Heading for failure:

How water privatisation threatens the Millennium Development Goals
Contents

1. The continuing water crisis and the Millennium Development Goals 3
2. The failure of ‘Plan A’ – privatisation 6
3. The UK’s role in the continuing push for private sector water and sanitation provision 9
4. The need for ‘Plan B’ 12

References

Graphs
1. Proportion of people in Africa with sustainable access to an improved water source 4
2. Proportion of people in Africa with sustainable access to basic sanitation 5
3. Infant mortality rate in Africa 5
1. The continuing water crisis and the Millennium Development Goals

The scale of the global water crisis is huge. It has been estimated that, in 2000, at least 1.1 billion people in the developing world - one person in five - lacked access to safe water. Twice as many (2.4 billion) lacked access to improved sanitation.¹ In the 1990s the number of children killed by diarrhoea - the result of unsafe water and sanitation - exceeded the number of people killed in armed conflicts since the Second World War.²

But the last twenty years have not been short of international political declarations of intent on addressing water and sanitation issues. In 1977, representatives from most of the world’s governments committed themselves to ensuring universal access to adequate water and sanitation by 1990.³ This wasn’t achieved, so in 1990 a target was set to achieve universal access to safe water by 2000. Progress fell so far short of this goal that, in 2000, not only was the goalpost moved to 2015, the politicians felt that universal coverage was too difficult so recalibrated their ambitions with a new Millennium Development Goal (MDG) target of halving the proportion of people without sustainable access to safe drinking water.⁴

There are eight MDGs, and between one and three specific targets under each of these. It is important to point out that it is not only the specific ‘water target’ that, to be achieved, requires water and/or sanitation improvements. There are also other MDGs and targets that indirectly concern safe water and adequate sanitation:

- Under Goal 3 (to promote gender equality and empowerment among women) there are two targets that depend on providing adequate sanitation and better access to an improved water source: 1) the ratio of girls to boys in education; and 2) the ratio of men to women in wage employment in the non-agricultural sector. Studies indicate that enrolment of girls in education rises with the provision of latrines in schools. And the improvement of safe water sources frees women from spending hours every day drawing and carrying water home.⁵

- Under Goal 4 (to reduce child mortality) there are two targets that depend on the provision of adequate sanitation and access to water sources: 1) reducing by two thirds between 1990 and 2015, the under five mortality rate and 2) reducing by two-thirds between 1990 and 2015, infant mortality. Both will remain unmet unless water related disease is reduced.

- Under Goal 6 (combat HIV/AIDS, malaria and other diseases), achieving the target related to malaria and other diseases will be critically dependent on improvements in water supply and sanitation.

- There is also the sanitation target (number 11), as amended by the Johannesburg World Summit on Sustainable Development in August 2002, to halve the proportion of people without sustainable access to basic sanitation. Reaching it will also underpin MDG 7 (ensuring environmental sustainability) to the extent that water pollution diminishes.⁶

Clearly then, achieving several of the Millennium Development Goals is critically dependent on improving water and sanitation provision to the poor. But current
**Heading for failure:**
How water privatisation threatens the Millennium Development Goals

progress gives little cause for optimism, particularly in Africa. As the graph below demonstrates, if current trends continue, Africa will not achieve the ‘water target’ set in 2000, let alone the universal coverage target first set in 1977.

![Proportion of people in Africa with sustainable access to an improved water source](image)

Source: UNDP
Achieving the sanitation target is even more unlikely.

Africa is also not on target to achieve other MDGs for which improvements in water and sanitation are crucial; for example, reductions in the infant mortality rate.
2. The failure of ‘Plan A’ - privatisation

In many parts of the developing world, public water provision has been failing the poor since before the first target was set in 1977; lack of investment, corruption and political interference have all contributed to poorly performing public services. That said, the public sector in some cities and some countries has developed more effectively and has achieved major improvements in water and sanitation provision.

Yet, the reform agenda from the late eighties onwards has not attempted to address specifically the underlying causes where water utilities’ are failing to serve the poor. The reform agenda has instead been characterised by an ideological attachment to promoting the global private sector as the ‘solution’, regardless of the specific problem.

For over 10 years, the UK Government has, along with the World Bank and IMF, played a key role in pushing what WDM has called ‘Plan A’ - water and sanitation privatisation - across the world. According to the United Nations Development Programme (UNDP), “In developing countries, the private sector’s growing role in health and education and the push to privatize water and hospital services, have been driven by three factors: lack of government resources, low quality public provision and pressure to liberalize the economy.”

UNDP goes on to say, “The third push for private provision has come from donor policies advocating economic liberalization 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 sharp-end of this push for water privatisation has been donor conditionality; in other words, requiring poor countries to privatise in return for aid, loans and debt relief. According to the World Bank’s Private Sector Development Strategy, “the share of conditionalities relating to private participation in infrastructure as a part of adjustment lending more than doubled between FY96 [Financial Year] and FY99, involving the privatization of infrastructure enterprises, sectoral reforms to allow new private entry, and development of regulatory frameworks and institutions.” These privatisation conditions, of course, included water and sanitation and are still being imposed by the World Bank and IMF.

The UK remains a key player in the World Bank and IMF. Gordon Brown has been Chairman of the International Monetary and Financial Committee (IMFC) of the IMF since 1999. The IMFC meets to decide on overall strategic direction for the IMF. According to the UK Government, it is “the main forum for discussing IMF policies at the Ministerial level”. It has 24 members and meets twice a year at the Spring and Annual meetings. The UK holds 4.96 per cent of the votes at the IMF, more than 43 African countries have in total.

Hilary Benn is the UK’s Governor on the Board of the World Bank; where the UK holds around 5 per cent of the vote. DfID currently gives 12 per cent of its aid to the International Development Association (IDA), the only part of the World Bank requiring funding from rich countries, which makes the UK proportionally the largest donor to the
World Bank. When measuring the total amount of money given to IDA, the UK is second only to the US.

WDM's own analysis in 2003 of the ‘decision point documents’ for the 26 countries that had, at the time, progressed under the Heavily Indebted Poor Countries (HIPC) initiative is revealing. Of these 26 documents – which are essentially a set of policy benchmarks arranged between the IMF/World Bank and the government as part of qualifying for debt relief - all mentioned a previous privatisation programme and an ongoing/future privatisation process. Fifteen specifically mentioned planned privatisation in public utilities or basic services such as energy, telecommunications, water and transport.

But time and again, the much-hyped privatisation process has failed to deliver for the poor right across the developing world. From Buenos Aires and Tucaman in Argentina to Cochabamaba and La Paz in Bolivia; from Parana in Brazil to Conakry in Guinea; from Kelantan in Malaysia and West Manila in the Philippines to Dar Es-Salaam in Tanzania and the Gambia; and from Uruguay to Trinidad and Tobago. The list of privatisation failures goes on.

The exact reasons for failure vary but the problems associated with privatisation tend to be the following:

- Profits siphoned off to shareholders thousands of miles away, rather than reinvested in the system.
- Profit-led price hikes, that don’t pay for new connections although they have forced many people to choose between clean water and basics like food and education.
- Private companies being bailed out with millions of pounds of public money – increasing the debt burden on poor countries or diverting vital aid.
- Cherry-picking the most affluent parts of the water supply, leaving less income for the public sector to pay for water for the poorest communities.
- An absence of transparency, accountability and participation, which have proved crucial to successful water delivery systems in many parts of the world.

Privatisation has been portrayed as being the solution to the water and sanitation crisis facing many poor countries. The private sector, it has been said, will bring massive new investment that cash strapped poor countries cannot supply and will expand water and sanitation provision to poor households currently dependent on unreliable stand pipes, expensive street water vendors or failing public utilities.

However, this investment has not been forthcoming. Contrary to the claims of the privatisation promoters, the private sector has not had a large pot of money waiting to be invested in providing water and sanitation to the poorest people in the world and has instead often relied on governments to foot the bill. Recently, for example, the contract of City Water (a joint venture involving UK company Biwater) for supplying water to the people of Dar Es-Salaam in Tanzania was cancelled by the Tanzanian Government.
Tanzanian government representatives are reported as saying that, “The water supply services in Dar es Salaam and neighbouring places have deteriorated rather than improve [sic] since this firm [City Water] took over two years ago …The revocation was made following persistent complaints by city residents over incompetence of the firm.”

According to press reports of comments from members of the Tanzanian government, City Water failed to deliver the required levels of investment of US$8.5 million during the first two years of operation, and had only invested US$4.1 million. The Tanzanian Water Minister Edward Lowassa is reported as saying that "City Water has also failed to contribute to the fund that was intended to supply water to the low income people".

This is just one of many examples of the private sector failing to deliver water and sanitation to the poor. ‘Plan A’ has hit an economic brick wall. From a high of over US$120 billion in 1997, annual private investment in infrastructure (of which only a small proportion was in the water and sanitation sector) fell to less than US$50 billion by 2002.

The process is summed up in a World Bank working paper: “The shift to private provision that occurred in the 1990s was much more rapid and widespread than had been anticipated at the start of the decade. However, flows peaked in 1997 and have fallen more or less steadily ever since. These declines have been accompanied by high profile cancellations or renegotiation of some projects, a reduction in investor appetite for these activities and in some parts of the world, a shift in public opinion against the private provision of infrastructure services.” It should be noted that the World Bank includes water and sanitation – normally referred to as ‘public’ or ‘essential’ services – in its new category of ‘infrastructure services’.

By the late 1990s the companies themselves started to publicly admit that they have been ill-equipped to meet expectations in the water sector. For example, in a water policy meeting in Uganda in 2001, staff from the French multinational Vivendi (now called Veolia) stated that the need to make reasonable profit means they only invest in the larger, richer cities. Similarly, after negotiations for a water concession in Zimbabwe broke down in 1999, a Biwater executive explained that, “from a social point of view these kind of projects are viable, but unfortunately, from a private sector point of view, they are not”.

Recent studies, both by and for the World Bank suggest that the private sector is able to deliver no more than the public sector. For example, a 2004 World Bank working paper on water and sanitation in Latin America did not conclude that the private sector performs better than the public, only that it does not perform any worse. Similarly on ‘improving efficiency’, a study for the World Bank concluded that there is no significant difference between the public and private sector.

Unfortunately, key donor governments like the UK have refused to accept that the problems with the private sector are anything other than temporary glitches and continue to seek solutions which revolve around developing new mechanisms for enticing the private sector back into an activity where it has demonstrably failed to deliver.
3. The UK’s role in the continuing push for private sector water and sanitation provision

Clare Short, former UK Secretary of State for International Development, told the House of Commons in 2002, “Privatisation is the only way to get the investment that [poor] countries need in things like banking, tourism, telecommunications and services such as water under good regulatory arrangements.”

DfID’s approach to water and sanitation is based on the need for, in its own words, “increasing efforts to encourage participation of private firms, either as operators of publicly owned utilities or as both owners and operators. Donors want to use their limited funds for infrastructure to leverage more from other sources (private and multi-donor) and to facilitate reform.”

But this desire for private sector engagement has hit three key political obstacles:

1) The various problems with private sector provision that have made multinationals more reticent about taking on water and sanitation provision in poor countries.

By the late 1990s, both the companies and the donor governments such as the UK recognised that the private sector was having problems so required a new strategy to facilitate the re-engagement of multinationals in developing country water and sanitation.

As the Head of SAUR, a major French water multinational said in 2002, “Substantial grants and soft loans are unavoidable to meet required investment levels … [This entails] the considerable dependence of the growth of the water sector in the developing world on soft funding and subsidies. If it does not happen the international water companies will be forced to stay at home.”

They needed to tackle issues such as the high up-front cost of capital projects, the need for long term debt in both foreign exchange and local currency, and the need for subsidies and risk guarantees. A recent DfID paper on public-private partnerships claims that DfID, “[I]n partnership with other like-minded donors, has taken a lead in trying to tackle these issues.”

Ultimately, this often means using aid money to subsidise the involvement of multinationals – mainly from the UK, other European countries and the USA – in making money out of providing water and sanitation to the poor.

2) The need for the UK Government to be seen to be moving away from ‘tied aid’ (ie, providing aid that is spent only on UK companies).

A critical issue for DfID has been how to organise its funding to address the problems outlined above. WDM has learnt from a source close to DfID in the late 1990s that, although the initial idea was to provide the funding on a purely bilateral basis, the relationship between DfID and UK companies might have been seen as too close at a time when DfID was trying to ‘untie aid’ from contracts for British business.
3) Combating, or bypassing, strong public opposition while at the same time being seen to make good on the donor country rhetoric on recipient ‘country ownership’ of policies.

Also problematic has been continuing public resistance to water and sanitation privatisation. One way to bypass this has been through overt conditionality, as described in the previous section. However, while this certainly does still exist, the World Bank and donors like the UK have been emphasising their ‘new approach’ to ‘country owned’ Poverty Reduction Strategy Papers (PRSPs) which should form the basis for aid provision in the poorest countries.

In theory, these PRSPs are developed in consultation with civil society and are decided on by the government, but in practice, the IMF and World Bank have retained their dominant influence and the power of veto. A recent World Bank internal report pointed out that, “The Bank management’s process for presenting a PRSP to the Board undermines ownership. Stakeholders perceive this practice as ‘Washington signing off’ on a supposedly country owned strategy.”

However, other PRSPs are more vague, perhaps only mentioning the need for water/sanitation sector reform without specifying how. In such cases there are many kinds of possible reform that do not involve privatisation, so privatisation is not a foregone conclusion and therefore needs a political push to make it happen.

Also, the UK Government has made a welcome commitment to stop imposing economic policy conditions – such as water privatisation – on developing countries in return for UK bilateral aid. Instead, along side still supporting World Bank and IMF conditionality, the UK has found other means to promote water privatisation.

DFID’s approach to overcoming the three obstacles to privatisation outlined above has been twofold.

First, under the guise of what is called ‘technical assistance’, DFID is using aid money to pay a range of often UK-based consultancy firms to prepare the ground for privatisation of water and sanitation in developing countries. The consultancy companies taking up these contracts offer a comprehensive pro-privatisation service. This can include producing ‘master plans’ on how to reform the water sector in preparation for the private sector. For example, PriceWaterhouseCoopers’ aid funded involvement in drafting a National Water Policy for the Government of Sri Lanka or its Water Reform Package for Delhi.

Once the privatisation process has kicked off, it can include ‘embedding’ a privatisation consultant in the relevant government ministry or agency. For example, in Guyana, Adam Smith International has provided a permanent advisor to the Ministry of Finance. And at the other end of the process, it can also include running public relations campaigns trying to convince sceptical communities that privatisation is what they need. For example, DFID paid Adam Smith International over £270,000 to produce a pro-privatisation pop song and video in Tanzania.

In August 2005, DFID announced on its web site a shortlist of consultants (including Adam Smith International) who have bid for a contract to provide advice on privatising six sectors, including water, in Sierra Leone – the poorest country in the world. The value of the contract is currently unknown but it includes “a public awareness campaign
designing to inform the general public about the objectives and benefits of privatisation.\textsuperscript{34} This, DfID says, is necessary because of several risks that would otherwise face the privatisation programme including, “Public resistance to the divestiture of enterprises seen as a ‘public good’, together with fear for the implications of the cost of the service.”\textsuperscript{35}

The consultancy companies, which have grown out of the privatisation of utilities in the UK, see their long term profitability depending on increasing their portfolio overseas and the support (both financial and political) of donors such as DfID and the World Bank is critical.

The objective of this consultancy advice is to present the possible privatisation models indicating the reforms needed in order to attract private investment. The consultants are the first stage. The recipient country must then implement the consultant’s proposed reforms in order to secure more donor funds in the water and sanitation sector. This is the approach of the World Bank, DfID and the Asian Development Bank (ADB).

Second, as well as bilaterally funding these companies, DfID also puts tens of millions of pounds of UK aid money into a range of what are called multi-donor mechanisms. These help distance the UK Government from the use of aid money that has a good chance of benefiting UK companies.

The most significant of these for the water privatisation consultants is the Public Private Infrastructure Advisory Facility (PPIAF), which DfID played a key role in creating. The PPIAF is specifically designed to fund private sector technical assistance and facilitate private sector involvement in the provision of ‘infrastructure services’.

DfID also played a key role in setting up the Private Infrastructure Development Group (PIDG) to support and finance private sector initiatives in infrastructure. PIDG has a number of different elements including GuarantCo – the Local Currency Guarantee Service – which was set up in 2004 to “mitigate risks for local currency financing of infrastructure”. DfID has, in principle, committed US$25 million to the creation of GuarantCo.\textsuperscript{36}

In total, DfID has committed at least £127 million to multi-donor initiatives with a private sector water element over the last four years.

In summary, the way donors are pursuing a privatisation agenda that benefits western companies, while at the same time claiming they have no agenda and are untying aid, is by providing funding for ‘privatisation consultants’ and for private sector-only funding initiatives that subsidise private provision of water and sanitation in the developing world.

Developing country governments that are committed to water and sanitation reform in their PRSPs are seemingly left with little choice but to accept donor money to employ privatisation consultants to provide policy and legal advice and accept that donors have created a range of funding schemes that will only finance reforms that involve the private sector. In reality then, while donors claim they are not ‘imposing’ policies, the direction of funding means that privatisation is the only game in town.
4. The need for ‘Plan B’

In a major report on water and sanitation, UN-Habitat – international experts on urban development - conclude, “[Increasing private sector involvement] is not a ‘solution’ that should be promoted internationally in the name of those who currently lack adequate water and sanitation.”

Today, we are standing at a crossroads in terms of meeting the various MDG targets that rely on major improvements in water and sanitation provision. ‘Plan A’ simply isn’t working and there is a desperate need for a different approach; we need a ‘Plan B’. But this is not happening and one of the key reasons is the continuing focus on privatisation by donor governments such as the UK and institutions such as the World Bank.

But this is not because ‘Plan B’ does not exist. Examples of successfully reformed water utilities can be found in every continent – busting the myth that the private sector is the ‘only way’. From the public utility in Porto Alegre Brazil with its participatory budgeting process to the workers cooperative in Dhaka, Bangladesh; from the community driven scheme in Savelugu, Ghana to the highly efficient public operator in Penang, Malaysia; the range of successful ‘public’ approaches to water and sanitation provision is striking.

And while there is no set recipe for their success, these different approaches to water and sanitation provision share a number of common ingredients including:

- Re-investment of profits to improve the system
- Accountability to the public and transparency
- Social tariff structures to account for different income levels
- A local/national operator not exposed to foreign currency risk
- Government political, and in some cases financial, support

The problem, therefore, is not that workable solutions to the water crisis do not exist; ‘Plan B’ – in its many forms – is out there. The problem is that donor governments (such as the UK) and donor institutions (such as the World Bank) are currently fixated on ‘Plan A’.

This tunnel vision is criminal when we consider the scale of the crisis that this ‘solution’ is designed to resolve – the universal provision of adequate water and sanitation; a basic human necessity on which so much of life depends, and on which so many other critical development goals rest.

In criticising the UK Government’s use of aid money to promote privatisation, WDM is not arguing against increases in the levels of investment in water infrastructure and the need for fundamental governance reforms within the water sector. The criticism is of the dogmatic insistence on private sector reforms and the move to subsidise the private sector, despite its fundamental failings. There is no argument over the urgent need for policy and institutional reforms to ensure that people across the developing world have secure access to adequate water and sanitation. The debate is over how this can and should be achieved.
Just as the privatisation push has not happened by accident (it is the result of a specific political project serving specific interests) the pursuit of a different approach to water and sanitation provision will not occur without concerted action. WDM calls on the UK Government to actively champion a different approach to water and sanitation in the developing world and become part of the solution rather than part of the problem.

More information on these issues can be found in WDM's reports:


Heading for failure: How water privatisation threatens the Millennium Development Goals

References

14 Note: It is likely that the number of HIPC countries privatising public utilities/basic services is higher because the decision-point documents do not always provide details on the kind of enterprises to be privatised.


