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Dirty aid, dirty water

The UK Government's push to privatise water and sanitation in poor countries

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The UK Government's push to privatise water and sanitation in poor countries

By Clare Joy and Peter Hardstaff
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A shorter version of this report is available from WDM at the address below.

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The authors bear full responsibility for the opinions expressed in this report and for any remaining errors or mistakes.

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WDM campaigns to tackle the root causes of poverty. With our partners around the world, we win positive change for the world's poorest people. We believe that charity is not enough. We lobby governments and companies to change polices that keep people poor. WDM is a democratic membership organisation of individuals and local groups. Please contact WDM for membership information.

WDM has been campaigning to improve aid policies for many years and was instrumental in stopping UK aid being tied to contracts for UK companies. WDM has also played a leading role in on-going campaigning to stop donor governments and institutions imposing economic policies (such as privatisation and trade liberalisation) on developing countries.

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Executive Summary

The UK Government is using taxpayers' money in a push to privatise water and sanitation in some of the world's poorest countries. Evidence from these countries indicates that such privatisation is failing the poor and is geared to serving the interests of multinational corporations.

Water and sanitation privatisation in developing countries has failed time and again and will continue to do so because of a series of fundamental flaws in the premise that multinational companies are well equipped to deliver essential services to the poor. Unnecessary price hikes, lack of investment in extending networks to the poorest, 'cherry picking' the most profitable customers and services, and ultimately relying on government hand-outs are all characteristics of multinational water and sanitation provision in poor countries.

Yet despite this continuing failure, the UK Government – through the Department for International Development (DfID) – has spent millions of pounds of aid employing consultants, often UK companies, to 'advise' developing country governments to hand management of their water to foreign companies (usually from the UK or France). And despite the many costs of privatisation to the poor, the UK is leading international efforts to create mechanisms to fund privatisation consultants.

These consultants include sector specialists, such as Halcrow, management consultants such as Adam Smith International, and the big accountancy firms such as PricewaterhouseCoopers; companies that all have a financial and ideological interest in pushing privatisation.

Aid money for the much needed restructuring of water and sanitation provision in poor countries is then only forthcoming if the consultant's privatisation plan is accepted. The UK is also taking an international lead in finding ways to subsidise multinational companies' involvement in providing the service.

This continued political and financial support for a failed approach to addressing water and sanitation problems in poor countries is diverting much needed resources away from supporting different approaches to providing the service; approaches that have been shown to work right across the developing world. Throwing tax-payers money at consultants and the major water multinationals while ignoring workable options – ranging from reforming public utilities to community management schemes – is in clear conflict with the Government's stated goal of working to achieve the Millennium Development Goals (MDGs) for relieving poverty.

The UK Government must 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. This means:

- a halt to funding 'privatisation consultants';
- a halt to funding multi-donor initiatives focused on the private sector;
- a reorientation of UK and international aid policy towards providing the necessary financial and political support for the kind of workable 'public' solutions outlined in this document.

1. Introduction

1.1 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 that everyone would have adequate water and sanitation by 1990.[3] Needless to say, 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:

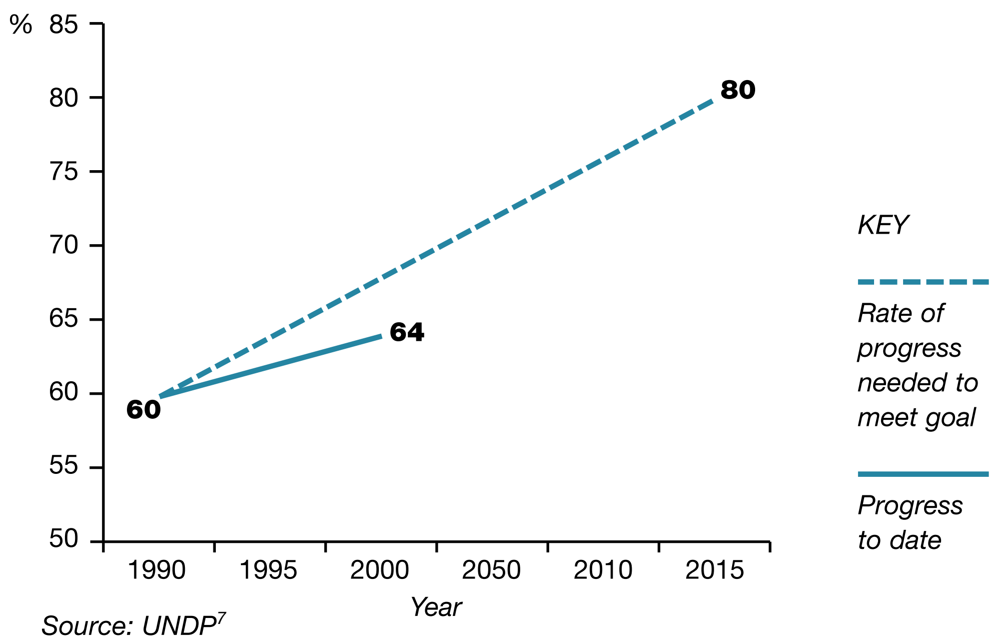
- Under Goal 3 (to promote gender equality and empowerment among women) there are two targets that depend on providing adequate sanitation and better access to an improved water source: 1) the ratio of girls to boys in education; and 2) the ratio of men to women in wage employment in the non-agricultural 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 increasing water and sanitation provision to the poor. But current 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.

Graph 1. Proportion of people in Africa with sustainable access to an improved water source



Source: UNDP[7]

1.2 Privatisation – the single-minded pursuit of 'Plan A'

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 for the poor. But, regardless of the specific problems affecting water and sanitation provision in particular localities, the response from donor governments and institutions has been to use their political and financial leverage to promote 'Plan A' – privatisation.

For over 10 years, the UK Government has, along with the World Bank and IMF, played a key role in pushing 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."[8]

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."[9]

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."[10] These privatisation conditions, of course, included water and sanitation and are still being imposed by the World Bank and IMF.

The much-publicised debt relief process has similarly been used to push privatisation. WDM's own analysis in 2003 of the 'decision point documents' for the 26 countries that had 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. 15 specifically mentioned planned privatisation in public utilities or basic services such as energy, telecommunications, water and transport.[11]

At the same time as creating the debt relief process, the World Bank, IMF and their political masters in the industrialised world, including the UK Government, introduced a system of Poverty Reduction Strategy Papers (PRSPs) that they said would enable poor countries to have 'ownership' over their policies. 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.[12] 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."[13]

The result of Bank and Fund influence is that, typically, PRSPs advocate privatisation of public utilities, deregulation and removal of subsidies (including those that benefit the poor).[14] Although the name has changed, the much discredited structural adjustment-style policies that benefit western companies rather than the poor still predominate.

In the UK, the die was cast during the wave of privatisation, including water and sanitation that occurred here during the 1980s and early 1990s. This created an industry – made up of lawyers, accountants, consultants, contractors and utility companies – reliant on privatisation to thrive. In order for these businesses to grow they needed new markets; in other words they needed other countries to privatise their water and sanitation services.

But the political rationale given to the British public for the privatisation push has not been couched in terms of the need to benefit UK companies. It has instead 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.

A typical example of this line of argument is provided by Clare Short, former UK Secretary of State for International Development, who 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."[15]

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.[16] In fact, the private sector has failed time and again to deliver water and sanitation to the poor and some of the world's largest water multinationals are rethinking their investment strategy in developing countries.[17]

1.3 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."[18]

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 focus on privatisation by donor governments and institutions.

This report is designed to expose this continuing water privatisation push, and those behind it, and call for a different approach by donors to the global water crisis.

The first part of this report describes the failure of privatisation and explains the fundamental flaws that mean multinational profit driven provision of water and sanitation does not work in the developing world. The report goes on to demonstrate how, despite this failure, the UK Government is using its aid budget to pursue 'Plan A'; funding 'water privatisation consultants' to advise developing country governments on reforming their water and sanitation sectors. This 'back-door' approach to influencing developing country government policies and benefiting UK companies can often be achieved without overt conditions attached to aid, loans and debt relief and can be achieved without the overt tying of aid to contracts for UK companies.

The report explains how a relatively small group of consultants – many based in the UK – are a key part of the privatisation process and how they have expanded their operations using UK aid. Case studies are provided demonstrating how consultants funded by the UK taxpayer have promoted privatisation in the developing world against the wishes of many people in those countries.

The report then goes on to describe the range of different solutions, already existing and working well in various parts of the developing world, that are being ignored by donors such as the UK.

And finally, the report calls for a radical change – the need for 'Plan B'. 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. The final section of this report 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.

2. The failure of water privatisation

In this chapter of the report we will:

- define what we mean by privatisation;
- describe the rise and fall of private sector interest in water and sanitation provision in poor countries;
- demonstrate the fundamental flaws that inevitably lead to privatisation's failure to reach the poor.

2.1 Defining the problem: What is privatisation?

On the issue of privatisation, it is important to define what we mean because there are different interpretations of what privatisation is. For example, donors such as the World Bank tend to use the term privatisation only when referring to complete divestiture of public assets (ie, sell-offs) and use the term 'Private Sector Participation' (PSP) to cover a range of other circumstances.[19] When WDM rejects water and sanitation privatisation, we are referring to for-profit private companies (largely comprising multinational companies) and their assumption of responsibility for the *management* of the service – in whatever form this might take. Examples of this handing over control to the private sector include:

- A long-term concession or lease lasting decades, where the private company takes over the whole operation;
- A lease arrangement where a company takes over the assets and management of a utility from the public sector (eg, for 5 – 10 years);
- A management contract, where the private company supplies just senior managers;
- The more obvious, and much rarer, complete sale of public assets to the private sector;
- The private sector building and operating a new reservoir or treatment plant under what is termed a BOT scheme (Build, Operate, Transfer).

This does not mean WDM is arguing that profit-making companies have absolutely no role to play at all in the water and sanitation sector. Away from the 'management of the water service' – which we would call privatisation – is a long tradition of public utilities subcontracting to the private sector in many countries and the private sector can be tapped for building up the management, financial and operational capacity of public services, especially in urban areas. Procurement contracts in other countries have included computer services, engineering works and repair, maintenance and rehabilitation of a network. For example, Porto Alegre's water operation uses subcontracting, including employing Suez subsidiaries on specific construction jobs when they have won competitive tenders. However, in such cases, the *control* remains outside of the private sector's hands – and the arguments against privatisation do not apply in this situation.

Box 1. What is the private sector?
The analysis in this report concentrates on profit-making companies, in particular the involvement of multinational companies (MNCs) in water and sanitation service delivery. This is not because WDM intrinsically dislikes MNCs or other companies but because there are some key reasons why profit-driven provision of water, particularly by MNCs, is fundamentally flawed. It is also a key concern for WDM with regard to the UK Government's role as an influential donor in this field.

It is also important to distinguish the limitations of local attempts at finding solutions to the lack of clean water supply and sanitation, from the problems created by the global pursuit of privatisation. In rural areas of the poorest countries, water services remain extremely underdeveloped. The needs of rural areas are met by a mixture of community self-help, local public sector and contractors, and projects funded by international NGOs. Whatever the deficiencies of these arrangements, they are attempting to provide solutions to problems which are in effect ignored by the MNCs, whose interest, as the following chapter explains, is almost entirely limited to cities where business can be profitable. Funding which follows the MNCs therefore also ignores the rural water problems, and cannot support long term solutions to rural needs nor even sustain the current attempts to bridge the gap.

The same is true of unofficial peri-urban settlements, where millions live without connections to the piped networks in the same city, and depend for their water on water vendors who charge high prices for water of uncertain quality. The MNCs normally exclude these populations from their business, on the grounds that they are not legal

– or profitable – and so cannot be connected. The problem is not the local response to a desperate need, but, again, funding and political support which follows the MNCs means failing to provide solutions to the problems in peri-urban settlements.

2.2 The rise and fall of private sector interest in water and sanitation in poor countries

In the early 1990s, interest in the global water market seemed insatiable. With the domestic market in France increasingly saturated the French water companies were the first to move into middle-income country capitals such as Manila, Buenos Aires, Jakarta and Santiago. The companies aggressively promoted themselves and their potential for delivering water and sanitation solutions in developing countries. During the mid-nineties, with financial support from the World Bank, and donor government loans and grants, the French were joined by UK companies, Thames Water, Severn Trent, AWG and Biwater. This was accompanied by water reform policies across the developing world where private sector involvement was a key element of Structural Adjustment Programs.[20]

In parallel to this private sector push was an awareness that most developing country governments were failing to deliver affordable and sustainable water and sanitation to the poor. It is difficult to summarise the causes of this failure as the situation varies, but broad problems cutting across many public utilities and municipal services included absence of civil society consultation (and in some cases the active suppression of democratic processes), poor urban planning in the face of a rapidly expanding urban population, political corruption, erosion of the role of the public sector, constraints on public finance and government borrowing, weak financial management and lack of qualified staff.[21]

Yet, the reform agenda from the late eighties onwards did not attempt to address specifically these underlying causes of water utilities' failure to serve the poor. The reform agenda was instead characterised by an ideological attachment to promoting the global private sector as the 'solution', regardless of the specific problem. But the private sector has simply been unable to deliver and the privatisation push has hit an economic brick wall. From a high of over US$120 billion in 1997, annual private investment in infrastructure (of which a small proportion is in the water and sanitation sector) fell to less than US$50 billion by 2002.[22]

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. The current sense of disillusionment stands in stark contrast to what should in retrospect be surprise at the spectacular growth of private infrastructure during the 1990s."[23]

By the late 1990s even 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.[24] 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".[25]

The growing scepticism about the ability of the private sector to deliver has not just been limited to the companies. For example, former British Environment Minister, Micheal Meacher notes that: "Private sector finance will certainly be important, but it will generally not be used for basic services … private sector investment is at present insignificant at providing basic water and sanitation services to the very people who most need it."[26]

Unfortunately, as Chapter 3 explains, 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.

2.3 Why does privatisation fail? The fundamental flaws

Massive challenges exist in successfully providing water and sanitation to the poor. Perhaps foremost among these challenges are finance and the integration of water and sanitation provision within planned urban expansion.

Some argue that competition and the quest for profits make the private sector inherently better at providing goods and services than publicly owned operators. In the case of water and sanitation, this is not the case.

For a start, water is a natural monopoly meaning that competition – and any resulting efficiencies – is impossible. As the European Commission's Directorate General (DG) for Competition which, amongst other things, is working on how to organise the water sector within the European Union, recently stated, "the liberalisation of water is unlikely to result in the same benefits as other network industries because a large proportion of the cost of supply of residential customers is incurred by the distribution network (which would remain a monopoly) and there is little scope for supply from distant sources."[27] In short, this is saying that there will be no competition and no resulting efficiency gains.

Add to this the need for companies to generate profits and transfer them to shareholders, coupled with other limitations inherent in the structure and operation of the water multinationals and the result is a consistent failure to meet basic water delivery requirements.

2.3.1 Privatisation results in major price hikes
One of the key criticisms of the private sector is the price hikes that occur once water supply is transferred into their hands. Time and again, a key component of public resistance to water multinationals is anger at price rises. For example, privatisation in Conakry, Guinea, saw a 500 per cent increase over five years – an unacceptably high price that led to the government not renewing the initial ten year contract.[28,29]

In Cochabamba, Bolivia, privatisation led to an immediate 68 per cent rise[30] and, as the water company sought to maintain its profits in the face of non-payment, people were charged for collecting rainwater. As in many other countries, this price increase led to massive protests, including demonstrations by hundreds of thousands of people and non-payment by customers. This eventually resulted in the termination of the contract. Similarly in Tucuman province, Argentina, a doubling in water rates led to a non-payment campaign and re-nationalisation (see Appendix 1 for a longer list of examples).[31]

The fact that multinationals have invariably increased prices has been sometimes presented, or perceived, as the *sole* reason for opposing their involvement in water and sanitation provision. However, the picture is a good deal more complex.

WDM argues that a) we have to look at the reasons that are inherent to the private sector's structure and operation, that oblige them to increase prices more than the public sector (and not just criticise the price increase per se); b) understand that this is only one of several fundamental reasons why the private sector is unable to offer real solutions to the current global water crisis; and c) recognise that price increases can be acceptable to users if they understand and agree with the reasons for the increase and know that the money is being put to good use.

Distributing water to households and managing human waste involves time, effort and considerable resources. A fundamental problem constraining access to water is inadequate infrastructure, ie, pipelines, pumping capacity, storage capacity, water treatment capacity, and metering. As a result the water sector is capital intensive – which means that the cost of money for investment in the system is a more important factor than other costs such as wages. The level of investment required in the water and sanitation sector in developing countries is therefore huge – and somebody has to pay. Whether water and sanitation are in public or private hands, this money has to come from somewhere, whether out of general taxation or charged for directly. However, there are additional complications for multinationals when it comes to finding and investing adequate sums of money. These make it impossible for them to engage in this task in the most effective way.

First, like the public sector, multinationals borrow to raise finance. However, companies have to pay higher interest rates than the public sector when they borrow from the markets, because their credit ratings are worse than governments – and even low income developing country governments can access finance at favourable terms from development banks (eg, by borrowing money from the International Development Association – the World Bank's most concessionary lending arm).[32] Private companies therefore must earn more from water delivery than public providers to pay back these more expensive loans and this entails higher prices. If the private operators were significantly more efficient than their public counterparts, maybe this would compensate for higher borrowing costs but the evidence shows this is not the case.

Across various services there is a growing body of evidence to suggest that both the public sector and alternative forms of service supply (eg, not for profit and community managed systems) can achieve levels of efficiency and effectiveness equal to or beyond those of the standard privatisation model.[33,34,35] For example, an empirical global energy sector study examining the performance of both public and private energy companies concluded that in generation, transmission and distribution there is no significant difference in efficiency between the two types of operator.[36]

In the water sector specifically, research suggests that the private sector is no more efficient or effective than the public sector. As one research article concludes, "The results show that efficiency is not significantly different in private companies than in public ones."[37] Another report concluded that the studies it analysed, "reveal that there is no compelling evidence to date of private utilities outperforming public utilities or that privatising water utilities leads to unambiguous improvements in performance."[38]

And research in Europe has demonstrated that public operators in countries such as the Netherlands, are as efficient as their private sector counterparts in England and Wales.[39] On the critical issue of leakages, they significantly out-perform the UK private companies. For example, in 2003, the average leakage rate across the water sector in the Netherlands was 5.4 per cent.[40] In England and Wales, the leakage rate is 23.3 per cent on average, and 32.9 per cent for Thames Water – the UK's most internationally active water company.[41]

Second, multinationals must make profits for shareholders. Their bottom line of legal accountability is to these shareholders (often based in the company's home country) for whom the company aims to produce the highest possible dividends. The rates of return demanded by companies investing in poor countries are significantly higher because of the perceived risks – the concessions in Santiago and Cochabamba for example guaranteed a rate of return of 16 per cent – 18 per cent.[42,43] Such rates are at least double the cost of commercial lending to the public sector.[44] Rates of return demanded by companies operating in sub-Saharan Africa are even higher (as much as 30 per cent per year), up to 20 times the cost of official lending to the region.[45]

A basic tension therefore arises between the goal of creating a return for shareholders at rates deemed high enough to compensate for perceived risk, and the requirements of a public service – where universal coverage and re-investment in improving the network are critical. In order to meet this dual obligation, prices must rise. Generating high rates of return and paying dividends to shareholders inevitably means money is diverted away from reinvestment.

Third, multinationals are unavoidably exposed to foreign exchange risk because they need dollars but they only receive local currency from consumers. For example foreign companies repatriate their profits in foreign exchange, which is a serious source of additional pressure on both the operation itself and the host country's balance of payments, given that water and sanitation provision do not generate exports (and thus do not directly generate foreign exchange). Foreign companies may also face greater currency risks than governments due to higher exposure to external commercial loans. Governments of larger developing countries may be able to raise *domestic* finance thus avoiding the problem altogether, and the poorest countries are most likely to be financed through grants or through IDA – the World Bank's most concessional lending arm – meaning their currency risk is less than for companies borrowing commercially.

If the local currency falls against the dollar for any reason, or is devalued (as often happens in times of economic crisis, which is when the vast majority of water contracts are renegotiated), the companies must seek substantial increases in tariffs in order to maintain their revenue at uniform value in dollar terms, as they have done in Jakarta, Manila and above all in Argentina. Although the multinational's foreign exchange problems are not the fault of the communities it supplies, it is these communities that suffer when they are forced to buy water at unaffordable prices.

But, rather than fundamentally rethink their approach to water and sanitation provision, the donor response has been to attempt to overcome these inevitable failings by using public money to prop-up the private sector (see Chapter 3).

The key questions to ask about price increases concern why they are being introduced. Is it to increase the revenue of the operator for reinvestment? Is the additional surplus being directed into connecting those communities who remain outside of the system, or is it being used to boost company profits and/or compensate the company for exchange rate fluctuations? And then it is important to consider how the price increase is being implemented (ie, which communities are being targeted and how are users being informed about it).

As already indicated, price increases may well be an important lever in many developing countries for ensuring improvements in the water and sanitation sector. For example, the operator in Porto Alegre got public agreement through a participatory budgeting process to an 18 per cent increase in prices to finance a new sewerage treatment plant.[46] However, price rises must be part of an integrated policy process which ensures:

- They do not make water supply unaffordable. This includes taking into account the 'substitution effect' – the impact on the poor when they substitute expenditure on other essentials to meet their water costs. With extremely tight budgets, the poor can only pay for any increase in water expenses by sacrificing what they may have allocated to other essentials such as health, food, clothing or education.[47]
- That surplus must be reinvested in a way that improves the service, not taken out as profit for distant shareholders.
- There is cross-subsidy in terms of tariff scale to ensure fair and affordable prices.
- They are accompanied by other measures designed to improve the service; eg, more participatory decision making and focus on improving revenue collection.

The issue of cross subsidies is worth particular mention. Subsidies and cross-subsidies are agreed by almost everyone to be necessary to develop water systems so that the financing burden is spread onto people who can afford it better, either through taxes or higher charges for higher consumption. These subsidies and cross-subsidies benefit everybody who is connected to the water system. However, people who are not connected – often the poorest – pay far higher prices than those who are.[48] But this is not necessarily because the subsidies are inherently unfair or discriminate against the poor, but because tankers and bottles are a far more expensive way of transporting water than a network of pipes and taps. For example, in the UK, tap water costs around 0.03 pence per litre while bottled spring water costs much more (often around 90 pence per litre). Eliminating subsidies doesn't help the poor, in fact it reduces their chances of getting connected to the piped network – and, particularly in urban areas, it is connection to the network that must happen for the poor to get affordable water of a reliable quality.

2.3.2 Privatisation routinely fails to extend networks to the poor

The second fundamental flaw in the idea of transferring management of water and sanitation to the for-profit private sector is the problems companies have in extending networks. The private sector's profit-motivated aim means that following privatisation there is often a rapid expansion in the level of billing and installation of meters. Unfortunately, increasing connections is less of a priority and investing in the network, in some of the most trying of circumstances, is at the bottom of the list.[49]

This has led to a catalogue of broken promises. The situation in Manila, Philippines is illustrative of this failure. Suez subsidiary Maynilad has been responsible for water delivery to the western half of Manila since 1997, but has failed to meet contractual obligations on service expansion. Instead the company has insisted on continuous price hikes, resulting in a 500 per cent price increase in the first six years. In 2002, the government refused to approve a rate hike at the level requested by the company. The company took the case to an international arbitration court which they hoped would rule against the government and allow Suez to reap compensation for investments and expected profits.[50] The contract has subsequently been terminated, and Suez did not win its compensation claims in this case.

As many of the poor do not have access to networked services, the cost of connection may be at least as important as tariff levels. In some of the poorest regions, the connection tariff is so high that it is prohibitive for poorer consumers. For example in Buenos Aires, unconnected customers in the poorest regions were asked to contribute almost 20 per cent of their income to water connections.[51]

2.3.3 Where does the money come from?

Increasing investment and curtailing the drain on government budgets have been key arguments used in favour of privatisation. For example, in 2000, the World Bank stated, "Urban power, water, sanitation and telecommunications require large investments, even if efficiency is improved. But much of this funding can come from the private sector – indeed, privatisation can be a source of revenue for cash strapped governments."[52]

Yet the real world experience has not borne out the claims made by donor governments and institutions on behalf of the private sector. Instead of encouraging investment, privatisation has left governments offering increased concessions to entice investors to acquire their assets – often to meet the requirements of donors.[53] For example, between 1991 and 1998 the Brazilian Government made some US$85 billion through the sale of state run enterprises. However, over the same period, it spent US$87 billion 'preparing' the companies for privatisation.[54]

Rather than being a major source of finance, private contractors are committing little of their own capital and are instead looking to municipalities, central government or donor governments/institutions to provide the money. In Ghana, for example, if the planned water privatisation goes ahead, the Government is expected to finance all the capital investment for the foreign company running the water supply. It will have to raise US$500 million from donors, including the World Bank, the African Development Bank and bilateral donors like DfID. It is practically forbidden to raise capital from other sources,[55] leaving Ghana with the debt but no guarantee that the required investment will take place. Similarly, in Peru, all of the money for a private sector water project originated at the Inter-American Development Bank.[56]

In fact, in many cases foreign companies are relying on the donor community to bail them out when they get it wrong. In Guyana, aid morphed into business subsidy when DfID funded Severn Trent International's water supply management contract.[57] Despite the improvements promised by the introduction of Severn Trent's management skills, many Guyanese are facing bills for water they've never received and there are regular instances of water being cut off for weeks without explanation.[58]

The state of affairs is bad enough for the Guyanese Minister for Housing and Water to have publicly criticised the company's performance six months after their contract started. Severn Trent put the problems down to lack of capital and it has requested more money from DfID to compensate.[59]

The major water multinationals are certainly not shy about asking for government handouts. 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."[60]

2.3.4 Privatisation encourages 'cherry picking'

Private firms are selective about the type of investment they undertake and the customers they serve. This 'selectivity' – or 'cherry picking' as it is also known – can take three forms.

First, the short-term strategy of the multinationals is to avoid cities and countries that are assessed as unprofitable.[61] For example, in February 2001, a presentation by two Vivendi (now Veolia) Water executives at a conference on the reform of the water sector in Africa emphasised that the requirements of low risk and profitability limited private investment to "big cities where the GDP/capita is not too low".[62]

And World Bank figures show that private investments tend to flow into the middle-income developing countries where there is relatively more political, economic and social stability.[63] Meanwhile, sub-Saharan Africa, the region with the greatest poverty, and where access to water and sanitation is lowest, gets less than one per cent of total private investment in water and sanitation worldwide.[64] In other words, unsurprisingly, companies are 'cherry picking' countries or cities where they can make most money.

A second form of 'selectivity' is to ring-fence or 'cherry-pick' profitable customers *within* a city or district as a method to ensure a contract will generate enough profits. For example, boundaries are defined so that shanty towns are not included (for example in Cartagena, Colombia),[65] or more hard-to-connect areas, such as rural areas, are omitted. Under the current private sector tender plans in Ghana, the private firm is not responsible for rural water and small town systems.[66]

A third form of 'cherry picking' is splitting up the operation and giving the private sector the profitable part. For example in Guinea, private operators were given responsibility for billing customers for water while the government owned company bore the costs of operating and maintaining the infrastructure. The private firm made a profit while the state owned enterprise made a loss; not necessarily due to the nature of ownership, but because the private firm had adopted the profitable aspect of the business and not the loss making component, which stayed with the government.[67]

And in Ghana, the current plans mean that the private company will be exempt from all responsibilities regarding sewage and waste treatment. The more costly parts of the water system have been omitted from the contract, and arrangements mean that the "supposedly inefficient, corrupt and incompetent State has been burdened with the most daunting tasks – a set up that is sure to make it fail".[68]

This 'cherry-picking' approach tends to undermine one of the key arguments often used in support of privatisation; that governments should off-load loss making enterprises to save money. A study of African privatisation found that those enterprises that had been sold had not been a drain on government resources in the first place.[69]

A key part of overcoming poverty is the universal supply of basic services such as water and sanitation. It is an important government responsibility and cross-subsidising from richer to poorer, is a critical tool for achieving this. Yet the privatisation process intrinsically makes this job more difficult by creaming off the most affluent customers who often already have water supplies, or creaming off the most profitable parts of the service, and leaving government with less money/reduced revenue to invest and extend the service. Inevitably this makes poor countries even more reliant on donor hand-outs.

2.3.5 ***The challenge of integrating water and sanitation provision with urban expansion***

Structural defects in development planning and the rapid growth of urban squatter settlements over the last few decades are a root cause of inefficiency in water supply delivery. In most developing country cities, the population has grown, while water connections have not. The National Coalition Against Privatization (NCAP) in Ghana argues this is the root cause of the water crisis, where the absence of structure plans for the cities and the absolute lack of planning controls have resulted in haphazard development, uncontrolled expansion of the cities, congestion and lack of access to water and sanitation networks in the congested areas.[70]

The piped connections associated with adequate water and sanitation involve complex engineering. In Europe, for example, connections are laid before a zone is inhabited; in other words water supply directs and controls urban expansion, as it is very difficult to complete the necessary work once the area is occupied. In most developing countries, the reality is different and the incoming water providers face the daunting task of connecting overcrowded communities. For example, in one area of Accra, it is estimated only 20 per cent of the houses can physically have a water connection.[71] For the rest of the households in this area, there is simply no yard access.

These defects in water access linked to urban planning are fundamental to the crisis and must be addressed through public policy measures. Resources need to be directed at specific areas in order to facilitate connections – a very expensive process, and one which people in these areas cannot pay for. In order to encourage the most appropriate connections, public policy may entail breaking the city down into zones in order to encourage more participation in the search for solutions. This is being proposed in Manila, a city with 10 million inhabitants, many of whom live in slums with no access to piped water.[72]

Although it is clear that the public sector is not managing to integrate water supply and sanitation with urban expansion in many parts of the developing world, this is not a problem inherent in public sector provision. The private sector, however, may face more problems. With its obvious focus on prioritising profit over need (and thus its tendency to 'cherry pick') the private sector is not best placed to integrate water supply with urban planning. Consequently, it has been suggested that, in these high-risk situations with limited space for manoeuvre and incentives for opportunistic behaviour, the multinational private sector cannot be expected to play a lead role in the poorest regions of the world where water and sanitation needs are the highest.[73]

Box 2. Privatisation successes in developing countries?
Proponents of privatisation can, of course, point to cases where it is claimed privatisation has worked, so it is important to examine the issue of privatisation 'successes'.

First, a broad point to make is that recent studies, both by and for the World Bank suggest that the private sector is able to deliver no more than 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.[74] Similarly on 'improving efficiency', as already mentioned, a study for the World Bank concluded that there is no significant difference between the public and private sector.[75] Where privatisation has worked, it is therefore important to acknowledge that the evidence suggests a reformed public sector would have been capable of delivering a similar performance.

Second, it is important to ask questions about the circumstances under which the private sector has managed to overcome some of the fundamental constraints which limit its success. For example, in Santiago, Chile, privatisation has worked in large part because the private company took on the operation of a water and sanitation system which was functioning well under reformed public management. A study for the World Bank noted that in 1996, pre-privatisation, it was the best performing water utility in Chile and quite possibly the best in all of Latin America.[76]

Other ways in which the private sector is made to appear more successful is by redefining the contract, either by changing who is classified as poor or by redefining the service provided. So in Cartagena, Colombia, the shanty town areas are treated as not covered by the contract because they are not in the city area. In La Paz, Bolivia, where the contract said unequivocally that everyone, including the major shanty town of El Alto, had to be connected, the company (Suez) argues that 'connection' does not mean a piped connection but may just mean access to a standpipe or tanker.[77]

Alternatively, companies have sought help from the poor themselves – through for example voluntary labour and/or collective provision of materials. The company provides a water supply service on condition that the community 'donates' labour, goods, and/or finance. Such techniques were used in Buenos Aires, during the Aguas Argentinas concession, and water supply was extended to some of the poorest barrios. This is now being marketed by Suez as a demonstration of its 'pro-poor' approach, and the success of privatisation.[78]

Finally, companies can seek help from governments. As outlined in Chapter 3 of this report, companies are demanding public subsidies in order to make privatisation work, and governments are responding.

3. The Donor Response

In this chapter of the report we will describe the donor response to the failure of multinational companies in the water and sanitation sectors of developing countries, and in particular will:

- Show how the UK Department for International Development (DfID) has been a key player in redefining the donor strategy towards the private sector;
- Explain DfID's use of 'technical assistance' to channel aid money to various consultancy companies – many from the UK – to 'advise' developing countries on 'reforming' their water and sanitation sectors;
- Expose the 'privatisation consultants' that are a key player in the whole process and how they have a clear privatisation agenda;
- Demonstrate that DfID has been central to the development of 'multi-donor finance initiatives' aimed at using public money to pay for privatisation policy advice and subsidise multinationals in developing countries.

3.1 The UK's role in the emergence of a new private sector strategy for water and sanitation

As early as 1997, international water companies were indicating that their interest in developing countries was diminishing because of problems associated with scale, risk and the difficulty of making a profit. But despite these problems, donors were still wanting to push private sector 'solutions' to the water crisis. For example, the water policy of DfID hinges on faith in the need for, in its own words, "increasing efforts to encourage private 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."[79] Both the companies and the donor governments such as the UK recognised the need to act and began to develop a strategy that would facilitate the re-engagement of multinationals in developing country water and sanitation.

A first key strategic milestone that led to a new 'donor consensus' was a meeting organised by DfID and the Institute of Directors (IoD) – a UK-based business lobby group. Shortly after the New Labour Government was elected in 1997 the IoD hosted a meeting in London, supported by DfID, aimed at addressing the problem of how to entice the private sector back into water and sanitation in developing countries. Several hundred people attended including bankers and financiers from the UK and abroad and the discussion focused on what they called the 'enabling environment' (ie, what was needed to enable them to provide finance for developing-country infrastructure projects). Issues addressed included 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."[80]

As a result of the new strategy, attempts are underway to, for example, enable multinationals to access lower interest finance through privatisation plans that require the Government to raise finance from concessionary official sources such as the World Bank and the African Development Bank. These governments are then required to set up an operating fund from which the foreign company will draw for specific capital projects. This is the situation with the current concession plan in Ghana; an arrangement that has been highly criticised by local campaigners because it will lead to more government debt without the guarantee that expected infrastructure development will take place.[81]

At the same time, James Winpenny, a key strategic policy maker for both DfID (as an external consultant) and the World Bank, was involved in writing what is now known as the 'Camdessus report'. This second key strategic milestone was on 'Financing Water for the Poor', and was presented at the Third World Water Forum, Kyoto, in March 2003. First, the report focused on finance, and its recommendations institutionalised as accepted policy the kind of measures outlined above. In other words, the use of bilateral aid and World Bank money to help provide guarantees against political risk, finance private sector tendering costs and reduce currency risk. All such proposals are essentially public subsidies that reduce the risk for private sector companies wanting to operate in developing country water and sanitation sectors.

Second, the report legitimised a role in water and sanitation for a whole new group of companies. It made the case for using aid money to fund the work of private consultancy companies to facilitate public sector 'reform' – a way of working already being practiced by DfID. The report's emphasis on financing tendering costs focused on the need to generate assistance through aid money for, "(T)he creation of revolving Fund or funds consisting of grant money to finance the preparation and structuring costs of complex projects (including private sector participation and other innovative structures). The fund would be used to cover the legal, financial and technical advisory costs of the preparation and structuring of projects up to and including the tendering and negotiating phases. The Fund would be replenished, partly or totally, by the public partner on the award of the project to the successful bidder."[82]

This donor-funded involvement of consultancy companies would directly benefit a number of UK companies. As the UK Parliamentary Office of Science and Technology noted in its 2002 report on *Access to Water in Developing Countries*, "The UK has a particularly high reputation for its consultancy advice in this area."[83]

A critical issue for DfID has been how to organise the funding of these various privatisation initiatives. WDM has learnt from a source close to DfID at the time 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. Instead, DfID has pursued a mutli-track approach involving some bilateral funding for consultancy work but also the creation of a series of what are called 'multi-donor initiatives' (see Section 3.3).

A side-benefit of – or perhaps even a central rationale for – the funding of pro-privatisation consultants and the creation of funding mechanisms that only provide aid for private sector involvement in water and sanitation (ie, they do not provide aid for public sector provision) is that it is more consistent with UK Government and World Bank rhetoric on 'country ownership' of policies.

While overt conditionality does still exist – exercised through the IMF's Poverty Reduction Growth Facility (PRGF), the World Bank's Poverty Reduction Support Credits (PRSC) and through the 'decision point' documents of countries going through the HIPC debt relief process[84] –

the World Bank and bilateral donors are, more and more, claiming that they are simply supporting policies that are contained in a country's own PRSP.

PRSPs are supposedly drawn up by poor countries themselves, as a condition for receiving grants or loans. Yet, in The Gambia, Ghana, Guinea, Malawi, Mali, Mozambique, Nicaragua and Yemen, water privatisation was already a condition of a Bank and/or Fund programme before being included in the PRSP, so these countries had little choice.[85] In all, 27 of 43 PRSPs include water privatisation or greater private sector involvement in water supply services as a specific goal.[86]

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 (see Section 4), so privatisation is not a foregone conclusion and therefore needs political backing to make it happen. So the way donors are pursuing a privatisation agenda, while at the same time claiming they have no agenda, is not so much through strict conditionality, but by providing funding for 'privatisation consultants' and for private sector-only initiatives. 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 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.

Recent statements from World Bank staff suggest that the World Bank is rethinking its approach and that the World Bank is prepared to fund the public as well as the private sector.[87] Chapter 4 also shows that the World Bank has been prepared to fund public sector reform, although seemingly not without a struggle. However, the current evidence presented in this report in terms of money and effort suggests the Bank is still heavily focused on pursuing privatisation.

3.2 Facilitating reform: How DfID uses aid money to fund 'privatisation consultants'

Under the guise of what is called 'technical assistance', DfID is using aid money to pay a range of largely 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: from producing 'master plans' on how to reform the water sector in preparation for the private sector, to running public relations campaigns showing sceptical communities that privatisation is what they need. These 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. As already mentioned, the 'Camdessus report' also promoted the use of consultants when it talked about the need for additional finance to fund pre-privatisation legal, financial and technical advisory costs.

While one part of the UK Government – DfID – is creating mechanisms (both bilateral and multi-donor) to facilitate the use of tax-payers money to fund consultants, another part of the UK Government (called UK Trade and Investment) is using taxpayers money to help UK consultants win the contracts funded by DfID. As UK Trade and Investment says, "The UK has a great deal of practical knowledge and expertise to offer with regard to the expansion, maintenance and management of a complex infrastructure system and in particular with regard to private sector participation in the same. Apart from world class utilities, contractors, equipment suppliers and consultants there are also leading firms of financiers and lawyers to back them up. The long term future of these companies is crucially dependent upon their expanding worldwide operations."[88]

The consultants that benefit from such contracts come from a range of business sectors. They include:

- Sector specialists such as Halcrow, Jacobs Babtie, Mott Mcdonald and WS Atkins;
- Free market management and business consultants such as Adam Smith International, London Economics, Castalia and Cambridge Economic Policy Associates;
- The consultancy arms of the big four accountancy firms; PricewaterhouseCoopers, KPMG, Deloitte Touche Tohmatsu and Ernst & Young.

As already mentioned, as well as bilaterally funding these companies, DfID also puts millions of pounds of UK aid money into a range of multi-donor mechanisms (see Section 3.3). The most significant of these for the water privatisation consultants is the Public Private Infrastructure

Advisory Facility (PPIAF) which is specifically designed to fund private sector technical assistance.

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), all of whom are involved in funding some/most of the consultancy companies mentioned here.

The fact that there is a need to reform the water sector is not in doubt. The problem is not that governments do not recognise this reform as important; the problem is that when a developing country government approaches donors asking for financial aid, the funding pays for studies by pro-privatisation foreign consultants. As is highlighted in the case of Ghana below, key studies are often commissioned and paid for by donors such as the World Bank and DfID and not tendered in the country concerned. The terms of reference for the consultant are drafted by the donor. While the commissioned company might name their client as the developing country Government, or the public water authority, in the words of one consultant, "the client is double-headed, in the sense that you are answerable to two bosses, ie, the country government – typically through the water authority, which is overstaffed and inefficient – and the donor agency".[89] The consultants who pick up these contracts time and again promote various forms of privatisation as the only 'option' (see below). Following this so-called 'option study', the World Bank or regional development bank agrees to fund the restructuring, as long as the consultant's master plan is followed.

Consultation and public scrutiny of the consultant's work is virtually non-existent. In Ghana, the campaign against the privatisation proposals noted how, "the typical approach was for foreign consultants to undertake the research and report their findings to a carefully selected group of 'stakeholders'. At no time were the options published in any newspaper or publicly debated over the radio or public forums with those who thought differently."[90]

Box 3. Madhya Pradesh: An example of how consultants really consult the public

In Madhya Pradesh, India, one activist describes his interaction with the consultancy company Halcrow:

"They gave me an opportunity to be a part of the consultation with respect to an ADB TA [Asian Development Bank Technical Assistance project] on Integrated Water Resource Management Strategy. The letter to me was dated 28 Nov (2002), received by me on 5 December and I was to send my response by 6 December. They wanted me to write to them about how I might best participate in the proposed consultative group, why I might want to do it; and any comparative advantage that I … might have with respect to the effectiveness of the proposed group. They did not mention 'compared to' what or whom."

"The letter also said that: 'this invitation is not limited to friendly interests … we have been specifically asked to include some of the Government's more active and vocal critics … Accordingly, for those of who (sic) consider yourselves to be 'in the other camp' please do make it clear in your response why your dissent is so important.'"

"I wrote a strong letter, primarily talking about the short notice, but also responding to their above mentioned three questions. This set off a series of exchanges, with the person from Halcrow starting with a highly condescending, patronizing letter that could barely hide his disgust and dislike of critics and dam struggles. Ultimately, I was called for the meeting, but again with such a short notice that I could not go. I then asked them to keep me briefed on the same. I never heard from them again, nor about whether any group was set up, or what happened."[91]

Once the government agrees to implement the consultant's reforms, further aid money is released. Within this contract is usually a condition that more consultants are employed. For example, the World Bank's recently agreed loan for water sector restructuring in Madhya Pradesh has a budget of US$20 million for consultancies, with some large loans for institutional reforms.[92] In Ghana, a source close to DfID said that, "DfID provided funding specifically earmarked for asset studies and financial studies including those done by London Economics and

Halcrow."[93] Meanwhile, the World Bank provided funding for transaction advisers Stone & Webster, and other consultants hired during Ghana's privatisation planning process.

It is clear then that throughout any single country's privatisation preparation and execution, numerous consultants are participating. Figure 1 (next page) provides a broad typology of the privatisation process to give a better indication of how consultants are involved at various stages. The companies described in the following pages are often working on different elements of the same reform package in any one developing country over a period of several years.

The fact that the privatisation process creates a range of opportunities for further consultancy work means that it is obviously in the consultancy company's own commercial interest to push privatisation in the hope of picking up more aid-funded contracts along the way. The next section demonstrates that this commercial interest is also reinforced by an ideological attachment to privatisation amongst key consultancy companies.

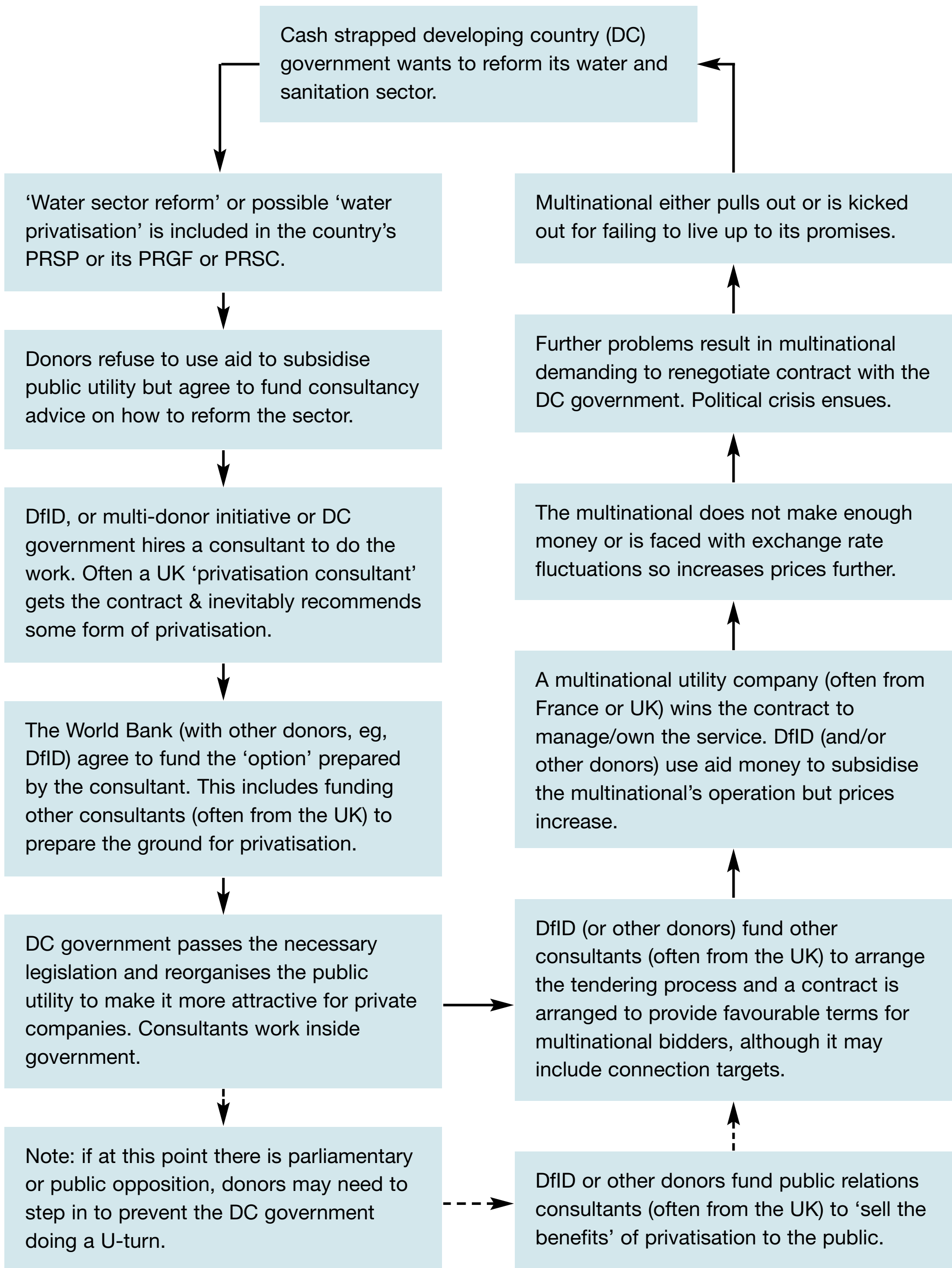
3.2.1 The sector specialists

"Halcrow is one of the few firms in the world that has successfully carried out the privatisation of water sector infrastructure. Building on the involvement in the privatisation of the water industry in England and Wales, Halcrow has developed an international reputation as a leading independent adviser in privatisation and other forms of private sector participation with an unrivalled track record."[94]

"The consultancy services include provision of specialist interest assistance throughout the privatisation process … with the ability to provide a seamless transition from the public to the private sector."[95]

So, claims Halcrow, one of a number of UK-based private-sector infrastructure specialists. On its website, Halcrow talks about how, "the last ten years have seen a period of extensive growth and development for Halcrow. Staff numbers have increased from 1700 to over 4000 and turnover has tripled to approximately £160 million. In February 2004, a new director was appointed for the water and utilities programme. His main responsibility is expanding global operations."[96]

Figure 1. A typology of the privatisation process



PRSP = Poverty Reduction Strategy Paper: Supposedly country owned strategies that are heavily influenced by the IMF and World Bank.
PRGF = Poverty Reduction and Growth Facility: IMF loans with conditions attached.
PRSC = Poverty Reduction Support Credit: World Bank loans with conditions attached.

Yet the company's claim to provide a 'seamless transition' has been proved wrong time and again: Halcrow-advised privatisations in Bolivia, Trinidad and Tobago, Ghana, South Africa, India and Sri Lanka have all been reversed or otherwise held up by public opposition. WDM's research suggests Halcrow is taking a key role in more aid-funded water privatisations than any other UK consultancy company. Wherever its name is mentioned, water privatisation and public protest are almost sure to follow.

Box 4. DfID, Halcrow and resistance to privatisation in Ghana

One of Halcrow and DfID's fiercest critics is the National Coalition Against Privatisation (NCAP) in Ghana. In 1995, with a grant from the Overseas Development Administration (DfID's predecessor), Halcrow kicked off the privatisation plan with the 'Ghana Water Restructuring Study', which evaluated the options for private sector participation in the urban water sector. While the report recommended seven options, the scope was narrow and they all involved privatisation. NGOs in Ghana noted how, "Halcrow were given a very narrow terms of reference. They did not look at public-public arrangements, and so their report could not have, and did not provide a full picture of the options available."[97] During a three-day workshop, the option chosen was that which "was perceived to offer greater flexibility for private sector participation in the Ghanaian environment".[98]

A May 2002 memorandum presented to the Government of Ghana, by the NCAP states that, "The framework is largely imposed by external interests in a non-transparent process that has deliberately avoided public scrutiny and democratic debate", and it singles out consultants as, "firms [that] all happened to be ideologically favourable to privatisation and had a track record working for the large private water companies. All the studies concluded that the model of privatisation being proposed by the World Bank, their direct client, is the best one for Ghana. That said, the implementation was driven by the forceful conditionalities of the IMF and DfID loans."'[99]

A source close to DfID acknowledged at the time that DfID provided, "funding earmarked for asset studies and financial studies including those by Halcrow. In total DfID has provided £2.8 million in technical assistance to the privatisation process."[100]

In Madhya Pradesh, India, water activists are preparing to fight the water reform promoted by a September 2004 World Bank loan, which plans to "transform the water sector into a fully commercial market operation accompanied by privatisation".[101] The new loan, titled Madhya Pradesh Water Sector Restructuring Loan amounts to some US$396 million. The preparatory consultancy for this project was financed through the Asian Development Bank (ADB) by British aid money, through a technical assistance grant of US$500,000.[102] The consultant selected for this contract was Halcrow, and it is this work that has formed the basis of the World Bank loan.[103] Those opposing the Bank's loan conditions implicate DfID as the root cause of the ill-conceived privatisation plan. Not only did DfID provide initial finance for the project, the World Bank's Project Appraisal Document for the loan states that the "rationale for Bank involvement" is "achieving synergy with the efforts of development partners such as the ADB and DfID".[104] The World Bank has also noted that, "DfID has expressed an interest in working in the Madhya Pradesh water sector with the Bank, particularly on the reform areas."[105] So far through the World Bank, in terms of project preparation, DfID Trust has spent US$118,000.[106] This is money additional to that spent by DfID through the ADB.

Groups based in Madhya Pradesh are deeply critical of the water plans and are concerned that the process will mirror that which took place in the power sector. In 1996, the World Bank sanctioned a parallel loan in the power sector to the State of Orissa and this became the model for power sector restructuring across India, despite the negative consequences.[107] Similarly, the fear is that the Madhya Pradesh water loan is designed to commercialise water in this State, and thereby provide a model for reform in the rest of India.

Halcrow has also been active in the privatisation push in Sri Lanka, which has been criticised by a major coalition of NGOs, worried about proposed private control of water supply, distribution and even ground water ownership.[108] It describes its current work there as a "major ongoing water and natural resource project", where the purpose is "private sector participation in water supply in Sri Lanka".[109] Halcrow has received substantial amounts of aid in the form of technical assistance from the ADB, funded by Japan, to work on water policy and privatisation, for which it has been heavily criticised.[110] The company has played a key part in the reform recommendations and, in December 2000, also participated in a British water investor mission to Sri Lanka; a mission associated with the "new opportunities [that] are opening up in the water sector."[111]

DfID has funded Halcrow directly for the pro-privatisation 'Guyana Water Sector Strategy', which led to a private sector management contract, picked up by UK company Severn Trent.[112] Halcrow's work in 1994-5 in Trinidad and Tobago, designed to bring "private sector involvement in the water and sewerage authority",[113] resulted in another management contract for Severn Trent. However, the plan ended in disaster when the water company was sent home in April 1999.[114] The contract in Guyana has already run into problems, with Severn Trent calling for more money to invest.[115]

Halcrow has also received British aid money for a range of water contracts in South Africa. There is strong resistance in South Africa to the private sector reforms that are taking place as they are failing to improve water supply and sanitation for those in need.[116] Halcrow's work has included public relations aimed at convincing the South African people of the benefits of privatisation. The company describes the purpose of one contract as "community training, building in a choice of private sector options for the acceptance of PSP in the sector and holding workshops on key issues and barriers to PSP".[117] They have also received DfID aid money through the World Bank's PPIAF for extensive reform and pro-private sector restructuring advice in Kenya.[118]

Although a number of Halcrow's contracts have come through multilateral institutions such as the ADB or World Bank (so are 'indirectly' funded by the UK), the company has received over £2 million directly from DfID for consultancy work since 1997. In addition to those already mentioned, water-related contracts have included: "World Bank Toolkits For Private Participation In Water And Sanitation" and "DfID Public/Private Partnerships – The Way Ahead – Second Edition".[119]

The company's ability to penetrate the global market and lever government finance for its work is a core element of its corporate strategy. Halcrow's CEO, Tony Allum, is the Chair of British Water, "the leading trade association representing the interests of the water and wastewater industry in the UK and overseas … British Water lobbies governments and regulators on behalf of its members and provides vital information on home and overseas water and wastewater markets – how much is being spent, by whom, where, when, how and on what."[120]

The influence of British Water helps Halcrow access more donor-aid financing for its work in the water sector where the company boasts how its "commitment to continue offering innovative consultancy services and business solutions to the World Bank, African Development Bank, Department for International Development, European Union, sovereign governments and the private sector, makes us a valued partner".[121]

Halcrow's reach into the water restructuring market is clearly deep; as is its ability to obtain British aid-related finance for its work, whether directly as a bilateral project, or indirectly through the World Bank or the regional development banks (eg, Asian Development Bank). Meanwhile, the track record of resistance to their recommendations is growing; a resistance which often surfaces once they have packed up and moved onto the next contract.

Box 5. Some other sector specialist 'privatisation consultants'
Alongside Halcrow are a number of other engineering and construction companies engaged as consultants promoting privatisation in the water and sanitation sector, often with the use of donor-aid money.

WS Atkins "provides services to governments, water companies and lending agencies to allow them to develop forms of private sector participation that suit the particular local circumstances".[122] Contracts have included private sector participation advice in: Barbados, Russia (Moscow), India (Bangalore), Thailand, Turkey (Izmit) and Sri Lanka. DfID funded its studies in Ghana, which "aimed to provide a revaluation of the company's fixed assets and an estimate of the capital investment required to implement improvement works over a 10-year lease period. The Commission formed a key part of the Ghana Water Company's preparations for private sector participation. As a natural progression from this work we were commissioned to prepare the technical inputs to the bidding documents."[123] In Kenya, the company's "study involved institutional and organisational restructuring proposals, the development of a financial model and the setting of performance indicators".[124]

Jacobs Babtie "has acted as Transaction Adviser on major privately financed wastewater and water projects in a range of countries including China, Turkey, Nigeria and the UK". The company goes on to claim that, "Private sector involvement in the provision of water and wastewater services has proved beneficial to all parties, provided the process is effectively designed and managed."[125]

Mott MacDonald provides engineering and consultancy services in water, along with many other sectors. Its advice can be on complex engineering concerns, but it also runs 'Management advisory services', which includes "providing strategic technical advice to the international development banks on water and wastewater services … providing transaction advice to a public sector entity wishing to introduce the private sector as a partner … help governments, beneficiaries and other stakeholders establish appropriate strategies for transferring responsibility to the private sector."[126]

3.2.2 Business management consultants

According to the company's web site, Adam Smith International (ASI), "is a leading independent international development consultancy, based in London … Our core expertise lies in the fields of government and enterprise/utility reform and in a range of closely related critical support areas, notably policy communications … Our clients include the international donor community (who fund the bulk of our work), national governments and the private sector."[127]

ASI is the global consultancy spin-off from the right wing think tank, the Adam Smith Institute. Since DfID's inception in 1997, ASI has received significant amounts of aid money for the promotion of private sector reforms in developing countries, including the water and sanitation sector. In this area, the company notes that its expertise lies in, "Enterprise and Utility Reform – PSP/privatization, utility reform, institutional and regulatory reform, communications and public awareness, labour reform."[128] Since 1997, DfID has given £1,514,676 to ASI for specific work on water contracts. In addition, DfID gave £12,434,817 to ASI for advising on privatisation projects, some of which included water supply. In total, ASI has received £32,498,985 from DfID for all contracts since 1997.[129]

Table 1. Value of contracts to Adam Smith International from DfID[130]

Year	*Value (£)*
1997	1,247,775
1998	862,047
1999	5,663,529
2000	2,118,502
2001	358,489
2002	1,393,157
2003	8,860,551
2004	11,994,935

Table 2. Sample of ASI contracts[131]

Date	*Project title*	*Country*	*Value of contract (£)*
Jan 1997	Utilities workshop	Tanzania	39,822
Apr 1997	Enterprise reform in Romania – privatisation	Romania	15,686
Apr 1997	Nepal privatisation	Nepal	493,351
May 1997	Privatisation seminars	Bosnia	57,484
Oct 1997	Water and Sewerage Board	Lesotho	165,872
Oct 1997	Privatisation consultant	Guyana	88,673
Dec 1997	Privatisation seminars for Parliamentarians	Ukraine	166,601
Jan 1998	Support to the Privatisation Board	Bangladesh	126,500
Dec 1998	Public enterprise reform in Andhra Pradesh	India	49,475
Mar 1999	Privatisation project managing consultant	Guyana	770,027
Apr 1999	PR unit support for parastatal sector reform	Tanzania	272,975
Jun 1999	Additional support to the Privatisation Board	Bangladesh	106,241
Jun 1999	UK-Ireland privatisation and regulation tour	Tanzania	11,145
Aug 1999	Public enterprise reform in Orissa	India	2,061,365
Aug 1999	Capacity building for Public Utilities Regulatory Commission	Ghana	636,900
Aug 1999	Privatisation agency support project	Zimbabwe	308,470
Oct 2000	Lead adviser to parastatal sector reform commission	Tanzania	195,690
Apr 2001	Conference on disinvestment	India	70,000
May 2001	Water privatisation and regulation study tour	Tanzania	54,924

Table 2. Sample of ASI contracts[131] *(continued)*

Date	*Project title*	*Country*	*Value of contract (£)*
Jul 2001	Communications film for department of disinvestment	India	89,500
Jan 2003	Public enterprise restructuring	South Africa	6,363,435
Oct 2003	Support to water sector regulation	Ghana	1,079,955

ASI notes that it has the ability to "help muster the critical political support necessary to carry policies through to their successful conclusion".[132] It has built up a reputation as the consultant that 'sells' privatisation to an unwilling population.

While other consultants, the accountants and sector specialists work on initial 'master plans' for reform, asset management contracts and legal frameworks, ASI is often called on for its public relations expertise. For example, in Ghana DfID funded a 'public awareness raising programme' about the benefits of privatisation.[133] In India ASI was given aid money to produce a film about the benefits of privatisation. Funded by UK aid money, its PR campaign in Tanzania involved using a national comedian in a series of TV adverts as well as producing a pop video – all promoting the country's water privatisation project.[134]

Along with its expertise in public communications, ASI specialises in placing its free market consultants in key government positions, allowing them to drive pro-market reforms forward from within. In Guyana, the company provided a permanent advisor to the Ministry of Finance.[135]

In Ghana, with a DfID funded contract worth over one million pounds, ASI has been working within the country's Public Utilities Regulatory Commission (PURC), who will decide, in conjunction with the incoming water companies, how revenue is distributed. NGOs in Ghana are already concerned about the privatisation plans in this regard and fear that, "little money … will find its way back to infrastructure investment".[136] This fear is compounded by ASI's advisory role in the regulation project with PURC. ASI's ideology, which is hinged on reducing the power of regulators, favours companies' priorities and this fixation on deregulation will, in practical terms, undermine the Government's ability to stand up to incoming water companies and will pass on further costs to the government and the people of Ghana.

In Andhra Pradesh, India, ASI worked on a project with the state government which they refer to as, "Reform with a human face."[137] This "ambitious and innovative programme … attracted considerable attention from the World Bank, DfID and other donors".[138] In 1998, ASI, with DfID funding, set up and ran a semi-autonomous body known as the Implementation Secretariat (IS). This body, effectively an arm of government, was given responsibility for reviewing the status of 87 state-owned enterprises and cooperative societies. The remit was to evaluate which enterprises needed to be restructured, which needed to be privatised and which needed to be closed. The IS and ASI then worked together to bring these recommendations to fruition. The programme is now widely seen as the benchmark for state level privatisation in India. While there is acceptance of the need for reform of many state-owned enterprises and operations, placing ASI as chief advisor at the helm of these reforms effectively guarantees the privatisation outcome.

Box 6. Other pro-privatisation management consultants
ASI is joined by a number of similar business management consultants, all of which have received funding from DfID.

Since 1980 **Castalia** has provided advice to clients throughout the world on how best to organise water services and bring in the private sector. The company notes how its work with "governments in low income countries develop[ing] public-private partnerships has made a real difference to water quality and reliability".[139] Its work has included paving the way for what are now famous water privatisation controversies such as Manila, Trinidad & Tobago and Ghana.

London Economics was created in 1986 by John Kay (former Director of the Institute for Fiscal Studies and now FT columnist), Nick Morris, Nick Stern (who went on to be Chief Economist at the World Bank, and is now a special adviser to Gordon Brown) and Les Hannah. In the late-80s, London Economics worked on the privatisation of UK water and electricity. It then began to export this work through the 1990s. The company states that, "By 1990 we had built up valuable experience in the privatisation and regulation of utilities and we formed our International Utilities team with the aim of drawing on our UK expertise to win funded work all over Asia."[140]

London Economics has received aid money from DfID for consultancy in water supply in Ghana, India, South Africa, Ukraine, Kyrgyz Republic and Serbia & Montenegro. Writing about London Economic's work in Ghana, the local campaign noted how, "London Economics, was chosen to prepare a report titled, 'Willingness and ability to pay and its impact on tariffs'. The report recommended a single tariff structure and rejected the notion of a social tariff."[141]

Cambridge Economic Policy Associates (CEPA) is a private business created by Keith Palmer in June 2001. In the area of water and sanitation, the company has acted as a consultant both in the UK domestic water industry and in the developing world. This has included advising Papua New Guinea on the privatisation of its state water company.[142]

Recently, CEPA has acted as a consultant for the Private Infrastructure Development Group (PIDG) – including the creation of the Emerging Africa Infrastructure Fund (EAIF), Devco and Guarantco (see Section 3.3) – as well as directly for DfID and the World Bank. The company's Chairman, Keith Palmer, is the Chairman of the Board of the EAIF, representing the PIDG and DfID.

3.2.3 The strategic consultants/accountants

The most well known consultancy companies are those that are also known for their work as accountants to the world's biggest companies. These consulting giants, who have grown rapidly during the last two decades of increased private sector involvement in public service provision in the UK,[143] have led the international push for public utility reform across the globe. In terms of the water sector, perhaps the most prominent of these companies is PricewaterhouseCoopers (PwC).

In the UK, PwC has a team of around 120 dealing with all aspects of infrastructure and public sector reform. This includes financial advice, strategy (ie, advice given prior to restructuring on what kind of restructuring should take place), regulatory advice (the technical procedure for regulating water providers); advice on how to deal with government's and legal governance frameworks, auditing and transaction services (the role that they played during the UK water privatisation).

According to PwC, "We work with governments, shaping their policy, developing frameworks, and helping them to implement privatisations, industry by industry."[144]

An example of PwC's approach to water and sanitation reform is its work in Thailand. Writing in *The Nation* (a Thai daily newspaper) in 1999, PwC presented the range of 'options', "including the advantages and disadvantages of various methods to improve the delivery of water to people's homes via harnessing the power of the private sector to support public service for everyone's benefit."[145] The article introduced the various privatisation models that could be introduced in Thailand and firmly asserted that "whichever option Thailand chooses, the good news is that there are many ways and there is a lot of investor interest in helping bring Thailand's water supply and treatment industries to world class standard for the benefit of all Thais".[146]

Starting in 1996, with funding from the World Bank, PwC was involved in drafting a National Water Policy for the Government of Sri Lanka. Based on this, in 2000, the Government of Sri Lanka published a water policy management statement. This proposal was fiercely contested by the general public on two counts, "the content itself and the process of arriving at the policy, which while purporting to be open and advocating public consultation, was in fact totally and carefully insulated from the public that had an interest in the matter."[147] This initial water proposal was withdrawn due to intense public pressure.

However, subsequently, the Government of Sri Lanka prepared its PRSP, and in the water sector, campaigners argue that PwC's previous proposal has been resurrected causing renewed protest. PwC has, of course, long since moved on and is unscathed by the political fall-out resulting from its proposals. In Sri Lanka, critics noted how in 1996 under a 'technical assistance' programme, "A foreign consultancy was hired to write the policy and vanished after doing so."[148]

In Delhi, India, under a World Bank funded programme, a Water Reform Package was written by PwC, which "suggested [a] path of step-by-step reforms that is to first lease out or sub-contract specific service elements, then commercialise and corporatise … The PWC Report suggests that private sector participation in different ways and for different functions be gradually built-in because, it is argued, this would bring in better efficiency, accountability, technology and even fresh capital."[149]

In Kenya, in May 2003, PwC ran a 'Conference on Private Sector Participation in Kenya's Infrastructure', in which the company claimed that "looking for private sector investment is the only long-term solution".[150] At the conference, PwC essentially presented the same pattern of proposals that appeared in the Thai *Nation* article four years earlier although due to some high profile privatisation failures in the intervening years, the company was forced to alter some of the 'success' claims it made in 1999.

But pro-privatisation advice is not the only role companies like PwC play in the water and sanitation sector; they also act as accountants to the water multinationals (see Box 7). After several major debacles associated with corporate fraud, such as the fall of energy giant Enron, concern has grown about the overlapping roles of the big accountancy firms as both service providers and auditors of large corporations.[151] As a result, some accountancy firms have started to sell off their consultancy arms. For example, PwC sold PwC Consulting to IBM. However, the accountants are still far from out of the consultancy business. The major accountancy firms do not run their auditing services for big companies with the intention of making large profits. Auditing is instead seen as a way of picking up contracts for the other services the accountancy firms provide, such as consultancy.

The continuing expansion of the major consultancy/accounting firms is not simply happening by accident – it is the result of a 'favourable policy environment' and this is achieved partly through corporate lobbying. The growth of these firms has been accompanied by their rising involvement at the national and global level in corporate-government lobbying associations designed to promote a deregulatory trade agenda. For example, during his time as Chief Executive Officer (CEO) of PwC (1997-2001) James J. Schiro was also co-chair of the Trans-Atlantic Business Dialogue (TABD).[152] The large EU and US corporations that make up the TABD lobby for the removal of 'barriers to transatlantic trade'. The company – along with many others – is also involved in the UK-based financial services lobby groups, International Financial Services London (IFSL) and Liberalisation of Trade in Services (LOTIS). These groups have played a key role in the UK Government's policy formulation on the

General Agreement on Trade in Services (GATS) – a global agreement principally designed to eliminate 'trade affecting' government regulation of service companies.[153]

Despite being involved in biased political campaigning, pushing water privatisation and also acting as auditors for the water companies, PwC and other consulting firms continue to portray themselves as trustworthy, reliable experts giving impartial advice to countries engaging in public utility reform, including water. Yet as the evidence presented in this report demonstrates, there is always only one reform 'option' on the table, and that is privatisation.

Box 7. Accountants and water companies
(Underlining means the company operates in developing world)

PwC audit:
- Severn Trent PLC (Severn Trent Water International a subsidiary)
- RWE (Thames Water is a subsidiary),
- Biwater Treatment Limited, Cascal, the main water delivery subsidiary of Biwater.
- AWG (Anglian Water)

Deloitte Touche Tohmatsu audit:
- United Utilities

Ernst & Young audit:
- Northumbrian Water (French multinational Suez owns 25 per cent and has management control. Suez is audited by Ernst & Young and Deloitte Touche Tohmatsu)
- Veolia Environnement (Water subsidiary of Vivendi)
- Kelda (Yorkshire Water)

NB. Boygues (of which Saur is a subsidiary) is audited by Mazars and Guerard, not one of the big four

This 'advice' work in developing countries is supported by DfID which has channelled large sums of the UK aid budget to private consultancy firms promoting privatisation. Since 1997, PwC has received £24,416,480 for contracts advising on privatisation, some of which include water elements.

In total, PwC has received £64,671,239 from DfID for all contracts since 1997.[154] Through its support for the PPIAF, DfID also funds PwC's team in Central Africa. Overall, since its creation, DfID has channelled over £122 million to the major accountancy firms alone (see Table 3).

Table 3. Value of DfID contracts for the four accountant/consultancy companies 1997 – 2004

Year	*PwC*	*Deloitte & Touche*	*KPMG*	*Ernst & Young*	*Total*
1997	11,026,958	81,347	5,028,993	418,092	16,555,390
1998	8,808,508	4,185	2,775,030	125,932	11,713,655
1999	8,549,969	191,331	4,534,492	6,091,898	19,367,690
2000	15,226,519	5,640,418	1,990,049	57,693	22,914,679
2001	3,400,643	811,225	896,366	0	5,108,234
2002	2,265,028	11,111,889	344,765	0	13,721,682
2003	13,868,855	13,100,000	3,098,409	1,271,711	31,338,975
2004	1,524,759	51,820	0	283,650	1,860,229
Total	64,671,239	30,992,215	18,668,104	8,248,976	122,580,534

3.3 DfID's role in the 'multi-donor' privatisation push

As already mentioned, the problems faced by multinationals in developing country water and sanitation provision have led to demands from companies both for grants and soft loans (ie, subsidies) to facilitate entry into, and then entrenchment within, 'difficult markets'. They have also led to calls for the World Bank and other international donors to provide advice to developing and heavily indebted countries on how to reform the water sector and how to create a favourable investment climate.[155]

As well as bilateral aid in support of these demands, the donor response has been to set up what are called 'multi-donor' initiatives. In recent years a plethora of multilateral institutions have been created which work in the area of water supply and sanitation. Most of these, if not pursuing it as their major aim, at least include some funding for increasing private sector provision of water supply services.

Whilst the funding mechanisms and roles of the institutions and programmes differ, they tend to be created by the World Bank and at least one donor government acting together. Although all donor governments indirectly support the initiatives through their funding of the World Bank, it is particular donors who provide the impetus to get such mechanisms started, and who choose to fund programmes directly.

The table below of multi-donor initiatives clearly shows that the UK government is a key player; it funds all of the seven mechanisms listed. The World Bank is involved in five, the Netherlands six and Sweden five. This is in contrast to Germany and France, three each, and Japan and the US, one each. DfID maintains that these initiatives are a response to the problems identified after "discussions with potential private investors and operators in the infrastructure of the poorer developing countries".[156]

Table 4. Top ten donors, by aggregate funding, and their support for various multilateral institutions

	PPIAF	*WSP*	*WUP*	*PIDG*	*GPOBA*	*GWP*	*PPPUE*	*Total*
US	●	–	–	–	–	–	–	1
Japan	●	–	–	–	–	–	–	1
France	●	–	●	–	–	●	–	3
Germany	●	●	–	–	–	●	–	3
UK	●	●	●	●	●	●	●	7
Italy	●	–	–	–	–	–	–	1
Netherlands	●	●	●	●	–	●	●	6
Canada	●	●	–	–	–	●	–	3
Spain	–	–	–	–	–	–	–	0
Sweden	●	●	●	●	–	●	–	5
World Bank	●	●	●	●	●	–	–	5

Public Private Infrastructure Advisory Facility (PPIAF)

The PPIAF is the main multi-donor facility funding consultants to advise governments on introducing the private sector into infrastructure, including water and sanitation services. The PPIAF is housed in the World Bank – so it appears to be a World Bank project – but DfID staff at the time argue that much of the initiative for the PPIAF was theirs, and they got other donors to come on board by including the World Bank.[157] When it first began, only Japan had joined DfID, but there are now 11 donor countries. From 2003 to 2006, DfID has committed to giving £15.3 million to the fund.[158]

Now five years old, the PPIAF delivers finance exclusively to the private sector as a "multidonor technical assistance facility to help developing countries improve their infrastructure through the use of private resources."[159] Its projects give money to pro-privatisation 'experts and consultants' and are a key tool for facilitating the introduction of pro-market reforms in the water sectors of developing countries, in order to entice private operators.

Private Infrastructure Development Group (PIDG)

The PIDG is an initiative begun by DfID and supported by SECO (Switzerland), SEDA (Sweden) and DGIS (The Netherlands). The fund exists to support and finance private sector initiatives in infrastructure. It has several mechanisms operating within it, including the Emerging Africa Infrastructure Fund (EAIF), InfraCo, Devco, GuarantCo and Asia Private Infrastructure Financing Facility (AsPIFF).

DfID initially created the EAIF in 2002, in partnership with commercial banks, and this has now been brought inside the PIDG. It is a Public-Private-Partnership where donors and commercial banks both put money into the facility. Loans are provided to private companies at a commercial rate; the donor element helps provide investor protection for the commercial banks. So far EAIF has not funded any water projects, as they would not provide a viable return. Keith Palmer, Chairman of Cambridge Economic Policy Associates and Vice-Chairman of Rothschild Bank has been heavily involved in developing plans for EAIF and other sections of the PIDG. He is now Chairman of the Board of the PIDG Trust, representing DfID.

InfraCo – Infrastructure Development Company – is a company set up by donors to "give a lead to reintroducing [an] entrepreneurial approach to encouraging increased investment in infrastructure". In other words, to actually get involved in infrastructure project development. DfID has committed US$10 million to help establish InfraCo.[160]

DevCo – Project Development Facility – was set up in 2003 to address the "paucity of infrastructure projects structured in a way attractive to private sector involvement". DfID has committed £6.8 million over four years to launch the facility.[161]

GuarantCo – Local Currency Guarantee Service – 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 this mechanism.[162]

The AsPIFF – Asia Private Infrastructure Financing Facility – will work along the same lines as the EAIF in Asia. It is currently being set-up; PwC did the main consultancy on establishing how it will work, and one of the conclusions of this study was "that the definition of pro-poor had to be opened up a bit to reflect the fact that 'targeted commerciality' was an important objective of the fund".[163] In other words, the fund would not achieve a viable rate of return on purely pro-poor projects. It is currently being timetabled for launch in 2006.[164]

The EU Water Initiative (EUWI)

The EUWI also deserves particular mention. Launched in September 2002 at the World Summit on Sustainable Development (WSSD), it is a plan to re-channel over €1.4 billion from various EU development aid funds into public-private partnerships for water delivery in Africa, Latin America and the former Soviet Union.[165] A central feature of the initiative is 'creating the right climate' for private sector participation. It emphasises governance reform to promote the private sector, and supports programmes such as the PPIAF; administrative initiatives and public relations supporting privatisation.

This bias towards PSP reflects the reality of current European Union spending on water in developing countries. One analysis of EUWI papers criticised the plan for pouring public money into the "bureaucracy of privatisation … [while failing] to develop policy on the basis of evidence".[166] The fundamental premise of the EUWI is that the role of the private water industry needs to be expanded, yet the policy papers provide no evidence, nor engage in a discussion about the merits of this assumption.[167] The privatisation focus of the Water Initiative has been described as a new form of tied aid, ensuring that the money ends up facilitating the further growth of EU-based water multinationals.[168] Speaking about the EU Water Fund (an additional Fund launched in April 2003 in advance of the G8 Summit in Evian and building on the EUWI), Tanzanian campaigners called these EU plans "an entry point … to privatise water … why can't they ask us what we want to deal with our problem, then finance it?"[169]

The EUWI's close resemblance to the 'Camdessus Report' (see Section 3.1), in terms of private sector promotion, is not simply accidental. Work on the EUWI and the 'Camdessus Report' took place at the same time and major efforts were made to ensure coordination between the two initiatives. For example, EUWI participants were briefed on the preliminary findings of the 'Camdessus Report', while those working on the Report received draft papers on the plans for financing the EUWI.[170] Furthermore, James Winpenny is on the EUWI finance panel and co-author of the 'Camdessus report'.[171] DfID actively supports the initiative and DfID policy papers are clear about the important part that the UK plays in the EUWI.[172] In carrying out its responsibility for the 'financing element' of the EUWI, the UK Government says it "will continue to lead on finance and contribute to research".[173]

Box 8. Other multi-donor initiatives

These other programmes all, in slightly different ways, involve increasing private sector involvement in water and sanitation provision. DfID is involved with all of these and in particular has committed to giving £3.6 million over three years to the WSP,[174] £1.8million a year to the GWP[175] and £3.15 million to the PPPUE.[176]

Water and Sanitation Program (WSP)

The WSP is administered by the World Bank, and as well as the World Bank and UNDP it receives direct funding from: Australia, Austria, Belgium, Canada, Denmark, Netherlands, Luxembourg, Germany, Norway, Sweden, Switzerland, UK.[177]

DFID has committed to giving £3.6m over three years to the WSP.[178] The WSPs aim "focuses much effort on capacity building – forming partnerships with and between nongovernmental organizations, governments at all levels, community organizations, private industry, and donors to effect the regulatory and structural changes needed for broad reform".[179] One section of their website suggests that they only use funds on internal management and staff, and hiring external consultants. "Contributions to the Program are channelled through trust fund arrangements with The World Bank, who manage the accounts. These funds cover WSP's management and staff, operational expenses, and consultants that are hired when out-of-program specialized skills are required."[180] Information on its website shows that it currently funds external consultants in: Benin, Ethiopia, Mauritania, India, Pakistan and Vietnam.

Water Utility Partnership (WUP)
Funded by DFID, World Bank, WSP, SIDA, Oieau, UAWS, Water for African Cities, French Ministry of Foreign Affairs, Netherlands Ministry of Foreign Affairs, Global Water Partnership (GWP).

The WUP supposedly exists to foster partnerships amongst African Water Supply and Sanitation Utilities. However one of the main projects of the WUP is reform of the water and sanitation sector. The two main goals of this programme are:
1) "To help create an enabling environment for the implementation of water sector reforms."[181]
2) "Increase Private Public Partnership as one tool towards the accessibility in the financing and better management of water and wastewater services."[182]

Global Partnership on Output Based Aid (GPOBA)
The GPOBA was created by DfID and the World Bank in January 2003. Whilst its website describes it as a multi-donor trust fund, at the moment its only donors are the World Bank and DFID. It provides subsidies to private sector suppliers to provide infrastructure services.[183] According to DfID, the GPOBA "has recently been expanded to include a 'Challenge Fund' which is open for applications, on a competitive basis, for the funding of specific subsidy programmes to enable provision, <u>by private sector suppliers</u>, of infrastructure services to the poor."[184] (underlining added). As with all the other multi-donor initiatives, funding is not available to subsidise the public sector.

Water projects funded by the GPOBA include:

- Cambodia: 'Expanding access through local private operators'. Main area it is funding is technical assistance for the project.[185]
- Dominican Republic: Funding 'transaction advisors' in their work in exploring concessions in the Puerto Plata area.[186]

Global Water Partnership (GWP)

Since its creation in 1996 by the World Bank, UNDP and the Swedish development agency, GWP has been a leading advocate of private sector management in water and sanitation. Whilst other donors have come onboard, Sweden contributes a large proportion of its funding. Directors of multinational water firms sit on its main committee.[187] Creating greater private participation in water is one of the GWPs 'tools' for delivering greater water supply and sanitation. DfID has given 18 per cent of the core funding of the GWP and is currently contributing £1.8m a year.[188]

Public-Private Partnership for the Urban Environment (PPPUE)

The PPPUE is an initiative run by the UNDP and supported by DfID and the Netherlands Ministry of Foreign Affairs. It funds technical assistance and advisory support for public-private-partnerships in basic infrastructure services in urban areas. Water supply projects include Mozambique, Namibia, Uganda, Nepal, Argentina and Haiti.[189] DFID has committed £3.15 million.[190]

4. 'Plan B': The workable alternatives to privatisation

The preceding chapters of this report have demonstrated that the policy of water and sanitation privatisation is fundamentally flawed – leading to a series of failures across the developing world – but that the UK Government continues to press ahead with this approach, which we have dubbed 'Plan A'. This chapter looks at what we call 'Plan B' and will show that:

- Workable different approaches to water and sanitation provision exist;
- They are diverse, ranging from community management to state-owned utilities;
- They are not confined to one country or continent – they span the developing world;
- They need political and financial support to flourish.

Margaret Thatcher famously justified free market policies such as privatisation by saying, 'there is no alternative'. Although statements from some politicians (eg, Clare Short in 2002) and some companies (eg, PwC) have seemed to endorse this view, there are perhaps few who would now subscribe to such a position when looking at water and sanitation provision. This is because there are many different approaches being successfully used across the world and these have often been achieved despite, rather than because of, the intervention of donors like the UK.

This chapter will not go into extensive detail on the many examples of workable different approaches to water and sanitation provision. For more information on this subject, we recommend a recent publication from Corporate Europe Observatory and the Transnational Institute entitled: 'Reclaiming Public Water: Achievements, Struggles and Visions from Around the World'.[191] We also recommend looking at research papers on the Public Services International Research Unit (PSIRU) web site: www.psiru.org. This chapter is instead intended to give an outline, an idea, of the potential for different approaches and to demonstrate that there is simply no excuse for continuing to politically and financially support privatisation. Where necessary, we will use the term 'public approaches' or 'public systems' as a short hand way of describing the variety of models mentioned.

Perhaps one of the most well-known examples of a successful publicly run utility in a developing country is that of Porto Alegre in Brazil. In 1961, the city council in Porto Alegre decided to create a water and sanitation provider, called Departamento Municipal de Água e Esgotos (DMAE) that, while remaining wholly owned by the municipality, would have a separate legal personality, operational autonomy and financial independence.[192] That said, DMAE would still be subject to the municipality's 'participatory budgeting' process – where citizens play an active role in taking decisions on how local finances are used – and also be subject to public scrutiny through a 'deliberative council'.[193]

Even though Porto Alegre nearly doubled in size from some 700,000 inhabitants in 1961 to 1,360,000 in 2001, DMAE managed to extend service coverage and improve quality. By 2001, DMAE provided water supply to 99.5 per cent of the population, an increase from the 95 per cent supplied in 1990. Similarly, by 2001, sewerage services had been extended to 84 per cent of households, up from 70 per cent in 1990.[194]

This improvement in service provision has had a significant impact on quality of life in the city. For example, Porto Alegre has an infant death rate of 14 per thousand in comparison with a national average of 65. And by 1999 the city's 'human development index' was 0.79, comparable with a typical 0.80 for cities in the industrialised world.[195]

While the kind of highly participatory decision-making used in Porto Alegre has achieved impressive results, there are different ways to improve water and sanitation. More 'traditional' state-run water and sanitation providers have also registered a range of successes across the developing world:

- SABESP – the state-owned water company serving most of Sao Paolo state – restructured during the mid-1990s increasing efficiency, expanding water supply and sewerage services, improving revenue collection and reducing pollution.[196]
- According to a study by researchers from Birmingham University, the state controlled National Water Supply and Drainage Board (NWSDB) in Sri Lanka successfully reformed and improved its performance during the 1990s. The researchers concluded that "change of ownership is not the key issue".[197]

- The public utility (called PBA) in Penang, Malaysia is another example where a company owned by the state but managed independently along commercial lines without political interference has achieved impressive results. About 99 per cent of the population in the state of Penang has access to reliable water, the tariffs are among the lowest in the world and the leakage rate of about 18 per cent – also known as 'non-revenue water' (NRW) – is lower than for some utilities in the industrialised world. The company operates a social tariff scheme (where the first 20 cubic metres used are sold more cheaply) but still makes a profit that is re-invested in the system. It has been suggested that a mixture of commercial practices combined with a strong public service ethos in the company has resulted in this success.[198]
- The public water utility in Botswana was reported to have increased the population serviced from 30,000 in 1970 to 330,000 in 1998.[199] The utility – while operating on commercial principles – maintains a policy of cross-subsidy in order to ensure the poorest consumers have access to water.[200]

In some countries, the failure of either the public or private sector has led to the involvement of trade unions and/or workers cooperatives.

In Bangladesh, for example, in reaction to public opposition to a controversial World Bank privatisation plan, the government gave the publicly operated employee's union the contract to run the water system in one of Dhaka's zones, with another zone given to a local private company. After the first year's experiment, the Employee's Cooperative results were so good that the Water and Sanitation Authority handed over the private sector's contract to the union. The Employees Cooperative achieved substantial improvements not only in customer services, billing and collection of fees, but also in reducing water losses. They out-performed not only the private company, but also the existing public utility, suffering from over-bureaucratisation and inertia.[201]

In Bolivia, the Cooperativa de Servicios Publicos "Santa Cruz" Ltda (SAGUAPAC) was established in 1979 to operate water supply and sewerage in the city of Santa Cruz. The decision to set up a co-operative was in response to the weakness of the local government and failure to deliver improved water and sanitation.[202]

The co-operative's membership comprises its 96,000 domestic customers who elect a proportion of the two decision-making bodies (the administrative board and the supervisory board) that run SAGUAPAC.[203]

During its first few years of existence, SAGUAPAC obtained finance from the World Bank to invest in the network and achieved significant results. By 1996, water supply had been extended to 272,000 inhabitants and sewerage to 46,700. After achieving these objectives, SAGUAPAC had funds left over that were also used to construct additional sewerage works.[204]

SAGUAPAC operates a policy of full cost recovery and, according to Luis Fernando Yavari, planning and systems manager for the co-operative, "The goal of a co-operative is the well being of its members, not profit. SAGUAPAC has a social tariff structure with different price levels for home consumption, commercial use, industrial use and special use (hospitals, public schools, government offices etc)."[205]

The success of public approaches to water and sanitation provision in the developing world is not just confined to big cities. Savelugu, a community in Ghana that had been plagued by guinea-worm (a water borne disease), developed a model of water supply based on local community control of distribution. With help from central government and international non-governmental organisations the local community established a system where it bought water in bulk from the state utility (GWCL) and then managed the distribution, maintenance, tariff-setting and collection. Access to potable water has been increased to 74 per cent (the national average for rural areas is 36 per cent) and guinea-worm infections have almost been eliminated. Unfortunately, this initiative is being adversely affected by the government's preparations to privatise GWCL.[206]

Olavanna, in the Indian state of Kerala is another example where a rural community has come together to improve water provision. The local community in Olavanna has initiated 60 drinking water schemes, over half supported by local government, that are providing reliable water to over half the local population, in contrast to only about 30 per cent in the 1990s.[207] As one researcher concludes, "Olavanna and similar models do suggest that the failing state-run models and privatisation can be replaced with people-owned models. The difference to be noted is that here the state is not actually shying away from providing drinking water, but it helps people own their drinking water projects and supports them through support to the village governments."[208]

The Olavanna and Savelugu cases highlight an important point – the need for government political and financial support. But, like Savelugu, the long term future of several public schemes is on a knife edge because of uncertain, or even hostile, political and financial circumstances.

For example, the local government in Cochabamba, Bolivia, where the public rejected a failed privatisation, is currently attempting to reform the public water company SEMAPA but has experienced resistance from donor institutions. After eventually securing some funding from the Inter-American Development Bank, this was conditional on 40 per cent of the loan being spent on an external consultant, which has slowed down rather than improved the reform process. SEMAPA's financial future is also threatened by the US$15 million compensation law suit – filed by the consortium that was ejected from Cochabamba – that is currently before a secret World Bank hearing.[209]

In Recife, Brazil, a strong local government was able to resist heavy pressure from the World Bank to privatise the city's water and sanitation service. In 2002, after a seven month long process involving some 4,000 people, decisions were taken to reject privatisation and strengthen the public provider – called Compesa – but under tighter municipal control. After this clear rejection of privatisation, in 2003, the World Bank agreed to fund improvements in the public service.[210] The city is now in the process of carrying out reforms but, ultimately, their success will depend not only on the commitment of local politicians, local people and the employees of Compesa, but also on the willingness of donors to support the process and desist from pushing privatisation in the future.

Similarly, in Bogotá, Colombia, privatisation was rejected time and again by the local government during the 1990s and effort put into improving the public water and sanitation provider – EAAB. This transformed EAAB into "one of the most efficient and equitable utilities in Colombia, if not Latin America" and "by 2001, 95 per cent of the population had clean tap water while 87 per cent were connected to the sewage system – quite an achievement considering the rapidly growing population".[211] Again, finance has come from the World Bank to improve the system. However, recent developments such as increased outsourcing, new management systems, the privatisation of water treatment plants and the creation of a multinational company 'Aguas de Bogotá Internacional' are thought to be "undermining EAAB's identity as a public water utility".[212]

As the various examples described above begin to demonstrate, the considerable financing challenge can be addressed in various different ways. Whether through participatory budgeting, progressive tariff structures and cross-subsidy, reducing leakage rates and improving efficiency or receiving help from international NGOs (or any combination of these), it is clearly possible to make public systems work.[213] However, the massive investments required to expand networks mean that government support, in one form or another, is required and in the poorest countries this support invariably comes from outside. This makes the policies of donor governments and institutions towards financing water and sanitation critical and makes the current dearth of political and financial support for public water a threat to its future. Examples like Recife and Bogotá show that there are cases where the World Bank has made loans for public service expansion but both examples also show that local governments seemingly had to fight tooth and nail to resist World Bank pressure to privatise and then fight to secure funding for the public sector. For different approaches to flourish, the reverse needs to be the case in future.

But lack of finance is not the only threat to public water. If anything, the most efficient and financially successful public operators tend to be those deemed most 'ripe' for privatisation. As an employee of the municipal water provider in Porto Alegre (DMAE) has pointed out, "Privatisation is a persistent threat and DMAE has to keep defending itself. Corporations could generate the same surplus as we do, possibly more, because they have no social concerns and could raise tariffs. They could then send this money abroad as a profit to their main offices. Instead, we give it back to the people who provided it in improved infrastructure for water and sanitation services."[214]

In conclusion, there is clearly no single 'right way' of providing water and sanitation and it is not the intention here to propose a 'blue-print' for water and sanitation provision across the world. 'Plan B' needs to involve a variety of different approaches and this chapter has demonstrated that they exist all over the developing world. The key issue for people in developing countries is that because of their influence over the development process, the willingness of donor governments and institutions to politically and financially support public systems is critical. In fact the future survival and expansion of these systems depends on it.

5. Conclusions

WDM is campaigning to reverse corporate globalisation – the creation and promotion of laws and policies that favour corporations over people – and campaigning to promote economic democracy – the rights of people and communities to determine their own future.

The past twenty years have seen an increasing trend towards the creation of institutions, policies and laws that are principally designed to benefit companies. The creation of trade rules on services and intellectual property rights enforceable through trade sanctions under the World Trade Organisation; the dissolution of the UN centre for trans-national corporations in 1993; the creation of over 2000 bilateral investment treaties giving companies the right to challenge government regulations in secret international court proceedings; the abolition of international commodity agreements that stabilised prices from some poor country agricultural exports; the hijacking of the World Summit on Sustainable Development process to push 'public-private partnerships'; and World Bank and International Monetary Fund Structural Adjustment Programs pursued all over the developing world. These are all examples of policy-making in the corporate interest rather than the public interest.

As such examples demonstrate, corporate globalisation is not a 'natural state' and it is not inevitable. It is the product of a specific project, resulting from a specific ideology, pursued by specific governments and institutions, creating specific policies that serve specific interests.

One of the key current political justice issues that exemplifies the struggle between people's rights (ie, economic democracy) on the one hand, and corporate rights (ie, corporate globalisation) on the other, is the privatisation of essential services such as water and sanitation. And the UK government is at the heart of this battle.

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. This report has demonstrated that 'Plan A' of donor governments and institutions – water and sanitation privatisation – is failing and will continue to do so for a number of fundamental reasons.

Yet the report also demonstrates that the UK Government continues to play a key global role as a driver of the pro-privatisation solution. DfID continues to be wedded to the private sector solution and its water policy hinges on increased private sector investment and participation in water and sanitation provision. The UK Government likes to claim that it has no ideology and simply wants to do 'what works'. Yet the ongoing failure of water and sanitation privatisation and the UK's continuing political and financial support for it suggest otherwise.

The report has shown how the UK is using a variety of mechanisms – both bilateral and multilateral – that are specifically designed to channel aid money to a variety of companies (many of which are British) ranging from consultants to utilities in order to continue the pursuit of privatisation. Using UK aid money to fund consultants who have both a financial and ideological interest in always advocating privatisation is a back-door way of benefiting UK companies and pushing privatisation, without the need for overt tying of aid or overt conditionality.

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 and sanitation infrastructure and the need for fundamental governance reforms within the sector. The criticism is of the dogmatic insistence on private sector reforms and the move to subsidise the private sector, despite its fundamental failings.

Finally, the report has demonstrated the existence of a variety of different approaches to water and sanitation provision that are working effectively across the developing world. These range from community participation models and workers cooperatives to more 'traditional' public utlities.

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 still either totally or largely pursuing 'Plan A'.

This tunnel vision is criminal when we consider 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. The seeming refusal of donors such as the UK Government to seek solutions beyond the private sector highlights the extent to which British

Government development policy has been captured by a blinkered ideology and/or the interests of UK companies.

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. This means:

- a halt to funding 'privatisation consultants';
- a halt to funding multi-donor initiatives focused on the private sector;
- and a reorientation of UK and international aid policy towards providing the necessary financial and political support for the kind of workable 'public' solutions outlined in this document.

Without such a radical rethink and change of priorities, the Millennium Development Goals will become yet another broken promise to the world's poor.

Appendix 1. Examples of opposition to water price increases

Conakry, Guinea. The engagement of SAUR and Vivendi in 1989 saw the price of water rise from US$0.14 per cubic meter in 1988 to US$0.83 in 1996 – an increase of 500 per cent in the space of five years. As a result of what are now perceived as unacceptably high water rates, the government has not renewed the initial ten year contract.[215]

Buenos Aires, Argentina. In two years leading up to privatisation, water rates increased steadily, allowing for an immediate 'reduction' when the Suez-led consortium Aguas Argentinas took on the concession in 1993. The World Bank declared the privatisation a success, and used it as a model for Manila, Jakarta and South Africa. Despite the promise of cheaper water, the company has twice been fined for overcharging customers.[216]

Tucaman province, Argentina. Vivendi won a 30-year water concession in 1995 and introduced an immediate tariff increase of 68 per cent on all customers. Despite this increase, the company failed to accomplish the planned investment and the water supply turned brown. A campaign of non-payment by customers led to the termination of the contract three years later. World Bank commentators have noted that a price rise right at the start of the concession was "probably a misjudgement".[217]

In December 2001, the Argentine Government scrapped plans to award a new privatisation concession for Tucaman. Instead SAPEM has been set up 90 per cent owned by the province of Tucaman and 10 per cent by the workers union OST.[218]

Cartagena, Colombia. In 1995 as part of a World Bank programme, Acuacar took over Cartagena's water and sanitation services from the public sector. Supply has been increased and improved, including to several communities in poorer districts of the city. However, there are fears for the sustainability of the service. Prices have increased by 200 per cent over the past eight years, and further increases are guaranteed. To pay off a World Bank loan, tariffs will need to increase by 20 per cent over the next decade. Subsidies to poor families are to be phased out by

2005. For the poorest 30 per cent of the population, this will represent a 60 per cent rise in water tariffs.[219]

Cochabamba, Bolivia. An International Water-led consortium took on the 40 year concession in September 1999. There was an almost immediate increase in water tariffs of up to 200 per cent. Mass demonstrations in response to the price rise were met with military force; one person was killed and many more injured. The concession was terminated in April 2000, and water brought back into public hands.[220]

Chile. Five of Chile's 13 regional water companies were privatised with partial sale to multinationals in 1998. Over the four years since, the private companies water rates have risen by an average of 40 per cent, twice the level of increase in prices by public providers.[221]

Manila, Philippines. Manila's water system was split into two private concessions in 1997 as part of an IMF programme. The concessions were joint ventures involving Suez in the west of the city, and International Water and United Utilities in the East. Prior to privatisation, water rates rose by 38 per cent, to attempt to allow for tariff cuts following privatisation, as occurred in Buenos Aires. Tariffs did fall at first, but since 2001 prices have tripled from the levels in 1997 in both zones. A review in 2003 has guaranteed further substantial tariff increases over the next four years. UNCTAD reports that after 1997 employment dropped from 7,370 to 4,580 employees.[222]

The contract has subsequently been terminated, and Suez did not win its compensation claims in this case.

Jakarta, Indonesia. The 1997 privatisation of Jakarta's water system split the city into two parts, with joint ventures led by Thames Water and Suez respectively. The companies have secured two major price rises at an average of 35 per cent in the past five years, and are currently awaiting approval of a third increase of similar size.[223] In January 2003, hundreds of students protested, demanding a cancellation of utility price rises and an end to plans for privatisation, including water privatisation. The opposition to Jakarta water privatisation has been revived in the context of a bill in front of the current government to privatise water nationwide.[224]

Thames is looking at ways to pull out of its venture. Thames' local firm is loosing US$1.5 million a month, and is looking for prices to rise by a further 20 per cent or it will leave the venture.[225]

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