

PPIAF Case Study – Malawi

Private sector involvement in water supply has been a policy pushed in Malawi since 1998. In June 2000, the World Bank agreed a “Malawi: Privatization and utility reform project” which included the water sector as one utility to focus upon. The project information document states:

“In 1994, the government defined its sector strategy in the National Water Resources Management Policy and Strategies. The involvement of the private sector is considered essential in order to establish autonomy and appropriate incentive structures and a study of Private Sector Participation (PSP) options will commence shortly to identify options for involving the private sector in provision of water supply service in the two primary urban centers in Malawi - Blantyre and Lilongwe.”¹²

The value of the project, which also included sectors other than water, was set at \$32.2 million, with \$28.9 million coming from the Bank and \$3.3 million from the Malawian government.¹³ The study of options did indeed commence shortly after.



First PPIAF project 2000-2002

In June 2000, PPIAF paid US\$194,000 to US consultants Stone and Webster to “Study options and build consensus for private involvement in Blantyre and Lilongwe”.¹⁴ There was also co-funding of US\$36,200 from the World Bank.¹⁵

The role of Stone and Webster was to work with the utilities and the government to analyse the environment, role and options for ‘private sector partnerships’ in the urban water sector in Malawi and to develop recommendations for private participation.¹⁶

The Stone and Webster report recommends 3-year management contracts for the water boards in Blantyre and Lilongwe, which could be progressively followed by a lease contract and a concession.¹⁷ However, a later note from the PPIAF on the Malawi study says that a first phase of reforming the sector would be followed immediately by a lease contract.¹⁸

World Bank intervenes

The privatisation process in water and other utilities has been delayed since this report was published; the World Bank state that this has been because:

“Over time, the levels of resistance to the program increased as people took the view that there was no consultation taking place between the PC [Privatisation Commission] and its stakeholders – leading to lower implementation.”¹⁹

However, the Bank state that there is “high level political support” for the privatisation programme. Therefore, in order to push the privatisations forward, in 2005, the World Bank amended its original project to give it more time, and to fund:

“a communications strategy and PAC [Public Awareness Campaign]. The project will support implementation of the PAC and communications strategy by funding media (television, radio and press) programs targeted at specific stakeholder groups such as members of Parliament, trade unions, employees and state owned enterprises and civil society.”²⁰

The World Bank is also funding pre-privatisation activities for Blantyre and Lilongwe Water Boards, such as money for new metering equipment, and restructuring the two Boards to operate in a more commercially viable way.

Leaked Cabinet paper

Towards the end of 2006, a leaked document made its way into the Malawian public domain: *DRAFT Cabinet Paper: Response to the Blantyre Water Crisis and Safeguarding Future of Urban Water Service*. The paper says that if the Cabinet approves the reforms in principle:

“First steps will include consultation with water board customers and employees and development of a PPP contract, followed by tendering for a qualified consortium of Malawian investors and an international specialist firm to own and manage the water operating companies.”²¹

Second PPIAF project 2007

In 2007, PPIAF approved a new communications campaign to move the privatisation process forward. A closer look at the new PPIAF project reveals that the reform plans have already been agreed and this project is to ensure that key stakeholders support it. PPIAF uses the word 'consultation' but this seems misplaced. PPIAF is funding consultants to identify "roadblocks" to the process and then to persuade them to support the "approved road map" of reforms.²² The project is worth US\$149,550 and it will use:

*"in-depth public opinion research design a communication strategy to ensure two-way communication and participation of the urban water sector reform for Blantyre Water Board (BWB) and LWB Lilongwe Water Board. The strategy will be based on the findings of the qualitative and quantitative research carried out to better understand the opinion and attitudes of consumers around water sector reform."*²³

In particular, one section of the project is called stakeholder consultation activities, but actually, it will:

"set the ground for key stakeholders to understand GoM's sector reform plans and its approved road map on the reforms; to share knowledge and experiences of similar process in other countries; and to gain stakeholder support on the water sector reform." [emphasis added.]²⁴

IMF conditionality

In 1995, an IMF (Economic Structural Adjustment Facility) programme included, "aggressive structural reforms to reduce the scope of the public sector and the ownership concentration in the economy".²⁵ The privatisation programme has continued to be a condition of IMF programmes in Malawi.

In December 2000, Malawi's decision point document to enter the HIPC (debt relief) initiative stated:

*"wide-ranging liberalization measures will be needed to complement the macroeconomic stabilization actions outlined above and to stimulate private sector growth. In particular, over the medium term, it will be imperative to: ... (ii) accelerate the privatization of enterprises that continue to operate under public ownership"*²⁶

Further details on the privatization programme to be accelerated were contained in the 2002 Poverty Reduction Strategy Paper, which said, "Accelerate privatisation, particularly in telecommunications, power and water."²⁷

In early 2004, Malawi went off-track with its Poverty Reduction and Growth Facility (PRGF) programme primarily due to "spending overruns".²⁸ The IMF also criticised the structural reform agenda for proceeding "unevenly and at a slower than anticipated pace".²⁹ In July 2005, Malawi agreed a new PRGF arrangement with the IMF. Part of this programme is the "Privatization or commercialization of Malawi's remaining state-owned companies",³⁰ although this did not specify Blantyre and Lilongwe water boards in particular.

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- ¹² World Bank. (2000). Malawi: Privatisation and utility reform project. World Bank. Washington DC. June 2000.
- ¹³ World Bank. (2000). Malawi: Privatisation and utility reform project. World Bank. Washington DC. June 2000.
- ¹⁴ <http://wbln0018.worldbank.org/ppiaf/Activity.nsf/DocByUnid/C6C4630F4D80BF60852568B6007A37F7?OpenDocument>
- ¹⁵ PPIAF. (2003). Gridline summary: Increasing Private Sector Participation in the Provision of Water Supply Services in Malawi. PPIAF. Washington DC. October 2003.
- ¹⁶ Stone and Webster. (2002). Preliminary PSP Options Report Consultancy Services for Private Sector Participation Options Study for Blantyre Water Board and Lilongwe Water Board. PPIAF. Washington DC. June 2002.
- ¹⁷ Stone and Webster. (2002). Preliminary PSP Options Report Consultancy Services for Private Sector Participation Options Study for Blantyre Water Board and Lilongwe Water Board. PPIAF. Washington DC. June 2002.
- ¹⁸ PPIAF. (2003). Gridline summary: Increasing Private Sector Participation in the Provision of Water Supply Services in Malawi. PPIAF. Washington DC. October 2003.
- ¹⁹ IDA. (2005). Malawi: Privatization and Utilities Reform Project – (Credit No. 33950-MW). Proposed Amendment to the Development Credit Agreement. World Bank. Washington DC.
- ²⁰ IDA. (2005). Malawi: Privatization and Utilities Reform Project – (Credit No. 33950-MW). Proposed Amendment to the Development Credit Agreement. World Bank. Washington DC.
- ²¹ *DRAFT Cabinet Paper: Response to the Blantyre Water Crisis and Safeguarding Future of Urban Water Service*. Date and author unknown.
- ²² <http://www.ppiaf.org/Reports/PPIAFactivitiesapprovedinFY07Q2.pdf>
- ²³ <http://www.ppiaf.org/Reports/PPIAFactivitiesapprovedinFY07Q2.pdf>
- ²⁴ Email to WDM from Jyoti Shukla, PPIAF. 7 May 2007.
- ²⁵ IMF. (1995). IMF approves ESAF loan for Malawi. Press release No. 95/54. International Monetary Fund. Washington DC. 18/10/95.
- ²⁶ IMF and IDA. (2000). Malawi: Decision point document for the Heavily Indebted Poor Countries (HIPC) Initiative. International Monetary Fund and World Bank. Washington DC. 07/12/00.
- ²⁷ Government of Malawi. (2002). Malawi Poverty Reduction Strategy Paper. Government of Malawi. Lilongwe. April 2002.
- ²⁸ IMF. (2004). Malawi: Staff report for the 2004 Article IV consultation with Malawi. International Monetary Fund. Washington DC. 18/10/04.
- ²⁹ IMF. (2004). Malawi: Staff report for the 2004 Article IV consultation with Malawi. International Monetary Fund. Washington DC. 18/10/04.
- ³⁰ IMF. (2005). Request for a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) and additional interim assistance under the Enhanced HIPC Initiative. International Monetary Fund. Washington DC. 22/07/05.