

PPIAF Case Study - Paraguay

PPIAF exists to facilitate private sector involvement in infrastructure in developing countries. Its purpose is to overcome obstacles that might inhibit a poor country's ability to attract the private sector, including in the area of water and sanitation. PPIAF is a 'one-stop shop' for governments going down the privatisation route.

Since its creation, PPIAF has funded processes aimed at developing private sector participation and / or privatisation in water and sanitation services in seven Latin American states: Argentina, Colombia, El Salvador, Guyana, Honduras, Mexico and Paraguay.

PPIAF has two major roles: firstly, as a funder of consultancy advice on privatisation technicalities to prepare a country for privatisation and secondly, as a funder of pro-privatisation communications work.



Promotion of water privatisation

As example of the second approach, PPIAF funded in November 2000, a workshop for 400 participants from nine South American countries¹ which focused on using the private sector to provide water to the poor. As well as PPIAF, sponsors of the seminar included the World Bank, Fentos Institute and 12 private water companies operating in Argentina. The seminar "drew substantially on the papers, experience and resource persons from the conference, on *Infrastructure and Development: Private Solutions and the Poor* held in London in May 2000, sponsored by PPIAF".²

Half the participants were from labour unions and others included representatives from governments, water companies and NGOs. The objective of the seminar was "to increase the understanding of private provision of water services and exchange best practices in poverty focused reforms and sector management".³

In 2002, a workshop was held in Costa Rica for Central American stakeholders. The aim of the workshop was to bring decision-makers together from Costa Rica, El Salvador, Honduras and Nicaragua to discuss reforming the water sector through

PPPs. The success of the workshop was judged by “requests from at least two participating countries for World Bank assistance in designing reforms relating to the concepts discussed in the workshop”.²⁰⁹ The workshop cost US\$203,900 with US\$60,500 from PPIAF and US\$143,600 from the World Bank.⁴

Resuscitation of failed or terminated privatisations: the case of Paraguay

PPIAF work has been instrumental in steering Paraguay towards water privatisation despite a decade of popular resistance against it.

In 1995, the World Bank began a sewerage project in the Paraguayan capital of Asuncion which, as part of extending access to sanitation, sought to introduce private sector participation in water supply and sanitation. The World Bank has since reported that this project failed, but in 1999 they tried to convert it into “a vehicle for privatising the water and telephone companies”. The Paraguayan government reportedly changed its mind on whether to refocus the project solely on privatisation and eventually the project failed to go ahead. This failure to proceed with privatisation was one of the reasons the World Bank reduced its funding in Paraguay between 1999 and 2004.⁵

In December 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 Corposana. The project also sought to build “a consensus on the sector reforms with all the stakeholders ... the government, Corposana, the private water providers, and consumer and business groups”.⁶ Whilst this consensus was supposedly to be obtained through a ‘participatory approach’, this was at odds with PPIAF’s contention that the required outcome was “the concessioning of Corposana’s urban water services to one or more private operators.”⁷ Corposana’s name subsequently changed to Essap.

In June 2002, the concession plans were voted against by the Paraguayan senate, following a local campaign against the privatisation led by unions. Water privatisation then became an issue in the 2003 elections, when some candidates and parties proposed to revive the proposals, whilst others were opposed.⁸ After promising not to sell any more state-owned companies, Nicanor Duarte won the presidential election and promptly announced there were no plans to award a private concession contract for Essap. Instead a plan was launched to reform the utility from within the public sector.⁹ In February 2004, Jose Alderete, Public Works and Communications Minister, stated the government would be seeking World Bank investment to assist them with reforms in the water sector. However, the World Bank was clear that privatisation would be required in order to receive their support. In their 2004 to 2007 CAS for Paraguay, the Bank state:

“Some of the additional or deeper policy areas where the Bank has advised the administration to turn its attention ... include ... promotion of publicprivate partnerships for infrastructure development and maintenance through, eg, concession contracts for operation and construction, performance-based maintenance contracts and minimum subsidy concessions for expansion of water and sewerage.”¹⁰

The World Bank made it explicitly clear that in order to receive ‘high case lending’, Paraguay should implement:

“Participation of private capital in public infrastructure, as evidenced by, for example, further expansion of water/sanitation services via existing minimum subsidy concession schemes with private operators; taking to point of transaction two PPPs in infrastructure investment.”¹

Over the summer of 2004, the opposition in the senate attempted to revive the privatisation law voted down in 2002. 5000 people protested through Asuncion against the law, and the senate once again voted against the law, including, in the end, the opposition.¹²

In September 2005, Business News Americas reported that in discussions over a new stand-by arrangement with the IMF, the Paraguayan government had to draw up plans to introduce private sector investment to four state-owned companies, including Essap. Finance Minister Ernst Bergen was quoted as saying, “We are totally open to private sector participation, with the view that administration is passed to the private sector; so that the private sector has an interest in being involved in these companies.”¹³

Two months later, 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 analyze options to restructure the utilities, (providing probably new service provision units). PPIAF funded activity also included, in a second phase, detailing a communications and implementation plan to build stakeholder consensus for the chosen option.¹⁴

In May 2006, another stand-by arrangement was agreed with the IMF, which includes a condition to introduce a management contract for Essap, along with four other companies, by December 2006. Despite public protest, popular elections, and parliamentary votes, the IMF is still pushing water privatisation in Paraguay, a process begun and relaunched by PPIAF.

Now, parliamentary members and civil society organisations, SOBREVIVENCIA amongst them, are pressing for the final approval of a new law on water. This will guarantee access to water as a human right, and declare all water a property of the state.

¹ Fentos, World Bank Institute, World Bank and PPIAF. (2000). International seminar and workshop on water sector reform and the poor. Buenos Aires, Argentina. November 22-24, 2000.

² PPIAF Activity Summary: Latin America and Caribbean – Improving the capacity to implement water sector reform in Latin America.

<http://wbln0018.worldbank.org/ppiaf/activity.nsf/DocByUnid/D2F502F1D7877A64852571EA0070B39F?Opendocument>

³ PPIAF. (2004). Workshop on the water sector in Central America. PPIAF. Washington DC. October 2004.

⁴ PPIAF. (2004). Workshop on the water sector in Central America. PPIAF. Washington DC. October 2004.

⁵ Hall, D. and Lobina, E. (2002) Water privatisation in Latin America. PSIRU. London.

⁶ PPIAF. (2002). Strategic options for the Public Utility Corporations – Paraguay. PPIAF. Washington DC. April 2002.

⁷ PPIAF. (2002). Strategic options for the Public Utility Corporations – Paraguay. PPIAF. Washington DC. April 2002.

⁸ Business News Americas – English. (2003). Essap to review privatisation possibilities after elections. 10 February 2003.

⁹ Business News Americas – English. (2003). Essap sale, concession off the books for now. 22 August 2003.

¹⁰ World Bank. (2004). Country Assistance Strategy for the Republic of Paraguay 2004/07. World Bank. Washington DC.

¹¹ World Bank. (2004). Country Assistance Strategy for the Republic of Paraguay 2004/07. World Bank. Washington DC.

¹² Joynes, K. (2004). Paraguayan Government Concedes to Anti-Privatisation Protestors. World Markets Analysis. 20 August 2004.

¹³ Business News Americas. (2005). Government to present IMF with new plan to privatise companies. 29 September 2005.

¹⁴ PPIAF Activity Summary: Paraguay - Strategy to establish new service providers units in the water sector.