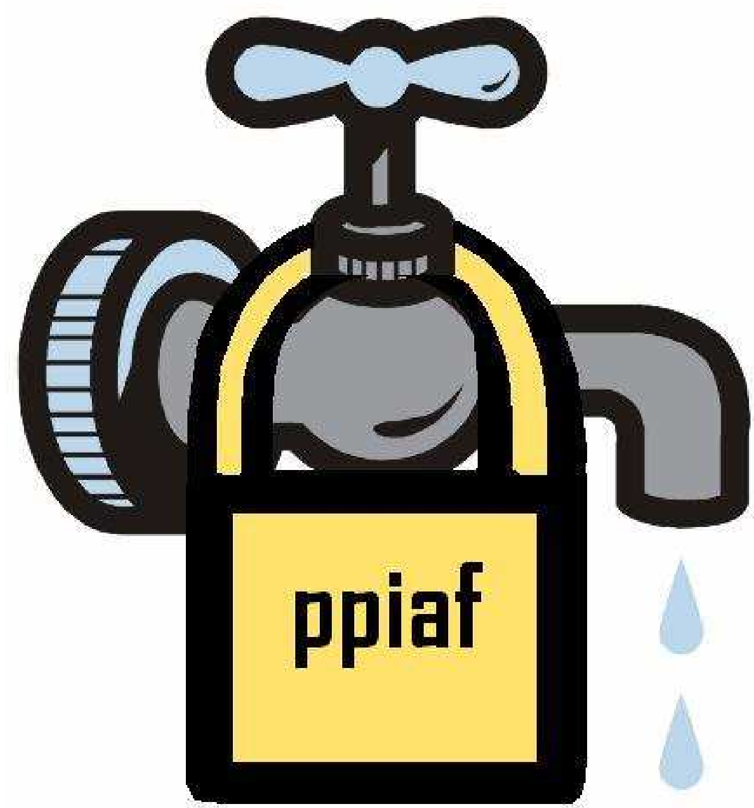
May 2007

Media briefing

Down the Drain: How aid for water privatisation could be better spent



Key Facts

- Since PPIAF was created in 1999, it has funded one or more processes aimed at developing private sector participation in water and sewerage services in a total of 39 countries. These countries are *Afghanistan, Albania, Argentina, Azerbaijan, Botswana, Cambodia, China, Colombia, Democratic Republic of Congo, Egypt, El Salvador, Ethiopia, Georgia, Ghana, Guyana, Honduras, India, Indonesia, Jordan, Kazakhstan, Kenya, Kosovo, Laos, Lithuania, Madagascar, Malawi, Mexico, Mozambique, Nepal, Nigeria, Pakistan, Paraguay, the Philippines, Sri Lanka, Tajikistan, Thailand, Uzbekistan, Vietnam and Zambia.*

- **In 2006, PPIAF spent 18 per cent of its funding in the water and sewerage sector, with water projects worth US$3.2 million. A further US$7.75 million was spent on 'multisector' projects, some of which include water.**

- Since 1999, in at least 24 countries, PPIAF has funded advice on water privatisation.

- **Since 1999, in at least 16 countries, PPIAF has sought to 'build consensus' around water privatisation projects.**

- Since 1999, in at least 18 of the countries in which PPIAF has worked on water privatisation, donors have imposed conditions for water privatisation as part of their wider support.

- **PPIAF is housed in World Bank offices in Washington and around the world, and the Bank is PPIAF's second largest donor. PPIAF's Program Council is chaired by Katherine Sierra, World Bank vice-president for sustainable development.**

1.Summary

For the past 15 years or more, donors have argued that privatisation (the management or control of water services by private providers, also called concessions, leases, management contracts and public-private partnerships) represents a key part of the solution in the struggle to connect the unconnected to clean water and sanitation. The Public Private Infrastructure Advisory Facility, PPIAF, is a clear demonstration of this misplaced faith in privatisation, yet it has become an influential institution with global reach.

PPIAF works in several areas – energy, telecommunications, transport, water. *Down the Drain* looks at PPIAF's work in the area of water and sewerage. PPIAF funds consultants to provide technical advice in poor countries on how to carry out privatisations and also advises on the regulatory and legal changes required for privatisation reforms. It appears that funding is not provided for designing plans for the best way to provide water to the poor per se, but for the best way to introduce the private sector. PPIAF does not fund infrastructure projects itself; as the name indicates, it is an 'advisory facility'.

In addition, PPIAF funds 'consensus-building' activities in poor countries. Building consensus refers to activities that promote the benefits of privatisation or particular privatisation options and/ or attempt to persuade members of governments, parliaments, business, trade unions, civil society and citizens that privatisation is in their interests.

In 1999, the UK government created PPIAF, together with the World Bank and the Japanese government, and it remains its majority funder. Each of the following donors has contributed some funding to PPIAF between 1999 and 2006 and is a member of PPIAF's Program Council[1]:

Donor	Donations to PPIAF (US$ millions)	
United Kingdom	63.0*	(1999-2006)
World Bank	16.3	(1999-2006)
Japan	16.0	(1999-2006)
Sweden	6.4	(2000-2006)
Switzerland	6.3	(1999-2006)
Netherlands	2.5	(2001-2006)
Norway	2.5	(1999-2006)
Canada	1.6	(1999-2005)
Germany	1.4	(2001-2005)
France	1.3	(2000-2006)
Asian Development Bank	1.3	(2001-2005)
United States	0.8	(2003-2005)
European Commission	0.6	(2005-2006)
Italy	0.3	(2003-2004)
TOTAL	**120.0**	(1999-2006)

* Between 1999 and 2008 the UK's total commitment to PPIAF is £53 million.[2]

By supporting PPIAF, donor governments are ignoring the growing evidence that water privatisation has failed to extend access to clean water for the poorest communities. Because of PPIAF's complex links with economic conditionality, donors are also skewing the choices available to poor countries to determine their own development path. This is especially true in the absence of any established international facility to support public-public partnerships or PUPs.

Donors to PPIAF need to stop funding public-private partnerships in the water sector, and instead give strong political and financial support to public-public partnerships.

2. Key problems with PPIAF

Down the Drain highlights a range of problems with the role of PPIAF and the activities it funds.

Outdated ideology – a key rationale for PPIAF was to stimulate private sector investment in poor countries' infrastructure because at the time, the World Bank and other donors were cutting their own expenditure on water and sanitation. A letter to WDM from PPIAF says, *"To meet the MDGs, developing countries need to double their current rates of investment, and with tight fiscal constraints and stagnant ODA, they are looking for partnerships with the private sector to bring investment and operating efficiencies."*[3]

A report for WDM and Public Services International by Public Services International Research Unit on water privatisation investments (*Pipe Dreams* – http://www.wdm.org.uk/resources/briefings/aid/pipedreamsfullreport.pdf) reveals how the private sector has not filled this funding gap. *Pipe Dreams* demonstrates how few new connections to water have been created by private money in the parts of the world with the greatest need. Overall, sub-Saharan Africa has received less than one per cent of global private promises for investment in water, while 80 per cent of the major water privatisation contracts there have been terminated or are the subject of disputes between the public authorities and the operator over investment levels.[4]

PPIAF itself appears to back up, noting that, *"new private activity [in the water sector] is focusing on smaller projects, a few countries, and bulk facilities. Contractual arrangements involving utilities are combining private operations with public financing."* [5] Furthermore, the Dutch development ministry says that in 25 per cent of PPIAF projects in 2005, management and lease contracts resulted. Although no further details are given, it is important to recognise that management and lease contracts typically do not bring new investment in infrastructure.[6]

Meanwhile, an International Monetary Fund policy paper written in 2004 looked at the efficiency gains occurring from public-private partnerships (PPPs).[7] The question of private sector efficiency is the second element of PPIAF's justification. However, the IMF paper states that: *"It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services…"* and supports this by reference to the arguments and evidence: *"Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed. …"* [8]

Donors are seeking to escape the reality of their own falling aid budgets for water by trying to leverage private money into the water sector, even though the private sector has shown a reluctance to commit finance to connecting the poorest to clean, affordable water.

Privatisation propaganda – PPIAF actively funds activities to 'build consensus' that private sector participation is the right way forward. Workshops and conferences will be held to 'build consensus' on the need for public-private partnership reforms. Indeed as civil society resistance to privatisation around the world has grown, so has PPIAF's capacity building and consensus building work. A report for PPIAF on consensus-building said, *"the key to effective stakeholder consultation is to manage stakeholders' expectations with respect to how their feedback will be incorporated into the reform process."*[9]

PPIAF has run consensus building activities promoting privatisation in specific countries, and it has also tried to build support for private sector participation initiatives more generally, via 'training' for journalists. Genuine, open-minded, independent consultation on all possible options for water utility reform, which includes the wide range of public management options, is clearly appropriate. But, PPIAF's priority is *"to work through a broad range of public-private partnerships, choosing the arrangements that best fits the infrastructure sector and the political and institutional context"*.[10]

Another of PPIAF's roles is to promote best practice in the area of PPPs. In the 2006 Annual Report, PPIAF discusses a study it carried out into eight different PPP contracts for water utilities. It says, *"while performance varies, the eight case studies show tangible gains in the quality and coverage of water service and in the efficiency and sustainability of operations."*[11] The African case studies PPIAF quotes are Senegal and Zambia. However, both *Pipe Dreams* and *Down the Drain* put forward evidence to demonstrate that these claims are overstated.

"The Senegal contract is frequently quoted as a success story, with a substantial increase in the number of connections, from 241,671 in 1996 to 327,501 in 2001, an increase of over 35 per cent. However, these new connections were not financed by or through the private company, but largely through the public authority SONES. About 12 per cent of physical connections in Dakar are now not in use, and even more outside the capital."[12]

"There is one private management contract operated by the French company Saur in part of the Copper Belt [Zambia]. A report for German Development Co-operation (GDC) suggests that commercialised utilities run by the public sector have performed as well as the Saur contract, despite the lack of a management fee and private expertise. The GDC report concludes: "If one factors in the additional costs of the management contract, the financial performance [of the management contract] is substantially weaker [than the publicly-run commercialised utilities]."[13]

Undermining poor country choice - PPIAF plays a significant role in skewing the choices available to poor countries to determine their own development path. In 18 countries, PPIAF work has either preceded or been followed by international financial institution / donor conditionality, whether it be through poverty reduction strategy papers, or loan conditionalities etc. PPIAF argues that its work is demand-led and that developing countries approach PPIAF for assistance. However, it is disingenuous for donors not to recognise the influence of these conditions on a pro-privatisation agenda in-country.

In one PPIAF-funded project which it champions on its website, in Lim Town, Vietnam, despite an emphasis on community participation, the Swiss Agency for Development and Co-operation (a co-funder for the project) would only allow private contractors to bid for the contract that resulted.[14]

Additionally, PPIAF's strap line says that it is about *"helping to eliminate poverty and achieve sustainable development through public-private partnerships in infrastructure". And w*ith a name such as Public-Private Infrastructure Advisory Facility, we can be sure that purely public-led reforms are not the top priority. The Dutch ministry for development has said, *"The PPIAF is open to activities aimed at public sector reform. However, it must be borne in mind that this was never part of the PPIAF's original mandate as the organisation was established to advise on strategies to enhance the involvement of the private sector on the improvement of publicly available infrastructural provisions."* [15]

Ineffective poverty focus – An independent evaluation of PPIAF conducted in 2004 said, *"Our study suggests that PPIAF's poverty reduction focus has not been effectively translated into operational terms. In most cases, applications for PPIAF support include only perfunctory reference to the contribution the project is expected to make to poverty reduction."* [16] PPIAF's independent review also reported that *"In* *addition, several [PPIAF] project reports reviewed did not deal adequately with the issues of affordability of tariffs and expanding access in rural and peri-urban areas."*[17]

Because PPIAF is wedded to the belief that privatisation can deliver clean, affordable water to the poor, contrary to the evidence from countries in Africa and elsewhere, its contribution to poverty alleviation will always be highly questionable.

Weak accountability and transparency - The PPIAF Annual Report 2006 says: *"Owned and directed by its participating donors, PPIAF is governed by a Program Council made up of representatives of these donors".* PPIAF adopts the shareholder model of governance in that there is no representation on the Program Council of developing countries, the 'beneficiaries' of its work. Instead, only donors are included. Selected individuals from developing countries are included on the Technical Advisory Panel but this body has no decision-making function.

Meanwhile, PPIAF's website (www.ppiaf.org) contains limited information on specific projects. Between 2004 and 2006, WDM attempted to contact PPIAF approximately 12 times, by email or telephone. WDM has no record of any response received. At the time of writing *Down the Drain*, the independent evaluation of PPIAF was not publicly available, although it is now available on-line.

3. PPIAF in action

Malawi – In 2000, a World Bank project was agreed for Malawi to fund utility privatisation, including water. This was supported by a PPIAF-funded study by the US consultants Stone and Webster on how to privatise water in Blantyre and Lilongwe. Stone and Webster finished their work in 2003 and recommended a period of pre-privatisation activities to make Blantyre and Lilongwe water boards viable for private sector management, followed by a lease contract to a private sector operator. The privatisation process in water and other utilities has since been delayed; the World Bank states that this has been because:
"Over time, the levels of resistance to the programme increased as people took the view that there was no consultation taking place between the [Privatisation Commission] and its stakeholders – leading to lower implementation."[18]

In order to push the privatisations forward, the World Bank has amended its original project 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) programmes targeted at specific stakeholder groups such as members of parliament, trade unions, employees and state-owned enterprises and civil society."*[19]

In late 2006, a document entitled *"Draft cabinet paper – response to Blantyre water crisis and safeguarding future of urban water services"* was leaked which revealed the latest privatisation plan for the Blantyre water board.

Now in 2007, a new PPIAF project worth US$149,550 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*."[20]

Paraguay – In 2000, PPIAF paid US$75,000, with an additional US$15,000 from the World Bank, to fund a consultant to develop options for a concession contract for the main Paraguayan water utility. In June 2002, the concession plans were voted against by the Paraguayan Senate. But despite this and opposition to the plans by government ministers, the World Bank made it clear that privatisation would be required in order to receive their support. In 2004, 5000 people protested through Asuncion against a revived privatisation law, and the senate once again voted against it.[21]

In 2005, PPIAF approved a new activity to assist the Paraguayan government in developing a new water strategy to enable the participation of local private sector operators in the country. Consultants paid with US$175,000, with an additional US$114,200 from other sources, would analyse options to restructure the utilities as well as carrying out a communications and implementation plan to build stakeholder consensus for the chosen option.[22]

In May 2006, Paraguay agreed a new stand-by arrangement with the International Monetary Fund, which included a condition to introduce a management contract for the main water utility.

India - In February 2007, PPIAF helped fund a major conference 'Meeting India's infrastructure needs with PPPs'. At the event which was co-organised with the government of India and the World Bank, Praful Patel, World Bank vice president for South Asia, said in his welcoming remarks, *"Public-private partnerships have to play a much bigger role in meeting India's infrastructure needs than they have to date. Despite recent increases, investment in private infrastructure projects in India has only averaged around 1 percent of GDP over the last five years; countries such as Brazil, Chile, and Malaysia have achieved in the range of 2-3 percent of GDP over the last 15 years. The World Bank stands ready to expand its assistance to India in developing and financing public-private partnerships, building on experience here as well as from other countries that have benefited from well-designed and robust PPP programs."*

In 2000, PPIAF spent US$55,000 co-funding a seminar on best practice for private infrastructure, necessary legislation and regulation, and financing options to jump start private infrastructure contracts.[23] Subsequent PPIAF projects have been funded in Delhi where the proposed water privatisation scheme has been mired in political controversy and has now been shelved. Meanwhile, PPIAF is also funding a US$692,000 contract in Mumbai with international consultancy Castalia to design and develop a pilot model for water supply for the K-east ward. The terms of reference state, *"the Municipal Corporation of Greater Mumbai wishes to develop a medium term contract, whereby an Operator will be paid a management-fee plus a bonus linked to its performance".*[24]

Latest media reports state that, *"a study conducted by New Zealand firm Castalia, entrusted the job of conducting a study … with World Bank's aid for reforms in water management in the K East municipal ward, has recommended privatisation of water distribution as a measure to improve water supply. In its report submitted to the corporation's Hydraulic Department on Thursday evening, Castalia has suggested that the corporation let out its distribution on lease or contractual basis to private contractors."* [25]

4. Alternatives to PPIAF

With one billion people around the world lacking access to clean water and with over 90 per cent of the world's piped water in public hands, it is clear that we need to urgently build capacity within public utilities to enable them to connect the unconnected to water. Strong public water operators across the developing world are delivering clean water to the poorest communities at an affordable price. They have great expertise to offer weaker public utilities which struggle to deliver a good service to their users.

PUPs allow water utilities to build capacity through the exchange of expertise on a not-for-profit basis, and would place particular emphasis on the expertise found within developing countries. PUPs could meet a genuine need to build capacity within the public sector. PUPs are cost-effective as they operate on a not-for-profit basis. Even more importantly, PUPs can bring targeted expertise into the public sector from elsewhere in the public sector, and could particularly focus on disseminating expertise from within the global south where water distribution to extremely poor communities is being addressed on a daily basis.

It is clear that a new facility is required to promote PUPs; one which places commitment to the public sector at the heart of its ethos. It would not be desirable to add PUPs into the remit of PPIAF, an organisation which is set up to promote private sector participation. A wholly new organisation is required to address the criticisms of the way in which PPIAF operates and which employs staff with experience of, and commitment to, public provision of water and sanitation services.

This is reinforced by PPIAF's own technical advisory panel whose assessment of 17 PPIAF-sponsored projects found: *"private financing of public utilities without any further form of private sector participation ought not to be eligible for PPIAF support". "PPIAF has no interest in forcing private participation when there may be better options. And PPIAF should be open to funding activities where public enterprise reform is seen as a first step toward some form of private participation. But PPIAF´s focus should remain on types of private participation that are profound enough to hold the promise of significantly improving the performance of the enterprise. (…) activities where private participation is tangential to enterprise performance (…) should be left to an alternative technical assistance program or window."*[26]

In recent months, several PPIAF donors (UK, Japan, Asian Development Bank) have indicated support for a UN proposal for water operator partnerships; we believe that this agenda should be followed vigorously as part of an alternative strategy to funding PPIAF.

PPIAF has now told WDM: *"You would be happy to learn that last year the PPIAF Program Council began considering the establishment of a new window within PPIAF to support sub-national entities and select public enterprises as they access market-based private financing to invest in improved service delivery".*

No information on these proposals is available on PPIAF's website; however, from the little that we do know, it seems clear that this proposal is very far removed from the agenda that was put forward for donors in *Down the Drain* in the area of public-public partnerships.

5. Recommendations

Down the Drain demonstrates that PPIAF is an organisation with the wrong mission, carrying out the wrong activities, with the wrong outcomes. The analysis shows how the donors' policy of using aid money to fund PPIAF's consultancy in the area of water privatisation has been wholly misguided.

As a result of this analysis, we call on donors to:

- **Give political and financial support to create a facility to support PUPs in the water and sanitation sector between different public utilities, with the involvement of other stakeholders.**
- Increase individual donor support for PUPs within bilateral funding programmes.
- **Recognise the ongoing role of conditionality within the international aid system in pushing water privatisation policies.**
- Oppose the extension of PPIAF's remit for "*a new window within PPIAF to support sub-national entities and select public enterprises as they access market-based private financing to invest in improved service delivery*".
- **Withdraw all funding from PPIAF that is used for projects in the area of water and sewerage and change its remit to prevent future work in this area.**

6. What happened next?

November 2006 – *Down the Drain* launched in English and French at an international meeting on the right to water in Marseille. Receives coverage in *The Observer* (UK) and *La Marseillaise* (France).

December 2006 – 32 organisations write to Louis Michel criticising the European Commission's support for PPIAF and asking for this support to instead be channelled towards public-public partnerships (PUPs).

January 2007 – PPIAF Annual Report for 2006 is published. It makes clear that a range of existing donors – Asian Development Bank, Canada, Germany, Italy, United States – have not contributed funding in the past year.

February 2007 – report is launched in Norway. Prominent coverage received in *Klassekampen*. At a meeting with FIVAS and WDM, the Norwegian ministry of foreign affairs says that it no longer views PPIAF as a means to solving the problem of access to water for the poor. <u>It says that it will no longer contribute funding to PPIAF.</u>

February 2007 – In a response to NGOs from Louis Michel, the Commissioner says that "the future of Commission contributions to PPIAF will be subject to review". However, he also says that the Commission has now set up its own Private Sector Enabling Environment Facility (PSEEF) which will perform similar functions to PPIAF.

February 2007 – at the World Bank's Water Week, PPIAF invites NGOs for discussions. In those discussions they confirm that they cannot currently support purely public utility initiatives, although they say they wish to move into this area. They deny a link with conditionality. They argue that since the 2004 independent evaluation, they are now paying more attention to pro-poor initiatives.

March 2007 – Asian Development Bank proposes to re-commence contributions to PPIAF. It expects to contribute $500,000 – the minimum sum required to cover its membership for a two-year period.

March 2007 – On World Water Day, an Italian development minister expresses appreciation for the move by Norway to disengage from PPIAF and says that a similar move is being considered in Italy.

March 2007 – Questions tabled in the UK parliament questioning DFID support for PPIAF. In a separate move, welcomed by NGOs, DFID announces the beginning of support for the UN's water operator partnership proposal.

March 2007 – Corporate Europe Observatory publishes a briefing which explores European Commission support for PPIAF and PSEEF.

April 2007 – word reaches campaigners that DFID has met with the Norwegian ministry for foreign affairs to discuss its withdrawal from PPIAF.

April 2007 – The development committee of the Dutch parliament discusses PPIAF. This is followed by a full debate. The development minister re-states his support for PPIAF.

April 2007 – Campaigners meet with a representative from Louis Michel's cabinet who expresses a desire to support public-public partnerships for water in some form.

[1] PPIAF, 2007. *2006 Annual Report.* January 2007.
[2] UK Parliamentary question tabled by Lord Avebury and answered by Baroness Amos, 8 March 2007.
[3] Letter to the World Development Movement from Jyoti Shukla, Program Manager, PPIAF. 20 March 2007.
[4] Hall, D. and Lobina, E. (2006). *Pipe dreams: The failure of the private sector to invest in water services in developing countries*. WDM, PSIRU and Public Services International. London. March 2006.
[5] PPIAF. 2006. *Gridlines: Private participation in water*. PPIAF. Washington. September 2006.
[6] Dutch Parliamentary question tabled by Ewout Irrgang and answered by Bert Koenders, 23 March 2007.
[7] International Monetary Fund Public-Private Partnerships March 12, 2004 http://www.imf.org/external/np/fad/2004/pifp/eng/031204.htm
[8] International Monetary Fund Public-Private Partnerships March 12, 2004 http://www.imf.org/external/np/fad/2004/pifp/eng/031204.htm
[9] Institute for Public-Private Partnerships. (2004). *Emerging Lessons in Consensus Building for Public-Private Infrastructure – Draft.* PPIAF. Washington DC. July 2004.
[10] PPIAF, 2007. *2006 Annual Report.* January 2007.
[11] PPIAF, 2007. *2006 Annual Report.* January 2007.
[12] Hall, D. and Lobina, E. (2006). *Pipe dreams: The failure of the private sector to invest in water services in developing countries*. WDM, PSIRU and Public Services International. London. March 2006.
[13] Ballance, T. and Tremolet, S. (2005). *Private sector participation in urban water supply in Sub-Sahara Africa: Zambia case study.* German Development Cooperation. Frankfurt. November 2005.
[14] PPIAF. 2006. *Gridlines: Meeting water needs in Vietnam*. PPIAF. Washington. June 2006.
[15] Dutch Parliamentary question tabled by Ewout Irrgang and answered by Bert Koenders, 23 March 2007.
[16] Michael Jordan & Associates. (2004). *Strategic Review of the Public-Private Infrastructure Advisory Facility.*
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[19] IDA. (2005). *Malawi: Privatisation and Utilities Reform Project – (Credit No. 33950-MW).* Proposed Amendment to the Development
Credit Agreement. World Bank. Washington DC.
[20] http://www.ppiaf.org/Reports/PPIAFactivitiesapprovedinFY07Q2.pdf
[21] Joynes, K. (2004). Paraguayan Government Concedes to Anti-Privatisation Protestors. *World Markets Analysis.* 20/08/04.
[22] PPIAF Activity Summary: Paraguay - Strategy to establish new service providers units in the water sector. http://wbln0018.worldbank.org/ppiaf/Activity.nsf/DocByUnid/75D1A0698FD4FD24852571EA0070B2DA?Opendocument
[23] PPIAF Activity Summary: India – Private Involvement in Water Supply and Sanitation. http://wbln0018.worldbank.org/ppiaf/activity.nsf/DocByUnid/DC3A02D9ADA88FAB852571EA0070B462?Opendocument
[24] *Forfeiting Democracy for the Mirage of 24 / 7.* Afsar H. Jafri. 9 January 2007.
[25] *Privatise water in Kurla (E) ward New Zealand firm tells BMC; activists & BMC staff cry foul*. Surendra Gangan. 4 May 2007
[26] *Review of PPIAF activities completed during fiscal 2005*. Summary and Overview. Prepared by the Technical Advisory Panel. April 2006.