World Bank and their partner institutions

The IMF-WB goes through the motions of reforming, paying lip service to and the façade of civil society participation, democracy and transparency, while continuing in this path of destruction. The IMF-WB record shows how well they, together with their partner international financial institutions, the regional development banks and export credit agencies, have served the economic interests of the powerful at the expense of many peoples' human rights and environmental integrity.

We cannot allow more crises-making from these institutions. We urge the struggles, campaigns and mobilizations against these institutions in both the South and the North to intensify and move forward.

To mark the 60th year of these Bretton Woods institutions; let us unite and mobilize in, "a Worldwide Days of Resistance against the IMF-World Bank," in the first two weeks of October. Our global protests will coincide with the Annual Meeting of the IMF and the WB on October 1-4 and last up to October 12, a day of mobilizations in the Americas around injustices perpetuated on indigenous peoples since the landing of Columbus in the Caribbean Islands over 500 years ago. Let us work together make these Days of Resistance a resounding cry for the end of the hegemony of these institutions. Let us mobilize on these days for a massive demonstration of unity of the peoples of the North and the South in the struggle to build a new economic order founded on the economic, political and social empowerment of all people to live fully human lives.

Abolish illegitimate debt!
Stop the imposition of neoliberal policies!
End 60 years of destruction!
IMF-WB OUT NOW!

SIGNATORIES:

Please sign up by submitting your name in the space provided in www.ifi-out.org or by sending a message to oct2004@ifi-out.org

IMF and WB: the destruction of Indonesia's sovereignty
Eric Toussaint (CADTM)

After the Second World War, south-eastern and East Asia played two major roles. This region supplied raw materials to Western societies. Moreover it was a flashpoint for confrontations between contending Cold War interests.

On 27 December 1949, transfer of sovereignty was signed. Indonesia became a Republic and Sukarno was elected President.

The colonial legacy weighed heavily on Indonesia. It had to reimburse a substantial colonial debt and the Netherlands 'bequeathed' it – a production structure essentially based on export crops. This made it dependent on the vagaries of international economic trade.

Until 1963, Sukarno played the two Cold War blocs against each other but he was explicitly asked to choose sides. The United States decided to act through the IMF. However, both for reasons of western foreign policy decisions and Sukarno's own domestic policies, he left the IMF and the WB and decided to take charge of his country on his own terms. After the coup d'etat on 30 September 1965 re-established relations, Suharto aligned his policies on US interests. Despite obvious convergence, the United States did not want to grant him new loans directly and decided, as in 1963, to entrust administration of their interests in the IMF, where all aid would be subject to implementation of IMF policies. Suharto joined the IMF in February 1967.

Without any qualms about the undemocratic and authoritarian nature of the new Indonesian government, western countries provided it massive support. This despite its corruption, the aggression against one of its neighbours (annexation of East Timor) and its migratory plans that were subject to so much criticism in terms of human rights and environmental violations.

The 1998 Asian crisis weakened the regime and Suharto had to step down in May 1998.

The Bretton Woods institutions' choices were guided by political and geostrategical factors. Their financial support enabled Suharto to carry out policies flaunting human rights.

A. CONTEXT

1. A key player on the Asian chessboard

The Indonesian archipelago has an astonishing array of geographical and economic assets. Indonesia is made up of some 13,677 islands, and forms an arc between continental Asia and Australia. It controls the seaways between East Africa, the Middle East and India on its Indian Ocean side. On its Pacific Ocean side, it stands between China, Japan and western North America. Indonesia's tropical forest is the second largest in the world, after the Amazon's. The archipelago has a wealth of agricultural products (rice, rubber, coffee, cacao, soy, palm, oil, tea sugar and bananas) and natural resources (natural gas, tin, bauxite, nickel and copper).

Moreover, it has petroleum deposits that have long been coveted by many. Some islands are very densely populated; their people are an important reserve of cheap labour for western firms.

After the Second World War, Southeast Asia was fulfilling two main roles. Firstly, it supplied raw materials to Western societies. Secondly, alongside East Asia (China and Korea) this region was a (privileged location) where cold war interests clashed. Indeed, according to Noam Chomsky's 1948 article in *Monde diplomatique,* Georges Kennan, the US strategist who popularised the containment strategy, sees in "the Indonesian problem (…) the most crucial question right now in the (US) fight against the Kremlin. Chomsky adds: "and George Kennan warned that a 'Communist' Indonesia would be a source of 'infection' liable to spread westwards and attack all South Asia". (Our translation)

Thus, as it emerged from the Second World War, in the shadow of the cold war and international competition, Indonesia became a political and economic issue for the major powers. Rallying Indonesia to one of their ideological camps could have a fundamental impact on the international order.

2. The thousand-profit colony

Indonesia was famed for its spices as early as the 16th Century. The Portuguese marketed the cloves and nutmeg produced in the Moluccas. Profits were high, and the Dutch took over the island by fire and sword. They ruled it from 1605. Since then, almost all the Indonesian islands, explored little by little became the preserve of the Netherlands. Commercial exchanges took root and the Dutch brought in new plants such as the coffee tree, indigo, sugarcane…

During the Second World War, the Japanese invaded the Indonesian islands, after the attack on Pearl Harbor. This period saw the growth of a major movement for Indonesian independence. Three days after the Japanese surrender, Sukarno and Mohamed Hatta, backed by the rebellious youth, proclaimed Indonesian independence, on 17 August 1945. But, at the end of the war, the allies occupied the archipelago and waited for the Dutch to return. The former colonial masters found themselves in a difficult position as the clamour for independence grew. They had military control over the archipelago but were politically outside within and without. The major powers did not back them more because this instability was a strategic threat to the region but also because they too coveted the wealth of Indonesian Colonial Rule drew to a close.

A controversial episode in the World Bank's history occurred in 1947. It granted a 195-million-dollar loan to the Netherlands while the Dutch government was conducting an offensive against Indonesian nationalists. This was the second loan the World granted in its history. Two weeks before approval of this loan, the Netherlands launched their offensive. Over the two following years, there were as many as 145,000 Dutch occupation troops (it was a large-scale operation, and hard to keep silent). Although the

UN declared a cease-fire in 1948, the Dutch launched several land and air attacks. There was a hue and cry at the UN and in the United States, harshly criticizing Dutch policy in Indonesia and Bank involvement. The latter responded that the loan had been granted to the Dutch government for spending to be made in the Netherlands. The critics shot back that since money was fungible, the Dutch government could use the Bank's loan in support of its military effort in Indonesia.

The United States realized that the aid they were granting to the Netherlands (400 million dollars) through the Marshall Plan (400 million dollars) went indirectly in support of the military and police intervention in Indonesia. When they did, they got the UN to host talks at The Hague, in August 1949, and sovereignty transfer was signed on 27 December. Indonesia became a Republic and Sukarno was elected President. It became the 60th country to sign the United Nations Charter.

But the legacy of colonialism weighed heavily on Indonesia. The new nation had to repay a significant colonial debt. Moreover, the Netherlands had "bequeathed a production structure essentially based on export crops, making it dependent on the elastic course of the international economy. Moreover, most wealth created was still in the hands of Dutch firms. Finally, Indonesia took its first steps as a society scarred by colonial rule. This left it with a high illiteracy rate and only 1,200 physicians and 120 engineers for a population of 80 million inhabitants.

B. IFI: SUSPICIONS OF PRESIDENT SUKARNO AND SUPPORT TO THE DICTATOR SUHARTO

1. The Sukarno era: affirming independence

Sukarno was a member of the non-aligned movement, which came on to the scene in Indonesia, during the 1955 Bandung Conference. Sukarno, Tito and Nehru were leaders who expressed Third-World hopes against the old colonial system of rule. During this gathering, Sukarno made a famous speech on the aims of the Conference. Here are a few excerpts: "*The fact that leaders of Asian and African peoples can meet in one of their own countries to debate and reflect on their common issues is a new historical beginning (...). No people can feel free as long as part of their homeland is unfree. Like peace, freedom is individual." (Our translation). We are often told 'Colonialism is dead.' Let us not be deceived or even soothed by that. I say to you, colonialism is not yet dead, How can we say it is dead, so long as vast areas of Asia and Africa are unfree.*

(...) Colonialism has also its modern dress, in the form of economic control, intellectual control, actual physical control by a small but alien community within a nation. It is a skilful and determined enemy, and it appears in many guises. It does not give up its loot easily. Wherever, whenever and however it appears, colonialism is an evil thing, and one which must be eradicated from the earth. (...).

Sukarno spoke for an anti-imperialist outlook in terms of foreign policy. To complete his country's unity, he stressed the return of New Guinea (Irian Jaya), which remained in

Dutch hands. In 1956, he disavowed the colonial debt and in 1957 he nationalized Dutch firms.

Sukarno's policy, inside and outside his country, was centred on a philosophy of equilibrium/balance. Indonesia is a land with an immense variety of cultures and Sukarno attempted to keep the different factions in his country in balance, with the personal objective of remaining in power alone. In 1955, the first elections were organized. The President's party (PNI) received 25% of the votes and the PKI, the Communist party, 16.4%. Two years later, regional elections took place and the PKI affirmed its strongholds, which disturbed foreign powers immersed in the ideological struggle. The PKI's legitimacy was based on landless peasants, urban and oilfield workers and plantation workers and white-collar staff. By its own estimates, the party numbered 3 million members and 20 million sympathizers. To ensure his power, Sukarno worked with the Communists who could live with his populism. It must be emphasized that Sukarno was no communist, but a nationalist and he needed the PKI to establish his legitimacy in Indonesia.

On the international scene, Sukarno deftly played the Cold War blocs against each other. But tensions were rising. The United States had a dim view of the massive Soviet aid to Indonesia, thinking the latter could be won over to a pro-Communist stance. Hence, they backed internal rebellions that sought to destabilize Sukarno, who spoke out against this support at the UN. Until 1963, Sukarno succeeded in playing the two blocs against each other but they called on him to choose sides. The United States decided to act through the IMF. An IMF delegation toured Indonesia in 1962 and proposed financial aid conditional on close co-operation with the Fund. In March 1963, the United States provided a 17 million-dollar loan, and two months later, the Indonesian government announced a series of new economic measures (devaluation of the rupee, austerity budget, suspension of subsidies…) in conformity to IMF policy. The next month, the OECD members met to agree upon a fund mobilization accord. The United States proposed to contribute to it, alongside the IMF and the WB, to the tune of half of the 400 million dollars foreseen. In August, under a US initiative, Indonesia signed a "*stand-by arrangement*", enabling it to receive a 50 million dollar loan.

But all this changed in September 1963 when the British proclaimed the Malaysian Federation without consultation. Sukarno saw this as a manoeuvre by the English, of the "imperialist" forces. In a fit of anger, Sukarno nationalized British firms. This meant cancellation of the agreements with the IMF. Despite its demands, the UN agreed to creation of Malaysia and Sukarno, who failed to win his case, slammed the door on the UN in 1965.

The economic situation was disastrous. The many loans contracted to the West and the USSR were wasted on consumer goods, prestigious projects and arms. Although Sukarno defended the Indonesian people's rights, he had not succeeded in making his country an economic success. His economy, dependent on the outside, had to face the collapse of the price of raw materials (the price of rubber slumped dramatically) and his excessive public spending policies played a part in feeding inflation which reached a 600% yearly rate at the end of his power. This was the culmination of the Cold War, and Sukarno attracted Washington’s ire by nationalizing all foreign private firms (except the petroleum industry). He left the IMF and the WB in August 1965 and decided to take charge of the country independently.

2. The 30 September 1965 coup d’etat

On 30 September 1965, General Suharto launched massive repression against the left-wing parties. He chose the PKI as his prime target, accusing it of fomenting a Communist putsch. Suharto succeeded in taking control with the army and physically destroyed the PKI. Between 500.000 and 1 million civilians were assassinated merely for belonging to the PKI or sympathizing with it. He progressively sidelined Sukarno. In March 1966, Suharto finally succeeded in having Sukarno officially hand over his powers. Six days after the turnover, the United States government announced that it was opening up a line of credit for Indonesia, amounting to 8.2 million dollars, for the latter to purchase US rice. On 13 April 1966, Indonesia rejoined the World Bank.

In 1966, Lyndon B. Johnson, the US president, crossed the ocean to visit his troops in Vietnam. In one of his speeches, he praised the **Indonesian Model**.

3. The Suharto era: The “New Order”

Suharto’s power made regular use of terror and physical elimination of rivals. Communists as well as PNI members were targeted. So were Muslims in Java, Hindus in Bali, Christians in North Sulawesi. Suharto was re-elected every five years by a parliamentary institution (People’s Consultative Assembly) made up of 1000 members. The President directly chose 600; 400 were elected. Before each election, all candidates were subject to review by military intelligence, then personally approved by the President of the Republic.

Suharto aligned his policies directly on the United States. But despite the obvious convergence, the United States did not wish to grant new loans directly to the Suharto regime. They decided, as they had done in 1963 under other circumstances, to entrust administration of their interests in the IMF. The latter’s assistance would be subject to application of the policies it recommended. At the close of the summer of 1966, an IMF mission studied a new stabilization programme and the government rapidly implemented the IMF’s macroeconomic conditions. Indonesia officially returned to the IMF fold in February 1967. The western countries were swift to respond. Firstly, they granted 174 million dollars in aid in order to bale out the Indonesian crisis. Then, they proceeded to reorganize the debt. By the end of 1966, 534 million dollars had to be reimbursed for debt service (interest, principal and back payments). This amounted to 69% of estimated export profits. Without a new payment schedule, debt service would have cancelled out the impact of foreign aid. In December 1966, following a Club of Paris meeting, the Western creditor nations accepted a moratorium until 1971, on reimbursement of the principal and the long-term debt interests contracted before 1966. Without IMF support and without US pressure on the members of the Club of Paris, this reorganisation would not have taken place.

But the effects of a moratorium are merely temporary and, in 1971, repayments had to resume. From then, creditors signed the most favourable agreement ever granted. Debts prior to 1966 (contracted under Sukarno) had to be repaid in 30 annuities over a period from 1970 and 1999. This reorganization was followed by devaluation and a reform of exchange rates that made Indonesia the country with the freest exchange rate.

C. WB, IMF AND UNITED STATES FIRST SUPPORT, THEN ABANDON THE SUHARTO REGIME

1. Corruption

According to the *Transparency International* 2004 Report on Corruption, Mohamed Suharto was the most corrupt leader in the world. He misappropriated from 15 to 35 billion dollars between 1967 and 1998. This was far ahead of Ferdinand Marcos (Philippines: between 5 and 10 billion $US) and Mobutu (Zaire, 5 billion dollars). According to a World Bank report, between 20% and 30% of the budgets linked to development funds were embezzled and Bank loans are clearly involved. For example, the development budget that included headings such as “development infrastructures” financed the redecoration of government buildings or buying official vehicles, and not to the improvement of public welfare.
The World Bank is one of the country’s largest creditors. In 2002, the Indonesian debt to the institution came to more than 11 billion dollars out of a total of 75 billion dollars in public foreign debt.

Yet officially, the Bank does not own up to involvement in these misappropriations. It provides a litany of rational reasons to waive any responsibility for shoring up an odious regime. In fact, the October 1998 Operational Overview admits that “*many of our own staff (particularly **headquarters task** managers) is viewed as ignorant or uncaring (as in ‘they don’t really want to know’) of local practices and thus subject to being misled or deceived rather easily...””*

From the outset, World Bank relations with Indonesia were special in nature. The first visit by the new World Bank president, Robert McNamara, was to Indonesia. According to the official book on the World Bank’s first 50 years, “*He [Robert McNamara] and the President Suharto admired each other, and the Bank president on the spot adopted unique modalities for a country program. On June 15 [1968] he told a press conference: “This is the first time that the World Bank has established this sort of a Resident Mission in a developing area...[Y]our problem in Indonesia demands a unique solution and a greater concentration of effort than we have applied anywhere else in the world”.*

Quoting the book again: “*As for Indonesian corruption in general, the Bank clearly had this issue in view from the beginning of its (1968) renewed relationship with the country. But the relevant documents convey little sense that the phenomenon had to or could be fully eradicated (...) McNamara explained that*’ it was also necessary to maintain the emphasis on reducing corruption. Outside Indonesia, this was much talked about and the world had the impression, rightly or wrongly, that it was greater in Indonesia than in any but perhaps one other country…. It was like a cancer eating away at the society”. And further along, according to McNamara, "*Indonesia was the presidentially designated jewel in the Bank's operational crown".* It couldn't be any clearer.

The Bank built up and maintained the vision of an Indonesian miracle, although it was fully aware of the Suharto regime's fraudulent practices. Many internal Bank reports attested to this. Despite their awareness of the situation, there was no reduction in loans. On the contrary, they even underwent a constant increase.

Jeffrey Winters, Associate Professor of Political Economy at Northwestern University, insisted on the illegal nature of this Indonesian debt and saw it as a criminal debt with which international financial institutions were complicit. As he said, "*It could have taken [the World Bank] a variety of measures, including intensifying the supervision of its projects, thereby reducing the levels of corruption in its own operations, even if it could not stop the rampant corruption across the government. It could have threatened to gradually reduce its lending to Indonesia over a period of years if the leakage of Bank project funds was not progressively curtailed. It could have halted lending completely on the grounds that continued lending under circumstances of persistently high levels of theft violated the Bank's fiduciary mandate contained in its charter"*

Here we have a precise case of World Bank officials' support for a regime that was known for its pattern of fraud. The Bretton Woods institutions were aware of the regimes' massive graft and the deep level of its corruption. The analyses presented above lead us to affirm that interests of a political and geostrategical order lay behind this tolerance and complicity.

2. IFI Support to many forms of oppression

East Timor

In 1975, after the collapse of the Salazar regime, the Portuguese colonial administration and army, still occupying the island of Timor, decided to disengage from their colony. The Revolutionary Front of Independent West Timor, which had been waging an armed struggle against the Portuguese occupation, declared independence of the territory. But one month later, Indonesian military forces invaded the island and, in 1976, the Indonesian government proclaimed East Timor its 27th province. The United Nations condemned this annexation and still viewed Portugal as the official territorial administrator. However, certain States, including the US, gave de facto recognition to this annexation. They had every interest in having oil reserves fall into the hands of a "friendly" dictator rather than Portugal's or an independent Timor's.

Violent combats ensued and the Indonesian army inflicted 100,000 victims among a population of some 750,000. Repression was a leitmotiv on the island and massacres were the means of thwarting any attempt at protest. For example, on 12 November 1991, the army opened fire on a peaceful march to the Santa Cruz cemetery. This demonstration brought together Timorese attending the funeral of a young man killed by a pro-Indonesian paramilitary group. According to Amnesty International, "Approximately 270 civilians were killed in this massacre and its aftermath. Most of the victims were shot as

they were attempting to flee. Others were beaten and stabbed. According to some testimony, dozens of people, including eyewitnesses of the massacre, were killed during the following weeks. Some of them were finished off in a military hospital where they were receiving care." (our translation).
In 1992, the UN Human Rights sub-commission condemned Indonesia for its "policy of repression in East Timor".

Did these massacres dissuade the World Bank from lending to a country whose government was overtly carrying out very harsh repression against any opposition movements? Did the WB use its loans to ensure respect for human rights in Indonesia? The graph below indicated an increase in World Bank loan grants to the Indonesian government during the occupation of East Timor.

The transmigration project

The transmigration project, implemented under the Suharto regime and financially and politically supported by the World Bank, was not a new idea. In fact, the old Dutch colonial masters and the newly independent government had played a part in the migration of many Javanese. This project aimed to displace millions of poor Indonesians from the densely populated central islands (Java – the most densely populated area on earth - , Lombok, Bali and Madura) towards the less densely populated outer islands (Borneo, New Guinea and Sumatra). The official motives were as follows:

- Relieve pressure on the island of Java where many peasants were landless;
- Reduce poverty by enabling displaced persons to cultivate new lands on the outer islands and ensure them an adequate basic infrastructure, contributing to the economic development of the islands in question;
- Promote a more balanced national and regional population distribution.

The World Bank lent 630 million dollars to fund the project between 1976 and 1986 but approximately 130 million dollars would be cancelled. This reduced the Bank contribution to 500 million dollars. The Bank contribution was not limited to financial support alone. It also provided political support, attracting tens of millions of dollars in further support to the project (aid from the Dutch, German, US governments; from the Asian Development Bank, from the United Nations Programme for Development and the World Food Programme). According to Bruce Rich, in 1983, the Bank lent 734 million dollars more (loans to agriculture) to fund settlers.

According to Rich, between 1976 and 1986, 3.5 million people were displaced and 3.5 million others left on their own accord, motivated by government propaganda and advertising. WB loans made it possible to re-settle 71,000 families. 335,000 people were re-settled in Sumatra and Kalimatan. They also funded planning and selection of 400, 000 families, or at least 2 million people. Thus, the Bank played a key role in this project. However, its impact was negative and irreversible. Human rights and environmentalist NGOs revealed the covert motivations underlying this massive population displacement project.

Their main criticisms were as follows:

- Families were displaced according to a geopolitical objective. Ninety percent of Indonesia's surface area is inhabited by non-Javanese. This creates an unstable political situation. Thus, this project was a national security priority and enabled the government to control indigenous peoples of the outer islands through forced integration.
- The transmigration project violated ground property rights of the indigenous peoples and forest dwellers. Transmigratory sites were established on indigenous peoples' lands without their consent or compensation and the latter had to change their ways of life. The implementation of the project led to many acts of resistance, leading to violent situations and human rights abuse.
- The average cost of displacing a family was 7000 dollars, according to World Bank estimates (in the mid 1990s. That amounts to 13 times the annual income of most families in the inner islands. This project seems most unprofitable and contributes to a considerable increase in foreign debt and poverty. In fact, according to a 1986 World Bank study, 50% of the displaced families were living below the poverty line and 20% below the subsistence level. Other studies proved that 80% of the project sites proved a failure in terms of improving people's living conditions.
- The project was a failure in that it did not contribute to the improvement of poor people's lives in the inner islands. It left the transmigrants in a worse situation than before due to an utterly unfit planning and preparation of sites, a limited access to markets and neglect of land and water ownership. The latter are essential to develop a farming economy. Indeed, according to Rich, the land set aside for the migrants was among the poorest soil on earth.
- Nor did this solve Java's population density problems, on the contrary.
- Indonesia's outer island are home to ten per cent of the tropical forests still standing on earth and the transmigration programme has been a very important source of institutional pressure on these islands' environment. In fact, the project played a part in serious damage to the outer islands' environment through massive forest destruction. This project was proven to be the main cause of the country's deforestation, estimated at 1.2 million hectares per annum in 1991.
- The World Bank denies all these allegations. In 1994, it decided to carry out an internal review of the projects it had funded, in order to determine any possible responsibilities.
- In this report, the World Bank admits that the Sumatra project had "negative and probably irreversible effects" (check English original) on the Kubu people. The Kubu are a nomadic people whose survival depends on the cultivation of fallow lands, hunting and forest gatherings. The audit states that "although the Kubus' presence in the project zones was known since the planning phase, little efforts was made to avoid problems" (our translation).

3. The 1997-1998 Southeast Asian Crisis

The 1997 Southeast Asian Crisis (see chapter on this crisis) hit Indonesia hard and surprised the country with its violent nature. In less than one year, foreign capital left the country, the rupee lost more than 80% of its value and mass unemployment appeared.

According to a study by the HCCI's A. Giraud, "*at the end of 1998, 50% of the population was living beneath the poverty line, estimated at $0.55 daily in cities and $0.40 in the countryside."* (Our translation).

The causes lie on the one hand with the Indonesian economy, based on endemic corruption, collusion between the government, the banks and private conglomerates and massive influxes of foreign capital allowing these to regulate the balance of payments. And on the other, on IMF policies. The untrammelled opening to foreign capital these prescribed played a part in feverish property and stock market speculation.

The IMF imposed "strong medicines" to solve the 1997 crisis. Once again it failed, extending and deepening the crisis. J.Stiglitz is very clear on this: "Economic policy must aim to minimise the gravity and length of economic crises as much as possible. Unfortunately that was neither the intention nor the outcome of IMF prescriptions". (our translation) The people, hard-hit by the impact of these measures began to launch protests. On 5 May 1998, as foreseen by agreements signed with the IMF, Suharto eliminated subsidies on basic goods, increasing the price of kerosene, electricity and gasoline by 70%. This stepped up the huge popular mobilization that had begun several months earlier. Fifteen days later, Suharto stepped down after 32 years heading a dictatorial regime. The United States government intervened directly, having US Secretary of State Madeleine Albright request his resignation to open the way to a "democratic transition".

By imposing draconian conditions for any aid to Suharto, the IMF encouraged the dictator to implement very unpopular economic measures. These measures consolidated the very broad opposition movement that finally got the dictator to leave power. Washington certainly thought Suharto had done enough to defend US interests. With the Cold War over for ten years, it was time to turn the page.

D. INDONESIA'S DEBT TODAY

If we study what has become of Indonesia's public foreign debt, its distribution among creditors shows a relatively small private portion. This is largely due to the fact that the inflow of IMF and industrialized nations capital to reimburse private creditors as a priority converted a share of the debts owed to the private sector to multilateral and bilateral debts, heretofore the great majority.

The Indonesian debt increased, mainly for two reasons. Firstly, the IMF's rescue plan seemed to bring capital to Indonesia, but this capital immediately left the country as repayment of debts to foreign creditors. In the meantime, people in Indonesia underwent the consequences in the form of drastic budgetary restrictions and repaid these debts that had not benefited them in any way. According to the IMF 1998 Annual Report, IMF, WB, BAD and western government commitments totalled **50 billion** dollars.

Second reason, the Letter of Intent called for reorganization of the banking sector by reducing the number of institutions. This measure, combined with a tight money policy (high interest rates) would entail the collapse of the banking sector. The Meltzer Commission's report to the United States Congress stated very clearly: *"Cutting government expenditure, raising taxes, raising interest rates and closing banks aggravated the crises."* After a rise in interest rates, firms that had to repay their debts and lacked liquid assets (during the crisis period) had to refinance their loans, but at an exorbitant rate. Their liquidity crisis very quickly became a solvency crisis and they went bankrupt. This meant a bad debt for commercial banks. Panic ensued among holders of accounts who lost confidence in their financial institutions and preferred to draw out their money. The IMF advised the government to recapitalise the sector by issuing bonds, at a high interest rate, to acquire shares in banks in difficulty and guarantee dubious debts. This issue only increased the country's internal debt, null circa 1998. The government spent 430 million rupees (5 billion dollars) on recapitalising the banking system. In addition to repaying that sum, it had to reimburse 600 billion rupees (70 billion dollars) more, as interest.

These measures made the country's debt situation still worse. The largest share of government budgets is set aside for reimbursing the debt. Between 1999 and 2000, 50% and 40% respectively were spent on debt service. In 2004, the share is close to 28% and this situation is expected to continue.

Continued bloodletting of capital

The 1997-1998 crises brought in capital in the short term. But since then, repayment has weighed heavily on the Indonesian budget. This is why the net transfer of the debt, i.e. the difference between new loans and total repayments over one year, became (weakly) positive in 1998, before falling deeply into the red since then.

Conclusion

In short, the historical, political and economic analysis we have provided in this case study shows that the 1965 military coup deprived the Indonesian people of the opportunity to determine their own future. And yet, with the 1955 Bandung Conference, Indonesia had begun to play a dynamic role in what was to become the non-aligned movement. The threat of seeing one of the most populous countries on earth plays a role in establishing a new world order led the United States and the Bretton Woods institutions to actively support the Suharto dictatorship.

These institutions' choices were guided by political and geostrategical factors. Their financial support enabled Suharto to implement many policies detrimental to human rights.

They were complicit in these policies. Later on, starting from the 1997 crisis, IMF-imposed measures only made the economic situation direr and led to a sharp increase in the internal and external public debt. In the balance, the impact of IMF and World Bank intervention in Indonesia is largely negative. In consequence, the liens that they hold on this country should be cancelled outright.

Translated by Marie Lagatta

Weed / Brot für die Welt Working Paper

King Customer?
The World Bank's New Water Policy and its Implementation in India and Sri Lanka

(Summary of Original Paper by the same authors)

Uwe Hoering, Ann-Kathrin Schneider

List of Abbreviations

CAS	Country Assistance Strategy
CBO	Community-Based Organisation
CDD	Community-Driven Development
CNES	Citizens Network Essential Services
CWSSP	Community Water Supply and Sanitation Project
DRA	Demand-Responsive Approach
ECOSOC	Economic and Social Council
GoI	Government of India
GWP	Global Water Partnership
IBRD	International Bank for Reconstruction and Development
IDA	International Development Agency
IFC	International Finance Corporation
IMF	International Monetary Fund
IRN	International Rivers Network
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organisation
O&M	Operation & Maintenance
OBA	Output-based Aid
OED	Operations Evaluation Department
PPP	Public-Private Partnership
PRSP	Poverty Reduction Strategy Paper
PSP	Private Sector Participation
SANDRP	South Asia Network on Dams, Rivers and People
UN	United Nations
UNICEF	UN-Children’s Fund
WCD	World Commission on Dams
WCW	World Commission on Water
WHO	World Health Organisation
WRSS	Water Resources Sector Strategy
WSP	Water and Sanitation Program
WSSD	World Summit on Sustainable Development
WWC	World Water Council

King Customer?

The World Bank's New Water Policy and Its Implications in India and Sri Lanka

Introduction

The World Health Organisation WHO estimates that more than a billion people have no access to clean drinking water, and that more than twice as many people do not dispose of decent sanitation, which has grave negative impacts on their living conditions. Eighty percent of them live in the rural areas of the South. At the Millennium Summit in 2000, the international community of states set itself the goal of remedying this state of affairs for half the number of people affected by 2015. According to estimates of the UN Children's Fund UNICEF, this will require that, given population growth, 1.6 billion people – which means 231,000 a day – need to gain access to clean drinking water (UN 2004). The World Bank is among the most important development organisations that have taken up the cause of implementing this goal.

Not only will 2005 be the first year of a second UN decade for drinking water, but it will also be Year No. 5 after the New York Millennium Summit. Ten years ahead of the deadline for the attainment of the goals, it represents a good point in time to remind the development co-operation players of their pledge. Concrete steps and success will be required, especially with a view to improving water supply in urban slums and rural areas.

This urgency is being underlined by a recent commentary by the UN-Committee on economic, social and cultural rights, which concludes, that access to water is a human right, which binds governments and international organisations. Indeed, water is not an economic good like any other goods, as the proponents of commercialisation and privatisation in the water sector claim.

The World Bank plays a key role for the entire water sector. The Bank's financial contributions as a whole are lower than the sum total of the loans and subsidies provided by all bilateral donors (Brugger 2004, 12). But thanks to its prominent position in development co-operation, it does have a crucial influence on the policies of the recipient countries as well as on those of the other multilateral and bilateral donors. It shapes national and international water policy by both via its linking the award of loans to strict conditionalities and by its leading role in the formation of opinion in the water debate. Thus it has a decisive influence on the concepts and strategies to improve water supply in several countries.

The World Bank's policy in the urban water sector has already been examined in numerous studies. So far, much less attention has been given to the rural areas, although it is here that the largest number of people currently lacks access to safe drinking water and sanitation. They belong to the economically and socially weakest sections of the population. Thus better, safe water supply is an essential contribution to poverty reduction in rural areas.

In the following, the World Bank's water policy since the beginning of the nineties is outlined, the central aspect of which is the notion of water as an economic good. Then the water policies in Sri Lanka and India as well as the World Bank's role in designing them and putting them into practice are described. These two countries have been chosen because the World Bank is implementing its policy both at project and programme and sector level in what is virtually an exemplary manner. Thus India and Sri Lanka offer an opportunity to take a look at the impact that the World Bank's water policy has had in rural areas so far and deduce demands on a different water policy from this.

Part I: The World Bank's water policy since the beginning of the nineties

The water sector has played an important role in the World Bank's policy as this is reflected in its share of loan awards. In the nineties, almost 16% of all the bank loans provided were for development of the water resources and water related services. The World Bank has invested almost three billion dollars a year in water so far (Briscoe 2003, 18). In the 2001 business year, outstanding credits in the water sector totalled around 20 billion US dollars, with 4.8 billions having gone to the urban area, 5.4 billions to irrigation, 1.7 billions to hydropower projects, 3 billions to environmental protection in the water sector and just 1.7 billions to water supply to rural areas (Alexander 2002, 4).

Second, the World Bank has played an important role in several organisations and institutions that are involved with water policy over the last decade- the Water and Sanitation Program (WSP) that was jointly coordinated by the World Bank and the UNDP in 1977; the Global Water Partnership (GWP) that developed the "World Water Vision 2000"; the World Water Council (WWC) and the World Commission on Water (WCW).

Finally, a number of the strategy and policy papers issued by the World Bank reflect its involvement in the sector:

1. The Water Resources Management policy paper passed in 1993 (World Bank 1993), which, according to the Bank, (World Bank 2003c, 1).
2. The 2003 Water Resources Sector Strategy (WRSS), with which the Bank clearly expresses its intention to extend it's financing of reforms and projects in the water sector in future (World Bank 2003c).
3. The 2003 Action Plan for Infrastructure, which announces a massive boost to investments in new large-scale projects such as dams (World Bank 2003a).

1.1 Reform Agenda

Till the early 90's the World Bank's Water Policy was mainly geared towards providing financial support for infrastructure provided by the state. The end of the 1st UN Water Decade (1981-90) failed in its goal of "Water for All". The World Bank stepped up its efforts towards a comprehensive reform of the infrastructure sector, which had so far largely been in public hands, and hence the water sector itself. The goal declared for the same was to improve supply for all; especially the poorer section of the population and those public utilities encountering high financing requirements.

The key elements of the concept were reflected in the World Development Report (World Bank, 1994) as:

- Autonomy, decentralization, commercialization and cost recovery as basic principles for the utilities
- Competition through privatization or by involving private, and in particular foreign companies (private sector participation, PSP) alongside public companies and user organizations, and
- Autonomous regulatory institutions that formulate reliable requirements for utilities independently of political influence but that are also to ensure that environmental or social demands such as affordable prices for lower-income sections of the population are addressed

The Structural Adjustment Programs (SAP) brought about deregulation in state control, but now one is able to acknowledge that the state can play a positive role in the development process provided that it observes "Good Governance". Good governance implies transparency, freedom form corruption in state action, state support of development processes, act as a facilitator and create an environment enabling private and societal actors to take up these tasks.

1.2 Strategy for the Water Sector: The 1993 Policy Paper

The 1993 policy paper on Water Resources Management (World Bank 1993), showed a shift in the WB's policy towards resources management, provision of drinking water and sanitation, irrigation, hydropower and the relations between water resources and environmental protection.

The basis for the reforms refers to the alleged "global consensus" or the Dublin Principles. These Principles were adopted by the International Conference on Water and the Environment in Dublin, Eire in 1992. The three main principles are:

- The Ecological Principle of integrated management on the basis of river catchments areas
- The Institutional Principles by which all stakeholders (state, private sector, and civil society) are to be involved
- The Instrumental Principle which states that distribution and improvement in quality of the scarce resource water are best achieved via incentives and economic principles, since water is an economic good just like any other.

In the process, principals for participation and the central role that women play is totally ignored to the point of a clause. Instead the role of the private sector was emphasized.

In the 90's, the Dublin Principles established the debate about water being a private good. It said that "supply-oriented approaches" had been pursued upto then, and therefore, the lack of efficiency and the reach to the poor. Hence, a cost recovery principle had to be applied.

In the 1993 policy paper, the World Bank announced that it would finance fewer individual water projects and also to withdraw from financing large dam projects. It would also look into the effective management of the sector. It said that supply should be decentralized as far as possible while the state should see to the regulation of the sector and provide the legal framework. It also suggested that water tariffs be raised in order to distribute water supply costs more strongly than hitherto among the consumers. The private sector should be boosted to enable it to take up more tasks in the sector in the future. The "Operational Policy 4.07- Water Resources Management" suggested that the government should abandon the policy of providing free water and that concepts such as cost recovery demand responsiveness and privatization were mentioned for the first time.

1.3 Supply for the poorest of the poor? Experience with privatisation

The Mega cities in the South served as a pilot project for the privatization of the water sector. The rationale given was that of an existing but ailing infrastructure, high demand and high purchasing power in these areas. So between 1990 and 1999, 160 large PSP ventures were agreed in the water supply and sewerage sector. However, experience has shown that despite improving supply to low income sections of the population have not benefited. So despite price increases, subsidies via development credits from public finance institutions such as the World Bank and low investment costs of their own, supply for the poorer sections of the population does not pay its way for them. J. F. Talbott, Chairman of the Board of Directors of the French utility SAUR International expresses serious doubts about the viability and profitability of private provision of water in developing countries and insists that substantial grants and soft loans are necessary because "service users can't pay for the level of investments required for social projects". Hence, subsidies remain necessary in developing countries.

There has been enough resistance to privatization on the part of trade unions, civil society groups and consumer organizations in many countries such as Cochabamba, Bolivia, South Africa, Argentina, etc. Economic crisis due to privatization projects in Manila, Maputo, Tacuman have led to foreign corporations withdrawing from the project. Foreign investments in this sector, therefore, have fallen by about 50% after being at its peak in 1997. These difficulties have led the World Bank to reassess its activities in the water sector. At the request of the World Bank Directors, both the Bank's Operational Policy and its implementation were evaluated by the World Bank's Operations Evaluation Department (OED) in 1998. The results were compiled as a report in "Bridging Troubled Waters" (OED, 2002c). It spoke about the goals established by the Bank and their insufficient implementation. It stated in clear terms that the Bank's water supply projects had so far not had any significant impact on poverty reduction (OED, 2002). A report issued one year later by the Bank's internal control body maintained that a stringent regulation of water prices for the poorest of the poor was not in place in any of the countries that had been awarded World Bank credits for water projects. The report also criticized:

- The respective country contexts are only insufficiently considered and the goal of sustainable water supply has been inadequately implemented. This is why one of the recommendations is: "… (Country Assistance Strategy, CAS- Author's note)…" (Rec 1a)
- The setting up of regulatory authorities and the design of socially acceptable prices is insufficient

- The contribution of private enterprises to providing poor sections of the population, in particular in rural and peri-urban areas, is meager: "(Item 85). Thus the report recommends that more support again should be given to the public sector" (Item 87)

At a World Bank Conference in March 2003, Vice-President for Infrastructure- Nemat Safik conceded that the World Bank had been "over optimistic" in their expectations with respect to private investments and the latest buzz in the circles is that the World Bank is abandoning the privatization concept because it "has been oversimplified, over rated and finally disappointing as it promised more than that has been kept" (World Bank News, 16.06.2004). The Bank has now extended the reforms in the water sector beyond the urban areas to the rural regions.

1.4. The 2003 Water Resources Sector Strategy:

In 2003, the World Bank drew up a new strategy for the water sector (Water Resources Sector Strategy, WRSS) on the basis of the OED evaluations and would thus contribute to drawing conclusions from the success as well as failures of the past and most importantly- improving the implementation of principles that were formulated in 1993. The chief author of the new strategy announced the new policy by referring to the World Commission on Water (WCW) and that annual investments would have to be increased from 75 billion US dollars to at least 180 billion dollars over the next 25 years. More than the money he saw two main challenges:

- The mobilisation of massive investment in stepping up infrastructure and reconsider the withdrawal of the World Bank from large-scale water projects. It was then announced that the Bank would re-engage with high-reward high-risk hydraulic infrastructure
- To extend legislation and regulatory mechanisms and institutions. The goal was to promote commercialisation and privatisation. Hence, a demand for increasing the water tariffs which in turn would cover operating and maintenance costs and wastefulness

Subsidies- Different Standards

With the concept of Output-based Aid, the World Bank aims to create incentives for private service providers to offer poorer sections of the population more affordable services. Companies obtain public funds from development co-operation if they can prove that they have improved the supply situation for low-income groups.

According to Nancy Alexander, Director of the CNES network, not only do such approaches cause considerable monitoring costs that ought to be compared to those providing public services, but they also set contradictory standards in development co-operation. While the international finance institutions are increasingly rejecting traditional support for public provision of basic services for financial reasons, they are welcoming public subsidising of untested instruments aimed at getting companies to provide for poorer sections of the population. (Alexander, 2003)

Under the new instruments, Briscoe has suggested individual country strategies. The water sector of a particular country ought to be developed on the basis of the World Bank's strategy for that particular country (Briscoe 2003, 19). The WRSS emphasises the principle of cost recovery. Financial issues are at the forefront rather than looking at the interests of the poor sections of the population. The Bank calls for further strengthening of the private sector, though it has not been able to do much in the last ten years. Hence, it refers to Private Public Partnerships, public funding to minimise risks through currency fluctuations, improvement in of the investment climate and Output-based Aid as instruments to aid the private players in the water sector (World Bank, 2003c, 47).

1.5 The Action Plan for Infrastructure:

There has been criticism for the negative impacts of major infrastructure project like dams etc and hence the Bank has reduced the funding of infrastructure projects in the 90s. This rollback had an influence on the new Action Plan for Infrastructure too. It pursued two goals:

- Accelerating privatisation and returning to major infrastructure projects as "high risk/high reward" projects
- Increasing finance for infrastructure to offset the decline in the private infrastructure investments

These trends were reflected in the Bank's projects and programs. For instance, in December 2003, it announced that it would increase the credits and subsidies for India and this money was particularly for infrastructure measures and development project in rural areas (World Bank Press Review, December 15, 2003). It also emphasised the importance of the improved infrastructure on economic growth and on reaching the Millennium Development Goals. The argument was based on the Camdessus Report (2003); the new development initiative for Africa, the NEPAD and the Conference on Sustainable Development in September 2002 where gaps in provision of infrastructure services was pointed out.

The Action Plan points towards financing of new infrastructure projects and promoting the private sector. Thus, increase consultancy activities, increase in the credits and provision of financial instruments such as securities and guarantees for the funding of the infrastructure projects. Hence, the Bank is no longer opting for just privatisation; it is looking at things such as Public-Private Partnerships, infrastructure delivery in the public and private involvement. In the poorer countries, however, the Bank will continue to support the state sector (especially water), while in the medium per capita income level countries; the private sector could take up a major share of the activities.

1.6 Lessons learnt from failure? The Demand- Responsive Approach

The World Bank has realised that four-fifths of all the people without adequate drinking water supply and sanitation live in rural regions. Yet drinking water supply and sanitation for rural regions have a low status in the Bank's water strategy resources. Compared to other areas, such as the urban sector or irrigation, drinking-water supply and sanitation for rural areas has always played a secondary role in the World Bank's water policy. According to the OED, 2002, more than half of all rural drinking-water projects have had no sustainable impact. However, it is difficult for the World Bank to transfer privatisation strategy to the rural regions. This area is less attractive for the investors than the urban supply sector. What is required is a decentralised and appropriate supply system. Hence, most rural areas are not a target area for centralised, capital intensive water supply and sewage systems with elaborate piping, pumping stations and sewage plants that private companies could make a profit with.

With the failure of supply-oriented approaches, the World Bank advocates increased application of the Demand Responsive Approach. This new approach would ensure sustainability, cost recovery and the transfer of responsibilities for financing and operation to bottom levels. Hence, the Bank expects that the costs of water supply are to be borne by the users, the decision making power will be transferred to the consumers and then the investments will be initiated by the consumers according to their self-determined requirements.

The World Bank wants to ensure cost recovery by the users, every water and sanitation system ought to be financially self-supporting, and subsidies should only be awarded on a short-term, once off basis (World Bank, 2002, 3). This approach has been promoted in countries of Asia and Africa and the Bank has also announced that it would become involved in the water sector of countries considering the concepts of cost recovery and demand responsiveness. In the rural regions, the projects should be carried in areas only where the population of the village is willing to bear the costs of water supply and that it would support community driven development.

In the past, the public authorities have frequently neglected the interests of the poorer sections of the population in planning and implementation of the water projects. After all projects respond to the interests of these villagers itself. But have the reforms initiated by the Bank really offered the voices to this group that has never been a part of the process earlier? Who has to be addressed when attempting to formulate and assert interests? Whose finances investments, operation and maintenance? And is there a possibility that the reforms will contribute to the poorest and most marginalized sections of the population gaining better access to drinking water?

India and Sri Lanka are a few countries to which the Demand –Responsive Approach has been applied so far. There are several large-scale pilot projects in both countries. Moreover, according to the World Bank, the sector reform programs passed by the Indian Government in 1999 are the largest water project world-wide with a Demand-Responsive Approach (WSP 2002, 2).

Part II: The World Bank and water policies in India and Sri Lanka

2.1 Sri Lanka: A Trial run for the Demand –Responsive Approach

By the end of the 70s, Sri Lanka had withdrawn from the state socialist development model and also introduced a package of IMF liberalization measures through which the island would become an export centre like Hong Kong or Taiwan. But the island country also had a history of internal conflict between the Tamils and the Sinhalese, which took the lives of more than 64, 000 people and so many more displaced. Nevertheless, with the exception of 2001, Sri Lanka can boast a steady economic growth of 4-6% and comparatively high health and education standards. The average PCI is 880 dollars, but a quarter of the 20 million inhabitants live below the poverty line and 90% of them in the rural areas.

In February 2002, there was a ceasefire between the Sri Lankan government and the LTTE, which resulted in an acceleration of the market economy reforms that had been introduced in 1977. This was reflected in the new economics and poverty reduction strategy "Regaining Sri Lanka, Vision and Strategy for Accelerated Development" in December 2002. By April 2003, the World Bank had increased the credit for the country and approved 800 million US dollars (increase from 60 million dollars till five years before) in subsidies and IDA credit in their Country Assistance Strategy. The water sector played an important role in both the government's development program and in the World Bank's Country Strategy. Both water supply and the expansion of rehabilitation of irrigated agriculture in the civil war regions are being supported by the World Bank.

2.1.1 The CWSSP Pilot Project

Up to the end of the 90s, the World Bank and its subsidiary- the IDA had supported four projects in the area of water supply and sanitation, with a total of 100.5 million dollars. One of these projects was the Community Water Supply and Sanitation Project, which was for the rural areas and was approved for five years in 1993. In the framework of the project, the Government of Sri Lanka was to transfer its responsibility for planning, management and the lion's share of financing water supply in rural areas to water-user groups. This project was regarded as a pilot project and pursued three objectives:

- Running demand-responsive water projects in rural areas and in smaller towns in the districts of Ratnapura, Badulla and Matara
- Developing systems and institutions for communal planning, implementation, running and rehabilitation of demand-responsive water and sanitation systems
- Preparing a follow-up project and a concept for the transfer of this approach to the water sector of the country as a whole

The new approach was financially motivated as the country's government had not been able to provide basic infrastructure needs and maintain the standards for services in rural areas due to heavy costs that were diverted to the civil war. The World Bank also remarked that the rural water sector is not financially viable since water tariffs would not cover the water costs. Hence, the policy called for forming water-users groups so that the people would be involved in the panning and implementation of supply. It also suggested that the user groups observe the payment morality in order to raise the money needed for operation and maintenance.

Only about 80% of the rural population had access to water in the mid-90, and about 70% to sanitation. Although the government had been pursuing a policy where at least the costs of operation and maintenance were covered by the users, the new concept would introduce a contribution of the users to the capital costs also. This would result in a sense of ownership, ensure sustainability and increased tariffs would cover the costs of operation, maintenance and debt servicing too.

The World Bank identified a number of achievements in the pilot project, but there were still some difficulties with the implementation of this project, the water quality has improved- but in the project areas it is still unsatisfactory. Participation also improved, but not so for the implementation of the projects. The central problems of the project are still the most important ones- low level of readiness among the population to pay higher water tariffs, and insufficient rehabilitation attempts. In spite of all this, the Bank demands a comprehensive reform of the country's national water policy oriented on elements such as participation, demand-responsiveness and cost recovery.

2.1.2 Water Sector Reform

According to Rajindra de Ariyabandu, Policy and Planning Director at the Government Water Resources Secretariat in Colombo, the demand responsive approach tested by the World Bank has been now adopted by the Asian Development Bank and other major donors in Sri Lanka too. The World Bank has managed to influence the recent policy papers and legislation too:

- In 2001, the new *National Policy on Rural Water Supply and Sanitation* is passed that stresses, among other aspects, the economic value of water and a Demand-Responsive Approach
- The growth and poverty reduction strategy (PRSP) was submitted to the multilateral finance institution in December 2002 and rests on three central pillars: creating the macroeconomic conditions to strengthen the private sector, an orientation on poverty reduction and the improvement of the state's regulatory capacities
- In 2003 the World Bank passed the Country Assistance Strategy for Sri Lanka aiming at implementation of the poverty reduction strategy
- In October 2003, the Water Services Reform Bill was tabled in the Parliament

According to the World Bank, considerable inequality with regard to equal opportunities, access to services, and distribution of natural resources persists in the country. Hence, improvements in quality and access to services are the prime objective of the Bank in the country. But in the same breath it asks for local communities to fulfill their development requirements themselves too. Under this strategy, one of the key elements is public sector reform which is linked to project and program linked credits. Credit is given for both annual poverty reduction and to finance projects in individual sectors.

The government works on the basis of incentives offered by the Bank. Hence, the credits depend on whether the Government significantly reduces its budget deficit and extends the role of private enterprise in the infrastructure sector. Many of the country's strategies, therefore, are based on the Bank's policy for the country. Those of the water sector are most prominent. Two major projects have been established for the water sector in the country strategy:

- The Second Community Water and Sanitation Project- with finance of 40 million dollars and to provide water to communities in the Northeast and Northwest regions. The World Bank has financed the infrastructure and the water-user organizations of the population in the autonomous management and financing of water infrastructure plants

- The large scale North East Irrigated Agriculture Project with a finance of 64.7 million US dollars and the core element being rehabilitation fund set up by several international donors for the North East (NERF) and the World Bank acting as the coordinator.

Under the new *National Policy for Rural Water Supply and Sanitation* the government has restricted its role to regulation and provision of framework conditions, the provision of the service is oriented by the users themselves, and whenever possible, the CBOs and private operators should determine requirements and technical solutions, raise funds and control planning, construction and operation themselves. In October 2003, the *Law on a reform of the Water Sector Services* was tabled in the Parliament that stipulated further privatization and commercialization both in the urban and rural areas. If this bill is passed, it will result in fundamental changes to the water supply system. Further, this would be accomplished by the setting up of a Public Utilities Commission and by introducing a license for the providers.

This new commission will provide advice to the Government and the Ministries act as an economic and technical regulatory body, set tariffs and quality and supply standards, award licenses to providers and takes care of the overall management of water resources. Licenses would be awarded to both public and private companies and CBOs. Financial resources, a finance plan and cost recovery calculations would have to be provided for acquiring a license. The licensed actors will have the right of disposal of the entire infrastructure and the water resources in a certain area. Thus, they alone would have the right to provide services and demand a price for this service.

A license to exclude others

The Law on Services in the Water Sector gives the licensees far-reaching powers, also with regard to the water resources. If a public well is to be dug in an area that another actor already holds a licence for, the costs entailed, including those for the amount of water taken from the well, have to be compensated for by the public. People using the water of areas that belong to a licensed actor are violating the new law and have to reckon with prosecution. People bathing or washing their clothes in a source of water belonging to a licensed operator are also in breach of the law and may be prosecuted.

2.1.2 An Initial Assessment

Miriam Witana was formerly a World Bank specialist on infrastructure in Sri Lanka and agrees that the Bank assumed a coordinating role in the reform of the water sector. The draft of the *National Policy for Rural Water Supply and Sanitation* was approved by the Bank and the current specialist in the country also agrees to the same that of opening up the sector to private investors is a key element of the legislative initiative and reforms promoted by the World Bank (Amelie Rajapaksa, Interview, Colombo, 31.10.2003). In the framework of a credit for technical support of economic reforms, the World Bank is paying consultants of the private consultancy firms Pricewaterhouse Coopers and Halcrow. Hence, it does not come as a surprise that Sri Lanka's policy now conforms exactly to the World Bank's water policy.

The government will limit its activities to formulating the national policy and regulating the sector. There is an increasing shift towards user-managed modes of providing facilities and services. Hence, with an orientation on demand, CBOs and user groups are to assume the task of estimating the population's water needs, opt for an adequate infrastructure and bear a growing share of the costs incurred.

However, the laws and regulations that have been created for an across-the-board implementation of the Demand-Responsive Approach give rise to a number of questions:

- They refer to inequalities in access to public services in general and those in the water sector in particular. But how this state of affairs could be improved remains unsettled. Except for generalised statements, the laws and regulations lack explicit strategies or measures that could target improvements in supply for the poorest of the poor. This means that there is no guarantee of improved supply for them.
- The relation between the water law (WSRB) and the rural water supply strategy (RWSS) remain unclear. Given high demands on licensees, it appears improbable that CBOs will be in a position to apply for licences to a larger extent.
- Licensing grants the licensees an enormous scope for control of developing water supply, also with a view to cost recovery, as well as of the local water resources themselves. Thus there is no guarantee that at least some of the water resources and the drinking water infrastructure remain accessible for the public.
- Licensed actors also have the right to set water tariffs at a level ensuring that they can recover their entire costs. Apart from an appeal to "social responsibility", the draft law contains no provisions that would ensure that the actors consider social and environmental principles, and they are explicitly allowed to turn off the water for defaulting users. How access to drinking water for poorer sections of the population is to be ensured remains unclear.
- The monopoly held by the licensees is insufficiently offset by regulatory options. In many cases, the CBOs and local authorities will be too weak, and the centralised supervisory authority UPC is remote. Moreover, just like in urban privatisation projects, an ongoing conflict is emerging between licensees demanding a cost-covering, profitable water tariff and the regulatory authority, which is to ensure socially acceptable prices.
- Neither was there any comprehensive participation in the development of the water strategy, in contrast with the World Bank's announcing that "strengthened participation in these reforms by water users and civil society at large is indispensable" (Briscoe 2003, 18).

2.2 India: Self-help and Dams

Over the last 60 years, India has received almost 60 billion US dollars in IBRD and IDA credits. The water sector is quite important in this country and it is reflected in the fact that the government has borrowed 10% of investments from the Bank in the water sector between 1985 and 1997. The share of water in the World Bank funds for India has grown from 9% to 25%, most of which goes into agriculture. However, investments in drinking-water supply and sanitation have since almost doubled to 520 million US dollars (Pitman 2002, 18).

2.2.1 The World Bank as a Motor of Reform

Liberalisation and reform of the Indian economy in the early nineties had opened the way for reforms in the water sector too. With the water policy in 1993, the World Bank has shifted from project to sector financing and moreover, particularly avoided financing of large dams as it has resulted neither in sustainable nor fairly distributed use. Since the mid-nineties, the Bank has been shifting its cooperation away from the central government to the state. But the state governments would have to restrict themselves to developing framework conditions and withdraw from management and efficiency of institutions. The state would promote good governance and decentralisation too. But, the bank's policy of implementing high water tariffs to ensure cost recovery has not been very successful in the rural areas.

A stocktaking of the water policy conducted jointly by the World Bank, the Central government, and the bilateral donors was done in 1998. It states that while the government has succeeded in creating access to drinking water for 85% of the rural population, sustainability of supply and protection of water quality is not ensured (World Bank, 1999b, XI). The fact that the water is free of charge for the users and the government is responsible for the sector as a whole is referred to as a problem in the report, which argues that users are thus deprived of the opportunity to take advantage of their power as consumers in order to attain better access to water supply. Moreover, state dominance of the sector is regarded as a restriction of options for Non-Governmental Organisations and private enterprises to participate. And the Government's lack of fiscal discipline and the insufficient commercial orientation of the sector are perceived as an additional deterrent against the private sector. The new comprehensive strategy outlined was one that would pass the entire costs step-by-step to the users. It is crucial for the government to cover the entire costs of water supply by ensuring water tariffs. The Bank remarks that these recommendations do not merely represent marginal changes but that, rather, it is interested in a radical reform of India's water sector.

2.2.2 Expansion without Evaluation

Like in Sri Lanka, a number of pilot projects were first of all initiated in India with DRA, partly in co-operation with the World Bank and the Water and Sanitation Program (WSP South Asia). In 1,000 villages in Northern India, the World Bank financed the project 'Swajal' or 'Our Water' of the State Government of Uttar Pradesh from 1996 to 2002. In the framework of the Accelerated Rural Water Supply Programme, Central Government funded projects in 63 Districts in 26 Federal States in which " (WSP August 2001a). Further pilot projects have also been run or planned in Karnataka, Kerala and Andhra Pradesh since the end of the nineties.

As a rule, the projects are run for a period of five years and comprise the development of a sector framework programme for the rural water sector, credits for investment and technical support. The sector reforms support cost-covering, demand-responsive water management approaches in rural regions and are to empower communities and local civil society groups to take over water supply themselves without having to rely on support from outside (WSP 2001b, 2). Village Water and Sanitation Committees (VWSC) are formed. They are responsible to the local Gram Panchayat. The Committees are made so as to ensure user participation, collect money, organise and monitor planning, implementation and maintenance when private companies are commissioned for these tasks. Like in Sri Lanka, the users are expected not only to raise the money for operation and maintenance costs but to provide at least ten percent of investments, a share that is to increase in future. NGOs can support the committees in mobilising locals or with training.

A review of the reform programs and pilot projects conducted by the WSP in October 2001 shows that there are:

- shortcomings in informing and training user groups and members of the local Gram Panchayat as well as in participation at village level;
- the failure to develop clear and transparent criteria for the selection of households to be given priority in supply even though this is important in terms of sustainability, justice and comprehensive water supply, which boils down to the most needy households not having been considered in planning;

Despite this, the “Guidelines on Swajaldhara” passed in June 2003; the reform processes are to be accelerated. With the new guidelines, every community now has the possibility to file an application to the Government for a Swajaldhara project. The projects are thus based on the concept of demand-responsiveness and cost recovery. The Government will fund the lion’s share of the initial installation costs while the village population- i.e. the water users committee are responsible for the management and maintenance of the infrastructure. Once, the infrastructure has been built, the government will not bear any responsibility for the water system as that will be in the hands of the water users. The costs of electricity, employee’s salaries, repairs and subsequent work on the infrastructure have to be covered by the users themselves via the water tariff.

2.2.3. The World bank’s U-turn on Dams

The World Bank’s overriding policy in India is to use the resources in such a way so that it progresses positively towards the Millennium Development Goals (World Bank, 2004). Hence, it works on two points:

- It intends to promote reforms in the area of infrastructure as a precondition for economic growth, which is above all to be boosted by the private sector.
- To support education and health in terms of rural development

In the draft 2005-08 Country Strategy of June 2004, the Bank has announced that it will step up support for the reform and extension of infrastructure. The credits for India would be doubled to 3 billion US dollars a year. More importantly, after years of abstaining from dam projects, it intends to directly finance large-scale dams. To this end, 550 million US dollars is to be provided up to 2008. The reason: because energy is required to secure India’s economic growth. Along with this, infrastructure sector has to be further commercialized so as to make it attractive to private investors. Thus, IFC, which provides the credit for private companies, has to step up its efforts. In the process, the Bank will also slacken its own Operational Policies on environment and social standards by adapting them to the Indian standards, which as a rule, are lower.

The Bank's return to financing large scale dams was met by a lot of criticisms amongst non-governmental development organizations, both in India and abroad. In a press release of 9th August 2004, several Indian NGO complain not only about insufficient transparency and participation of civil society or parliaments in developing the Country Strategy, but also about the Bank's pressure on the Indian Government to approve comprehensive privatisation in such important areas as electricity, water, agriculture and other basic services. The Bank concedes that it is taking risks, but at the same time it ensures that it will involve affected sections of the population in the development and implementation of the projects. It is also expected that it will be both- the rural and the urban areas that will benefit. With its demand-responsive approach, it is accelerating the state's withdrawal from rural supply. Labels such as self-responsibility, self-help and subsidiarity conceal the fact that the Government has thus given up its responsibility for comprehensive and socially just supply.

The funds that will be released with this withdrawal of the government will be used in the commercial attractive area of infrastructure. For instance, the government has planned 168 dams in the mountainous North east regions with the involvement of the World Bank, the Asian Development Bank, and other international development financiers. Given previous experience with the negative economic, social and cultural impact of such large-scale measures, resistance is beginning to build up.

In this way, not only is the government withdrawing from its responsibilities, with the renewed funding of large scale infrastructure projects, the private sector too will get promoted more than the need to reduce poverty. Even now, in the urban sector, the private enterprises are being promoted in spite of its contribution to poverty reduction being very small. The Action Plan is optimistic; it states that the high investment requirements will probably force most of the developing countries to resort to public-private partnerships (World Bank 2003a, 16). After all John Briscoe declared at the end of January 2003, that the Bank has to look at its own economic interests as a commercial institution also.

Part III: Summary and Assessment

The World Bank has repeatedly emphasized that reducing poverty is the overarching goal of its policy. In 2003, the International Year of Drinking Water, it announced that it would step up its activities to increase the access for drinking water to a majority of the people and would thus increase its involvement with the water sector, thereby working towards the attainment of the Millennium Development Goals. The World Bank's new slogan for its water policy is "Services for All". This would be done by stepping up its financing of the sector, instituting reforms and integrated management of the water sector in the recipient countries. Also, it regards itself as especially suited to advise and support governments carrying out these reforms. The core aspect of these reforms would be to provide framework conditions and regulations. Operation and financing would be passed on to the operators and user groups. The Bank would also return to financing large scale projects in the water sector. The main principle by which they institute the changes is Demand-Responsive Approach (DRA), which will result in sustainability, cost recovery and passing down financial and operating responsibilities to lower levels. The World Bank has the notion that the user groups will themselves make the decisions about investments and supply systems. This represents a fundamental change to the roles of the various actors including the users, the NGOs, the private sector, the governments and the donors.

3.1 Experience with the Demand-Responsive Approach

The measures required to achieve universal supply of drinking water and sanitation:

- Development strategies would have to put a significantly greater emphasis on drinking water and sanitation than so far
- More funding would have to be provided
- Capacity building would have to be boosted

Participation

The World Bank's current water policy calls for more participation. Terms such as "participatory" and "demand responsiveness" have been used and suggest the involvement of the people. But, civil society has seldom been involved in implementing the new concept in water policies. In contrast with the announcement of a "bottom-up approach", the introduction of the Demand-Responsive Approach is, as a rule, still being pursued "top-down". This is highly problematic since the framework conditions and the fleshing out of responsibilities, requirements and rights formulated by the government and legislation have a considerable influence on the prospects of success for the approach.

Participation in implementation itself is also usually both qualitatively and quantitatively insufficient. Jasveen Jairath, Director of the South Asian Consortium for Interdisciplinary Water Resources Studies, examined participatory, demand-responsive water projects run by various organisations in the rural sector in the Indian Federal State of Andhra Pradesh. She noted that participation of the population initiated by the World Bank was seldom long-lasting. At first, economically less well-off people were also interested in the projects. But as soon as it became apparent that no financial subsidies could be reckoned with but that, on the contrary, they themselves were expected to pay, they withdrew. Jasveen Jairath says that the weakest members of the community have no control over these systems and lose interest in next to no time.

Cost Recovery

Often a price is already being paid for high quality water- even if it is just for the power to drive the water pump- while access to water of poorer quality is free of charge in many cases. This underscores the frequently demonstrated readiness of most users to pay an appropriate sum for a reliable, safe supply of water. However, there are numerous differences here that are based partly on cultural and partly on socio-economic aspects. Moreover, sanitary installations have a much lower priority and therefore "demand" than drinking water supply. This is why much less significance has also been placed on extending sanitation in rural areas and demand-responsiveness projects, like in the cities. And, yet, inadequate sanitation will result in contamination of drinking water sources, destroying progress already made.

Combining financial sustainability via cost recovery with poverty reduction goals is a tightrope walk that simply cannot work under the conditions of widespread poverty, as is the case in many developing countries and is usually the rule especially in the rural and peri-urban areas. In his survey of DRA projects in Sub-Saharan Africa, Frank Arku notes that many families can either pay water tariffs or school fees, but not both (Arku, W.Y.). Even graduated tariffs and cross-subsidising of tariffs have proved insufficient in urban privatisation projects.

In more affluent regions, or via subsidising, commercialisation of the rural water sector and cost recovery can simultaneously facilitate the involvement of private enterprises, especially as producers securing exclusive access to the resource, for example via licences. For this reason, activists in Sri Lanka and other countries regard transferring responsibility for water supply to local groups as a dangerous measure. They claim that it is the first step towards privatising public services. Suranjan Kodtuwakku, Director of the Green Movement in Sri Lanka, is convinced that the World Bank is so bent on the community approach because it will facilitate privatisation of the water sector.

Empowerment

The Demand-Responsive Approach makes considerable requirements on the community groups regarding organisation, mobilising the users, including all groups, financial administration, management and maintenance. Both the regulations in Sri Lanka stipulating that a licence be obtained for a supply area and the Swajaldhara guidelines in India were developed without the participation of the population. They are complicated and bureaucratic, and often, they are not adapted to the local socioeconomic conditions. So one can reckon with many communities not being willing or in a position to set up a further committee demanded by the donors, a water-user committee, and fulfil the donor requirements.

Experience shows that the implementation of the DRA has not been seriously promoted in many cases. Over the last few years, comparably favourable conditions have been created for autonomous rural development in India with the creation of local self government organizations, the Panchayati Raj Institutions (PRI), into which the user groups can be integrated. But here too, problems have been encountered.

3.2 The Illusion of Consumer Power

It would be wrong to put the blame for inadequate supply only on the public utilities. On the contrary, according to the UN Commission on Sustainable Development, CSD, the increase in state investments was one of the key reasons for improvements in the past. In contrast, a variety of (local-level) political, socio-economic, gender-specific, religious and cultural preconditions often play a crucial role in access to water and investment decisions at local level, thus determining success or failure of investments and development projects.

In India, several households often have demands and desires regarding a water supply system differing from those of the “community”. So, especially in strongly heterogeneous communities, user groups and majority decisions may be counterproductive because they establish concepts that are not, or cannot be, supported by a large number of community members. It is essential to ensure that decisions are not only taken by the dominant groups and elites. However, power asymmetry, dominance and economic inequality, which determine both disposal of a resource itself and decision-making processes, remain largely eclipsed in the Demand-Responsive Approach. This becomes especially problematic when user licences are awarded, as is the case in Sri Lanka. And the World Bank's notion of regulating water distribution more strongly via so-called water markets, i.e. supply and demand on the part of customers with money to spend, is equally problematic. So instead of improving and securing supply, the Demand-Responsive Approach threatens to aggravate conflicts and increase economic and social differences. Demand-responsiveness and cost recovery offer nothing to counter the obstacles with which marginalised sections of the population are faced every day owing to their economic and political status or their gender. They contain no instruments that would guarantee an integration of these groups into decision-making processes on water, empowering them to make decisions or ensuring their access to water.

In spite of this, the World Bank, in India is determined to see this approach applied comprehensively. Following the passing of the Swajaldhara Guidelines in India, only those villages in India are entitled to public funding for new water systems that are willing to adopt the Demand-Responsive Approach. Not only could this result in poorer villages and sections of the population no longer receiving government funds because they are unable to pay their share of investments and the costs of operation and maintenance on their own. Other, alternative approaches that are developed by e.g. local groups or non-governmental organisations are ousted.

3.3 Self-help and the Readiness to take Risks

The water sector reforms advocated by the World Bank and implemented under extreme pressure result in the state's step-by-step withdrawal from providing services. So interaction between the citizen and the state is terminated in this sector. Now, the state merely provides the framework conditions and finances the immediate supply infrastructure, probably with a declining financial volume, while other actors – private companies, users, user groups – are to increasingly assume responsibility for the financing and functioning of operation. These approaches suggest a follow-up development of the IMF and World Bank structural adjustment policy. With its revival of the big dams, the World Bank is ignoring important demands made by the World Commission on Dams – an institution the Bank itself supported. This in its final report submitted in November 2000.

So it only appears at first glance as if the World Bank had learnt from the failure of its privatisation strategy in the water sector and entered a fundamental change with its promotion of Community-Driven Development concepts, participation and self-determined, appropriate supply concepts in the framework of the Demand-Responsive Approach. Instead, it is now promoting a division of the entire sector that has already become apparent in the urban sector. For supply areas that are not lucrative for the private sector, such as the urban squatter settlements or the rural regions, self-help solutions are implemented in which the users are largely left to their own devices and that are glossed over with labels such as self-responsibility, empowerment, etc. At the same time, state, public support is focused on those areas which are potentially attractive to the

private sector and in which investment conditions are being improved by correspondingly developed framework conditions and financing.
So instead of a development approach focusing on poverty reduction, commercialisation, privatisation and market orientation continue to remain at the centre of World Bank policy - criteria on which, to an increasing degree, the entire water sector, ranging from resources management to drinking water supply and sanitation, is to be oriented with the new, comprehensive strategy concepts.

The guidelines and policies for the sector advocate the restriction of state commitments and the extension of the population's financial responsibilities. It remains unclear how these reforms can contribute to improving access to water for the poorer sections of the population. If the World Bank's water policy were coherent with the goal of combating poverty, measures to overcome marginalisation and destitution among the poor would be at the forefront of the policy instead of their ability to pay. Thus in reality, the risks of the new policy are borne by the consumers, especially those among the low-income, marginalised section of the population – i.e. the risks of having to continue to live without adequate supply or having to spend a considerably larger share of their income on supply services.

3.4 Recommendations on a different Water Policy

The essential elements of the World Bank's new water policy clash with its offer of participation, which it is constantly announcing. At best, civil society groups have been able to have a small amount of influence on projects in their final stages, and even this has been under extreme pressure of time. Second, it contradicts important principles and requirements such as those jointly agreed upon in the recommendations of the World Commission on Dams. Major development organisations such as the International Rivers Network and the Citizens Network on Essential Services therefore adamantly opposed the passing of the 2003 Sector Strategy on Water Resources of 2003.

Furthermore, the World Bank's strategy is based on the notion of consumer power. But as a rule, economically and socially marginalised sections of the population are not powerful consumers or users, as has been demonstrated by applying the Demand-Responsive Approach in India and Sri Lanka. So it is neither understandable nor acceptable that the World Bank's sector policy is not only continuing its practice so far but, following the metropolises of the South, now intends to fully commercialise the rural sector as well.

Also, the World Bank ought to relate to the latest state of the debate as represented in the ECOSOC legal commentary on the human right to water (see Box on the World Bank and Human Rights), according to which water supply is an issue of public responsibility. This is why it is not enough for the state to act merely as a regulator. Rather, it also has to assume its responsibility as the guarantor of utilities that is above all obliged to fulfil its commitments towards the poorest sections of the population.

As long as these requirements are not fulfilled, isolated positive approaches in the World Bank's concept are not enough. For example, decentralisation can only be promising if it is accompanied by a substantial transfer of resources to the subsidiary levels enabling public responsibility in the water sector to be assumed by consumer groups or local organisations, also, and in particular, regarding those who do not have “sufficient purchasing power”. Applied to participation, any participatory concept has to be measured against the yardstick of to what degree it includes those who are politically and economically excluded from decision-making and from the market with regard to the crucial aspects at stake.

It follows that a very different paradigm shift is required for the World Bank. Instead of orienting policies on the notion of water as an economic good or a commodity and demanding and promoting the phasing out and withdrawal of public responsibility, it ought to focus its support measures on seeing to it that this public task can be dealt with better and more efficiently and that it is paid by those who are able to pay.

- World Bank policy should set out from the assertion of the human right to water in co-operation with the responsible public bodies in the recipient countries. Ensuring access to water as well as its fair distribution and sustainable conservation of resources should be at the centre of considerations.
- The World Bank ought to ensure that all water sector reforms it is involved in or initiates are subjected to a timely debate in public.
- Together with governments, civil society, representatives of local organisations and legal experts, the World Bank ought to define a concept for its future role in asserting the human right to water.
- The World Bank ought to abandon purely market-supported systems of water supply since they strengthen the power of influential forces in society as well as private enterprises to determine the distribution of, and access to, water and weaken the influence of marginalised sections of the population.
- The significance of democratically elected public bodies in the water sector ought to be enhanced instead of being further weakened.
- The World Bank ought to continue to directly support states and governments in providing services.

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