

Privatisation of water

Public-private partnerships: do they deliver to the poor?



A report published by The Norwegian Forum for Environment and Development

April 2006

This report is published by the ForUM working group on fresh water:

Norwegian Church Aid (NCA)

The Association for International Water Studies (FIVAS)

The Norwegian Development Fund

Women's International League for Peace and Freedom (WILPF)

The Norwegian Water Movement

Oslo, April 1st, 2006 (no joke)

Front page: Collection of water is often a job for women and children, and can consume a lot of time and energy which could have been spent on schooling and other activities. Photo: Ellen Birgitte Strømø, the Norwegian Development Fund.

Written by

Jørgen Magdahl, The Norwegian Development Fund's Youth (Spire) / Member of the Association for International Water Studies (FIVAS)

Hege Sørreim, The Norwegian Development Fund's Youth (Spire)

Elise Christensen, The Norwegian Development Fund / Board member of the Association for International Water Studies (FIVAS)

Andrew Preston, The Association for International Water Studies (FIVAS)

Terje Kronen, The Norwegian Forum for Environment and Development

Øystein Berg, The Norwegian Forum for Environment and Development

TABLE OF CONTENTS

EXECUTIVE SUMMARY.....	5
INTRODUCTION.....	6
1. PRIVATISATION AND WATER.....	7
1.1 The advent of privatisation	7
1.2 Privatisation of water and sanitation –policy rationale.....	8
1.3 Trends in privatisation of water supply and sanitation	9
1.4 Various types of water privatisation	10
2. PRIVATISATION OF WATER SERVICES – ACTORS AND INTERNATIONAL POLICY FRAMEWORK	12
2.1 The World Bank.....	12
2.1.1 Post-2003: less dogmatic, more pragmatic?	12
2.1.2 Continuing pro-privatisation bias in World Bank strategies and practices	13
2.1.3 PRSPs and continuing conditionality	14
2.1.4 World Bank partnerships	14
2.2 Regional Development Banks	15
2.2.1 The Asian Development Bank (ADB)	15
2.2.2 The African Development Bank (AfDB)	16
2.2.3 The Inter-American Development Bank (IADB).....	17
2.3 Donor agencies	17
2.3.1 European Union.....	17
2.3.2 Bilateral agencies	18
2.4 Norway in the spotlight	18
2.4.1 Water in Norwegian development policy	18
2.4.2 Norway’s position on water privatisation	19
2.4.3 Disharmony between policy and practice?	19
2.5 Other reinforcing structures and institutions	20
2.5.1 OECD.....	20
2.5.2 General Agreement on Trade in Services (GATS).....	20
2.5.3 Multinational corporations.....	21
2.5.4 Consultants	21
3. EXPERIENCES FROM WATER PRIVATISATION IN THE SOUTH.....	22
3.1 Dar es Salaam, Tanzania	22
3.2 Accra, Ghana	24
3.2.1 World Bank involvement in Ghana	24
3.2.2 Ghana Water Company Limited and Public Private Partnership.....	24
3.2.3 The urban water project in Accra.....	24
3.2.4 The Price of Water	25
3.2.5 The National Coalition Against Water Privatisation	25
3.2.6 Critique of the privatisation of GWCL	25
3.3 South Africa.....	26
3.3.1 Government policy – a neoliberal success?	26
3.3.2 An alternative approach: Public-public partnership	27
3.4 Manila, the Phillipines	28
3.4.1 High expectations	28
3.4.2 Unfulfilled promises	28
3.4.3 Cholera and increased water rates.....	28
3.4.4 Ondeo terminates the contract and leaves a huge public debt	29
3.5 Buenos Aires, Argentina	29
3.5.1 Water privatisation as the only solution	30
3.5.2 Renegotiation and cherry-picking	30
3.5.3 Lack of regulation and failed promises	30
3.5.4 Public resistance and lay-offs	31
3.5.5 Compensation for risky business.....	31

3.6 Cochabamba, Bolivia	32
3.6.1 What next? After the Water War.....	32
3.6.2 Financing	32
3.7 Kibera Slum, Nairobi, Kenya	34
3.7.1 The situation in Kibera	34
3.7.2 Experiences with commercialisation of water and sanitation services	34
3.8 Uganda	35
3.8.1 Reforms of the management	35
3.8.2 Enhanced performance from learning	35
3.9 Olavanna Village, Kerala, India	37
3.9.1 The first initiative	37
3.9.2 The success story and learning points	37
3.10 Case study findings	39
3.10.1 Lack of regulation & democratic accountability	39
3.10.2 Public resistance.....	39
3.10.3 Higher prices.....	39
3.10.4 Policies in contradiction with experiences	39
3.10.5 Corporate monopoly and corruption	39
3.10.6 Cherry picking	39
3.10.7 Public subsidies to pay for corporate risk	39
3.10.8 Renegotiation.....	40
4. CONCLUSIONS AND RECOMMENDATIONS	41
4.1 In general, privatisation has failed	41
4.2 Policies ignore experience	42
4.3 The way forward	42
4.4 Recommendations	43
4.5 End note to civil society and governments in developing countries:	44
REFERENCES	45

EXECUTIVE SUMMARY

The purpose of this report has been to document and discuss:

1. How privatisation has been promoted by international financial institutions and other donors as a strategy for financing water services.
2. Effects on the poor of different kinds of privatisation of water services in developing countries.
3. Policy recommendations for the provision of water to the poor.

The report reviews how the World Bank and other international institutions and donors have promoted privatisation during the last two decades through privatisation conditionalities and a focus on the private sector as the solution to financing needs in the water and sanitation sector. The World Bank says it acknowledges the difficulties with privatisation, but remains wedded to its belief in the underlying rationale of private participation and continues to find new ways to encourage private investment.

Case studies from Africa, Latin America and Asia, show that privatisation involving multinationals often leads to higher prices for the poor, disconnections and in some cases cancellation of contracts, leaving water infrastructure in a worse state than before. The reality on the ground contradicts the continued enthusiasm of international institutions and donors for privatisation as a solution to global water needs. Alternative forms of water management and provision, for example, local cooperatives and small-scale community-controlled initiatives, provide examples of different, more viable solutions.

Our conclusions are:

- Water privatisation has failed to deliver to the poor
- Water privatisation has undermined the human right to water
- Water privatisation has taken place at the expense of democratic principles and with minimal accountability to local citizens
- Privatisation leads to foreign control and monopoly
- Developing countries have not proven profitable for multinational companies
- With strong and competent public authorities, private actors may have a role

Our recommendations to the Norwegian government are:

Regarding the international financial institutions (World Bank, IMF, etc.):

- ensure that water privatisation is not included as a condition for financial support from the World Bank or any of the IFIs;
- reduce support to institutions, funds and partnerships that, without exception, support private sector development in the water sector;
- ensure that governments have the right to subsidise water to secure adequate access for all;
- advocate the World Bank's abandonment of their push for privatisation in all activities and on all levels;
- cancel the debt of developing countries in order to free public funds for expanding the access to water;
- advocate a World Bank strategy aimed at improved public and community-controlled water delivery.

Regarding Norwegian bilateral aid:

- ensure that recipient countries are not forced into privatisation;
- ensure that water privatisation is not made a condition of Norwegian multilateral and bilateral aid, loans or debt forgiveness;
- ensure that water supply is affordable for the poor;
- gain and demonstrate the consent of civil society before policies of water privatisation are promoted, and involve them in questions of regulation and decision-making;
- strengthen transparency, governance and user participation in the water sector, and be open-minded to private ownership or operations on the community level if the public service does not work;
- pay more attention to questions of local-level power and politics as well as local-level understandings of water and sanitation issues.

Regarding WTO and GATS negotiations:

- take the position that all countries should withdraw their requests to developing countries about privatisation of services in the water sector through the GATS agreement;
- renegotiate bilateral and regional trade and investment agreements which enable private water corporations to claim undue "compensation" from public authorities via arbitration cases;
- ensure that governments have the right to subsidise water to secure adequate access for everyone.

INTRODUCTION

Over the past 20-25 years public utilities have been seen as failing to provide water services in developing countries. In response to this, a strategy of privatisation within the water and sanitation sector has been promoted internationally since the 1980s. Private companies were considered to be more efficient than public utilities, and were expected to be able to provide better water services, also for people with low incomes.

Many case studies show that privatisation in the water sector has negative effects, especially in respect of provision of water to the poor. Privatisation of water has, in many cases, led to unaffordable tariffs for people with low incomes. Profit-based companies will normally only provide water to those they know have the ability to pay.

The purpose of this report is to document and discuss:

1. How privatisation has been promoted by international financial institutions and other

donors as a strategy for financing water services.

2. Effects on the poor of different kinds of privatisation of water services in developing countries.
3. Policy recommendations for the provision of water to the poor.

Chapter 1 provides an overview of how privatisation has been promoted as the solution to the problems of public services delivery in general, and water and sanitation services in particular.

Chapter 2 gives an overview of international actors in the water sector and also looks at Norwegian water policies and privatisation.

Chapter 3 contains a collection of case studies from around the world illustrating water privatisation projects.

Chapter 4 consists of conclusions and policy recommendations.

MDG 7, target 10:

“Halve, by 2015, the proportion of people without sustainable access to safe drinking water and basic sanitation”

www.unmillenniumproject.org



1. PRIVATISATION AND WATER

In this chapter, we provide an overview of how privatisation has been promoted as the solution to the problems of both public service delivery, in general, and water and sanitation services, in particular. We also give an overview of privatisation trends in the water sector and discuss the various types of privatisation.

1.1 The advent of privatisation

Since the late 1970s and early 1980s, privatisation has been put forward as one part of a larger reform package intended to stabilise economies and create growth. These reforms were based on the rationale in new economic theory that state planning and expenditure were often less efficient than private actors operating in a free market.

Reforms, such as deregulation, reducing public expenditure and privatising publicly owned industries, were recommended by the two most important international financial institutions (IFIs) - the World Bank and the International Monetary Fund (IMF), along with the U.S. government (Hartwick & Peet 1999). The policy recommendations came to be known as the “*Washington Consensus*” (box 1.1).

Box 1.1: Washington Consensus policy recommendations

- Privatisation of state enterprises
- Deregulation – abolition of regulations that impede entry or restrict competition
- Legal security for property rights
- Openness to foreign direct investment
- Fiscal policy discipline
- Redirection of public spending toward education, health and infrastructure investment
- Tax reform – Flattening the tax curve
- Interest rates that are market determined and positive
- Competitive exchange rates
- Trade liberalisation – replacement of quantitative restrictions with low and uniform tariffs

Source: Hartwick & Peet (1999)

The IFIs promoted this policy package in developing countries in the 1980s and early 1990s as Structural Adjustment Programs (SAPs). In many cases, getting a loan from either of the two institutions, or even development aid from international donors, was made conditional on implementing a SAP. Hence, many countries adopted these policies and removed state control and price subsidies from various areas of the national economy. Opening up to privatisation and private investments in public services would reduce the need for government spending.

SAPs were heavily criticised for having detrimental effects, especially on the poor. Critics among civil society organisations claim that many of the policy recommendations, including privatisation, are still being promoted by the IFIs, through policy frameworks such as the World Bank’s Poverty Reduction Strategy Papers (PRSPs) and the IMF’s Poverty Reduction Growth Facility (PRGF). The PRSPs will be discussed in more detail in section 2.1.3.

In recent years, aid has changed in the direction of ‘harmonisation’ and ‘globalised conditionalities’. Bilateral aid has become less competitive, better coordinated and better targeted. Greater cooperation between bilateral donors has increased the significance of multilateral programmes, with aid contributions being channelled in their direction, and increased the coordinated pressure on developing countries. This has led to the reinforcement of policy conditions set by multilateral institutions. Moreover, decision-making has moved to the international level, further away from democratic accountability, but nonetheless still very much open to the influence of multinational companies (Hall and Motte 2004). The influence of these companies will be discussed further in section 2.5.3.

According to the 2003 Human Development Report, privatisation is promoted through international or bilateral aid, as well as through institutions such as the World Trade Organisation (WTO):

“The (...) push for private provision [of services] has come from donor policies advocating economic liberalisation and free markets to advance growth and development. Social services are frontier issues in this move to expand the private sector’s role. In the

1990s many donors supported extending private provision and financing to social services, especially urban water supply. The World Trade Organisation's General Agreement on Trade in Services also encourages private entry into social services".

UNDP Human Development Report, 2003

1.2 Privatisation of water and sanitation – policy rationale

The 1980s were declared the "UN International Drinking Water Supply and Sanitation Decade". The goal was to ensure that everyone in the world had access to adequate water supply and sanitation within a decade, but the goal was far from met. Thus, the neo-liberal argument behind a pro-privatisation agenda expanding into a new sector was tied to an alleged failure of the public sector to deliver water in poor countries.

The increase in privatisation has largely been driven by a desperate need for increased capital investment in water supply and sanitation (WSS).

and low levels of coverage, the public utilities were blamed for "over-engineered" high-cost solutions, requiring large government subsidies (Asher 1987). In general, a number of closely related reasons have traditionally been seen as the failure of the public water supply and sanitation service (see box 1.2).

The case for privatisation in the water supply and sanitation sector stems, in part, from a belief that the private sector is better placed to undertake the kinds of investment necessary to expand and rehabilitate water infrastructure. This belief has replaced the idea that politics and political processes can provide the solutions to social problems, instead giving room for markets or market-friendly processes.

In short, the private sector is considered more effective and better able to provide capital than governments as a result of competition and the pursuit of self-interest, such as maximising profits. This, in turn, solves social problems by providing expanded connections, better quality and prices – also for the poor, according to the theory and the World Bank:

Box 1.2: Reasons given for the failure of public water supply and sanitation services

Lack of efficiency: public water and sewage utilities tend to be inefficiently managed since governments have multiple objectives, but limited financial resources. With the government as both owner and provider, the manager of the utility is subject to a number of conflicting influences, which it may not be able to balance, if clear priorities are not established. In this line of argument, lack of efficiency is seen as closely related to:

Absence of competitive discipline: since public utilities are not usually subject to the discipline of the market (competition) they have fewer incentives to minimise costs and provide services in the manner which customers demand.

Lack of access to capital: because government budgets are strained, most public utilities have insufficient financial capital to undertake the necessary investments to maintain services. It is argued that private companies are better placed to access capital, both domestically and internationally.

Source: Ascher (1987)

In many Least Developed Countries (LDCs) the combination of rapidly growing populations, urbanisation; reduction in assistance for public water supply and sanitation services from international development agencies; and the gradual downscaling of the state sector, mean that public sources of finance are not sufficient for the rehabilitation and expansion of the infrastructure. Facing problems of inefficiency

"The reality is that the private sector has the capacity and the interest to serve the poor, is willing to experiment with low cost options, and different levels of service, and with greater efficiency can benefit all consumers".

World Bank quoted by Catley-Carlson (2002), in Emanuele & Hall (2003), p 29.

Resolving the water crisis has become a question of reducing the state and "reforming"

public services rather than a question of equal distribution and ownership. Completely absent from the so-called “crisis of the state” argument has been the fact that some governments in developing countries have been unable to afford investments in their water services. These governments are recovering from financial crises, asphyxiated by IMF-imposed structural adjustment programs and ‘cash-strapped’ by being forced to spend a huge percentage of their annual budgets on debt servicing. Moreover, the debt relief process under the Heavily Indebted Poor Countries (HIPC) initiative is used in most cases to push privatisation as a set of policy conditions required to qualify for the relief process (World Development Movement, 2005).

The process of privatisation has led to much controversy and is an intensely political phenomenon. There is a tendency to depoliticise privatisation as simply a standard economic and commercial transaction between users and private service providers. Still, privatisation creates a new situation, shifting utilities from governments towards the market, affecting the way civil society normally articulates its needs and affects democratic input (Gutierrez 2003). Hence, privatisation has highly politicised the question about water supply and sanitation provision. The battle is fought by a range of actors, from civil society organisations in poor countries strongly rejecting the strategy, to bilateral donors and multilateral financial institutions promoting it, often through policy conditionality.

1.3 Trends in privatisation of water supply and sanitation

Until the 1990s, there were few large private initiatives in water and sanitation infrastructure and services. Privatisation in the water and sanitation sector (WSS) accelerated sharply

during the 1990s, peaked in 1997 and declined after this. This applies both to the number of World Bank privatisation projects and to the amount of private investment provided. Table 1.1 gives an overview of total private investments in the water and sanitation sector.

As IFIs started to promote privatisation in the water sector as part of “reforms” in developing countries, bilateral development agencies, such as the United Kingdom Department for International Development (DFID) and the United States Agency for International Development (USAID), followed suit. This led to privatisation of water utilities in cities in Asia, Latin America and Africa, and became a central development policy during the 1990s.

Estimates indicate that only 10% of the world’s population is currently served by private providers (World Bank 2006). However, there are major regional differences (WSSCC 2003). See table 1.1 for an overview of private sector investment by region.

“From 1990-2004, 54 low and middle-income countries had private activity in their Water and sewerage sectors. In those countries, 307 Water and sewerage projects with private participation, involving investment commitments for about US\$41 billion, reached financial closure. Latin America and the Caribbean and East Asia and Pacific were the most active regions, accounting for about 51% and 38% of total investment, respectively. Concessions were the most frequent form of private participation in the sector, representing 42% of the projects and 64% of total investment. [...] Some of those deals, however, turned sour. Of the 307 projects, 21 representing 37% of investment to the sector, were either cancelled or under distress by 2004”

<http://ppi.worldbank.org> [online 26.03.2006]

Region	Number of projects	Investment (2001, US\$ billions)	Investment (%)
East Asia and the Pacific	90	15,90	38
Europe and Central Asia	56	3,80	9
Latin America & Caribbean	137	21,00	51
Middle East & North Africa	8	0,24	1
South Asia	2	0,22	1
Sub-Saharan Africa	14	0,23	1
Total	307	41,36	100

Table 1.1 Private participation in water and sewerage projects in low- and middle-income regions, 1990–2004. Source: <http://ppi.worldbank.org> [online 26.03.2006]

1.4 Various types of water privatisation

Privatisation of water and sanitation services has many variations. The World Bank uses four different categories for private participation projects: concessions; management and lease contracts; greenfield; and divestiture projects. The term “privatisation” usually refers to one of these types. Service contracts are another variation (see box 1.3).

There are many ways to describe the various types of privatisation. One important aspect is the degree of influence that ordinary people have on the projects. The type of privatisation that involves multinational companies usually means less democratic influence and accountability. In contrast, small-scale projects, run by cooperatives or local, democratically based organisations, usually provide a basis for local influence on water delivery.

While these other local forms of water delivery are not strictly “privatisation” (and are therefore not included by us in box 1.3), they do constitute alternative ways of increasing

private participation, albeit non-commercial and people-centred, in the provision of community water services.

Another aspect is how much of the water service is privatised. There is great variety here: from concessions and management contracts, with the private operator assuming control of the whole operation for a period of time, to service contracts, involving limited specific tasks, such as installing meters, repairing pipes or collecting bills. A special type of privatisation occurs when the public authority actively out-sources the management and operations of water and sanitation services to cooperatives or local, democratically based organisations (as described in section 3.9)

All the types of privatisation mentioned below may involve public-private partnerships (PPPs), where the operating company is a joint venture between the public owner of the assets and the private company, which usually has a form of management control over the utility.

Box 1.3 Privatisation types	
Project type	Description
1. Concessions	Operations and management contract with major capital expenditure. A private entity takes over the management of a state-owned enterprise for a given period during which it also assumes significant risk.
2. Management and lease contracts	Operations and management contract where a private entity takes over the management of a state-owned enterprise for a given period.
3. Greenfield projects	A private entity or a public-private joint venture builds and operates a new facility.
4. Divestiture	A private consortium buys an equity stake in a state-owned enterprise. The private stake may or may not imply private management of the company.
5. Service contracts	Usually short-term agreements whereby a private contractor takes responsibility for a specific task, such as installing meters, repairing pipes or collecting bills.

Sources: UN Habitat (2003) and World Bank (2000)



Photo: Knut Nyfløt, The Norwegian Development Fund

2. PRIVATISATION OF WATER SERVICES – ACTORS AND INTERNATIONAL POLICY FRAMEWORK

This section provides a more detailed overview of the comprehensive and pervasive international policy framework that serves to facilitate and encourage the privatisation of water and sanitation services. As mentioned in chapter 1, key actors in this framework are the international financial institutions (IFIs), such as the World Bank and regional development banks, and bilateral donor agencies, including Norway. The pro-privatisation policies and practices of these key actors are reinforced by the activities and ambitions of other important actors, such as the OECD, the World Trade Organization (WTO) and multinational corporations.

2.1 The World Bank

The World Bank provides loans to over one hundred developing economies, with the declared aim of helping the poor. The hundreds of millions of people worldwide who lack access to water supply and sanitation are one of its target groups.

Since 1993, the World Bank has promoted privatisation as an answer to the water supply and sanitation crisis. The Water Resources Management Policy Paper (1993) states that water should be treated as an economic commodity, with an emphasis on efficiency, financial discipline and full cost-recovery, including profits. The strategy requires caution on cross-subsidies and budgetary transfers to subsidise connections (Royeen 2002). Although this policy was criticised for not taking local concerns into consideration, the main thrust of this policy was continued in the Water Resources Sector Strategy in 2002, building on the 1993 reports argument: *“the obvious need (...) for private sector involvement if the huge financing needs are to be met”* (World Bank in Hall et al 2001).

As pointed out in chapter 1, this relates to the idea that the public sector is unable to provide the necessary services, and therefore the need to find a role for the private sector.

2.1.1 Post-2003: less dogmatic, more pragmatic?

Since 2003, however, the World Bank appears to have acknowledged difficulties with privatisation of water supply and sanitation. Officials say that the World Bank has adopted a less dogmatic, more pragmatic approach to privatisation and that the World Bank has moderated its policies (World Bank 2006b).

Only about 5% of private investment in infrastructure goes to the water and sanitation sector (World Bank 2006). Furthermore, private investments are heavily concentrated in relatively low-risk economies in East Asia and Latin America. Thus the World Bank concludes that financial markets have a reduced appetite for risk and that the level of financing is unlikely to recover soon (World Bank 2004).

Some moderation in language can be discerned in a number of important World Bank strategy documents, such as the Infrastructure Action Plan (World Bank 2003b), the World Bank's Program for Water Supply and Sanitation (World Bank 2004b), as well as operational guidance for World Bank staff on public and private roles in water supply and sanitation (World Bank 2004c). The World Bank says it will support operations across the entire spectrum of public and private and respond *“to country demand by offering a broad menu of options for public and private sector infrastructure service provision”*. (Ibid).

See figure 2.1 for illustration.

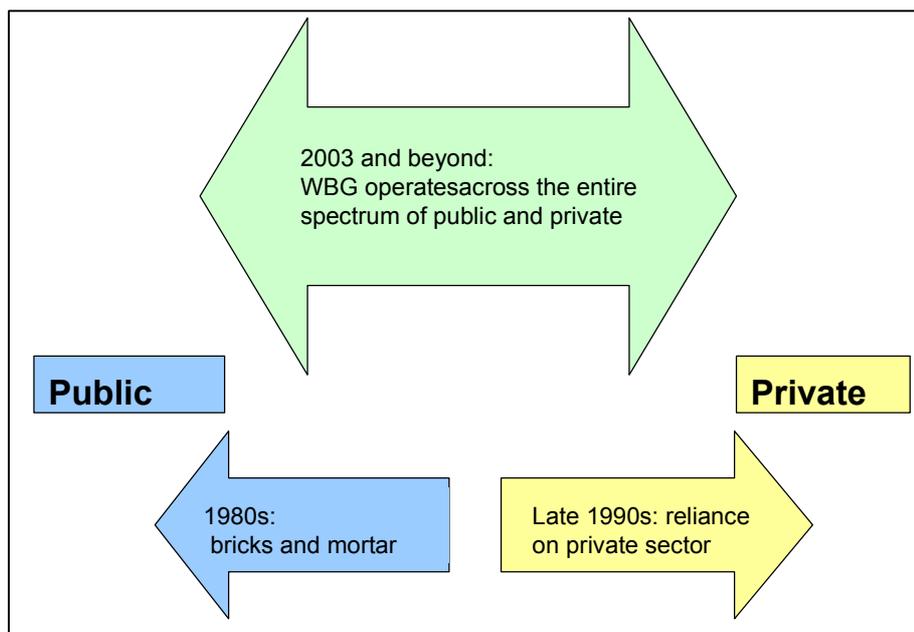


Figure 2.1 The World Bank's changing rhetoric. Source: *World Bank Infrastructure Action Plan, 2003*

2.1.2 Continuing pro-privatisation bias in World Bank strategies and practices

Despite acknowledging the difficulties and a degree of moderation in its language, the content of the World Bank strategy papers still demonstrate a clear bias towards privatisation and a considerable scepticism towards the public sector.

For example, the implementation progress report of the World Bank Private Sector Development Strategy (2003a) admits to problems with the privatisation strategy. But, instead of calling for an end to the promotion of privatisation, the report states that *“these problems do not undermine the basic rationale of private participation”*. There is a continued belief that well-designed private participation schemes can lead to more efficient and better quality services. The report concludes that the *“problems confirm the fundamentals of efficient private provision while also suggesting the need for some innovative approaches based on these fundamentals in order to address client needs and concerns.”* (Ibid).

Furthermore, the World Bank portrays the privatisation experience in positive terms. The World Bank's program for water supply and sanitation from 2004 states that during the last decade the entry of private sector operators has challenged the idea of permanent, unregulated, public monopolies and stimulated better performance among all operators (World

Ban 2004b). In 2005 the World Bank states that several hundred water supply and sanitation utilities in developing countries have improved management efficiency, transparency and responsiveness to consumers through privatisation.

Also, support for the public sector is provided on much stricter terms than support for the private sector. While financing public sector utilities will *“depend on an assessment of its financial strength and past operational performance”* (World Bank 2004c), statements about the private sector have a quite different tone. Here, the World Bank will support *“a broad range of private participation options”* and *“a broad range of Bank Group instruments are available to support private participation”* (Ibid).

In their efforts to improve private participation in the water sector, the World Bank's strategy papers emphasize new ways to reduce risk for multinational corporations: *“Private international financing is particularly important for small countries that do not have the capacity to raise funds from domestic public or private sources. To stimulate private investment there is a need for a more collaborative public-private partnership, an approach in which the World Bank has a role to play.”* (World Bank 2004a).

To reduce risk, the bank identifies mechanisms such as protection against political risks, currency risks, and structuring municipal finances to support private involvement. These instruments follow the recommendations of the Camdessus Report (WPFWI 2003)¹. The report recommended stimulating more private investment with guarantees against political and currency risk (essentially providing public subsidies to reduce the risks for multinationals); and giving a greater role to consultants, funding private consultancy companies and their work facilitating public sector “reform”. These recommendations represent a new WSS strategy and a new wave in the promotion of privatisation. In addition, the strategy is important due to its role as a coordination strategy implemented by key institutions, such as the World Bank (see <http://www.forumfor.no/?id=1421> for an analysis of the report).

The World Water Council published the follow-up of the Camdessus Report, named the Gurria Report in March 2006 (WPFWI 2006)². Stressing the need for decentralized water provision, demand-responsive approaches and full cost recovery, the report still embraces private sector participation and public-private partnerships.

2.1.3 PRSPs and continuing conditionality

The most comprehensive strategy framework, developed by the World Bank and supported by almost all bilateral donors, is the Poverty Reduction Strategy Papers (PRSPs). As mentioned in chapter 1, these papers have substantial impact on a country’s development policy. A review of 50 PRSPs provides clear evidence of a continuing bias towards water privatisation (World Development Movement 2005b). According to the findings of this review, nearly two-thirds of the PRSPs specifically include water privatisation or greater private sector involvement in water supply services. None include a review of such privatisation policies and not a single strategy paper has, as a goal, to keep water and sanitation under public management. This outcome is not surprising, considering the fact that the World Bank Private Sector

Development Strategy (2002) emphasises water privatisation and explicitly states this as a priority for PRSPs.

Statistics also show that World Bank lending in water supply and sanitation from 2000–2003 had an increasing emphasis on privatisation and cost-recovery. In 2000, 91% of World Bank funds in the sector were tied to privatisation and 98% of the funds promoted cost-recovery. In 2003 all loans promoted privatisation and 99% promoted cost-recovery (Public Citizen, 2004).

Another study indicates that conditionality prevents governments from making up their own minds about privatisation. Looking at conditionalities attached to water supply and sanitation reform across countries, one can see many commonalities: legislative reforms to enable provision of water supply and sanitation services by others than the central government; increased cost recovery; regulatory reforms to improve regulators’ ability to monitor contracts; and leasing service provision or management contracts to the private sector in urban areas (Water Aid, 2003).

2.1.4 World Bank partnerships

The World Bank takes part in and organises a network of actors with differing roles: forums, lobby organisations, think tanks and partnerships with other international donors. The purpose is to provide “advice” on water reform and create good investment climates. The different institutions and programmes are typically created by the World Bank in partnership with at least one other donor, and most include funding for increasing private sector provision in water supply and sanitation. For an overview of these institutions and funds, see box 2.1.

The numerous partnerships and organisations, some more important than others, are key players, supplying finance and advice for the promotion of water privatisation (Royeen 2002). Although many of the institutions appear to be neutral, aiming to promote dialogue between stakeholders, they are in reality biased towards water privatisation. The World Bank’s involvement in these strategic partnerships provides legitimacy to multinational corporations (ibid), whose

¹ Prepared for the 3rd World Water Forum in Kyoto, 2003.

² Prepared for the 4th World Water Forum in Mexico City, 2006.

involvement we will return to in section 2.5.3.

Box 2.1: Multi-donor initiatives involving the World Bank

Business Partners for Development (BPD)

Initiated by the World Bank, BPD acts as an industry promoter of privatisation. It supports and finances private sector initiatives in infrastructure and water supply and sanitation. This includes loans to private companies and currency guarantees to reduce the risks of local currency fluctuations when financing infrastructure.

Global Partnership on Output Based Aid (GPOBA)

This was created by the World Bank and the UK in 2003 and provides subsidies to private suppliers that provide infrastructure services, specifically enabling provision to the poor.

Global Water Partnership (GWP)

Created in 1996, with strong support from the World Bank, this has been a leading advocate of private sector management in water supply and sanitation. This is also one of its main tools for improving services.

Private Infrastructure Development Group (PIDG)

The World Bank donates to the fund, which exists to support and finance private sector initiatives in infrastructure and water and sanitation, such as loans to private companies and currency guarantees to reduce the risks of local currency fluctuations when financing infrastructure.

Public Private Infrastructure Advisory Facility (PPIAF)

This is hosted by the World Bank and is the main multi-donor facility funding *consultants* that advise governments on introducing the private sector into infrastructures such as water supply and sanitation.

Water and Sanitation Program (WSP)

The program is administered by the World Bank and receives direct funding from, amongst others, Norway. Contributions are channelled through trust funds such as the Norwegian Trust Fund for Private Sector and Infrastructure (NTF-PSI). This funding covers management and staff costs, operational expenses, and hired consultants.

Water Utility Partnership (WUP)

This is funded by the World Bank with the main goal of creating an enabling environment for the water sector reform. It promotes "Private Public Partnership" as a tool to improve access to financing and the management of water and wastewater services.

World Water Council (WWC)

A water policy think-tank established in 1996 as part of recommendations by the World Bank, promoting, amongst other things, closer ties between public authorities and the private sector.

Source: World Development Movement (2005a)

2.2 Regional Development Banks

In addition to the World Bank and its related multi-donor initiatives, all three regional development banks, in Asia, Africa and Latin America, have policies that facilitate and encourage privatisation.

2.2.1 The Asian Development Bank (ADB)

In Asia, water resources are under serious pressure. Freshwater investments are amongst the lowest in the world, and yet over the next 15 years it is estimated that one billion more people will have to share Asia's limited water supplies. Today, one in three Asians lack access to a safe drinking water source, affecting 700 million

people in rural areas and more than 90 million in the cities.

In October 2001, the Asian Development Bank (ADB) set out its vision for integrated water management in the region. Describing water as “a socially vital economic good,” (ADB nd/a), the ADB’s “Water for All” policy focuses on seven principal elements, one of which is the improvement and expansion of the delivery of water services (ADB nd/b).

ADB clearly believes that service expansion can best happen with private actors. According to its water policy, “*governments should change their role from service provider to regulator. Autonomous and accountable providers can best provide water services.*” (ADB nd/b). The policy goes on to say that ADB “*will support the enabling environment for private participation in the water sector, and help to develop the safeguards that ensure equitable access for the poor.*” (Ibid). Further, “*consumers should expect to meet the full operating and maintenance costs of water facilities and service provision in urban and rural water supply and sanitation schemes.*” (ADB nd/c).

The ADB water policy regards subsidies as a controversial issue. Subsidies will be supported in certain circumstances, such as when “a limited quantity of treated water for the poor is regarded as a basic human need,” but, in the long term, “governments and regulatory agencies will be persuaded to phase out subsidies as economic conditions improve.” (ADB nd/c).

ADB has not been loath to use its influence to push through policy reforms at the national level, in spite of public opposition. In Sri Lanka, ADB agreed to finance a major programme of water infrastructure development on condition that the private sector was brought in to provide the services. ADB’s eagerness to see water services privatised became even more apparent in the wake of the December 2004 tsunami. Despite the extensive destruction wrought by the tsunami, the ADB insisted that previous deadlines for privatisation reforms be kept. Just four days after the tsunami struck, a draft bill to legalise water privatisation received Cabinet approval. (MONLAR 2005). Thereafter, Sri Lanka had only 10

weeks to table the bill in Parliament; otherwise, the loan would be cancelled.

A comprehensive implementation review of the ADB Water Policy got underway in June 2005. Combining in-country consultation workshops and regional workshops, the review will assess progress and the need for policy revisions.

[2.2.2 The African Development Bank \(AfDB\)](#)

According to AfDB, the development of Africa’s water resources is one of its key objectives. AfDB has been involved in a variety of initiatives to help meet the challenge of providing safe water and sanitation to the roughly 300 million people, predominantly in rural areas, who currently lack access.

The Rural Water Supply and Sanitation Initiative (RWSSI) is an AfDB initiative aimed at providing water supply and sanitation to 80% of the rural population of Africa by 2015, and 100% by 2025. The first International Donors’ Conference for this initiative was held in April 2005.

The African Water Facility (AWF) is a special water fund managed by AfDB which aims “*to improve the enabling environment and strengthen water resources management so as to attract massive investments necessary to achieve the regional objectives*” (AfDB nd/a). Canada, the EU and France already support the AWF, while the Nordic countries and Japan have signalled their intention to support the initiative. The AWF hopes to raise over US\$600 million for “*facilitation activities*” and capital investments.

Other initiatives, in which AfDB is actively involved, include the NEPAD Water Resources Management Program and the Netherlands-backed Water Partnership Program.

As pointed out in chapter 1, the public sector is not regarded as sufficient to meet investment needs in the water sector. According to AfDB, it is essential to mobilise the private sector at both local and international levels to meet investment needs estimated at US\$20 billion per annum, to reach RWSSI targets (AfDB 2000).

AfDB further supports the full or partial transfer of water resource development and management to “restructured public agencies, private agencies or water user associations.” (AfDB 2000). These institutions should be “accountable and autonomous” (Ibid), echoing the words of the Asian Development Bank.

On subsidies, however, AfDB contrasts with ADB. While recognising that experience with direct subsidies on water has been mixed, the AfDB advocates the introduction of cross-subsidisation:

“One effective way of assisting the poor is the introduction of cross-subsidisation, in which richer consumers cover a part of the cost of providing services to the poor. This can be done by introducing a progressive block tariff schedule, in which a low price is charged for a limited lifeline amount of water, with higher prices for additional levels of consumption”. (AfDB 2000).

Another favoured strategy is “transfer pricing” between urban and rural water supply, with a special levy on urban households and industries to subsidise the cost of developing rural water supply and sanitation.

AfDB explicitly seeks to “facilitate private participation and implementation of cost recovery measures, without jeopardising access by the poor.” (AfDB 2000).

2.2.3 The Inter-American Development Bank (IADB)

For the last decade IADB has been the largest multilateral lender of development finance for Latin America and the Caribbean. This gives the institution tremendous power to impose lending conditions such as privatisation and deregulation. Since its creation, IADB has been active in the water sector, predominantly financing projects in sanitation, hydropower, and irrigation and drainage, but also in other areas such as watershed management, flood control and waterway projects. Since 1961, IADB has invested almost US\$1 billion per year in water-related projects, and this trend is expected to increase in the near future (www.iadb.org). IADB’s Water and Sanitation programme commits the institution to achieving the Millennium goals, which means providing services to 70 million new users. Involvement by the

international private sector is seen as the panacea.

A recent review of the IADB water and sanitation portfolio from 1996 to 2003 yielded the following conclusions (Public Citizen nd):

- Some of the largest IADB loans went directly to water multinationals after they were granted private concessions in Argentina, Bolivia and Honduras.
- A large number of IADB loans require states, provinces or municipalities to open their doors to private sector participation in order to be eligible for IADB loans.
- A large proportion of IADB loans promote so-called reform of the water and sanitation sector that is based on changing legal and institutional arrangements so that private sector investment in the water and sanitation sector will be secure and profitable.

An example of the latter is the recent loan agreement between the Nicaraguan government and IADB. The agreement seeks to facilitate water privatisation in the long term, but also requires that the contract is awarded to an international service provider. Increasingly, IADB conditions for loans do not require privatisation explicitly, but rather “prepare the ground” for privatisation.

2.3 Donor agencies

2.3.1 European Union

The European Union (EU) has openly advocated privatisation of water services in developing countries. At the World Summit on Sustainable Development in Johannesburg in September 2002, it launched the EU Water Initiative. This set out to channel €1.4 billion from various EU development aid funds into public-private partnerships in Africa, the former Soviet Union, and later Latin America (CEO 2003).

This was followed by the launch of a € 500 million Water Facility for the 77 African, Caribbean and Pacific (ACP) states in 2004, again intended to provide public finance to companies looking at developing markets in the water sector.

Under the GATS negotiations underway in the WTO (see section 2.5.2), the EU is

trying to use access to European agricultural markets as a carrot to get developing and least developed countries (LDCs) to open up their water distribution markets. The European Union has requested 72 countries to open up their water sectors to European service providers. Although private companies currently run only 5-10% of the world's water, 95% of that is in the hands of European companies (PSIRU nd).

2.3.2 Bilateral agencies

A recently published report by the World Development Movement points to four ways in which donor governments promote water privatisation (World Development Movement 2005a).

First, more and more governments are using aid money to pay for consultancy companies to advise poor countries on reform of their water sectors. Companies, such as the Adam Smith Institute and PricewaterhouseCoopers, are providing expensive advice on how to make the water sector more attractive to foreign companies. While governments appear to choose privatisation as the best option, this is often on the basis of strong advice from consultancies with a heavy bias in favour of privatisation. This is a way of introducing privatisation through the backdoor.

Second, public relations offensives have been funded with aid money in order to convince sceptical local communities that privatisation is in their best interests:

"...Should we believe in waiting for grace to come down to us from above and we are all adults? -We still have our country and it is at a standstill. -The children are singing -- saying that Tanzania is a beautiful country full of natural resources and yet our developments are nothing! -If there's no capital we will die of starvation! - And there are people with capital in the world and these are plenty! -It's better that we call them and benefit. How many people have died and yet they were unable to enrich themselves of their country?"

"We need money" sung by Ebbo (Tanzania), co-written and produced by the Adam Smith Institute (World Bank nd).

Third, governments promote privatisation through subsidies to private water

companies and conditionalities on bilateral aid. The UK aid agency DFID promised £10 million to Ghana to fund a water expansion project, but on condition that the country's main privatisation process went ahead.

Finally, governments push privatisation through conditionalities on the international arena, as mentioned in the previous chapter. Increased use of multilateral mechanisms and greater donor coordination has reinforced policy conditionalities set by the IMF and the World Bank.

Another means by which donor governments advance private sector participation in public services is through support to various institutions, programmes and trust funds, often within the World Bank, that promote private sector investments. One example of this is the Emerging Africa Infrastructure Fund (EAIF), set up with the help of the British government in 2002, which aims to promote private sector investment in infrastructure in Africa. The fund is managed by Emerging Markets Partnership, a fund manager based in the United States. Funding decisions are made without the involvement of national governments (PSIRU 2004).

2.4 Norway in the spotlight

2.4.1 Water in Norwegian development policy

The 2004 White Paper on development policy identifies three main challenges for the water sector (St.Meld. 35 2004):

- the need to build up capacity to manage water resources;
- the enormous need for development financing in the water sector;
- and the need to prioritise the poor.

In discussion of these challenges, the role and need for private investment is always present. This reflects one of the key elements of Norwegian development policy, namely support for private sector development. In 1998, the Norwegian government presented a strategy to the Storting (Parliament) for support for private sector development in developing countries (Norwegian gvt 1998).

Other important traits in Norwegian development policy include the need to safeguard the rights of the poor and to ensure that recipient countries dictate the shape of their own future. Development assistance should be responsive to countries' own plans, rather than imposed.

2.4.2 Norway's position on water privatisation

In October 2005, the newly elected government of Norway declared that "Norwegian aid should not go to programmes that contain requirements for liberalisation and privatisation." (Norwegian gvt 2005). It followed this up in December by announcing that Norway would withdraw all its requests to developing countries, under GATS negotiations, to open up their water sectors to market access. The government argued that these demands could be seen as a potential barrier to countries' managing their public services (Støre 2005).

While not ruling out privatisation completely, this bolder approach indicates a greater scepticism to privatisation and goes beyond the line adopted by the previous government, which acknowledged the role of the private sector, while also emphasising the need for proper government controls and protection of the rights of the poor.

In March 2003, then former Minister for International Development, Hilde Frafjord Johnson, explained:

If government sets the right priorities and regulatory frameworks with regard to accessibility, pricing and sustainability, the question of private versus public need not be the most important." (Johnson 2003).

The minister called for the consideration of "new and different ways of subsidising the water needs of the poor" and put forward price-differentiated systems as "one of the answers". In this case, the better off and industry would have to pay more for services, while the poor would pay considerably less. Interestingly, she acknowledged that water privatisation in Norway would provoke strong protests; yet, in a development context, it was necessary to look at the question from different angles.

2.4.3 Disharmony between policy and practice?

Norway's recent withdrawal of demands to developing countries to open up their water sectors to market access is in line with its stated support for cross-subsidies and alternative pricing mechanisms. GATS rules prohibit subsidising poorer communities with profits from wealthier areas.

But, while Norwegian development policy insists on the need to safeguard the rights of the poor and appears to be increasingly sceptical towards privatisation, Norway continues to provide substantial financial and moral support to institutions and programmes that actively facilitate and promote privatisation as a strategy.

In addition to its general support for the funding activities of the World Bank and the regional development banks, Norway contributed, in 2002, to the establishment of a Norwegian Trust Fund for Private Sector Infrastructure (see box). Norway has helped to finance the Water and Sanitation Programme (WSP), administered by the World Bank, and has indicated its intention to contribute €1.5 million per annum for 3 years to the African Water Facility (AWF) of the African Development Bank. Norway also supports both the Global Water Partnership (GWP) and the Water Supply and Sanitation Collaborative Council (WSSCC).

Thus, a disharmony exists between official Norwegian development policy, with its stated goals of safeguarding the rights of the poor and finding new ways to subsidise their water needs, and the reality of its support to international institutions that choose to work differently. The benefits of such an approach are not lost on the authors of the 2004 White Paper:

Infrastructure with a view to improving services in poor countries and regions will continue to have priority in Norwegian policy for private sector development. As the level of private financing increases and infrastructure measures are carried out, particularly in cooperation with the multilateral development banks, international and Norwegian business and industry will increasingly be involved in this work. This can also open new doors for Norwegian companies." (St.Meld. 35 2004)

Box 2.2: Norwegian development funds

NORFUND

The Norwegian Investment Fund for Developing Countries (NORFUND), set up in 1997, aims to promote private sector development in developing countries by providing venture capital and expertise to new and existing companies. In 2004 NORFUND managed capital totalling around NOK 2.4 billion.

NORFUND is involved in both direct investments and local investment funds. A review of NORFUNDs direct investment portfolio shows no evidence of involvement in the water sector. The Africa Infrastructure Fund (AIF), however, explicitly invests in the water and sanitation sector.

More information: www.norfund.no

Norwegian Trust Fund for Private Sector and Infrastructure (NTF-PSI)

Norway contributed, in 2002, to the establishment of a separate Norwegian fund in the World Bank/IFC for support for the private sector and infrastructure. This fund aims to improve “framework conditions for private sector development in developing countries.”

A key objective of the fund is “to ensure that high priority Norwegian policies in areas such as improving governance, strengthening investment climates and infrastructure services for impoverished groups are better integrated into the World Bank’s overall efforts to strengthen the private sector”.

As of 2004, Norway had channelled NOK 110 million into the fund, with half of the funds earmarked for African countries.

2.5 Other reinforcing structures and institutions

2.5.1 OECD

The OECD’s Development Advisory Committee (DAC) advises member countries and monitors policies. A 2003 paper entitled “Supporting Development of Water and Sanitation Services in developing Countries” by the Development Co-operation Directorate states that DAC members support water privatisation.

Public water utilities are blamed for poor management practice and inefficiencies. The need to reform urban water and sanitation is stated. Financing the reform and operation of water supply and sanitation infrastructure must, according to this report, mobilise private capital and management expertise. It concludes that: “private capital through the commercialisation or privatisation of water supply services can work well.”

At the same time, the paper points out that the outcome depends on monopolies not being abused. Another concern is that “liberalising markets without effective regulatory systems can lead to major problems. Of particular concern is the tendency for private service providers to focus on the wealthier areas, best able to afford their services, while neglecting lower-income areas.” Furthermore cost-recovery is seen as important in reforming tariff structures to enable self-financing systems that are commercially viable. Many poor households are supposed to be able to pay full cost-recovery. To ensure that the poorest can afford water, the use of tariffs with a low price per unit volume of water to a certain consumption level and low cost options should be considered. Consequently, such moderation partly recognises the social drawbacks of a hard line price policy. The DAC advises member countries and monitors policies in different areas, but does not explicitly promote the privatisation of public services (PSIRU 2004).

2.5.2 General Agreement on Trade in Services (GATS)

When the World Trade Organisation (WTO) was set up in 1995, it subsumed the General Agreement on Tariffs and Trade (GATT), a multilateral trading system governing trade in goods that had existed since 1947. Two new trading agreements, TRIPS³, governing intellectual property rights, and GATS, governing trade in services, were also introduced.

The GATS agreement commits WTO members to liberalise trade in services progressively. Since January 2000, services have been the subject of multilateral trade negotiations.

³ Trade-Related Intellectual Property Rights

Under negotiations on GATS, countries can request other countries to open up particular sectors for market access. Once a country agrees to market access, it can no longer support alternative models of service delivery, such as non-profit schemes, even though these may be better suited to meeting the needs of the poor.

Subsidising poorer communities with profits from wealthier areas would also be in breach of GATS rules. Governments would lose the ability to cross-subsidise, while foreign companies would not be obliged to service areas offering poor financial prospects.

Furthermore, when a country has opened its water sector to foreign companies under GATS, it is virtually impossible to reverse the decision. After 3 years, a process can be initiated which involves providing compensation in the form of market access in another sector. However, this has to be approved by all other WTO members who are affected (World Development Movement 2004).

GATS has been described by the European Commission as “first and foremost an instrument of business.” Despite claims by WTO that “great efforts are made to publicise what takes place in negotiations” and that “the texts of all decisions and the proposals made by Governments are available to the public” (WTO 2001), it is difficult to gain a clear picture of negotiations.

2.5.3 Multinational corporations

Multinational corporations are also vital actors in the emergence of the water privatisation trend. The privatised section of the water industry is dominated by a very small number of companies. Three of the four top water companies in the world are French, namely Ondeo (formerly Suez), Veolia (formerly Vivendi) and SAUR. Because the private sector played a minimal role in water supply and sanitation worldwide until the late 1980s,

France stood out as the only major country where private sector provision of water had been a norm for a long time. The French companies therefore had a clear advantage in terms of size and capital resources when the fashion for privatisation started in the 1980s.

Comfortably secure in their home-market dominance, the water corporations, with substantial support from government and extensive political contacts, have expanded their operations worldwide. Ondeo now controls water services in 130 countries on five continents and has about 115 million customers. Veolia has 110 million customers in more than 100 countries. Bernard Maris, professor of economics at the University of Paris VIII writes:

“The behaviour of French companies abroad is that of conquerors, and spelt out the hypocrisy of Western free-trade policy agenda. At the same time, they have enjoyed a century of protectionism, and their home market continues today to be closed to foreign competitors.”

2.5.4 Consultants

In line with the approach espoused by the Camdessus report, the interests of a new type of company have been legitimised, namely consultancies. Aid money is used to hire advisers on WSS reform, including the preparation and structuring of projects in the privatisation process, covering the legal, financial and technical aspects, but also the tendering and negotiating phases. Advisers, such as Pricewaterhouse-Coopers, have a vested interest in promoting the idea that public services need to be privatised, rather than focusing on the limitations of privatisation.

With the World Bank-promoted shift from public to corporate service provision and multinationals giving advice on the process of privatisation, there is a clear democratic deficit. Space for civil society to provide inputs is limited, allowing profit motives to decide the fate of water issues.

3. EXPERIENCES FROM WATER PRIVATISATION IN THE SOUTH

In this chapter, we have selected various case studies in which water management has been privatised. The degree of privatisation varies in each case, ranging from almost full privatisation to partial commercialisation of public utilities.

The case studies in this chapter are mainly related to concessions and management contracts (see box 1.3 in chapter 1). Some of the cases have been initiated and financed locally or by government, but the majority of the cases presented here have received financing from the World Bank.

Examples of service contracts are also included, and at the end of the chapter, examples of small-scale community-controlled projects are provided to illustrate the fact that some types of provision involving private participation can work.

The case studies demonstrate the forces behind water privatisation and the main reasons why water privatisation has generally failed. They also illustrate the contradiction between the pro-privatisation agenda of the international financial institutions and the actual implications of these policies for developing countries.

The cases raise the question of what options are available to make the necessary improvements to achieve the Millennium Development Goals. There is no ultimate solution to the world's water and sanitation problems, but almost all the case studies presented in this report indicate the need to look for other ways to provide water and sanitation than through privatisation and commercialisation.

3.1 Dar es Salaam, Tanzania

From 1996 to 1999, privatisation of Dar es Salaam's water was a condition of the IMF's Enhanced Structural Adjustment Facility and, from 2000 to 2003, it was a condition of an IMF Poverty Reduction and Growth Facility. Continued restructuring and privatisation of public utilities was part of Tanzania's conditions for getting debt relief under the Heavily Indebted Poor Countries initiative. In August 2003, the Government of Tanzania awarded the contract to run the water supply of Dar es Salaam (population: 3.5 million) to City Water, a joint venture of Biwater International,

Germany's Gauff Ingenieure and a local investor, Superdoll Trailer Manufacturers Limited. The \$140m World Bank-funded privatisation scheme was one of the most ambitious in Africa and was intended to be a model for how the world's poorest communities could be lifted out of poverty and ill health.

However, the model has been short on results, both in terms of poverty alleviation and achieving "water for all". In fact the UK water company Biwater has been accused of making less than half the required investment and failing to improve services and water quality for millions of inhabitants in the city of Dar es Salaam.

According to the Tanzanian government, City Water should have invested US\$ 8.5 million during the first two years of operation, but invested only US \$4.1 million. Along with persistent complaints by city residents over poor water delivery and the incompetence of the firm, the Tanzanian government decided to cancel its concession deal with Biwater in May 2005.

"The water supply services in Dar es Salaam, Tanzania and in the neighbouring places have deteriorated rather than improved since this firm took over some two years ago."

Tanzania's water minister Edward Lowassa (2005)

The collapse of the contract throws into question the role of water multinationals in providing water in poor countries in the South. Water companies are to an increasing extent becoming wary of taking on contracts in developing countries, because of political uncertainties and because poor countries have learned to negotiate better deals. City Water admitted that it stood to make little money out of the water scheme. "There is no way we can make super-profits in Dare es Salaam," said Cliff Stone, the British chief executive of City Water, to the Guardian newspaper. "We have been losing money. The plan was to use this as a model for other projects and recoup money later on." Clearly the model failed.

Biwater is attempting to pursue the Government of Tanzania through the

international courts (see box 3.1). The Government of Tanzania risks paying a huge compensation fee to the company out of its

own pocket and the people of Tanzania will be punished for a failed policy, which they did not ask for in the first place.

Box 3.1 UK water company to sue one of world's poorest countries

Campaigners have condemned the UK Water company Biwater for suing Tanzania, one of the poorest countries in the world. Earlier in 2005 the Tanzanian Government kicked Biwater out, just two years into a \$102 million ten year water privatisation contract, on the grounds that Biwater had failed to make even half the required investment or improve services in the Tanzania's biggest city Dar es Salaam.

"This is an absolute disgrace, Tanzania is one of the poorest countries in the world, and now Tanzanian citizens are being punished for being the victims of a failed policy which they did not want. The privatisation, a condition of debt relief, seriously lacked legitimacy. Biwater failed to deliver, with people on the ground reporting that water delivery was getting worse in many areas, with empty taps and Biwater's use of bullying tactics which resulted in mass disconnections.

Benedict Southworth, Director of the World Development Movement (WDM)

"We are in full support of our government in cancelling the Biwater contract and we think it is very unfair of Biwater to sue our government because the burden of paying for this legal case will fall on the people of Tanzania. We are going to start up a campaign to oppose the privatisation of water supplies in our country and for an end to this legal case against us."

Andrew Mushi, Tanzania Association of Non-Governmental Organisations

Source: World Development Movement newsletter Dec 1st 2005, www.wdm.org.uk



Photo: Sigurd Jorde, The Norwegian Council for Africa

3.2 Accra, Ghana

Due to low access to clean water in Ghana, water supply and sanitation plays a key role in the Ghana Poverty Reduction Strategy (GPRS 2003). According to the GPRS, privatisation plays a major part in the achievement of water access for all. Privatisation opponents in Ghana say the privatisation focus in the GPRS results from a government and donor position, which is strongly guided and influenced by the World Bank's framework for poverty reduction (Adam 2006).

Full cost recovery in the water and sanitation sector (among other sectors) is routinely included in loan conditionality. This implies that ordinary people, who are users of the services, have to cover the costs of the service by themselves, including infrastructure, operation and maintenance, and sometimes even the water company's debt. In March 2002, the IMF made it clear that Ghana would only be given a *Poverty Reduction and Growth Facility Loan* if the Ghanaian government approved full cost recovery in all sectors, including the water sector (IMF 2002).

3.2.1 World Bank involvement in Ghana

Three previous urban water projects in Ghana, funded by the World Bank's International Development Association (IDA), provide specific lessons for the country (World Bank 2004). According to World Bank experiences, *a properly designed Private Sector Participation contract in the water sector can make a significant difference in utility sustainability* (World Bank 2004:5). This is contested by NGOs, both Ghanaian and others. At the same time, the World Bank warns that it is important that the expectations raised around a potential Private Sector Participation (PSP) intervention are realistic. Governments and others should see PSP as a process or tool to accomplish specific objectives, *and not as a panacea to rectify years of neglect and poor management* (World Bank 2004a).

The World Bank (2004e) claims that other options were considered, while NGOs in Ghana claim that there was no public input in the process and that only consultants and "experts" were asked to provide inputs. Public-private partnership was unsurprisingly chosen as the best option. For the Ghana urban water project, a public versus private management regime was examined and, once a private sector option was decided, two different PSP interventions were considered.

Over the period from 1973 to 1998, the IDA invested US\$152.4 million to improve Ghana's urban water supply infrastructure. The results from this have, according to the World Bank (2004e), been disappointing. The National Coalition Against Water Privatisation (CAP) said the reason was that the private companies involved in the capacity building (Thames Water, Biwater and SOGEA) were not delivering the services they were supposed to deliver (Adam 2006). The urban water sector remains in a poor condition. Continuing with the public sector only was not recommended and the World Bank and other donors rejected the public option. Other models, such as public-public partnership, seem not to have been considered.

3.2.2 Ghana Water Company Limited and Public Private Partnership

The Government of Ghana has undertaken several key initiatives related to the urban water and sanitation sector. In 1996, the government, in consultation with a *wide range of stakeholders* (World Bank 2004d), started to explore the option of public-private partnership (PPP) arrangements for the urban water sector.

In 1999, GWCL was incorporated as a public, limited liability company. The company assumed responsibility for a large amount of urban potable water supply systems. Under the privatisation process, these were reclassified into larger systems and put in two business units, leased out for 10 to 25 years. A main argument in support of the privatisation of GWCL was that there would be more money for the utility.

3.2.3 The urban water project in Accra

A few weeks after the decision to accept an IDA loan of US\$103 million, the Ghanaian government signed the Ghana Urban Water Project in Accra. The total cost is estimated to be US\$120 million. The Ghanaian government is to pay US\$12 million, and the Nordic Development Fund (NDF) US\$5 million. NDF will support the rehabilitation of existing dams and weirs. The aim of the project is to provide clean water at a price which is affordable for the urban poor. (Fact-Finding Mission 2002). But already, people have been disconnected and dragged to court for not settling their bills (Adam 2006).

The public-private partnership project is intended to improve water accessibility for customers by getting private investors to run GWCL's water systems for five years. The bids for management contracts were finally won by Vitens (a Dutch company) and Rand Water of South Africa in November 2005. They are to take over GWCL management in April 2006 (Adam 2006).

3.2.4 The Price of Water

The price of water is extremely important, not only for those providing the water service, but also for all the people depending on the services. For those without regular access to piped water, three buckets of water cost 600-1500 cedis, which means 10 to 20 % of their daily income. In 2001, the Public Utilities Commission (PUC) increased water tariffs by 96%, and according to the commission this was a consequence of GWCL's lack of ability to cover their costs. If there is an investment in water infrastructure, this will be positive compared to the alternative of buying from water trucks. But the tariffs are still too high for the poor, and whether private companies will be interested in spending money on expanding infrastructure for the poor is doubtful.

3.2.5 The National Coalition Against Water Privatisation

The privatisation process has been met with opposition from civil society. Al-Hassan Adam, leader of *The National Coalition Against Water Privatisation* stated that *it is business of making profits, not to give people some life.*

In Ghana, there has been a broad coalition against water privatisation. In May 2001, the *International Social Development Centre* (ISODEC) arranged an open forum, where both government and civil society organisations were given the opportunity to discuss the suggested water privatisation in Ghana. The result of this was *the Accra Declaration on the Right to Water and the establishment of the National Coalition Against Water Privatisation (the National CAP of Water)*, consisting of teachers, trade unions, public health workers, opposition parties, NGOs, community associations and students.

3.2.6 Critique of the privatisation of GWCL

In 2002, a fact-finding mission publicised a report on the water sector reforms in Ghana (Fact-Finding Mission 2002).

In the concluding chapter of the report, the authors point towards the lack of access to documents that ought to be publicly available, in particular documents on the bidding rounds. The authors criticise the suggestions made by the World Bank concerning privatisation of the water sector in Ghana:

- Cost recovery reduces access to clean water for low-income population groups;
- Division of water and sewerage reduces opportunities to prioritise health issues. Investment priorities and lack of capital will probably result in investment in relatively wealthy local societies. Areas without connection to the piped water system are unlikely to be integrated, leading to further dependency on tank trucks;
- There are no efforts being made to solve the use of tank trucks;
- There is no plan for how to secure access for poor users;
- There are no goals concerning health indicators or poverty reduction;
- The majority of civil society has not been consulted, and has not been integrated into the decision-making process.

The fact-finding mission (FFM) concludes:

“Given the shared objectives among government, parliament and civil society to expand and improve water service delivery, the FFM would recommend that the Government of Ghana continue to keep an open dialogue and consultation with a broad representation of stakeholders regarding alternative approaches to expanding the access to clean and affordable water.” (Fact-Finding Mission 2002)



Water well in Ghana. Photo: Fact-Finding Mission 2002

3.3 South Africa

An integral part of the national wealth and the Freedom Charter in South Africa is water. With the ANC victory in 1994, the party was given an important mandate to fulfil the Freedom Charter. This mandate was also captured in the Reconstruction & Development Programme (RDP). This programme is a social development policy that emphasises state provision of basic services. One of its goals is to ensure that there is a tap within 200 metres of every household in rural areas. However, many people in South Africa now feel that the ANC has abandoned that popular mandate by unilaterally deciding to pursue a water policy that has produced the opposite result (McKinley 2004).

While highly indebted states throughout Africa have had neo-liberal programs imposed on them, South Africa has willingly adopted them. President Nelson Mandela, and even more so his successor Thabo Mbeki (elected in 1999), have both been enthusiastic about neo-liberal policies. In 1993, the IMF granted South Africa a \$700 million loan, on condition of the adoption of neo-liberal policies. Patrick Bond, a professor at Witwatersrand University in Johannesburg, has termed these policies home grown structural adjustment. According to him, South Africans are now forced to deal with self-imposed corporate-controlled globalisation in increasingly desperate ways that meet with increasing repression.

In 1996, South Africa adopted new macro-economic policies, known as Growth, Employment & Redistribution (GEAR). This macro-economic approach placed policies on water and other basic needs within a neo-liberal framework. With this, the South African government adopted World Bank and IMF policies, and at the same time gave in to heavy lobbying by water multinationals, such as Ondeo and Biwater. After this change of policy, the government drastically decreased grants and subsidies to local municipalities and city councils, and supported the development of financial instruments for privatised delivery. This effectively forced local governments to look for privatisation and commercialisation solutions to the water and sanitation sector (McKinley 2004).

3.3.1 Government policy – a neoliberal success?

In 1994, some 14 million of the country's 40 million people lacked access to safe drinking water and some 21 million people were without

adequate sanitation. In 2003, 10 million more South Africans had access to clean water than a decade earlier. Ronnie Kasrils, former Water and Forestry Minister told Africa Renewal in April 2004: "We are really past the international millennium development targets. In the year of 2008, all our people will have access to clean water." This sums up the optimism within government, and the belief that they have taken the right actions to improve the water situation.

The government also introduced a policy providing each family with the first 6,000 litres of water per month for free. If a family consumes a larger amount, it is charged a stepped tariff, which is unaffordable for an average household in South Africa. A common consequence of this is even higher rates of water disconnections. According to Mr. Kasrils, this system was designed to cross-subsidise the very poor. However, there are reasons to question the success of government policies on water, and government critics insist that cost-recovery programmes have rendered water unaffordable for the urban poor. The non-governmental organisation Anti-Privatisation Forum says that the new policies have cut off millions of urban South Africans from their water supply, even though they have a tap in their home. Mr. Trevor Ngwne, an activist from this NGO, says that privatisation of the water-sector is against every South African's constitutional right, because water no longer is provided on the basis of needs, but on the ability to pay.

In urban areas, the cost of water is rising and private companies are installing pre-paid metres that stop delivering water when the payment has been exhausted. The government states that 8 million of the 13 million people who did not have access to clean water when apartheid ended now have access. However, the statistics say nothing about how many people are now disconnected as a consequence of inability to pay. According to Africa Files, approximately 10 million people are affected by the disconnections, and Africa's worst-ever recorded cholera outbreak can be traced to an August 2000 decision to cut off water to people who were not paying a KwaZulu-Natal regional water board.

Access to services has become an explosive new issue in the same urban townships and rural squatter camps that were principal battlegrounds in the fight against apartheid.

During the World Summit on Sustainable Development in Johannesburg in 2002, thousands marched from the tin shacks of Alexandra, past the elegant mansions of Sandton, to protest, amongst other things, water and electricity cut-offs and evictions. Their cry: 'Water for the thirsty. Light for the people. Homes for the homeless...'

In a letter to the Times the week after the World Summit, former water minister Kasrils replied: "We seek, in a practical, non-ideological way, sustainable solutions. We work in partnership with those who can help achieve our objectives. The result is not millions of people cut off." Actually, a 2001 survey showed an estimated 10 million households experiencing cut-offs. Kasrils then described the pre-paid water meter system as an example of how South Africa is harnessing home grown technology for development.' (McKinley 2004). Such meters were introduced en masse in Britain during the 1990s, and by the end of the decade had been banned because they presented a public health risk.

3.3.2 An alternative approach: Public-public partnership

This section is based on Laïla Smith's article "South Africa: Testing the Waters of Public-Public Partnerships" in Reclaiming Public Water (Balanyá et al 2005).

The example of Harrismith shows an alternative to public-private partnership. Harrismith is a heterogeneous community, including both a white town and a black township, with little to connect or integrate the two. Harrismith is located away from core

economic activity. Most households in the area are poor, but the infrastructure is relatively well developed. There is a high rate of unemployment.

By the end of the 1990s, the national government, the Development Bank of South Africa and the Department of Water Affairs and Forestry began to realise that service delivery options needed to extend beyond those offered by the private sector. In the decision making process, the local authorities in Harrismith found that there was little to interest private companies because of the high rates of poverty. It also gave priority to poor households by ensuring that the water service was stripped of profit motives. The council also felt obliged to the constitutional obligations to improve the quality of services to those who had been historically marginalised.

Rand Water Gauteng, a provincial water board, was considered to be the right partner. The risk was seen as relatively small since the contract would be limited to a three-year lease and maintenance. They began negotiating the agreement in 1999, and it took 18 months to complete, at considerable cost to both parts, but it ensured the support of the people of Harrismith. Rand Water carried the commercial risk. The local authority was guaranteed five percent of the revenues to pay for non-profitable services such as libraries. No more than five percent was allowed to go to Rand Water in management fees. There was a monthly feedback meeting, with a wide range of stakeholders present. In this way, local people played a major part in decisions regarding tariffs and employment in the water company.



Checking a water meter, South-Africa. Photo: Sigurd Jorde, The Norwegian Council for Africa

3.4 Manila, the Philippines

The Philippine government has failed to invest in building a water supply and distribution system that provides safe, adequate and affordable potable water to its citizenry. Particularly in Metro Manila, problems of discontinuous water supply, leakages, pilferage and millions not being connected to the piped network system have been severe. The private sector, commonly perceived to be more efficient and less prone to political manoeuvrings than the government, was seen as the answer to the problem.

In 1984, the IMF and the World Bank withheld the release of scheduled loans to pressure President Marcos to implement economic, fiscal and political reforms, including privatisation. Since then the Philippines has been one of the developing countries that has gone the furthest in terms of privatisation.

3.4.1 High expectations

In 1997, the Maynilad Water Services, Inc (a partnership between French Odeo and the national Benpres Holdings) and the Manila Water Company, Inc. partnership emerged as winning bidders for the Metropolitan Waterworks and Sewerage System (MWSS) concession's West and East Zones, respectively. The World Bank hailed the privatisation as the first large-scale water supply privatisation in Asia.

The privatisation was not a coincidence, but a clear result of conditions laid down by the World Bank and Asian Development Bank (ADB) for further loans. Moreover, French consultants had been contracted to study how MWSS could be privatised. As designed by the consultants and the IFC, the MWSS privatisation took the form of a concession contract: private companies would manage and use existing facilities to provide water and wastewater services to Metro Manila residents, in exchange for revenues gained from users' fees.

The objectives of the privatisation were better water management and services, lower costs of water services and debt payment. A range of performance targets were stipulated in the Concession Agreement, including lowering of water rates, uninterrupted water supply to connected consumers, virtually universal water supply by 2006, and the reduction of water losses from 56% to 32% in the first 10 years.

3.4.2 Unfulfilled promises

By 2001, Maynilad faced severe financial problems and succeeded in renegotiating the concession contract, which in fact undermined the whole premise of privatisation by 1) erasing the agreed-upon standards by which to evaluate the performance of the two water companies and 2) violating the processes that should have governed price increases. The contractual changes allowed the water firm to recover foreign exchange losses in a much shorter period of time than that agreed upon in the contract. These foreign exchange losses were to be recovered from consumers in only 15 months.

In fact, the failure of Maynilad to live up to its contractual commitments had been predicted prior to the signing of the contract. The Ramos administration had hired consultants from the IFC whose crucial observations showed that the company's targets for non-revenue water reduction, and therefore revenue generation, were unrealistic. Yet, IFC accepted the bid of Manila Water as feasible as if taking for granted that somebody would shoulder the financial consequences of these gaps.

As a result of the renegotiation of the contract, water rates rose by more than 60%, and Maynilad continued to charge consumers the high rates even after the foreign exchange losses were covered.

3.4.3 Cholera and increased water rates

Maynilad showed poor performance in the following areas:

- water rates increased by 253% between 1997 and 2003, even though lower rates were promised in the original contract
- water services remained very poor
- there were illegal fee collections
- irregular water distribution – rich communities had 24-hour supply while several poor communities only had erratic supply
- the actual performance was far below targets
- mismanagement of funds - the concessionaires used huge amounts of money in media campaigns and to pay foreign consultants, in partnership with World Bank and ADB, without being able to deal with the problems of polluted water, illegal connections and leaks
- displacement of workers – only 54,4% remained in the service

- outbreaks of cholera and gastroenteritis because of contaminated water.

3.4.4 Ondeo terminates the contract and leaves a huge public debt

At the end of 2002, Ondeo announced that it was withdrawing from its contract in Manila and, in February 2003, the concession was officially terminated. Ondeo is claiming \$303m compensation for its investment through the International Arbitration Panel (IAP). However, in November 2003, IAP issued a ruling that instructed Maynilad to immediately settle unpaid concession fees. This has still not been done.

In fact, the MWSS privatisation has resulted in rising debt rather than fiscal relief. In 1997, the concessionaires agreed to pay regular concession fees to cover MWSS' old debts; hence the claim that privatisation would free government from its financial difficulties. Just the opposite has happened. Maynilad now owes the government more than PhP 10 billion in overdue concession fees.

Facing a financial crisis, Maynilad is seeking corporate rehabilitation in the national courts. It is clear that the privatisation of the water and sanitation services in Metro Manila has not served the poor.

Maynilad failed to improve the performance of the MWSS in Metro Manila, neither reducing tariffs nor expanding connections to the poor. A survey conducted by the MWSS Regulatory Office and the World Bank in 2000, entitled the Public Assessment of Water Services Project¹, revealed that 67% of the 10,000 household respondents felt water services had neither improved nor become worse after privatisation. The same survey registered a poor rating for the quality of service in more than 50% of the communities surveyed.

Maynilad failed to improve fiscal revenue, instead causing a huge public debt and requiring substantial additional financial guarantees and loans from the World Bank and other creditors in order to run its service.

The case of Maynilad shows that the need for cost-cutting measures to ensure profit has come at the expense of public health and sanitation concerns. In October 2003, around

600 residents of poor communities in the Maynilad concession area fell ill from gastrointestinal diseases due to contaminated water.

The progressive tariff structure is worthless for the poorest that are not even connected to the piped network. The connection charges of more than PhP 4000 remain prohibitive for large numbers of poor households.

Box 3.2 The Philippines: A Water code protecting private interests

"In the Philippines we have the Water Code which allows non-government and government entities to apply for water permit, meaning that they can draw water privately from water resources. In the last years many private companies have applied for permits. In one community where indigenous people traditionally have used the water for free, a mining company applied for permit. Now the indigenous people have to pay for the water. This is violation of our right to our resources! Especially as we have a law that ensures free, informed and prior consent of indigenous people. In the past the mining company has polluted the water, and now they want to privatise the remaining clean water. First they should recover the polluted water and then be prevented from further permits. When the people complained, they were told to apply for their own permit. When they did, they were denied. This is an example of privatisation of the water resource itself, compared to privatisation of for example pipelines."

Joan Carling, chairperson of the Cordillera Peoples' Alliance, The Philippines



Manila Bay, the Philippines. Photo: The Norwegian Development Fund

3.5 Buenos Aires, Argentina

In July 2002, Ondeo terminated its World Bank-backed 30-year contract to provide water and sewerage services to the city of Buenos Aires. The financial meltdown of Argentina's economy meant that the company would not be able to maintain its profit margins. To make matters worse, the company also left a mess behind it. During the first eight years of the contract, weak regulatory practices and contract re-negotiations that eliminated corporate risk enabled the Ondeo subsidiary, Aguas Argentinas S.A., to earn a 19 % profit rate on its average net worth. Water rates, which the company said would be reduced by 27 %, rose by 20 %. 50 % of the employees were laid off, and Aguas Argentinas reneged on its contractual obligations to build a new sewage treatment plant. As a result, over 95 % of the city's sewage is now dumped directly into the Rio del Plata River.

3.5.1 Water privatisation as the only solution

The Argentine government had been under heavy pressure from the IMF and the World Bank, as well as from factions in the domestic political arena, to privatise the water in the capital of Buenos Aires. The privatisation of the Buenos Aires utility in 1993 was part of a wholesale auction of state assets to foreign and Argentine businesses in response to a national state of financial crisis and the consequent prescribed solution by the World Bank and IMF: privatisation. Furthermore, President Menem went ahead and privatised state assets without the approval of Congress.

When the Argentine government was about to privatise the water and sanitation system in Buenos Aires, they announced the concession winner would be the bidder who promised the greatest reduction in water rates - with the provision not to increase rates for 10 years and make commitments for greater investments in public works. However, these official requirements were a public sham and obscured "undercover" moves by the government to attract foreign business. Following privatisation by the winning bidder, Aguas Argentinas, prices were indeed reduced by 26.9% and the company appeared to have honoured its contractual commitments. However, the reduction can be seen as contrived due to the fact that, just prior to privatisation, considerable price increases were introduced by the Menem government to make the concession more appealing to private operators. In 1991, having targeted the waterworks for privatisation, the government

drove up water rates by 25% in February and then another 29 % in April. The following year, it added an 18% sales tax and raised the rates another 8%. Thus, in effect, the company had simply rolled back huge rate increases imposed just before privatisation.

3.5.2 Renegotiation and cherry-picking

A year after the concession began, Aguas Argentinas argued that it needed to increase its prices because the government was making new extra-contractual demands, including a requirement that very poor neighbourhoods receive services immediately. Moreover, the company claimed that the information at the time of the bidding process was inadequate. The state of the public water company was apparently much worse than anticipated. For these reasons, their costs would have to increase by 15%. An additional price hike was granted: 13.5% in charges for consumption, disconnection and reconnection plus a 42% increase in an infrastructure surcharge. Further renegotiation of the contract allowed Aguas Argentinas to build sewage infrastructure at a slower rate than water infrastructure. It should be noted, that removing and treating sewage costs about twice as much as providing water, while the rates charged for both services were the same. So, in the process, Aguas Argentina expanded the more profitable network at a faster rate than the less profitable one.

Generally, the privatisation of basic services leads to an "apartheid" situation because the corporations or firms engage in "cherry picking" of profitable services. This severely undercuts the capacity of governments to foster redistribution and equity through cross-subsidies. In fact, the World Bank has been an active promoter of this type of "cherry-picking" with the intention of making the water sector attractive to and profitable for foreign private investors. Beginning in 1993, World Bank-backed policies began to segregate the potentially profitable urban water sector from the unprofitable rural water and sanitation sector.

3.5.3 Lack of regulation and failed promises

The authority of ETOSS (Ente Tripartito de Obras y Servicios Sanitarios), the government agency created to regulate Aguas Argentinas, was severely undercut by the Menem administration - and instead more power was placed in the hands of political allies in the ministries. When ETOSS levied \$16 million in fines against Aguas Argentinas for missed

commitments, the government was quick to cancel \$10 million of the fines as part of a new contract. According to ETOSS director Cevallo, Aguas Argentinas had built only about a third of the new pumping stations and underground mains it had promised to complete by 1997. It had invested only \$9.4 million of a promised \$48.9 million in sewage networks.

3.5.4 Public resistance and lay-offs

In Buenos Aires, privatisation was initially opposed by the labour movement, but this came quickly to an end with the so-called Programa de Propiedad Participada (PPP), which offered unions a 10-percent stake in the new company. The PPP "was intended to buy the consent of former public water company workers for the concession," an article prepared for the Inter-American Development Bank stated baldly in 1998. In fact, about half the waterworks' 7,200 employees lost their jobs as a result of privatisation.

3.5.5 Compensation for risky business

The Argentine Crisis cost Ondeo over 8% of its international water business. Contractual clauses had permitted Ondeo to link prices in Buenos Aires to the US dollar, but crisis legislation ended this dollarisation. In order to weigh up for the losses, Ondeo unilaterally suspended its investment obligations and, together with French officials, started an intensive lobbying campaign to persuade the Argentine government to carry the financial burden of the crisis on the basis that the contract had a clause "guaranteeing a fair

remuneration on capital employed (US Dollar equivalent)".

In addition, the company has launched arbitration procedures at the World Bank's International Center for Investment Disputes (ICSID) where it points to a clause in the contract which guarantees it fair remuneration of capital invested. If the company wins the lawsuit, the Argentinian government will have to pay 1.7 billion dollars for lost investments.

ETOSS, in turn, has fined Aguas Argentinas several million pesos for not fulfilling its contractual obligations, such as providing a reliable service to the citizenry and maintaining water pressure.

It remains to be seen who will pay for the financial losses of the private company. Those who have already paid their unfair share to the corporate-run water service are again the poorest.

International Centre for the Settlement of Investment Disputes (ICSID)

The World Bank incorporates the international arbitration court – the International Centre for the Settlement of Investment Disputes (ICSID) - which is responsible for hearing claims by multinationals after termination of concessions. In practice, this gives investors the opportunity to sue the government of the host country.



Photo: The Norwegian Development Fund

3.6 Cochabamba, Bolivia

Cochabamba in Bolivia is probably the best-known example of a successful popular struggle against the privatisation of water and sanitation. Cochabamba municipal water and sewerage services, SEMAPA, were privatised in September 1999 and sold to Aguas del Tunari after World Bank pressure (Cómes & Terborst 2005). The American corporation Bechtel controlled Aguas del Tunari. The contract with Bechtel was at first illegal and was therefore kept secret, but a pro-privatisation law (Law 2029), drafted by the German development agency, made the contract legal.

While Bechtel made a massive profit, with 15% in real return (Cómes & Terborst 2005), the people of Cochabamba had to bear the burden of a dramatic increase of the water tariff. The people of Cochabamba chose to act, and, at the end of 1999, they mobilised in response to the disastrous record of the American corporation Bechtel. Civil society groups, trade unions, farmers and water committees formed Coordinadora del Agua y de la Vida, meaning Coalition for Water and Life.

The demand of Coordinadora was a modest tariff reduction, but this was denied. With this rejection, the popular pressure increased, and 50,000 people demanded the end of privatisation. In April 2000, the water war culminated in a week-long general strike that shut down Cochabamba and triggered heavy government repression. This resulted in hundreds of people being injured and a 17-year-old boy being killed. On the 11th of April the government conceded defeat and Aguas del Tunari fled.

3.6.1 What next? After the Water War

Six years have passed since the water war. The demands from Coordinadora were met, and SEMAPA returned to its former municipal control. SEMAPA stands as a proof that popular struggle can indeed open paths for viable alternatives to privatisation. On the basis of a participatory process, civil society organisations and other groups developed proposals for the reformation of SEMAPA.

The process of the reformation of SEMAPA proved difficult. But, in April 2002 the first free election for the board of SEMAPA was held.

The residents of the southern, central and northern areas of the city elected three out of four board members. And for the first time in history, SEMAPA's trade union had a permanent seat in the board. Public participation has, however, been minimal, and political interference has been high, especially by the New Republican Force and the Cochabamba mayor.

3.6.2 Financing

SEMAPA's biggest problems are related to lack of finance, interference by state institutions, party politics, corruption and conditions imposed by international financial institutions (IFIs). As a result, progress in improved access to water and sanitation has been slow. The expansion of services to the urban poor and the increase of water resources are made difficult by many reasons. For example, SEMAPA inherited debt from previous owners, and most IFIs are unwilling to invest in Cochabamba because they disagree with the idea of a public company. IFIs will only invest in Cochabamba with stringent conditionalities, such as creating a semi-private company. This would totally reverse the outcomes and gains from the water war.

In spite of this, the Inter-American Development Bank (IADB) granted a loan. The conditions are, however, restrictive. In the first phase, IADB will grant a loan of US\$3.8 million. This amount will go to capacity building, reduction of leakage and management reform. 40 % of the amount is to be spent on external capacity building by the multinational consultancy company Gerentech. In October 2004, one year after the contract was signed, Gerentech had not done any substantial work for SEMAPA. This delays the progress of the loan (Cómes & Terborst 2005).

In the second phase of the loan, IADB will grant a US\$13 million, and this amount is earmarked for the expansion of piped water to the southern zone of Cochabamba and other improvements. The loan will only be released if the first phase is completed. SEMAPA is on track to fulfil its part of the contract, having reduced unaccounted-for-water by 18-19% from a level around 60% (Cómes & Terborst 2005).

Box 3.3 Urgent call to help stop water privatisation in El Alto Bolivia

Clean and affordable water is a basic human right, but right now, citizens in El Alto, Bolivia are struggling to protect their water supply from privatisation by multinational corporate giant, Ondeo. The community is asking for a Public-Social Company, controlled by the mayoralties of El Alto and La Paz (also served by Ondeo), to be set up. Its management would include Neighbourhood associations and the Deputy Minister for Basic Services. The people have been protesting with hunger strikes, blockades and civil disobedience, including the refusal to pay water bills. They have rejected the government's proposal to create a supposed "New Model" of a public/private partnership, where Ondeo would continue to hold 35% of the shares.

The government decided to cancel the contract because the company, Aguas del Illimani (Ondeo is the major shareholder), failed to deliver water to 200,000 people in El Alto, and had no plans to do so in the future. The people demanded the immediate withdrawal of Ondeo from Bolivia, and for the government to make an intervention in the company to investigate how it was being run. While the former government refused this demand, the newly elected government, headed by Evo Morales, is now counting the days until Ondeo's departure.



Demonstration, World Water Forum in Mexico, 2006. Photo: Andrew Preston, FIVAS

3.7 Kibera Slum, Nairobi, Kenya

3.7.1 *The situation in Kibera*

Kibera is an urban slum settlement in the Kenyan capital, Nairobi. The slum has an estimated population of 500,000 people and is one of the most densely populated informal settlements in Sub-Saharan Africa. There are nine villages in Kibera. Nearly all the households are owned by absentee landlords and are rented to lower income groups, who cannot afford other forms of housing in Nairobi. The houses often lack basic amenities, such as safe water for domestic use, and have poor sanitation. Access roads within the slum are in bad shape while waste is haphazardly dumped, blocking all drainage trenches. Any available piece of land has been utilized, causing serious overcrowding.

3.7.2 *Experiences with commercialisation of water and sanitation services*

Through their own initiatives and with facilitation from non-governmental agencies, the community in Kibera has started projects in water and sanitation. In the water projects, the community has been able to lay infrastructure, including steel water pipes, water tanks and central water points (kiosks) where members of the community can obtain their water at a small fee. In sanitation, modern latrines with bathroom facilities have been constructed. Concrete drainage trenches have also been put up to carry away waste and storm water from the slum.

The major drawback for Kibera residents has been the erratic nature of the water provided by the Nairobi City Council. It is not uncommon to go without water for weeks and months. There is also the problem of commercial water vendors. While the community projects heavily subsidise the water they provide, commercial vendors are uncomfortable with the low prices that the projects charge, and see the projects as a threat to their lucrative water business. They have, in the past, threatened to vandalize the projects unless the price is increased. They have already succeeded in forcing the prices to be adjusted upwards from Kshs 1 to Kshs 2 per 20-litre jerry-can. The vendors sell their water at prices ranging from Kshs 5 to Kshs 10

per 20-litre jerry-can. These vendors are also alleged to be working in cahoots with Nairobi City Council officials to avoid paying for their water and hence maximize on their profits.

While most of the community projects have been relatively successful, those initiated by government and other agencies have failed. For example, the World Bank initiated a grand multi-million project to provide water to Kibera in 1996. Although pipes were laid out in the entire slum, the project has not delivered a single drop of water to Kibera residents. No explanations have been forthcoming and the project has remained a white elephant. Residents have pursued the matter with the Nairobi City Council but its officials claim they cannot take over the project as it falls outside their jurisdiction and advised residents to raise the matter with the World Bank.

In all these efforts, the Government of Kenya has maintained a studious silence. However, a few months ago, the government expressed intent to demolish the slum and put up new houses in what has been referred to as 'slum modernisation'. Residents are opposed to the housing scheme because it will interfere with the projects that they have established in the slum. To construct new houses will mean heavy earth-moving machinery will be used to dig up the pipes that have taken many years and huge individual commitment to lay. Sanitation facilities will also be demolished. The government is not even talking about compensating the community for their projects. There are fears too that once the new houses are complete, water services in Kibera will be commercialized and only the rich will be able to afford water. Residents feel that the government is pursuing commercial interests at the expense of the welfare of the slum community. The era of community projects providing affordable services in Kibera will have been brought to a premature end.

(By Samuel Waweru, African Reference Group on Water (ARGOW))

3.8 Uganda

Between 1986 and 1997 the Uganda National Water and Sewerage Corporation (NWSC), with the help of international donor support, embarked on major rehabilitation and expansion of its water supply and sewerage systems. However, managerial practices were not improved, so poor service provision continued despite improved infrastructure.

3.8.1 Reforms of the management

In 1997, a new board of directors for NWSC was appointed. From February 1999 onwards, NWSC management has sequentially implemented a number of programs. More autonomy was transferred to the Area Service Providers, along with defined performance targets and accountability for results. The Government of Uganda introduced a performance contract with NWSC to increase NWSC's accountability for results and provided the utility with incentives for good performance. In turn, NWSC initiated internal performance-based contracts with local bodies. In 2002, automatic tariff indexation was introduced in order to keep tariff levels in line with levels of inflation. In addition a "Stretch-Out Program" resulted in a higher level of commitment from the employees by improving internal communication and setting tougher performance targets and corresponding incentives. Recently, "One-Minute Management" was introduced, which aims to further enhance an individual's accountability for achieving targets (World Bank 2005b).

3.8.2 Enhanced performance from learning

In Uganda the short-term contracting-out of the management of Kampala's ailing water utility between 2002-2004 dramatically improved coverage, collection and productivity. Public sector managers were then able to take these lessons to other urban areas to make further improvements to Kampala's water supply.

Complementary to the internal programs, NWSC realized the need to engage the private sector in its operations. As an initial move to involve the private sector, the NWSC outsourced some of its non-core activities, including grass-cutting, building maintenance, vehicle repairs and guard services.

Then, management engaged the services of a management/service contractor (Ondeo Services Uganda Ltd) for the Kampala Water Supply and Sewerage Area, accounting for over 70% of the Corporation's business. After two years, NWSC took back full management of Kampala Area in March 2004.

The result of the above mentioned initiatives was a turn around in the performance of the Corporation, with higher efficiency levels and improved service delivery to customers.

The combined effect of the investment programmes and the above mentioned strategies have enabled the NWSC to attain the following performance standards (www.nwsc.co.ug, June 2005):

- The service coverage for water in its areas of operation is about 68%. This is a marked improvement from 10% in the early 1980s.
- Growth of connections has been an average of 7,000 per annum in the last 3 years, a growth of 14%.
- The number of inactive/suppressed accounts in the system is about 14% of the total number of accounts.
- The collection/billing ratio (total collections against total billings) is currently 79%.
- Of the total number of accounts, 98% are metered.
- In all the areas served by the NWSC, customer care has been emphasised. All areas now have customer care front desk officers who promptly handle customer complaints and disputes.

The Uganda case shows that private actors can play a role in order to achieve water and sanitation goals in a cost-efficient way. But the condition is a competent public authority with the ability to govern private actors and learn from experiences of cooperation with private enterprises. Uganda is an example of a rather successful public-private partnership, but it is not easy to copy. Still, the Uganda case may give inspiration to other developing countries in how to engage private actors and still keep public control. The first step is to develop a well-functioning public authority.



From Rwenzori mountains, Uganda. Photo: Svein Erik Haarklau, WWF Norway

3.9 Olavanna Village, Kerala, India

Olavanna is a village situated in the northern part of Kerala state in India. In Kerala the local village governments (panchayats) prepare and implement their own development plans with active participation of the people (People's Plan Campaign). A joint initiative from the government and the people has now provided water to the population of Kerala.

The conditions for water access to safe drinking water are not very good in Olavanna. A river flows across the village, but the water is salty and cannot be used for drinking. In many places, wells cannot be dug due to the hard rocks underneath. The population of Olavanna in the 1990s was 45,000. Almost 70 % of households suffered drinking water shortages. Even those who had wells were deprived of drinking water, as the water was salty and there were droughts in the summer. There were few schemes organised by the state government agencies. 45 taps and 42 house connections were in place, but as many as 30 of the taps were not working. The expansion of the nearby city brought more people to the village, thus adding to the drinking water scarcity of the village. Every election in the politically active state Kerala has been fought on the drinking water issue, but, although promises were plenty, no solutions were found.

3.9.1 *The first initiative*

Slowly, people in various hamlets began to unite. The hamlet Vettuvendankunnu, with a large number of poor, had only a little drinking water for a long period. People, especially women, had to carry water down from the hill because the well of the panchayat was dry. Under the leadership of the elected representatives of the panchayat, women, children and men marched to the district collectorate with empty pots and vessels. Eventually, funds were allotted for a small drinking water project for the hamlet. People then formed a beneficiary committee; one of the members donated land for the well and another for the water tank. The committee decided to take over the responsibility of managing the water supply.

The success of the people in Vettuvendankunnu hamlet triggered a series of initiatives. At this point the government of Kerala decided to implement a People's Plan Campaign with decentralised planning. The state government decided to devolve 35-40 % of the state outlay to local self-governments and initiated a campaign to mobilise people in planning,

implementing and monitoring the development projects in their own locality. Thus, the funds devolved to local self-governments were to be used for local needs and proposals from the population.

People in Olavanna began to get organised. In every hamlet, meetings of the potential beneficiaries were conducted under the leadership of village panchayats, and people discussed the drinking water scarcity problems and possible solutions. The beneficiary committees manage the projects for providing good potable drinking water. The committee also pays the wages of the pump operator. They also monitor the supply of the water and ensure the maintenance. In addition, they monitor the water usage of the households.

People pay for their share, not only in terms of money, but also with physical labour. Every month, each household spends a little under a dollar, and every year the audited accounts are presented. It should be noted that the local people by themselves are skilled at the relevant tasks. So far, they have not sought help from engineers or technical experts and have not experienced any problems with their own technology.

Olavanna village has now a total of 60 new drinking water schemes, of which 34 have the support of the village panchayats and agencies related to them. 26 of them have been initiated only by the people. At July 2003, piped water was provided to 64% of the Kerala population, but there are big differences in coverage between regions.

3.9.2 *The success story and learning points*

In this case, initiatives from the people, together with the involvement of the local panchayats and the support of the state government, were successfully able to address the problems of the scarce drinking water in Olavanna. Moreover, all classes of people, irrespective of religion, caste, economic status and political affiliation, participated. The Olavanna initiative lessened one of the major burdens women have had to face all their lives for many years.

The case shows that there is a need for more decentralisation of the implementation of development activities. Olavanna has proved that instead of mega-projects, micro-level projects with small water sources are the ideal. The case shows that people have the capacity

to do things themselves. An analysis of the Olavanna model shows that management costs are much lower than state-run mega-projects. If given powers, the local community is willing to supplement local resources, including capital and recurring costs. The local population can handle most of the technical issues in such projects. The ownership of the projects adds to water literacy and is important to ensure proper monitoring and maintenance of the water schemes, and also prevent misuse of water.

The Olavanna model suggests that state-run models and privatisation can be replaced with people-owned models. The model is, in fact, a form of privatisation in the sense of increased private participation, but obviously very

different from the type of privatisation involving take-overs by water multinationals. It is notable that the state does not shy away from its responsibility of providing safe drinking water, but the state see its role as helping people own and manage their own drinking water projects, with the state supporting local people through support to village governments. Through its devolution of funds to the local self-governments, the state actually brings the government closer to the people. Along with funds, it also provides scope for people to decide themselves, thus it becomes an empowerment process where the state also plays a major role.

Source: Joy Elamon in Balanyá et al 2005



Water source. Photo: The Norwegian Development Fund

3.10 Case study findings

3.10.1 Lack of regulation & democratic accountability

With a transfer of ownership from the public to the private sector, the mechanisms used to ensure accountability and transparency in a democracy are significantly weakened, as these are not built into corporate structures. Unlike public utilities, private companies are accountable to their shareholders, not citizens. Thus, citizens have few avenues to voice dissatisfaction with broken promises.

Privatisation is often decided upon and implemented without public scrutiny and under authoritarian measures. Contracts are often worked out behind closed doors and kept secret from consumers. Generally included in the deals are guaranteed rates of return for the company and exclusive distribution rights for up to 25-30 years.

The take-over of public utilities by a foreign investor, which is expensive and potentially illegal to reverse (ref. GATS), puts into question the future of democratic principles of accountability and freedom of choice. The shift in structural power also weakens the ability of public bodies to regulate private investors.

3.10.2 Public resistance

The case studies show that water privatisations are often followed by public opposition and popular protests. The unpopularity of water privatisation has made it difficult to implement in democratic and transparent ways. The fact that political leaders refrain from promoting water privatisation in their electoral campaigns, due to fears of a backlash, is a sign of the strong popular opposition.

3.10.3 Higher prices

One of the leading arguments offered by proponents of privatisation is that private management or ownership of water systems will reduce the water prices paid by consumers. Ironically, experience has shown that all too often privatisation leads to higher costs for water and water services. Without a doubt, the losers in water privatisations have been the poor.

3.10.4 Policies in contradiction with experiences

Despite the failure of the privatisation paradigm to represent a real solution to the water crisis, the international financial institutions and rich

countries still seem to pursue water privatisation as a viable prescription. This is despite the fact that multinationals themselves are retreating from what they see as too risky investment environments and transferring resources to "core countries", away from vulnerable LDCs. When multinationals receive public subsidies to encourage continued expansion and investment, this contradicts the liberal economic doctrine itself - where subsidies are banned and competition in the market place is the norm.

3.10.5 Corporate monopoly and corruption

With private corporations often gaining control over water and sanitation services in cities in the developing world after fairly uncompetitive and corrupt bidding processes and with minimal accountability to local citizens, privatisation can hardly be justified on the grounds of advancing competition, efficiency and transparency. Publicly regulated monopolies have simply been replaced by private foreign-owned monopolies.

3.10.6 Cherry picking

The privatisation of basic services often leads to an "apartheid" situation because companies engage in "cherry picking" of the most profitable services. This severely undercuts the capacity of governments to support redistribution and equity through cross-subsidies. The World Bank has been an active promoter of this type of "cherry-picking" with the intention of making the water sector attractive to and profitable for foreign private investors.

3.10.7 Public subsidies to pay for corporate risk

Multinationals are increasingly concerned with the perceived risks of operating in developing countries. The most important aspects of this include currency risk and political risk, both of which have been painfully illustrated in Argentina. Problems of currency risk have also been experienced acutely in Manila, while political risk remains real in the wake of the Cochabamba uprising and signs of continuing strong resistance to privatisation. In Ghana, the main concern has been the insecure flow of revenues from users or payments from the government.

3.10.8 Renegotiation

Privatisation contracts are supposed to determine and regulate what will happen. Yet the case of Manila shows how easily the company can renegotiate the contract when conditions change. In the words of a manager of a French multinational, “we will sign any contract on day one. On day two we will start to renegotiate it”.

Multinational companies have a huge advantage over public authorities because they have negotiated these kinds of contracts many times before and can afford better lawyers. The notion of the contract as a stable, regulatory reference point for private operations crumbles away in the face of reality. Maintaining the interest of private companies requires a weak regulatory framework.



Photo: The Norwegian Development Fund

4. CONCLUSIONS AND RECOMMENDATIONS

In this report, we have documented how international financial institutions and other donors have promoted privatisation as a strategy for financing water services in developing countries. We have also shown the largely negative effects of privatisation on water users and the provision of water services in these countries.

This chapter sums up our conclusions and policy recommendations to the Norwegian government to ensure improved provision of water to the poor.

4.1 In general, privatisation has failed

The World Bank and the international donor community have promoted privatisation as the main solution to the water crisis for more than a decade. But the impact of privatisation on water needs in developing countries has generally been negative.

1. Water privatisation has failed to deliver to the poor:

- A. One of the principal arguments offered by proponents of privatisation is that private management or ownership of water systems can reduce the water prices paid by consumers. Ironically, privatisation and commercialisation have led to higher costs for water and water services, in many cases making water unaffordable for the poor.
- B. Privatisation has contributed little to the extension of water networks, particularly in poor neighbourhoods which companies do not deem economically attractive for investment.

2. Water privatisation has undermined the human right to water:

Access to sufficient water for basic human needs should be considered a human right, and is in some countries secured by the constitution. An aggressive cost-recovery policy focused on securing revenues has been promoted at the expense of the human right to water.

3. Privatisation has taken place at the expense of democratic principles and with minimal accountability to local citizens:

- A. Most of the privatisation has taken place in a top-down manner, either through

authoritarian decisions at the presidential level or through strict conditionalities imposed by international financial institutions and donors.

- B. Few political decisions have caused so much civil unrest as the privatisation of water. All over the world people have risen up due to price hikes and poor water delivery in the aftermath of water privatisation.

4. Privatisation leads to foreign control and monopoly:

- A. “Uncompetitive” and corrupt bidding processes are the rule rather than the exception. Privatisation can hardly be justified on the grounds of spurring competition, efficiency and transparency.
- B. Publicly regulated monopolies are simply being replaced by private foreign-owned monopolies.
- C. The public sector is generally unable to compete with private bidders, since multinational companies have been “subsidised” and prioritised by international financial institutions.

5. Developing countries have not proven profitable for multinationals:

- A. As a consequence of lower than expected revenues, currency fluctuations and resistance from local citizens, multinationals are finding it less attractive to invest in developing countries.
- B. When private investors have withdrawn from projects in developing countries, they have often left behind chaos and a worn-down infrastructure in the water supply and sanitation sector.

6. With strong and competent public authorities, private actors may have a role:

- A. It is necessary to develop a competent public authority on water and sanitation before private companies are involved.
- B. Contracts must be well-designed to ensure public control, and be relatively short-term.
- C. Transfer of improved management practices to the public operators should be an aim.
- D. Cooperation between public authorities and local initiatives by users of water and sanitation services can turn out to be successful.

4.2 Policies ignore experience

Despite the failure of privatisation to represent a real solution to the water crisis, the World Bank and the international donor community still seem intent on pursuing water privatisation as an important prescription to the problem.

According to its strategy papers, the World Bank's loan policies still favour the private sector due to scepticism towards the efficiency of public utilities. This is further underlined by new forms of support for the private sector, such as subsidies and risk guarantees to stimulate more investment.

Additionally, a majority of Poverty Reduction Strategy Papers (PRSPs) mention privatisation as an important tool for improvement in water supply and sanitation. The World Bank's strategy also has a wider impact due to the institution's position at the centre of a web of actors promoting privatisation in the water and sanitation sector.

The case study findings in this report contradict the World Bank's portrayal of privatisation as essentially sound and its claim that the problems do not undermine the basic rationale of privatisation.

The Norwegian government, while insisting on the need to safeguard the rights of the poor and increasingly sceptical towards privatisation, continues to provide substantial financial and moral support to institutions, such as the World Bank, that actively facilitate and promote privatisation as a strategy. A disharmony exists between Norwegian development policy and the reality of its support to these institutions.

However, the Norwegian government's announcement of its withdrawal of demands to LDCs to open up their water sectors to market access, at the ministerial WTO meeting in Hong Kong in December 2005, will hopefully encourage other countries to follow suit.

4.3 The way forward

Viable alternatives to privatised water delivery from multinational corporations in developing countries certainly exist. When state-run water utilities have proven ineffective and inadequate, the question is not whether public water management works, but rather how it works. Due to the strong bias in favour of water privatisation internationally, too little attention has been paid to other solutions. As more and more privatisations have led to social and

environmental disasters and an increasing number of multinationals have withdrawn from developing countries, the need for re-investment in and restructuring of public water utilities is obvious.

Several models have emerged in response to inadequate water provision. Many of these examples show that financing water does not necessarily require international capital. In effect, many communities and governments manage to mobilise their own resources to restore and run their water utilities.

Public-public partnerships are emerging in increasing numbers and involve close cooperation between publicly owned water and sanitation services. In Recife, a northern city of Brazil, a new entity, Recife Municipal Department of Water and Sanitation, has been set up to improve water delivery in partnership with the state company. This model shows successful results.

Cooperatives have proven very efficient in reaching out with water to the poor. In Santa Cruz in Bolivia, the cooperative Saguapac reaches 80% of households and is said to be more efficient and transparent than the private company in La Paz.

So what is the key to success among these new, wide-ranging models for water provision? Citizen and user participation in various forms seem to be a key ingredient in order to achieve transparency, efficient improvements, equality based delivery and social achievements in the water sector.

The success story of the water utility in Recife would never have taken place were it not for mass participation by its citizens. In fact, when the public water utility showed poor results, the Labour party mayor in Recife at the time decided to open up for a deliberative process so that all Recife's citizens could take part in the discussion on whether to privatise or not. After seven months, with more than 4000 people taking part in meetings at neighbourhood level, Recife's population decided that the failed public water utility should not be privatised, but reformed under the rule of the Municipality.

Returning to the case of Saguapac in Bolivia, its status as a cooperative makes every user a member and thus a co-owner with a voice and voting rights. In addition to the regular elections of board members, the cooperative also conduct bi-annual satisfaction polls to

evaluate where water and sanitation services need to be improved. Social tariffs are put in place so that people pay according to their ability and their consumption. The extraordinary performance of the cooperative has even attracted finance from the World Bank and the Inter-American Development Bank.

The case of Kerala encourages cooperation between the authority and local initiatives. In many countries, users have been actively involved in water and sanitation services, and this type of private participation seems to have good prospects.

The Uganda case illustrates that private actors may play a role if the public authority is strong and competent. Public-private partnership can work when the private contribution is limited and strictly controlled by the authorities.

Public finance and legal frameworks and regulations are necessary to ensure access to water and sanitation. Citizens' participation and democratic control are essential for the delivery of water to the whole population, including the poor. It is also important that public utilities do not aim to increase revenues, but remain non-profit. Moreover, the emergence of new participatory politics has breathed new vitality and effectiveness into publicly owned, but often dysfunctional and bureaucratised water utilities. In all their diversity, the success of these models is based on the active involvement of the local population. This may be in prioritising investment decisions, holding the water utility accountable to their needs or through citizens' engagement in reducing water losses and other technical challenges.

After a decade of failed experiments with water privatisation, the time has come to embrace a strategy aimed at improved public and community-controlled water delivery.

4.4 Recommendations

The Norwegian Forum for Environment and Development calls on the Norwegian Government to:

Regarding the international financial institutions (World Bank, IMF, etc.)

- ensure that water privatisation is not included as a condition for financial support from the World Bank or any of the IFIs;

- reduce support to the institutions, funds and partnerships that, without exception, support private sector development in the water sector, such as the World Bank's PIAFF, IFC and MIGA;
- ensure that governments have the right to subsidise water to secure adequate access for all;
- advocate the World Bank's abandonment of its push for privatisation in all activities and on all levels;
- cancel the debt of developing countries in order to free public funds for expanding the access to water;
- advocate a World Bank strategy aimed at improved public and community-controlled water delivery.

Regarding Norwegian bilateral aid:

- ensure that recipient countries are not forced into privatisation;
- ensure that water privatisation is not made a condition of Norwegian multilateral or bilateral aid, loans or debt forgiveness;
- ensure that water supply is affordable for the poor;
- gain and demonstrate the consent of civil society before policies of water privatisation are promoted, and involve them in questions of regulation and decision-making. Water should not be commoditised if this compromises poor people's basic rights to water and sanitation;
- strengthen transparency, governance and user participation in the water sector, and be open-minded to private ownership or operations on the community level if the public service does not work;
- pay more attention to questions of local-level power and politics, as well as local-level understandings of water, hygiene and sanitation when creating effective responses to poor water and sanitation environments;
- create enabling environments for the development and strengthening of people-centred models of water management through promoting the previous policies.

Regarding WTO and GATS negotiations:

- take the position that all countries should withdraw their requests to developing countries about privatisation of services in the water sector through the GATS agreement;
- renegotiate bilateral and regional trade and investment agreements which enable private water corporations to claim undue

“compensation” from public authorities via arbitration cases;

- ensure that governments have the right to subsidise water to secure adequate access for everyone.

4.5 End note to civil society and governments in developing countries:

The Norwegian Forum for Environment and Development supports your struggle against privatisation of water supply by multinational companies. Even though only a relatively small percentage of the world’s population are served by private operators, there will be new projects in the future where multinationals find a way to make profits from water delivery. For the poor people in the areas affected, this is a serious concern. Keep up the resistance when water services are in danger of being

commercialised. Civil society, alongside local and national governments, and the local and national private sector should assist in:

- the education, mobilisation and capacity building of communities in the development of sustainable water and sanitation policy, plans and implementation;
- scaling up successful community initiatives, like rainwater harvesting and riverbed sand dams, build on water management and respect community based solutions.
- ensure the sustainability of water resources, involving local users and women in the decision-making processes and management. Capacity building inputs are critical to enable local communities to participate and manage local water resources in line with national policies and plans.

REFERENCES

- Adam, Al-Hassan, 2006. Personal, written communication, March 2006. Civic Response Ghana.
- ADB (Asian Development Bank), nd/a. ADB's Water Policy (web page)
<http://www.adb.org/Water/Policy/default.asp> [online: 31.03.2006]
- ADB (Asian Development Bank), nd/b. Implications: Partners (web page)
http://www.adb.org/Water/Policy/policy_partners.asp [online: 31.03.2006]
- ADB (Asian Development Bank), nd/c. Implications: Costs & Cost Recovery (web page).
http://www.adb.org/Water/Policy/policy_recovery.asp [online: 31.03.2006]
- AfDB (African Development Bank), nd/a. Water Initiatives (web page).
http://www.afdb.org/portal/page?_pageid=313,165531&_dad=portal&_schema=PORTAL [online: 31.03.2006]
- AfDB (African Development Bank), 2000. AfDB Policy for Intergrated Water resources Management. April 2000.
- Ascher, K., 1987. The politics of privatisation: contracting out public services. Basingstoke: Macmillan Education.
- Baietti, A. & Raymond, P., 2005. Financing Water Supply and Sanitation Investments: Utilizing Risk Mitigation Instruments to Bridge the Financing Gap. World Bank, Water Supply and Sanitation Sector board, 2005.
- Balanyá B., Brennan B., Hoedeman O., Kishimoto S. and P. Terhorst, 2005. Reclaiming Public Water - Achievements, Struggles and Visions from Around the World. Transnational Institute and Corporate Europe Observatory, January 2005 (1st edition) March 2005 (2nd edition)
<http://www.tni.org/books/publicwater.htm> [online: 03.04.2006]
- CEO (Corporate Europe Observatory), 2003. "Evian: Corporate Welfare or Water for All?" Corporate Europe Observatory Info Brief 6, May 2003.
- Chavez, J., and Guttal, S., 2004: PRSP: A Poor Package fro Poverty Reduction. IGNIS. Online
http://www.norignis.org/vismdgartikler.php?mdgtema_id=&mdgemne_id=&mdgartikkel_id=6 [online: 30.03.2006]
- Citizens' Network on Essential Services (CNES), 2004 (2003). The Roles of the IFIs in Decentralisation and Service Delivery. http://www.servicesforall.org/html/tools/roles_IFIs_print.shtml [online: 30.03.2006]
- CNES (Citizen's Network on Essential Services), 2001. IMF and World Bank Push Water Privatization. News & Notices for IMF and World Bank Watchers.
www.servicesforall.org/html/news_notices/spring2001/spring2001_05.pdf [online: 31.03.2006]
- Cómes & Terborst 2005. hegesoerreime@gmail.com
- Davis, J., Ossowski, R., Richardson, T. and S. Barnett, 2000. Fiscal and Macroeconomic Impact of Privatisation. International Monetary Fund.
<http://www.imf.org/external/pubs/nft/op/194/index.htm#overview> [online: 30.03.2006]
- Emanuele, L. & D. Hall. 2003. Problems with private water concessions: a review of experience.
http://www.psir.org/reports/2003-06-W-over.doc#_Toc55987753 [online: 27.03.2006]

Fact-Finding Mission, 2002. Report of the International Fact-Finding Mission on Water Sector Reform in Ghana. CAP of water, August 2002. <http://www.isodec.org.gh/Papers/CompleteFFMReport.pdf> [online: 03.04.2006]

Fortin, Carlos, 2005: Based on statements by UNCTAD representative Carlos Fortin to CSD 13 in New York. <http://www.forumfor.no/?id=817> [online: 30.03.2006]

GPRS (Ghana Poverty Reduction Strategy), 2003. An Agenda for Growth and Prosperity. http://siteresources.worldbank.org/GHANAEXTN/Resources/Ghana_PRSP.pdf [online: 03.04.2006]

Gutierrez, E. 2003. Paper for the April 2-3, 2003 Mexico City Conference: Privatisation and the failed promise of free market theory in water services provision: towards developing an alternative theoretical framework. Water Aid.

Hall, D. & K. Bayliss, 2002. Glimpses of an alternative – the possibility of public ownership in the World Bank's latest PSD strategy paper. Public Services International Unit, PSIRU, University of Greenwich. <http://www.psiru.org/reports/2002-01-U-WB-PSDpub.doc> [online: 30.03.2006]

Hall, D., Bayliss, K. & E. Lobina. 2001. Still fixated with privatisation: A Critical Review of the World Bank's Water Resources Sector Strategy. Paper prepared for the International Conference on Freshwater (Bonn, Germany, 3-7 December 2001). Public Services International Unit, PSIRU, University of Greenwich. <http://www.psiru.org/reports/2001-12-W-WBstrat.doc> [online: 30.03.2006]

Hall, D., Lobina, E. and R. Motte, 2003. Public solutions for private problems? – responding to the shortfall in water infrastructure investment. Public Services International Unit, PSIRU, University of Greenwich. <http://www.psiru.org/reports/2003-09-W-strats.doc> [online: 30.03.2006]

Hartwick, R. & Peet, E. 1999. Theories of development. Guilford Press, New York. Independent evaluation office draft issues paper for an evaluation of structural conditionality in IMF-supported programs, March 18. 2005 I

Hoedeman, O., 2006. Public Water for All – the Role of Public-Public Partnerships. Transnational Institute and Corporate Europe Observatory. March 2006. <http://www.tni.org/water-docs/pubwaterforall.pdf> [online: 03.04.2006]

Hole V., Klyve C. and J. Jones, 2005. Worldbankification of Norwegian Development Assistance. Utviklingsfondet, IGNIS 2005. http://www.u-fondet.no/graphics/Filbibliotek/pdf/Rapporter/Verdensbankifisering_web.pdf [online: 01.04.2006]

IMF, 2000. A Factsheet - September 2005 The Poverty Reduction and Growth Facility (PRGF) <http://www.imf.org/external/np/exr/facts/prgf.htm> [online: 30.03.2006]

IMF, 2000. Fiscal and Macroeconomic Impact of Privatisation. <http://www.imf.org/external/pubs/nft/op/194/index.htm#overview> [online: 30.03.2006]

IMF, 2000. Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs. Prepared by the Policy Development and Review Department. August 16, 2000. <http://www.imf.org/external/np/prgf/2000/eng/key.htm> [online: 30.03.2006]

IMF, 2002. Ghana—Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding. <http://www.imf.org/External/NP/LOI/2002/gha/01/INDEX.HTM#att1> [online: 02.04.2006]

Johnson, Hilde Frafjord, 2003. Vann, fattigdom og politikk (Water, poverty and policy). Speech given on the occasion of the World Water Day, March 25th 2003. Norwegian text: <http://odin.dep.no/odinarkiv/norsk/bondevikil/ud/taler/032171-090115/dok-bn.html> [online: 02.04.2006]

McKinley, 2004. hegesoerreime@gmail.com

Martinussen, J. & Pedersen, P. 2003. Aid – understanding international development cooperation. Zed Books, London.

MONLAR (Movement for National Land and Agricultural Reform), 2005. Sri Lanka Government using tsunami to privatise water. Sri Lanka, 24 February 2005. monlar@sltnet.lk

Motte, D., & R., 2004. Dogmatic Development - Privatisation and Conditionalities in Six Countries. A PSIRU report for War on Want.

Nancy, B., Geoffrey, G., and Kogut, B. November 2003. The International Monetary Fund and the Global Spread of Privatisation. <http://www.imf.org/External/Pubs/FT/staffp/2004/02/pdf/brune.pdf> [online: 30.03.2006]

Norwegian gvt, 1998. Strategi for støtte til næringsutvikling i Sør (Strategy for Norwegian Support for Private Sector Development in Developing Countries) <http://odin.dep.no/ud/norsk/tema/utvikling/strategi/032005-990786/dok-bn.html> [online: 02.04.2006]

Norwegian gvt, 2005. The Soria Moria Declaration – International Policies. <http://www.arbeiderpartiet.no/index.gan?id=47619&subid=0> [online: 02.04.2006]

PSIRU (Public Services International Research Unit), nd. "Investing in the bureaucracy of privatisation – a critique of the EU water initiative papers", PSIRU working paper. www.psiru.org, psiru@psiru.org

PSIRU (Public Services International Research Unit), 2004. Dogmatic Development: Privatisation and Conditionalities in Six Countries. <http://www.psiru.org/reports/2004-02-U-condits.pdf> [online: 02.04.2006]

Public citizen, nd. About water for all – International (web page). http://www.citizen.org/cmep/Water/cmep_Water/articles.cfm?ID=9528 [online: 02.04.2006]

Public Citizen, 2003. Water for all - august 2003 news update www.citizen.org, member@citizen.org

Public Citizen, 2004. Will the World Bank Back Down? Water Privatisation in a Climate of Global Protest. <http://www.citizen.org/documents/worldbank2004.pdf> [online: 30.03.2006]

IRC, 2003. International Water and Sanitation Centre Financing: Camdessus report lacks pro-poor focus. <http://www.irc.nl/page/2722> [extract online: 30.03.2006]

Rooyen, C., 2002. Whiskey's for drinking; water's for fighting about: IFIs and the globalisation of water apartheid. Rand Afrikaans University, South-Africa.

Stiglitz, J. 2002. Globalisation and its Discontents. London: Penguin Books Ltd.

St.meld 35, 2004: Fighting Poverty Together – A Comprehensive Development Policy. (Felles kamp mot fattigdom – en helhetlig utviklingspolitikk). English summary: http://odin.dep.no/ud/english/doc/white_paper/032131-030005/dok-bn.html [online: 02.04.2006]

Støre, Jonas Gahr, 2005. Status of the WTO negotiations in the run-up to the Ministerial Conference in Hong Kong on 13-18 December 2005. Norwegian Minister of Foreign Affairs, speech to the Storting, Dec 9th 2005. <http://odin.dep.no/odinarkiv/norsk/stoltenbergII/ud/taler/032171-990270/dok-bn.html> [online: 02.04.2006]

Tan, C., 2005. The Poverty of Amnesia: PRSPs in the Legacy of Structural Adjustment, School of Law, University of Warwick, UK, E-mail: Celine.Tan@warwick.ac.uk. Paper prepared for 'Workshop on Research on the World Bank', Centre for Policy Studies, Central European University, Budapest, Hungary, 1 – 2 April 2005.

The Water Supply and Sanitation Collaborative Council, 2003. Comments from Richard Jolly, Chair, WSSCC on the Report of the World Panel on Financing Water Infrastructure as Chaired by Michel Camdessus in the press conference held on Friday 21st March, WWF3 at Kyoto.

UNDP, 2003. Millennium Development Goals: A compact among nations to end human poverty. UNDP, NY USA. Oxford Press. <http://hdr.undp.org/reports/global/2003/> [online: 30.03.2006]

UNDP, 2005. Human Development report 2005: International cooperation at a crossroads: Aid, trade and security in an unequal world. UNDP, NY USA. Oxford Press. <http://hdr.undp.org/reports/global/2005/> [online: 30.03.2006]

UN-Habitat, 2003. Water and Sanitation in the World's Cities: Local Action for Global Goals. <http://www.unhabitat.org/hd/hdv9n3/14.asp> Abstract. [online: 30.03.2006]

Water Aid. 2003. International Financial Institutions (IFI), Conditionality and Privatisation of Water and Sanitation Systems.

Water Aid, 2005. Getting to boiling point. Turning up the heat on water and sanitation. http://www.wateraid.org/documents/getting_to_boiling_point.pdf [online: 27.03.2006]

World Bank, nd. Tanzania: Rap Song Lyrics (web page). <http://rru.worldbank.org/Themes/PromotingReform/Communications/TanzaniaRapping/EbboLyrics.aspx> [online: 02.04.2006]

World Bank, 1993. Water Resources Management. <http://siteresources.worldbank.org/INTWRD/214573-1111579063201/20424649/WRMExSumof1993WaterPolicy.pdf> [online: 27.03.2006]

World Bank, 2000. Private Infrastructure. Are the Trends in Low-Income Countries Different? Note number 216. <http://rru.worldbank.org/Documents/PublicPolicyJournal/216Housk-10-23.pdf> [online: 30.03.2006]

World Bank, 2002. Private Sector Development Strategy – Directions for the World Bank Group. <http://rru.worldbank.org/Documents/PapersLinks/699.pdf> [online: 01.04.2006]

World Bank, 2003a. World Bank Group Private Sector Development Strategy implementation progress report, June 20, 2003. http://rru.worldbank.org/Documents/PapersLinks/WBG_PSD_Implementation_Progress_Report_June_2003.pdf [online: 01.04.2006]

World Bank, 2003b. Infrastructure Action Plan. <http://siteresources.worldbank.org/INTTRM/Resources/InfrastructureActionPlan.pdf> [online: 27.03.2006]

World Bank, 2004a. Water resources sector strategy : strategic directions for World Bank engagement, Vol. 1 of 1. http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20040601150257 [online: 27.03.2006]

World Bank, 2004b. The World Bank Group's Program for Water and Sanitation. http://siteresources.worldbank.org/INTWSS/Publications/20249484/WSS_report_Final_19Feb.pdf [online: 27.03.2006]

World Bank, 2004c. Operational Guidance for World Bank Group Staff: Public and Private Sector Roles in Water Supply and Sanitation Services. Water Supply & Sanitation Sector Board. Washington, DC. <http://siteresources.worldbank.org/INTWSS/Publications/20249486/Guidance%20note%20Public%20and%20Private%20Sector%20Roles%20in%20Water%20Supply%20and%20Sanitation%20Services%20Apr%2004.pdf> [online: 27.03.2006]

World Bank, 2004d. Country Assistance Strategy of the World Bank Group for the Republic of Ghana. <http://siteresources.worldbank.org/GHANAEXTN/Resources/CASGhana.pdf> [online: 03.04.2006]

World Bank 2004e. Annual Report 2004 – Improving Development Effectiveness. http://www.worldbank.org/annualreport/2004/improving_development.html [online: 03.04.2006]

World Bank, 2005. Financing Water Supply and Sanitation Investments: Utilizing Risk Mitigation Instruments to Bridge the Financing Gap. Baietti, A. & Raymond, P. (Water Supply and Sanitation Sector board). http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000090341_20051130134210 [online: 30.03.2006]

World Bank, 2005b. Personal, written communication from Jakob Kopperud, World Bank Nordic contact, London. November 2005.

World Bank, 2006. Infrastructure: Lessons from the Last Two Decades of World Bank Engagement. Discussion paper. http://www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&eid=000160016_20060207101539 [online: 30.03.2006]

World Bank, 2006b. Senior Economist in the World Bank Jan Walliser, at a ForUM meeting, February 21st 2006.

World Development Movement, 2004. Parliamentary Briefing, March 2004. +44 (0)20 7737 6215, www.wdm.org.uk, wdm@wdm.org.uk

World Development Movement, 2005a: Dirty aid, dirty water: The UK Government's push to privatise water and sanitation in poor countries. February 2005, +44 (0)20 7737 6215, www.wdm.org.uk, wdm@wdm.org.uk

World Development Movement, 2005b. One size for all - A study of IMF and World Bank PovertyReduction Strategies. www.wdm.org.uk, wdm@wdm.org.uk

World Development Movement, 2006. Pipe dreams – The failure of the private sector to invest in water services in developing countries. WDM, March 2006. <http://www.wdm.org.uk/resources/briefings/aid/pipedreamsfullreport.pdf> [online: 03.04.2006]

World Water Council, nd. http://www.worldwatercouncil.org/board_governors.shtml (2005).

WSSCC, 2003. (The Water Supply and Sanitation Collaborative Council). Comments of Richard Jolly, Chair, WSSCC on the Report of the World Panel on Financing Water Infrastructure as Chaired by Michel Camdessus in the press conference held on Friday 21st March, WWF3 at Kyoto.

WPFWI, 2003. (World Panel on Financing Water Infrastructure). Financing Water For All. Chaired by Michel Camdessus, report written by James Winpenny. 3rd World Water Forum. http://www.financingwaterforall.org/fileadmin/wwc/Library/Publications_and_reports/CamdessusReport.pdf [online: 31.03.2006]

WPFWI, 2006. (World Panel on Financing Water Infrastructure). Enhancing Access to Finance for Local Governments and Financing Water for Agriculture. Chaired By Angel Gurria. http://www.financingwaterforall.org/fileadmin/Financing_water_for_all/Reports/Financing_FinalText_Cover.pdf [online: 01.04.2006]

WTO (World Trade Organisation), 2001. GATS-Fact and Fiction. Information booklet. http://www.wto.org/english/tratop_e/serv_e/gatsfacts1004_e.pdf [online: 02.04.2006]