

Chairperson's Comments: Committee on Development Effectiveness (CODE)

On December 16, 2009, the Committee on Development Effectiveness (CODE) discussed the document entitled *Water and Development: World Bank Support, 1997-2007* prepared by the Independent Evaluation Group (IEG) and *the Draft Management Response*.

Summary

The Committee welcomed the timely report, which will serve as an input to management's Water Resources Sector Strategy Mid-Cycle Implementation Progress Report (MCIPR). It also positively noted the constructive discussion between IEG and management on this evaluation. Members noted the continued relevance of the Bank's 1993 Water Resources Management Policy Paper and the 2003 Water Resources Sector Strategy. They commended the turnaround in portfolio performance in the water sector and encouraged continued efforts, particularly to further enhance project sustainability and focus on projects in Sub-Saharan Africa.

One area eliciting comments from almost all speakers was the sensitive and challenging issue of pricing and full cost recovery of water services. In this regard, different views were expressed on the roles of the public and private sectors in the provision of water, the potential for a market-based approach, and the importance of ensuring affordable water to the poor. Moreover, the discussions touched on issues of subsidies and transfers mechanisms, the coverage of operations and maintenance (O&M) costs, and the experience of Organization for Economic Cooperation and Development countries in full cost recovery. In general, members supported the Bank's "pragmatic, but principled" approach to water pricing, outlined in the 2003 Water Resources Sector Strategy.

Members also intervened on specific topics such as the regulatory framework and institutions; the assistance to water-stressed countries/areas; the Bank's role in sanitation and groundwater management; links between water and climate change, and demography; and data collection and monitoring. The committee welcomed the comments from the regional staff who shared their country- and regional-level experiences. Some speakers expressed the view that the IEG evaluation could

have been a World Bank Group review of water assistance. IEG noted that IFC's investments in water have been small, only about 1 percent of IBRD/IDA lending. Others asked about aspects not covered in the evaluation report, such as the impact of the matrix management structure, the contribution of development policy lending (DPLs), ongoing work related to innovative financing support, and key findings that were contained in the evaluation, but not explicitly referred to in the recommendations. Finally, comments and suggestions were made on the upcoming MCIPR of the Water Resources Sector Strategy.

Recommendations and Next Steps

Management is expected to present the Water Resources Sector Strategy MCIPR to the Committee in spring of 2010. Management confirmed that the MCIPR will cover the World Bank Group water sector activities, even though the 2003 Water Resources Sector Strategy covered IBRD and IDA only. This IEG evaluation report and Management Response will be publicly disclosed.

Main Issues Discussed

Pricing and Cost Recovery. The Committee noted the complexities of water pricing and the political sensitivities around full cost recovery. In general, members supported the Bank's "principled, but pragmatic" approach in water pricing, though several speakers, mindful of the difficulties of a full market-based approach, indicated that the existence of price-cost gaps requires it to be fully quantified jointly with the fiscal resources needed to insure full cost recovery. They took note of management's clarifications on the definition of cost recovery and the difficulty of achieving full cost recovery even in high-income countries that have the political will to embrace this goal. Some members commented that this matter needs to be considered as part of a comprehensive and coherent set of interventions, including consideration of social issues. IEG pointed out that less than one-fifth of water supply and sanitation projects that set out to recover costs either partially or fully have succeeded, and that it is important to clarify how to cover

the costs of water service delivery in the absence of full cost recovery. Noting the importance of ensuring affordable access to water, especially for poor, a member cautioned about pursuing a market-based approach to water supply and sanitation and the continued important role of government. Some others, however, commented on the potential of the private sector to provide efficient services, if accompanied by appropriate legal frameworks and regulatory institutions. Some specific comments were made about how to cover O&M cost in the absence of sufficient revenue collection and fiscal space, and on the use of subsidies or direct transfer to provide affordable access to water for the poor, on the relatively low number of projects where economic rate of return is considered, and the potential of improving cost recovery by reducing unaccounted-for water usage.

Data. There was general agreement on the importance of data for project design and monitoring and evaluation in light of IEG's findings that few projects that plan to collect data actually follow through. One member raised a concern regarding balancing data sharing with national security concerns, emphasizing that data provision should not be a condition for a project. In this respect, the significant effort by the international water community to collect data, which could be utilized, was noted. Stressing the importance of measuring the outcomes, a suggestion was made to benchmark the impact of the Bank's operations against the Millennium Development Goal and an

indicator that would measure the efficiency in use of water resources.

Water-Stressed Countries. While supportive of IEG's findings on the need to adequately address critical water issues in water-stressed countries, a few members raised the issue of how these countries are defined and the complexity of this subject. IEG clarified that the Water Poverty Index was based on five components—resources, access, capacity, use, and environment. Others encouraged management to attend to the water supply and sanitation needs of the poor, while integrating institutional, financial, and social dimensions into the Bank's interventions.

Mid-Cycle Implementation Progress Report. Members made a number of requests for consideration in the MCIPR, including the Bank's role in strengthening institutions, knowledge sharing, use of DPLs, safeguards issues, matrix management structure, and use of incentives. Management was encouraged to keep in mind the impact of climate change on water resources and their use, as well as the nexus between demography and water. Management said that it would review the World Bank Group operations, in response to interest expressed for a broader coverage to include private sector issues. Management briefly commented on the Bank's interventions in the water sector encompassing not only investment lending but also DPLs and analytical work. Management spoke on the new Water Sector Board and the highly cross-sectoral nature of its intervention in the water sector.

Giovanni Majnoni, Chairperson