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Down the drain

How aid for water sector reform could be better spent

FIVAS
Foreningen for Internasjonale Vannstudier
Association for International Water Studies

WORLD DEVELOPMENT MOVEMENT

Down the drain
How aid for water sector reform could be better spent

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About WDM:
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 policies that keep people poor. WDM is a democratic membership organisation of individuals and local groups. Please contact WDM for membership information.

This report builds on WDM's long track-record in producing leading research and thought-provoking analysis on a wide range of development issues. Since 1970, WDM has contributed to policy debates on a wide range of topics.

Related publications include:
Dirty Aid, Dirty Water- The UK government's push to privatise water and sanitation in poor countries (WDM 2005)
Pipe Dreams – The failure of the private sector to invest in water service in developing countries (WDM 2006)

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Abbreviations

ADB	Asian Development Bank
ASP	Aguas de San Pedro
ASSEMAE	National Association of Municipal Sanitation Services (Brazil)
BOT	build-operate-transfer
BOOT	build-own-operate-transfer
CAS	Country Assistance Strategy
DFID	Department for International Development (UK)
DRC	Democratic Republic of Congo
EAIF	Emerging Africa Infrastructure Fund
FIVAS	Association for International Water Studies (Norway)
G8	Group of Eight Richest Nations
GDC	German Development Cooperation
GTZ	German Technical Cooperation (German aid agency)
GWI	Global Water Intelligence
IDA	International Development Association (of the World Bank)
IFC	International Finance Corporation
IMF	International Monetary Fund
IoD	Institute of Directors
LWSC	Lusaka Water and Sanitation Company
MDG	Millennium Development Goals
MIGA	Multilateral Investment Guarantee Agency
MWA	Metropolitan Water Authority (Bangkok)
MWSP	Melamchi Water Supply Project (Nepal)
NGO	Nongovernmental Organisation
NWSC	Nairobi City Water and Sewerage Company
OECD	Organisation for Economic Cooperation and Development
OED	Operations Evaluation Department
OPEC	Organisation of the Petroleum Exporting Countries
PERPAMSI	Association of Indonesian Water Utilities
PIDG	Private Infrastructure Development Group
PPIAF	Public Private Infrastructure Advisory Facility
PPPs	Public-Private Partnerships
PRSPs	Poverty Reduction Strategy Papers
PUPs	Public-Public Partnerships
PSIRU	Public Services International Research Unit
PWA	Provincial Waterworks Authority
SANAA	National Service of Aqueducts and Drainage (Honduras)
SWAPs	Sector Wide Approaches
UK	United Kingdom
UN	United Nations
UNDESA	United Nations Department of Economic and Social Affairs
UNSGAB	United Nations secretary-general’s advisory board on water and sanitation
US	United States of America
USAID	United States Agency for International Development
WAFED	Water and Energy Users’ Federation (Nepal)
WDM	World Development Movement

Foreword

The chances are that you have never heard of the Public Private Infrastructure Advisory Facility (PPIAF), which is the focus of much of this report. It is a little known organisation, operating behind closed doors at the international level, out of the public eye. So what prompted the World Development Movement (WDM) from the United Kingdom (UK) and the Association for International Water Studies (FIVAS) from Norway to spend valuable time and resources analysing the work of this obscure organisation?

Both organisations believe that we should hold our respective governments to account for the way that they spend our aid money – taxpayers' money. We believe it is our responsibility to shine a light on the work of our government aid agencies to ensure that the poverty reduction potential of all our aid money is maximised to the full. And as we have become more aware of PPIAF and its activities – advising on water privatisations in developing countries and, as they call it, 'building consensus' that privatisation is the right way forward – the more concerned we have become.

For FIVAS, the *Soria Moria Declaration*[a] that the Norwegian government signed in 2005 was very welcome, with its recognition that aid should not be used to support programmes that contain requirements for liberalisation and privatisation and that privatisation must not be a precondition for the cancellation of developing countries' debts. However, one year after taking office, the government has yet to apply this policy to the actual practice of being an aid donor. FIVAS hopes that this report will spur the Norwegian government into action.

For WDM, our 'Dirty Aid, Dirty Water' campaign has criticised the UK government for pushing water privatisation in developing countries. Ministers have repeatedly denied that water privatisation plays a major role in its aid portfolio. But such rebuttals ignore the major political and financial support given by the UK to PPIAF and the role that PPIAF has played in pushing developing countries down the water privatisation route since it was created in 1999. WDM hopes that this report will lead the UK government – the lead funder of PPIAF – to reconsider its support.

Both the Norwegian and UK governments must do more to support developing countries in meeting the water and sanitation Millennium Development Goal (MDG) targets. The analysis that follows sets out how

a *The Soria Moria Declaration was announced by the Norwegian government at its inauguration in 2005. A full copy can be found at: http://odin.dep.no/smk/english/government/government/001001-990363/dok-bn.html* and why PPIAF does not represent an effective use of aid money. But our challenge to donors goes further than advocating a few reforms of PPIAF. For too long, donors have ignored the potential of the public sector to reform and develop itself from within, and ignored the good practice amongst public water utilities. Both WDM and FIVAS believe that it is the capacity and finance of the public sector that will determine progress towards the water and sanitation targets.

Over the past decade, privatisation and public-private partnerships (PPPs) have tried – and time and again they have failed – to make progress towards the MDG water and sanitation targets. Public-public partnerships (PUPs) offer a new opportunity to build capacity within the public sector and within the public providers which are responsible for meeting the MDGs.

PUPs need urgent donor support – are the donors listening?

1 Overview

For the past 15 years or more, donors have been firm in their belief that water privatisation, and the control or management of water and sanitation services by the private sector, represents an important policy in the struggle to connect the unconnected to clean water and sanitation. PPIAF is a clear demonstration of this faith in water privatisation.

PPIAF was set up in 1999, with the UK's Department for International Development (DFID), the World Bank and Japan in the lead. They were soon joined by at least ten other donors: Canada, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United States (US) and the Asian Development Bank (ADB).

This report shows that PPIAF has since become a key driver of water privatisation in developing countries. Since its inception it has funded one or more processes aimed at developing private sector participation and/or privatisation in water and sanitation services in a total of 37 countries.[b] In at least 16 of these countries, PPIAF has sought, in its own rather Orwellian terms, to 'build consensus' for water privatisation projects.[c] Meanwhile, in 17 of the countries in which PPIAF has worked on water privatisation, donors have made their support conditional on privatisation. Since 1999, the total cost of PPIAF projects has been at least US$18.7 million[d]; DFID is the largest funder of PPIAF by far, and proportionally has funded as much as US$10 million of this water privatisation work.

It is becoming increasingly clear that PPIAF is a central institution in the continuing donor push to privatise water supply and sanitation in developing countries.

The sense that donor support for privatisation is based on ideology and promoting corporate interests rather than being open to all the options, is compounded by the fact that donor support for PPIAF exists in the absence of any international facility to support public-public partnerships, or PUPs, in the water and sanitation sector. PUPs focus on building capacity where it is most needed if the water and sanitation MDG targets are to be reached, namely within the public sector. PUPs recognise the achievements of successful public utilities and aim to tap into their expertise and disseminate it to less successful public providers, via partnership arrangements.

b *These countries are Afghanistan, Albania, Argentina, Azerbaijan, Botswana, Cambodia, China, Colombia, Democratic Republic of Congo, El Salvador, Ethiopia, Georgia, Ghana, Guyana, Honduras, India, Indonesia, Jordan, Kazakhstan, Kenya, Kosovo, Laos, Lithuania, Madagascar, Malawi, Mexico, Nepal, Nigeria, Pakistan, Paraguay, the Philippines, Sri Lanka, Tajikistan, Thailand, Uzbekistan, Vietnam and Zambia.*

c *'Building consensus' refers to activities that promote the benefits of privatisation or particular privatisation options and/or attempt to persuade unwilling populations that privatisation is in their interests. In other words, it is arguably pro-privatisation propaganda.*

d *Approximately one fifth of PPIAF's declared total spend on projects between 1999 and 2005 (US$93 million) is on water and sanitation.*

This report demonstrates how donors should address the lack of support for PUPs by funding them through both their bilateral and multilateral aid programmes.

This report is divided into the following sections:

- Section two looks at the background to the creation of PPIAF in 1999, and the political forces at play at the time.
- Section three explains what PPIAF is, who funds it, how it works, what activities it carries out, and its links with other donors.
- Section four sets out the critique of PPIAF and analyses its ideology, its activities on the ground in developing countries, and the wider role it plays within the donor-supported global development framework.
- Section five gives detailed case studies of PPIAF's work in Zambia and Kenya. Further case studies are included in the appendices at the back of the report.
- Section six outlines PUPs, their potential, their advantages and how donors could contribute to scaling-up such arrangements.
- Section seven concludes the report with recommendations for donors on both PUPs and PPIAF.

2 Background

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. More than twice as many (2.6 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 20 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 was not 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 new MDG targets of *halving* the proportion of people without sustainable access to safe drinking water and adequate sanitation.[4]

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 can all contribute to poorly performing public services. That said, the public sector in some cities and some countries has developed 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 their preferred option, or 'Plan A' – privatisation. Looking to share the lessons from successful public providers, and use public expertise to build capacity within other public providers, has not been on their agenda.

2.1 Plan A – privatisation

Historically, in both north and south, the public sector has operated the great majority of the world's water supply systems. Currently between 90 and 95 per cent of people with piped water supply are served by the public sector. The finance for investment in water and sanitation has been raised through traditional public finance mechanisms of public borrowing and taxation, as well as user charges.

But since 1990, against a background of global and national policies aimed at restricting public sector borrowing and expenditure, development banks and donors have been promoting the private sector as the solution to improving water and sanitation. Multinational water companies have acquired numerous contracts to operate water services in developing countries. The private sector has been expected to improve efficiency and bring new finance to meet the large requirements for investment (see Box 1).

As Clare Short, speaking as UK Secretary of State for International Development, said 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.”[5]

Box 1

Record of water privatisation in developing countries

Two particular claims are made of water privatisation and its theoretical benefits for developing countries – boosting efficiency and boosting investment. But after more than 15 years’ of evidence on the impacts of water privatisation on the ground, these claims have been shown to be without foundation.

In terms of the claim that the private sector automatically brings efficiency gains to a weak and inefficient public sector, a paper prepared for the International Monetary Fund (IMF) has concluded: “It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services … 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.”[6]

Meanwhile, research for the World Bank Economic Review says that studies on water utilities in Asia, “show that efficiency is not significantly different in private companies than in public ones”.[7]

This evidence points strongly to the conclusion that there is no systematic intrinsic advantage to private sector operation in terms of efficiency. Equally, there is no evidence to assume that a public sector operator is intrinsically less efficient and effective.[8]

Responding to the claim that private sector participation is required in the water and sanitation sector as private operators will bring new financial resources to the sector, WDM and Public Services International recently commissioned the Public Services International Research Unit (PSIRU) to research this claim. PSIRU's study reveals that collectively in sub-Saharan Africa, South Asia and East Asia (excluding China), only 600,000 new household connections have been made as a result of investment by private sector operators since 1997, extending access to around three million people.[9] Yet one billion people in these regions are estimated to need connecting to a clean water supply between 2006 and 2015 in order to meet the MDG. This amounts to a rate of 270,000 people a day.[10] Over the last nine years, private sector investment has connected just 900 people a day.[11]

Meanwhile, in sub-Saharan Africa, 80 per cent of the major water privatisation contracts have been terminated or are the subject of disputes between the public authorities and the operator over investment levels.[12]

More specifically, a growing number of commentators and organisations have criticised water privatisation and specifically its impacts on the poorest communities. In March 2006, the United Nations (UN) *World Water Development Report* said that in Cote d'Ivoire, Guinea and Senegal (where water privatisations have taken place) "increased tariffs had made water supplies unaffordable for many of the poorest sections of society, which led to people getting disconnected from water supply due to inability to pay. It was also unclear to what extent poor people had benefited from water network connection expansions. Experiences confirmed that very poor sections normally tend to be excluded from being part of a privatised service extension. To provide the poorest section of society with adequate water services is typically viewed as a high-risk enterprise that largely lacks opportunities for economic return. Similar experiences have also been found in other places, such as in greater Buenos Aires, Argentina and in Bolivia."[13]

The process of water privatisation has led to much controversy and is an intensely political phenomenon. There is a tendency to depoliticise privatisation as simply a standard economic and commercial transaction between users and private service providers. But in fact, privatisation creates a new situation, shifting utilities from the public sphere towards the market and it has politicised water supply and sanitation provision. The battle is fought by a range of actors, from civil society organisations in poor countries, to bilateral donors and multilateral financial institutions.[14]

Aside from the problems that the poor in developing countries have experienced after water privatisation, international water companies have themselves also protested that the operating environment they have found themselves in has been increasingly difficult. By the end of the 1990s, they were indicating that their interest in developing countries was diminishing because of problems associated with scale, risk and the difficulty of making a profit. They were also beginning to feel the negative effects of a wave of public protest which opposed (foreign) corporate control of water resources in developing countries.

However, donors like DFID wished to maintain its strategy of extending private sector management of water supply and sanitation. When faced with the reduced interest from water companies in contracts in developing countries, instead of questioning the assumption that privatisation was the answer to the water crisis, DFID – together with the World Bank – began to develop a strategy that would facilitate the re-engagement of multinationals in developing country water and sanitation.

2.2 The origin of PPIAF

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. 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.

Documents released to WDM under the UK Freedom of Information Act make clear DFID's approach at the time. According to DFID's project memorandum for PPIAF, dated December 1998:

"The purpose of the project is to increase private sector involvement in the provision and management of essential infrastructure, in the poorer developing countries. Higher levels of private sector involvement are required to improve the efficiency of use of existing assets and to generate investment in new assets. New and more efficient infrastructure is necessary to underpin growth and so meet the international development targets. Well-designed schemes for private sector involvement can lead

to direct and indirect benefits for the poor. Current public services are often failing the poor with subsidies and services targeted on elites and with the poor devoting considerable time, money and effort to secure infrastructure services. Subsidy to inefficient public services is often a severe drain on fiscal resources".[15]

Furthermore, a strong belief in the efficiency of the private sector is demonstrated: "Involving the private sector can result in both technical and allocative efficiency gains. The magnitude of these gains can be significant and arises mainly because state-owned provision of infrastructure is extremely vulnerable to public failure … New private sector owners/managers are often able to expand services to poor users more cost-effectively than the public sector".[16]

A memo to the then Secretary of State, Clare Short, recommending the setting up of PPIAF said, "Encouraging more private involvement requires that governments change their role – no longer directly providing infrastructure services, but mastering the new business of fostering competition among private providers, regulating where competition is weak, and supporting the private sector generally. New models of working are emerging: PPPs, where synergies are created, finance is leveraged and risks are apportioned to those parties best able to manage them".[17]

Clare Short met with her officials to discuss the project plans on 14 December 1998 and signalled her support for PPIAF to go ahead.[18]

3 How PPIAF operates

PPIAF was formally launched in 1999. The founding charter states:

"Experience over the last decade or so has confirmed the important contribution that the private sector can make toward the improvement of infrastructure services … In recent years official donors have been providing increasing support to developing country governments in the private infrastructure area, through both national programmes and international agencies. PPIAF has been established to complement and reinforce these activities and to increase the volume and effectiveness of donor support in this area."[19]

PPIAF is a fund which pays consultants to facilitate privatisation in water supply and sanitation services, along with other infrastructure sectors; energy, telecommunications and transport. Consultants are paid to advise on the process of introducing the private sector and the form of privatisation pursued, and to 'build consensus' for reforms from sceptical members of governments, parliaments, business, trade unions, civil society and citizens. Sometimes PPIAF can help to 'rescue' a failing privatisation programme or to introduce follow-up private sector participation plans.

PPIAF does not itself fund the infrastructure projects for which it is recommending privatisation or public-private partnership arrangements; as the name indicates, it is an 'advisory facility'.

3.1 Funding

PPIAF began funding consultancy work for water privatisation in 1999. In that time, PPIAF has received a total income of US$107.9 million from donors, of which spent US$93 million has been directly spent on specific projects. In the six full years since its inception, between 18 and 22 per cent of the total project funds have been spent on water and sanitation per year. Most of this is spent on some form of privatisation for water supply and sanitation networks, although some funding has been spent on private sector involvement in irrigation and solid waste management, neither of which are included in the figures overleaf (see Figures 1 and 2).

It appears that PPIAF has funded less water and sanitation work since 2003 than it did between 2000 and 2002 (1999 was only a start-up year, explaining why there were less contracts then). However, there is still a significant amount of work being funded. In every full year since 2003, there have been eight countries in which water privatisation consultancy contracts have been awarded.

Figure 1
Number of PPIAF water privatisation contracts in different countries since 1999

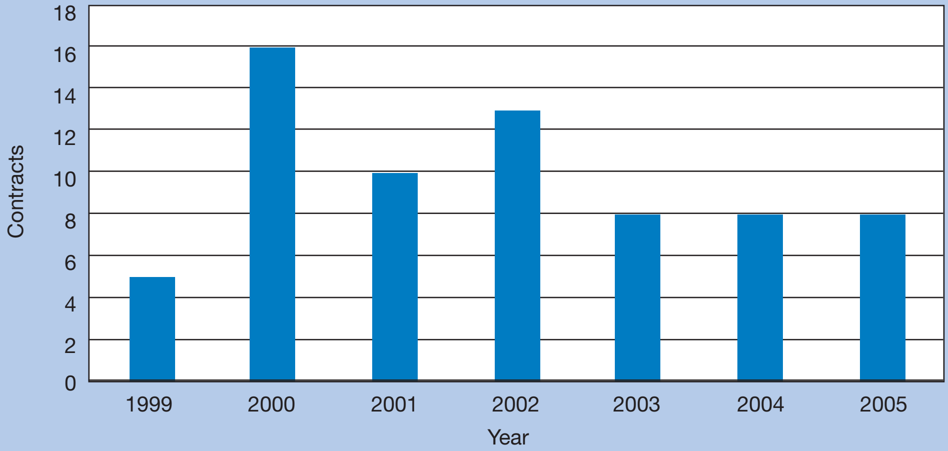
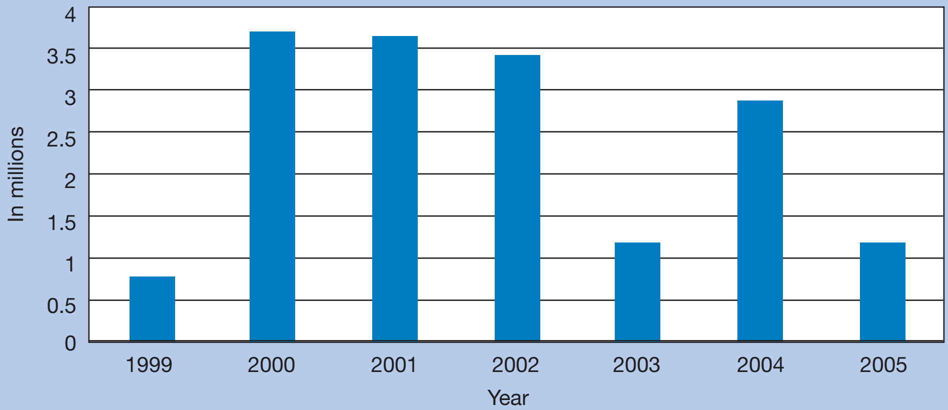


Figure 2
Amount spent by PPIAF on water supply and sanitation privatisation advice since 1999



It was felt at the time that PPIAF was created that the donor-funded involvement of consultancy companies would directly benefit a number of UK companies. As the UK Parliamentary Office of Science and Technology subsequently 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."[20]

DFID therefore sought to get other donors involved in the initiative, both to spread out costs, but also to prevent the funding of consultants looking like an attempt by DFID to tie its aid to UK companies.[21] Initially, DFID managed to get the World Bank and Japan to fund the facility; it has subsequently been joined by at least ten other donors: Canada, France, Germany, Italy, Netherlands, Norway, Sweden, Switzerland, United States and the ADB.

The UK has been by far the largest donor to PPIAF, contributing over 54 per cent of the institution's income over its first six years (see Table 1).[22] This equates to US$58.5 million out of the total US$107.9 million. PPIAF is recognised to be "heavily dependent on the continuing support of DFID"[23] Given that water sector projects make up about 20 per cent of PPIAF's portfolio, it is reasonable to assume that DFID has provided as much as US$10 million for PPIAF's water sector work since 1999.

Table 1[24]
Donations to PPIAF

Donor	Donations to PPIAF July 1999 – June 2005 ($ millions)	Percentage of PPIAF's funding (rounded to one decimal place)
United Kingdom	**58.5**	**54.20**
World Bank	**14.9**	**13.80**
Japan	**12.0**	**11.10**
Switzerland	**6.3**	**5.8**
Sweden	**6.2**	**5.7**
Norway	**2.1**	**1.9**
Netherlands	**2.0**	**1.9**
Canada	**1.6**	**1.5**
Germany	**1.4**	**1.3**
France	**1.0**	**0.9**
Asian Development Bank	**0.8**	**0.7**
United States	**0.8**	**0.7**
Italy	**0.3**	**0.3**

In addition to the donors listed in the above table which is taken from PPIAF's 2005 annual report, the European Commission is also a donor. During PPIAF's last annual meeting (held in Bonn, May 2006), the European Commission announced that it would make a funding commitment to PPIAF for 2007 of US$550,000.[25]

At the same meeting, three year funding commitments were made by the

UK (US$9 million per year), Switzerland (US$1.67 million) and Sweden (US$1.4 million). The Netherlands (US$500,000) and the World Bank (US$1 million) "similarly confirmed their commitment to provide funds for [the financial year 2007] on the basis of existing agreements". Meanwhile, "the other donors reiterated their continued support for the programme, but indicated that they were not in a position to make specific funding commitments on behalf of their respective organisations".[26]

According to these minutes, AusAid – Australia's overseas development agency – has indicated that it will join PPIAF. It is reported that PPIAF is also in contact with the Austrian Development Agency.[27]

As mentioned, PPIAF does not itself fund the infrastructure proposals that emerge from the advice that it gives to poor country governments. Thus the contracts that it awards to consultants to offer advice tend to be for sums in the thousands, rather than millions. Nonetheless, the impacts of this funding can be highly significant and the consequences may well be felt by residents in the recipient countries for years, as the money is being used to determine the future direction and form of essential service provision.

3.2 Governance

The governance structure of PPIAF influences its strategic priorities and its daily work. PPIAF's governing board, the programme council, consists of a small number of donor countries, mostly from the G8 (group of eight richest countries) and a small number of multilateral donors.[28] The programme council meets once a year, and defines PPIAF policies, approves the annual work plan and reviews PPIAF's performance. It is chaired by the World Bank's vice-president for infrastructure, Katherine Sierra.[29]

Membership of the programme council is only open to "eligible organisations" who must contribute a minimum of US$250,000 a year to PPIAF's core fund.[30] A programme management unit oversees the work of the facility on a day-to-day basis while a technical advisory panel offers advice to the unit and evaluates the impacts of PPIAF. It is understood that each PPIAF project proposal is presented to all the donors before it is financed; approval happens on a 'non-objection basis' ie, the proposal is seen to be endorsed by donors unless an objection is received.

3.3 Activities

PPIAF carries out two core areas of work; privatisation advice and what it calls 'consensus building'.

3.3.1 Privatisation advice

The core projects of PPIAF in the water field focus on designing privatisation programmes in water and sanitation in poor countries. Consultancies are paid to recommend options on how best to introduce the private sector in a particular country. As befits PPIAF's remit, the terms of reference for these studies determine that only privatisation options can be considered.

Box 2

Three types of water privatisation contract: Concession, lease and management

Concession contracts give a private company a licence to run the water system and charge customers to make a profit. The private company is responsible for investments, including building new pipes and sewers to connect households who are not so far connected. Concessions typically last for 20 or 30 years, but may sometimes be as long as 95 years.

Leases are contracts under which the company is responsible for running the distribution system, and for making the investments necessary to repair and renew the existing assets, but the public authority remains responsible for new investment. The private company is not responsible for the investment in extensions to connect households who were previously unconnected.

Management contracts make the private company responsible for managing the water service, but not for making any of the investment, or even, usually, employing the workforce.

Donors tend to use the term privatisation only when referring to complete divestiture of public assets (ie, sell-offs) and to use the terms 'private sector participation' or public-private partnerships to cover a range of other circumstances.[31] WDM and FIVAS use the term water privatisation to refer to for-profit private companies assuming responsibility for the *management or control* of the service – in whatever form this might take. The provision of PPIAF funding for consultants takes place at a variety of different stages in a privatisation process. PPIAF funds consultants to advise on the changes required to domestic legislation, policy, institutions and regulations so as to better attract private companies, as well as to work on options studies which recommend a precise form of privatisation that a given country should implement.

The provision of PPIAF funding for consultants takes place at a variety of different stages in a privatisation process. PPIAF funds consultants to advise on the changes required to domestic legislation, policy, institutions and regulations so as to better attract private companies, as well as to work on options studies which recommend a precise form of privatisation that a given country should implement.

In Kenya, PPIAF has paid for a succession of consultancy studies to advise on privatising water in Nairobi, Mombasa and Kisumu. The UK consultant Halcrow recommended a lease or management contract in Nairobi, as a concession contract would not be viable.[32] Similarly, Halcrow recommended a lease contract in Kisumu,[33] whilst Price Waterhouse Coopers recommended a lease contract for Mombasa.[34]

In Malawi, PPIAF and the World Bank paid US consultants Stone and Webster US$230,000 in 2000 to recommend options for water privatisation in the two largest cities of Blantyre and Lilongwe.[35] Stone and Webster 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.[36]

Countries in which PPIAF has funded water privatisation advice: Afghanistan, Azerbaijan, Botswana, Cambodia, Democratic Republic of Congo, Georgia, Honduras, Jordan, Kenya, Malawi, Mauritius, Nepal, Nigeria, Pakistan, Paraguay, Tajikistan, Thailand, Uzbekistan, Zambia (19 countries).

PPIAF has also funded consultants to work in countries which have extremely limited water services, to consult on the development, construction and eventual transfer to the private sector of a complete water system, eg, the build-own-operate-transfer (BOOT) projects funded in several cities in Indonesia.

More often though, it becomes involved in places where the water infrastructure is well established, where it may assist a government in making changes required to domestic legislation, institutions and regulations so as to better attract private companies and in order to transfer utilities to the private sector, eg, in Nepal and Nigeria.

Perhaps most controversially, there are several examples, eg, Argentina, Honduras and Paraguay, where PPIAF has become involved in a water utility that had already been privatised but where that privatisation had gone on to fail. It has funded consultants which are explicitly mandated to propose a new privatisation to replace the one which failed.

3.3.2 'Consensus building'

Once water privatisation plans are on the agenda, there may well be some form of resistance from within the government, the national parliament, media, local business, civil society, trade unions or citizens. Over recent years, public campaigns against water privatisation have been seen in numerous countries.[37] So the second prominent aspect of PPIAF's work is to fund what it calls 'consensus building' projects by consultants.

This rather Orwellian phrase describes work designed to overcome opposition to privatisation; consultants are paid to try to generate support for particular privatisation options or to change the opinion of parties not currently in support of the privatisation plan. In essence, consultants are being paid to promote privatisation.

The likelihood of opposition to privatisation means that PPIAF may fund such promotional activities before any solid plans have been produced – to lay the groundwork. In October 2003, PPIAF funded a national seminar with 80 participants in the Democratic Republic of Congo in order "to build a national consensus … to involve the private sector in the management of water supply services".[38] The actual plans for privatisation are only expected to start being created in March 2007, when both the World Bank and PPIAF are due to fund studies to propose options on introducing private sector participation to the Congo water sector. The same projects will also involve further communications and private sector promotion programmes.[39]

Sometimes PPIAF funds work to 'build consensus' on the 'benefits' of water privatisation in a more general context. In February and March 2000, PPIAF funded a programme attended by journalists from nine African countries covering water issues. The stated aim of the programme was "to increase press coverage related to water issues in Africa and to improve the quality and objectivity of this coverage".[40]

Themes covered by the workshop included: "Understanding the roles of the state, the private sector, and civil society; paying for water; changing institutions and involving the private sector; and providing services to the poor."[41] Elsewhere, PPIAF says that the workshop was intended to "discuss private involvement in water and sewerage and other infrastructure sectors".[42]

DFID says of PPIAF's work that "consensus building is essential if reforms are to be successful. Governments are responsible for leading the process. PPIAF has played an important supporting role". It goes on to justify this work, saying: "The aim of the training courses is to equip stakeholders with a sound knowledge on which to appraise reforms".[43]

Countries in which PPIAF has funded consensus building for water privatisation:
Argentina, Azerbaijan, Cambodia, Colombia, Democratic Republic of Congo, Ethiopia, India, Jordan, Kazakhstan, Kenya, Malawi, Mexico, Nepal, Pakistan and Paraguay and Zambia (16 countries).

3.4 Conditions and funding

As has been widely documented, for the past 25 years the IFIs (the World Bank, IMF, ADB and others), alongside government donors, have required countries to implement free market economic policies, including water privatisation, in return for aid, loans and debt relief. PPIAF funding is often intimately linked with this IFI conditionality; sometimes following but more often a pre-cursor to donor demands for water privatisation.

Most typically, the World Bank follows up PPIAF studies with funding in the forms of grants or credits for water supply projects which contain water privatisation as a key element. For example, in December 2000, PPIAF paid a consultant to develop options for a concession contract for the main Paraguayan water utility, Essap. PPIAF also funded work to get the Paraguayan government, the utility managers, consumer and business groups to agree to the concession privatisation.[44]

Since 2002, there have been repeated demonstrations against the proposed privatisation, and the Paraguayan senate has twice voted against a law to begin the privatisation process. However, as a condition of its May 2006 loan agreement with the IMF, the Paraguayan government had to agree to privatise Essap through a management contract by December 2006.[45] The World Bank also made the amount of lending available to Paraguay between 2004 and 2007 conditional on water privatisation.[46]

In other countries PPIAF-funded consultants have prepared the ground so that privatisation becomes the favoured option in so-called 'country-owned' Poverty Reduction Strategy Paper (PRSP) – which are heavily influenced, and subsequently signed off, by the World Bank and IMF. For example, in Cambodia, PPIAF has funded two projects, in 1999 and in 2001, looking at involving the private sector in water supply. Cambodia's 2003 PRSP says that water privatisation will be "vigorously pursued" (see Appendix 2: Country case studies).

Cases also exist where conditionality pre-dates the involvement of PPIAF. For example, the World Bank's 2002 CAS for Vietnam clearly says that money will only be provided in the water sector for reforms involving the private sector. By 2004, the World Bank had come up with an Urban Water Supply Project – funded to the tune of US$135 million over eight years – and in 2005, PPIAF stepped in with funding for consultants to draw up the privatisation plans (see Appendix 2: Country case studies).

Countries with water privatisation conditions in addition to work by PPIAF:
Afghanistan, Albania, Azerbaijan, Cambodia, Democratic Republic of Congo, Ethiopia, Georgia, Honduras, Kenya, Malawi, Nepal, Nigeria, Pakistan, Paraguay, Tajikistan, Uzbekistan, Zambia (17 countries).

3.5 PPIAF and the World Bank

PPIAF is part and parcel of the World Bank. The World Bank is a powerful institution as the world's largest external financier of water supply and sanitation.[47] PPIAF has a complex relationship with the World Bank.

Firstly, the World Bank is PPIAF's second largest financial donor after DFID (see Table 1). It contributes almost US$15 million which is nearly 14 per cent of PPIAF's funding. Secondly, PPIAF is organised and administered by the Bank. PPIAF staff are World Bank employees[48] and several PPIAF offices – the headquarters in Washington and the regional offices in South Asia and East Asia Pacific – are shared with the World Bank.[49] The governing board of PPIAF is chaired by the Bank's vice-president for infrastructure, and PPIAF is a World Bank 'Global Infrastructure Programme', currently the largest of these in existence.[50]

Thirdly, perhaps most importantly, the Bank provides PPIAF with its strategic direction, thereby determining its main activities and operations.

According to PPIAF's programme charter, its operations are based on the World Bank's Infrastructure Action Programme from 1997.[51] In brief, this Bank strategy amounts to providing free technical assistance to facilitate private sector involvement in infrastructure services.[52] Therefore, PPIAF is an important instrument in the delivery of the policy of the Bank.

Every PPIAF project has to be signed off by the Bank's country director before approval is given.[53] This is to ensure alignment with Bank priorities at the country level as represented in PRSPs and CASs which guide lending and other operations by the World Bank. As PPIAF's charter explicitly concludes: "In many cases, PPIAF activities will complement and reinforce actions proposed to be undertaken by the World Bank Group."[54] Additionally, PPIAF-funded activities are expected to provide valuable inputs to the development, refinement and execution of the CASs. [55] From this it appears that Bank priorities at the country level are both influencing, as well as being influenced by, PPIAF's funding of privatisation consultancy work.

Overall, the interwoven relationship between PPIAF and the World Bank explains how PPIAF's work at the country level is both cause and effect of World Bank conditions requiring water privatisation. A study by the World Bank Operations Evaluation Department (OED) looks into the Bank's involvement in PPIAF. It emphasises that the programme is totally dependent on the World Bank. According to the OED assessment, which was based on informal discussions with existing as well as potential donors, PPIAF could not credibly have continued without World Bank financial and political participation.[56]

PPIAF is one of several Bank instruments which are reserved for the private sector. Others are the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).[57] Together they provide aid-funded loans, contracts or risk guarantees for private water corporations and can only invest in private sector ventures. They are important instruments in determining how and why the Bank maintains a pro-privatisation bias within the sector. In the operational guidance for World Bank staff on public and private roles in water supply and sanitation it is stated that "a broad range of Bank Group instruments are available to support private participation".[58]

3.6 PPIAF and DFID

PPIAF also plays a key role within DFID's strategy for promoting private sector participation in infrastructure projects. DFID was the lead agency in designing and setting up PPIAF; it remains the largest single donor by far, contributing over 50 per cent of its funding.

After PPIAF's creation in 1999, DFID together with the World Bank sought to give impetus to the work of PPIAF through a conference called *Infrastructure for Development: Private Solutions and the Poor* held in London from 31 May to 2 June 2000. The conference covered all the sectors in which PPIAF works, and was funded jointly by DFID, PPIAF and the World Bank. The cost of the conference was US$600,000 with US$485,000 from PPIAF (50% of which was presumably originally from DFID) and additional direct funding from DFID and the World Bank of US$115,000. There were 217 participants from 40 different countries, representing governments, regulators, nongovernmental organisations (NGOs), utilities, investors, academics, consultants and donors.[59] UK Secretary of State for International Development, Clare Short gave the keynote address, telling the conference:

"If we are going to go as slowly as the public sector could afford in the poorest countries, plus what can come from [overseas development assistance], we're going to go very slowly indeed … If the investment in infrastructure essential for growth is to be found, the gap can only be filled by private sector investment. There is no other place from which it can come … My own department has been encouraging like-minded donors to come together in cooperative ventures, aimed at improving the understanding – by developing country governments – of the process involved in the formation of PPPs in infrastructure … We are ourselves involved in providing substantial support to the Public-Private Infrastructure Advisory Facility, about which you will hear much more, I'm sure, over the next few days."[60]

PPIAF exists alongside a range of other international mechanisms to promote PPPs such as the Private Infrastructure Development Group (PIDG).[61] The PIDG is an initiative again begun by DFID and supported by the national aid agencies of Switzerland, Sweden and the Netherlands. The current PIDG programme manager is John Hodges, who, as a civil servant at DFID, worked on the creation of PPIAF.[62] The fund exists to support and finance private sector initiatives in infrastructure and it considers that its approach complements that of PPIAF.[63]

The PIDG has several mechanisms operating within it, including the Emerging Africa Infrastructure Fund (EAIF), InfraCo, DevCo, GuarantCo and Asia Private Infrastructure Financing Facility. Keith Palmer, chairman of Cambridge Economic Policy Associates, a consultancy firm, and a former vice-chairman of Rothschild Bank, has been heavily involved in developing plans for mechanisms within the PIDG, assisting DFID in this regard. He is now chairman of the EAIF and InfraCo.[64]

4 Key problems with PPIAF

After six full years of operation, it is clear that PPIAF is failing to act in the interests of the world's poorest communities. As this section will demonstrate, this criticism concerns both the specific activities of PPIAF as well as the wider role played by PPIAF within the global donor development framework.

4.1 Outdated privatisation ideology

It is clear from the project memoranda at the time of PPIAF's creation that donors held a strong belief in the benefits of PPPs and water privatisation, especially for poor communities. Whether it was the claimed potential of PPPs to deliver new investment or the claimed superior efficiency of the private sector, the setting up of PPIAF was clearly based on the assumption that the private sector could play a major role in tackling the global water crisis. But this ideology, already shown to be outdated in the late 1990s, lacks even more credibility in 2006.

The creators of PPIAF not only chose to ignore the evidence at the time on the failures of water privatisation and its inability to deliver for the poorest communities, they have failed to respond and change their strategies as this evidence has grown.

As one of the original documents setting out the rationale for PPIAF states: "Current investment flows to the developing world are insufficient to fund additional infrastructure needs. Thus, if the additional infrastructure required for economic growth and poverty elimination is to be provided there is little alternative other than to turn to private sector investment."[65]

So a key rationale for PPIAF was to stimulate private sector investment in poor countries' infrastructure. And that money was certainly needed, because at the same time as PPIAF was being created, the World Bank and other donors were cutting their own expenditure on water and sanitation. The total invested by all the development banks and donors in infrastructure fell by one third between 1996 and 2002.[66] The World Bank, according to its infrastructure review paper in 2003, cut its infrastructure investment lending by 50 per cent between 1993 and 2002, from about US$9.5 billion to US$4.8 billion.[67]

The World Bank's review notes that the reasons for its own cuts in spending include, "a lack of clarity on the roles of the private and public sector in infrastructure service provision and underinvestment in country level infrastructure diagnostic work". It further noted that, contrary to its expectations, private sector investment in all infrastructure, not only water, also declined by over 50 per cent between 1997 and 2002 and concluded that "the recent decreases in private sector interest in infrastructure show that reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision".[68]

Overall, WDM's *Pipe Dreams* report estimates that the net contribution of 15 years of privatisation has been to significantly reduce the funds available to poor countries for investment in water. While it is impossible to be exact about this figure and to disaggregate water and sanitation spending from overall infrastructure expenditure, it is likely that the accumulated figure for donor funds now missing from the water and sanitation sector runs into billions.[69]

To conclude, donors reduced their own funding for infrastructure development in poor countries at the same time as setting up PPIAF which had the express purpose of increasing private sector funding in infrastructure. But donors' own evidence shows that the private sector has failed to deliver significant levels of new investment in developing countries' infrastructure, meaning that PPIAF's very *raison d'etre* must be brought into question.

4.2 Eliminating poor country choice

PPIAF plays a major role in the international system which effectively eliminates poor country rights to determine for themselves the best way to provide services like water and sanitation to their own populations. This occurs in a number of ways:

4.2.1 Conditionality

PPIAF has a complex yet significant relationship connection to the imposition of privatisation policy conditions by international donors on developing countries.

Although PPIAF does not use conditionality in the conventional sense, its aid is effectively conditional because it requires countries to be involved in some form of privatisation process if they are to access its funding. As section 3.3.1 demonstrated, PPIAF will get involved at a variety of stages in a process, whether before or during a privatisation or even sometimes after a privatisation has been terminated in order to develop a second privatisation.

Also, PPIAF cannot be viewed in isolation. Developing countries are often under wider pressures from international donors to bring in the private sector and privatise essential infrastructure. This pressure can take the form of conditions agreed in return for much needed debt relief, aid or cheap loans from the World Bank and others.

Last year, WDM analysed the 50 PRSPs signed-off by the IMF and World Bank and made publicly available by the end of August 2005. Whilst nominally 'country-owned', poor countries must complete a PRSP to receive debt relief through the Heavily Indebted Poor Country Initiative. The analysis looked at a variety of policy prescriptions that have been imposed on poor countries by the IFIs in recent decades, including water privatisation. WDM found that 90 per cent of the PRSPs included privatisation and 62 per cent specifically included water privatisation or greater private sector involvement in water supply services.[70]

One reason privatisation is so prevalent in PRSPs is that it has often been a condition of World Bank/IMF funding prior to the PRSP process. The fact that it then ends up in a so-called 'country-owned' PRSP is no great surprise; governments know what the Bank and Fund – which sign-off the PRSP – want to hear. Once privatisation is in the PRSP its implementation becomes a condition for accessing aid, loans and debt relief, with the donors claiming that this kind of conditionality is legitimate because it is 'country-owned'.

At the same time, the IMF regularly makes demands of poor countries that they cut their own investment in public services in order to meet strict targets for lower public spending and borrowing, often set as conditions by the IMF, again in return for a favourable credit-rating and aid. This can increase the pressure on governments to find alternative sources of funding for cash-strapped public services.

In a number of countries the World Bank has followed up a PPIAF study with further inducements to privatise, in the shape of large loans or grants. Examples of this have been seen in Cambodia, the Democratic Republic of Congo and Kenya. Overall, in 17 countries where PPIAF has worked, there is evidence of the imposition of water privatisation conditions. It is this combination of circumstances and conditions that drives a poor country government to seek financial assistance from PPIAF in the first place.

4.2.2 Absence of meaningful consultation

As PPIAF only funds activities to promote private sector participation in infrastructure projects, once a project is underway, private sector participation will be the recommendation and/or eventual outcome – by default. As its own website says, PPIAF seeks to channel technical assistance to governments in developing countries for strategies and measures to tap the full potential of private involvement in infrastructure.[71]

According to PPIAF's best practice guide for the water sector: "Once the objectives, vision, and structure for the sector are set, the details necessary to make it work need to be developed. Consultation and communication are especially important at this stage. Knowing what stakeholders want from the reforms and letting stakeholders contribute to the discussion will make successful, sustainable reform more likely."[72] PPIAF's review of 'consensus building' in PPPs advises countries to 'consult' with stakeholders on different forms of privatisation, but the principle of private sector participation itself, is beyond its scope.[73]

Clearly, by the time stakeholders are consulted, some form of private sector participation has already been agreed as the way forward; the question of which specific privatisation model is to be implemented is all that is left for stakeholders to express a view on.

4.2.3 Interference in legitimate debate

Not only is there an absence of meaningful consultation on all possible options for reform, PPIAF actively funds activities to 'build consensus' that private sector participation is the right way forward. 'Consensus building', contrary to its rather innocuous-sounding name, is actually about the promotion of privatisation.

A report entitled *Emerging Lessons in Consensus Building for Public Private Infrastructure* was conducted by the Institute for Public-Private Partnerships (IP3), paid for by PPIAF, and submitted to the World Bank in 2004. In it, IP3 made clear that "the implementation of [private participation infrastructure] requires major changes in stakeholder behaviour and in many cases, shifts in political and economic power networks".[74] PPIAF's privatisation promotion programmes create these shifts and seek to overcome opposition to privatisation; consultants are paid to try to change the opinion of parties not currently in support of the privatisation plan. The PPIAF report makes clear that building support for privatisation draws heavily on the fields of marketing and public relations.[75]

The report defines strategic communications as, "a method for bringing about a change in stakeholders' attitudes or beliefs through information dissemination, education, awareness raising and dialogue. It involves the two-way sharing of information and is an iterative process that enables reformers to respond to stakeholders and tailor information and dialogue to their needs and concerns."[76]

As this quote makes clear, the emphasis of communications and 'consensus building' is on changing the minds of stakeholders, as opposed to gathering views as to whether privatisation is actually the best way forward. PPIAF's report on 'consensus building' uses the phrase 'fine tuning' to explain the scope of stakeholders to revise the privatisation process.[77] The principle of privatisation itself is seemingly not up for discussion. Nor is the opportunity to compare private sector reform options with public sector reform options. Indeed, as IP3 put it, "the key to effective stakeholder consultation is to manage stakeholders' expectations with respect to how their feedback will be incorporated into the reform process."[78]

Whether these activities centre on particular water sector reform process such as in 2003 in the Democratic Republic of Congo, or focus on building support for private sector participation more generally, via 'training' for journalists, PPIAF's privatisation promotion activities are an aid-funded attempt to skew public debate on what are genuinely controversial issues.

Service users, trade unionists, parliamentarians, journalists and civil society may well have genuine and deep-seated reservations about privatisation. A combination of the growing evidence around water privatisation and its failures, alongside a belief that essential services like water provision should be recognised as a human right and one that governments should be tasked with delivering, have mobilised communities all around the world when their water services are slated for privatisation.

But PPIAF seeks to influence this debate using donor-provided financial and technical resources not available to ordinary citizens. Aside from whether privatisation is considered a good or a bad policy, is it a legitimate use of foreign aid money to interfere in domestic debates about the future provision of public and essential services? In the UK, Norway or any other industrialised nation, would we be happy if a foreign government was using its aid budget to promote privatisation or any other economic policy in our country?

PPIAF's support for privatisation promotion across sectors has been growing; a trend which looks set to continue. The independent evaluation of the first five years' of PPIAF's operations found that, "the proportion of capacity building and consensus building projects have increased over the five year period from 19 per cent in 2000 to 36 per cent in 2004. This shift … has been attributed … in part as a response to the growing criticism of private participation in infrastructure."[79]

Again, the significance of PPIAF's activities does not lie in the total amounts of money spent, it is in the amount of influence it is able to have over water provision policies in the developing world. In all, PPIAF has funded privatisation promotion work in 16 countries during its first few years of operation.

4.2.4 ***No funding for public options***

A poor country government seeking international financial and political assistance for options around public sector reform of the water sector may struggle to find a receptive ear. PPIAF operates in the absence of other specific mechanisms to promote and fund alternative, public or community-based solutions, or PUPs, for developing the water and sanitation sectors in developing countries.

The authors of the report have been unable to find evidence to show that public sector reform options are ever evaluated alongside private sector reform options in PPIAF-funded projects. In fact, the minutes from the most recent meeting of PPIAF's programme council in Bonn show that PPIAF will not fund public enterprise reform without "any further form of private sector participation."[80]

So when UK International Development Secretary Hilary Benn says that PPIAF will operate "where requested to do so by developing country governments",[81] he is being accurate. However, what he does not say is that institutions like PPIAF, alongside the wider pressures of donor conditionality, mean that involving the private sector is the only game in town. This leaves developing country governments with little or no choice when it comes to accessing aid funding for water sector reform but to request money to privatise.

4.2.5 ***Ignoring existing in-country good practice amongst public providers***

Not only does PPIAF serve to eliminate choice for poor country governments, and reinforce damaging economic policy conditions set by IFIs, PPIAF often undermines pre-existing good quality public provision. This can either be as it seeks to push the privatisation of already well-performing public utilities, or by ignoring good practice elsewhere in the country of public water provision.

In Zambia, a report for German Development Cooperation (GDC) reported that, taking into account the management fees incurred by private operators, the performance of the private operator Saur in the Copper Belt was "substantially weaker" than the publicly-run utilities in the country.[82] Nonetheless, PPIAF's objective in Zambia has been to build consensus around the idea of a lease contract for Lusaka's water and sanitation sector.

In Cambodia, the public utility in Phnom Penh has increased access to water from 25 per cent to 84 per cent in just ten years and it has been hailed by the ADB as "an efficiently managed water utility that has shown dramatic improvements in performance in the last five years".[83] Another public utility in Sihanoukville has also shown real improvements, boosting by two thirds the number of people with access to water supplies over a six year period.[84]

Nonetheless, PPIAF's work in Cambodia has focused on the "potential for building on experience to enhance private participation in the sector", despite the fact that government officials believed that the towns with privately-run water needed to be replaced with publicly-run systems.[85] The Phnom Penh success does get a brief mention in the PPIAF toolkit *Approaches to Private Participation in Water Services*. However, it then swiftly moves on to say that, "there are many cases in which public sector reforms have not achieved the desired results".[86] That is the only mention of the Phnom Penh success in the 300 page toolkit.

In a range of other countries including Botswana, Honduras and Malawi, pre-existing good practice in the public water sector has been, at best, ignored and at worst, wiped out by the push to privatise.

4.2.6 ***Lack of transparency***

In response to a recent written parliamentary question on the issue, Hilary Benn, the current UK Secretary of State for International Development said: "A particular strength of PPIAF is its open and transparent systems of governance. These include procedures governing the application for and allocation of activity funds."[87]

It is not always easy to see PPIAF's transparency being borne out in practice. The website[e], which is the primary way for members of the public

e *www.ppiaf.org*

and civil society to access information on PPIAF's activities, contains minimal information on specific projects, either those completed or those underway.

As an example of this, there is no systematic record of the consultancy firm undertaking a specific project. This is important because in a recent report, Action Aid International reported that at least 80 per cent of (technical assistance) consultancy contracts awarded by DFID went to UK firms, and of the remainder, the bulk went to firms from OECD countries.[88] This raises questions about the extent to which consultants based in the global south are able to access these opportunities, and associated issues regarding value-for-money. But, as it currently stands, it is not possible to conduct a similar survey of the consultants awarded PPIAF contracts, as this information is not systematically made public.

PPIAF's own internal database for monitoring projects – PPIAF's applications tracking system – was criticised in the independent review of PPIAF. In particular, staff can "change recorded completion dates at will … the input of data and reports is irregular and incomplete … completion reports [were only prepared] for about 35% [of projects and do] not provide an adequate basis for evaluating the outputs and most importantly the outcomes of completed projects".[89]

The independent evaluation of PPIAF also found that only 60 per cent of projects had progress reports prepared.[90] But even where these reports exist, they are not commonly made available on the website. Indeed in a number of instances featured in this report, while the consultancy work may have been long completed, the final report has not been published, eg, Afghanistan, Honduras and Nigeria. As the independent evaluation of PPIAF has noted, this makes analysis, particularly of the impacts of PPIAF in recipient countries, extremely difficult. It also prevents in-country civil society organisations from monitoring the work and holding PPIAF, the consultants or even their own government to account.

Accessing the information required to draft this report has not been easy. Attempts to obtain information direct from PPIAF have proved fruitless, with numerous telephone calls and emails remaining unanswered. The independent evaluation of PPIAF is also not publicly available, although a three page summary can be found within PPIAF's 2005 Annual Report.[91] Copies of this and a number of other documents were provided to WDM by DFID.

4.2.7 *PPIAF's shareholder model*

Although PPIAF's work is undertaken in developing countries, these countries are not represented on the programme council and are without a voice. PPIAF's governance structure and the democratic deficit therein, can be characterised as a 'shareholder model'. The shareholder model limits participation to financial sponsors of the programme, while the alternative stakeholder model would allow for broader representation. A stakeholder model involves actors potentially affected by the programme, such as developing countries and civil society. The aim is to provide increased involvement both in the implementation phase of a project and in shaping the strategic direction for the programme as a whole.[92]

A report by the World Bank OED reviews the Bank's approach to global programmes, including PPIAF. It emphasises that the shareholder governance structure adopted by PPIAF is known, both in theory and practice, to foster 'efficiency' at the expense of legitimacy in the exercise of authority. [93]

Consequently, when the value of reaching a legitimate common goal within PPIAF is sacrificed, in effect rich countries are then able to ensure coherence and harmony around their own goals and interests. The exclusion of developing countries from the governance structure leaves these rich countries with the power to define the agenda.

In comparison, an overwhelming majority of global programmes contain representation of stakeholders, other than donors, on their governing boards. PPIAF is among the few exceptions. The World Bank evaluation of these programmes points out that "stakeholder models are increasingly being adopted to improve relevance, ownership, fairness, and accountability".[94] Despite this, a report by the Institute of Development Studies states that at the international level developing partner voices are still poorly represented.[95]

The independent evaluation of PPIAF in 2004 recommended that beneficiary governments be more closely associated with the programme council.[96] It is not clear that this recommendation has yet been taken forward.

4.2.8 *Ineffective poverty focus*

While PPIAF does work in the regions of the world where the need to develop access to water and sanitation is high, it is clear that PPIAF projects do not start with the open question, what is the best way to improve water and sanitation in this country? Instead, PPIAF processes start with the de facto assumption that some form of private sector participation is the right solution to improving water and sanitation and proceed accordingly.

In light of this, it is perhaps not surprising that one of the conclusions of the independent evaluation of PPIAF conducted in 2004 was a questioning of the extent to which PPIAF is contributing towards poverty reduction. While the review said, “PPIAF still has a potentially important role in assisting governments”, it also 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.” [97]

For a facility set up by government aid agencies, operating as part of the World Bank which receives annual grants out of aid budgets, this conclusion is pretty damning. PPIAF’s mission statement is to “eliminate poverty and achieve sustainable development by facilitating private participation in infrastructure”.[98]

PPIAF’s independent review also says: “In addition, several of the project reports reviewed did not deal adequately with the issues of affordability of tariffs and expanding access in rural and peri-urban areas.”[99]

Private companies have traditionally been most interested in privatisation contracts in large urban areas, especially where there is a developed pipe network and an established middle-class to pay the water fees. It is thus to be expected that the emphasis of PPIAF’s water projects are in urban and populous areas.

However, when aid money is focused on what private companies want, it can distort development priorities and in PPIAF’s case, it has meant that rural areas have not received the focus and funding that they require. Only eight PPIAF water projects between 1999 and 2005 (even including projects which address irrigation and waste management), are explicitly focused on rural areas. This is despite the 2006 UN report on progress towards the MDGs saying that in terms of the water target, “wide disparities among countries and between rural and urban areas persist. The largest urban-rural disparities are found in parts of sub-Saharan Africa, where city dwellers are twice as likely to have safe water as their rural counterparts.”[100]

PPIAF's review goes on to say: "While not all potential projects will have a direct effect on poverty, PPIAF should strengthen the scope and depth of poverty impact of its own projects. In particular, the terms of reference for all projects that potentially impact on service and/or pricing levels of utilities essential to the poor should be required to assess their potential poverty implications."[101]

Pricing of water and sanitation services is obviously a key concern for the poorest users of a service. Unnecessarily high price hikes after privatisation in the Philippines, Bolivia and elsewhere have been a major factor in civil society resistance to water privatisations around the world. As the 2006 *UN World Water Development Report* said of water privatisations in Cote d'Ivoire, Guinea and Senegal, "increased tariffs had made water supplies unaffordable for many of the poorest sections of society, which led to people getting disconnected from water supply due to inability to pay".[102] The independent evaluation of PPIAF would seem to indicate that civil society is right to be concerned about the impacts of privatisation on price rises.

All of these criticisms would presumably have rung alarm bells within DFID and the other donors that contribute to PPIAF. However, DFID's own internal review of PPIAF in July 2005 said that the independent evaluation of PPIAF "was very positive" and it makes only one passing reference to the need for PPIAF to "strengthen poverty reduction analysis". DFID proceeded to approve a further £15 million (US$28.5 million) of funding for PPIAF through to 2008 saying that: "DFID support is critical to the continued growth of the facility." PPIAF "has been a cornerstone of recent DFID and other donor [private participation in infrastructure] initiatives and is likely to continue to be so over the next three years".[103]

5 Case studies

Detailed analysis of PPIAF's work in two African countries, Zambia and Kenya, illustrates how PPIAF works in-country to champion the private sector and reinforces privatisation conditions levied by IFIs.

Decision-makers, citizens and/or utility employees, are briefed on the necessity for and benefits of privatisation. Consultants are sent in to prepare the infrastructure and its regulatory framework for private sector involvement. The recommendations are in tune with the conditions from the World Bank and others, as they support privatisation. All of this happens in the absence of consideration of any options to retain and/or improve public sector provision.

The following examples make clear that PPIAF's job is to push privatisation, regardless of what might work best for the poorest people.

5.1 Case study – Zambia

5.1.1 Consensus building through privatisation promotion

There have been significant reforms in Zambia's water sector over recent years. Since 1997, all water operations have been devolved from central government to local authorities, commercial utilities or private operators.

Data from between 2001 and 2004 for the ten publicly-owned commercial utilities, which together cover 84 per cent of the urban population, show that 400,000 extra people have been provided with a connection and the typical service has increased from 12 hours a day to 16 hours a day. However, in the areas concerned, there has been rapid population growth, so the percentage of the population served has only increased from 70 per cent to 72 per cent.[104] Provision by the local authorities has been poor, with a reported decline in coverage from 45 per cent to 42 per cent.[105] The German aid agency German Technical Cooperation (GTZ) has been the main aid donor supporting the reform of the utilities.[106]

Zambia's PRSP for 2002 to 2005 stated that one of the principles that would guide the strategy for the water sector would be, "facilitating the participation of private actors (businesses and NGOs) to complement government efforts."[107] So far there has been just one management contract, in the Copper Belt. However, the World Bank has been continually pushing some form of privatisation in the capital city, Lusaka.

In February and March 2000, PPIAF paid for a communications programme for African journalists covering water issues. 32 journalists came from nine different African countries, with the largest number originating from Zambia.[108 109]

The stated aim of the programme was "to increase press coverage related to water issues in Africa and to improve the quality and objectivity of this coverage".[110] However, themes covered by the workshop included, "understanding the roles of the state, the private sector and civil society, paying for water; changing institutions and involving the private sector; and providing services to the poor".[111] PPIAF says that the workshop was intended to "discuss private involvement in water and sewerage and other infrastructure sectors".[112]

The programme included a workshop in Durban, an email discussion group and attendance at the second World Water Forum in The Hague, an event which is organised by the World Water Council; essentially a water industry body.[113]

5.1.2 Preparation for water privatisation

In 2001, PPIAF paid Severn Trent International US$271,659, with a further US$15,000 from the Zambian government, to work up options for private sector participation in the water supply and sanitation sector in Lusaka.[114] The consultant recommended a lease contract.[115] According to Public Citizen:

"Only a handful of government representatives were involved, including the Ministries of Finance and Trade and the state's privatisation arm, and absolutely no public consultation was done."[116]

This work for PPIAF by Severn Trent has also been criticised as "it was carried out by an international operator and therefore the findings could not be qualified by all stakeholders as balanced and objective".[117]

5.1.3 Further privatisation promotion

In December 2002, PPIAF paid a further consultant US$198,989 to promote the lease contract amongst stakeholders. PPIAF reported that the lease contract option "fell short of achieving 'buy-in' among decision-makers, labour unions, and consumer groups".[118] The new programme therefore funded, "two three day workshops to discuss the challenges facing the sector, build consensus among key stakeholders on the preferred option for private participation and design a communications strategy that the government can use as it proceeds with its reform plans".[119] The success of this programme "would be demonstrated by successful private involvement in the Lusaka Water and Sewerage Company (LWSC)".[120]

A report for GDC states that LWSC has followed up the PPIAF work by carrying out further 'consultations and sensitisation' and has begun consulting with potential private operators. However, GDC go on to state that:

"There is reported to be reluctance from the international operators to pursue lease type arrangements in Lusaka. Notwithstanding the reluctance to enter new private sector participation arrangements in the current environment (particularl, given the difficulties faced in Dar es Salaam) … there is a perception that the regulatory risk is too great."[121]

5.1.4 Water privatisation conditions

The World Bank's 2004 CAS for Zambia included plans for a Water Sector Reform Project starting in 2006. The CAS suggested all the World Bank's support to Zambia is conditional on reforms in the water sector:

"In addition to the absence of adjustment lending, the Bank's support would … (i) be more phased and at reduced levels in areas where agreements in regulatory reforms is slow and delayed (eg, support to water sector reform)"[122]

The Project Information Document for the proposed project outlined that the Bank had been due to fund the process of creating lease contracts in the Copperbelt and Lusaka. The intention was to spend US$26 million on:

"Rehabilitation works and network extensions; capital for operational costs in the start-up phase of the lease contracts; support to transactions costs for the selected private sector participation options."[123]

However, the World Bank later reports that in October 2004, "a series of consultations were held in Zambia to gauge private sector interest in operating LWSC under a lease contract. Six private sector companies came forward for discussions with LWSC. The preferred option of the private sector was also a lease contract. However during the discussion with private sector firms several risks emerged that would need to be mitigated before moving ahead with a transaction".[124]

It concludes: "It was clear that private sector operators were unwilling to engage with LWSC without a comprehensive array of support mechanisms to mitigate their risks. These measures were beyond the ability of LWSC and its board to undertake."[125]

The World Bank has now awarded Zambia a revised US$23 million loan for a Water Sector Performance Improvement Project, which has had to respond to the impasse on the proposed lease contract.

The Project Appraisal Document for this new loan says: "The objective is to support the [government's] ongoing commitment to urban and rural water sector reforms by improving access and sustainability of water and sanitation services for consumers in Lusaka and by supporting a more comprehensive institutional structure which will lead to a coordinated approach for water and sanitation investments, both public and private."[126]

5.1.5 ***Ignoring good public provision***

There is one private management contract operated by the French company Saur in part of the Copper Belt. Previously, when the local copper mines had been in public hands, water services were provided to local people. After the privatisation of the mines, the new owner did not want to take on provision of water services. The World Bank therefore supported the creation of the management contract.[127]

There was little involvement in this privatisation process by local authorities, the Zambian water regulator or the public. The World Bank has spent US$1.9 million on preparations for privatisation and has given a concessional loan of US$37.7 million to pay for investment and the management contract. The management contract fees are US$1 million per year, paid for initially by the Bank, with the possibility of a further US$350,000 depending on performance.[128]

However, a report for 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.[129] 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]."[130]

Whilst the Bank is providing the finance for the privatisation, ultimately it is through a World Bank loan so is added to Zambia's external debt.

5.1.6 ***Key points emerging from the Zambia case:***

- PPIAF and the World Bank have both been pushing water privatisation in Lusaka.
- PPIAF's reaction to the opposition to water privatisation has been to fund more privatisation promotion activities, rather than to reassess whether privatisation is an appropriate strategy.
- Money spent on a management contract for Saur in the Copper Belt appears to have been wasted – the publicly-run commercial utilities have performed better than the Saur-run utility.

5.2 Case study – Kenya

5.2.1 ***Preparation for water privatisation***

In November 2000, a donor review of the Kenyan water sector "strongly recommended" that the government introduce private sector participation to the water sector. PPIAF followed up this recommendation by paying Halcrow US$490,000 to offer recommendations on private participation in the water sector in Nairobi.[131] The study concluded that a concession contract was not feasible, but a lease contract was possible if "public sector funds possibly sourced from multilateral and bilateral funding agencies could be mobilised to fund the initial capital programme",[132] and that a management contract was also viable.[133] Halcrow also recommended an increase in water tariffs of 40 per cent.[134]

The Nairobi study was followed up in June 2001 by PPIAF paying Price Waterhouse Coopers[135] US$441,000 for a study to develop "a road map for privatising water supply and sewerage in Mombasa and the coastal region and building consensus on preferred options".[136]

5.2.2 ***Consensus building through privatisation promotion***

A year later in June 2002, PPIAF paid US$230,750, with US$60,000 from the World Bank, for Halcrow[137] to "identify options for private sector participation in the provision of water and sewerage services" in Kisumu.[138] The Kisumu work included an objective of, "building a broad consensus on the preferred option among a wide range of stakeholders."[139] The recommended option from the study was a lease contract to begin in 2006 or 2007 which would require donor financing of US$10.4 million.[140]

PPIAF has also paid US$74,000 to fund a workshop for the Water Services Regulatory Board on issues in private participation in water supply and sanitation.[141] In May 2003, Price Waterhouse Coopers produced a report for PPIAF on introducing private sector participation to Kenya's water sector. The report argued that concession contracts were needed in order to get private investment into the water sector, but that these would not be financially viable immediately. It therefore recommended that management or lease contracts should be awarded as a first step to concession contracts.[142]

In 2001, Vivendi had been set to begin a 10 year US$5 million billing and accounting contract for Nairobi, which had not been competitively tendered. A public outcry followed after critics of the contract pointed out that Vivendi would not need to invest any money in infrastructure during the contract. Vivendi responded by offering to contribute US$150 million in expansion, repair and maintenance of the network. However, the World Bank then criticised the project as it had not been competitively tendered, and highlighted the PPIAF study as important in outlining the options for development of the water sector in Nairobi.[143]

5.2.3 Water privatisation conditions

The PRSP signed-off by the Bank and Fund in April 2004 states that there will be "private sector participation in water".[144] This PRSP subsequently formed the basis of Bank and Fund conditionality in Kenya.

In June 2004, the World Bank agreed a new Nairobi Water and Sewerage Institutional Restructuring Project worth US$15 million. The project is to strengthen the commercial operation of the Nairobi City Water and Sewerage Company (NWSC) and "some tangible service improvements to consumers are expected."[145] The project will also fund a "comprehensive communications programme … to inform and involve stakeholders in the reform process". The World Bank say that there are still various reform options available, "including public and private sector participation options" and that "long term system/option will be developed with full stakeholder participation through the communications programme to ensure strong support".[146]

However, the World Bank's May 2004 CAS states: "The government commits to maintaining a stable macroeconomic framework, to strengthening public expenditure management, to reforming the financial sector, and to encouraging private sector participation in the provision of transportation, water, energy, and telecommunications services".[147]

The same CAS says that the amount of funding for water and sanitation is conditional on institutional and policy reform in the water sectors in Nairobi and Mombasa. A trigger for a Bank high case lending scenario is: "Appropriate and institutional regulatory framework for key infrastructure services established (regulatory frameworks conducive to private sector participation in water, energy, transport and telecoms)."[148]

The World Bank also has a proposed a Privatisation and Private Sector Competitiveness Project which has the objective: "To improve the business environment for private sector-led investment and growth as evidenced by a higher level of private investment, improved quality, better coverage, and more economic efficiency in the major utility, infrastructure … including … water … This objective will be achieved through improvements in the regulatory framework, privatisation, private participation in infrastructure, and reduced government expenditures in the public enterprise sector."[149]

5.2.4 Key points emerging from the Kenya case:

- A range of conditions have been set by donors to push the privatisation of water utilities in Kenya, with PPIAF funding the studies to help make such privatisations a reality.
- Although the World Bank claims public sector options are still on the table, its CAS clearly includes privatisation as a condition.
- Several PPIAF studies were carried out into privatising water in Nairobi, although public opinion was highly critical of the process and the private water company withdrew before it had even started.
- Despite public backlash against water privatisation, PPIAF has funded studies in other parts of Kenya with 'consensus building' activities as an element.

6 A different way – PUPS

6.1 Public not private reforms

The existence of PPIAF, PIDG and other PPP-orientated funding organisations, should be contrasted with the lack of support for reforming public utilities where control of the utility is kept within the public sector. A poor country government wishing to reform its water sector without resorting to private companies will struggle to find information, case studies or a ready source of technical assistance and ultimately finance to enable it to do so.

It is not that case studies of good performance by developing country public water utilities do not exist – far from it. Several examples are detailed below. It is more that such public reform models and good practice have not been systematically reviewed and supported by donors in the way that privatisation has been consistently pushed. Donor-supported mechanisms to fund reform of the water sector remain biased towards PPPs, to the exclusion of other models being considered, such as PUPs.

This is a massive and very costly mistake by donors. It is clear that with 90 to 95 per cent of the world's piped water resources already in public hands, progress to meet the MDG will need to focus on building capacity within those public utilities to extend access to the billion plus people without water. And as detailed below, there is a range of good practice examples of successful water and sanitation provision within public utilities. While some public utilities have performed strongly since their formation, others have faced serious internal or external challenges that have forced them to review their operations, and make reforms in order to better meet the needs of existing users and the unconnected.

But when it comes to reform, traditionally donors have been less interested in what can be learned from the public sector than what can be learned from the private sector. This situation must change if the MDG is to be achieved.

6.2 Public-Public Partnerships (PUPs)[150]

PUPs are one way in which expertise, good practice and success within public utilities can be shared with other providers in order to build capacity within the sector and to make progress towards the MDGs.

PUPs enable individual utilities to work together – sometimes on a short-

Box 3

Successful public reform of the water sector

There are a number of developing countries where the public sector is successfully delivering water and sanitation to local communities:

Uganda: The public sector out-performed the international private sector and, after several failed water privatisation experiences, the national water utility is now focused on internal reform processes to boost performance and increase access, which has risen from 48 to 70 per cent since 1998.

Indonesia: In Java, a public utility is striving to extend water coverage to 80 per cent of the population in the next few years, from the current 56 per cent. There is an emphasis on using technology that can be part-produced locally, at a low cost.

Botswana: The Water Utilities Corporation has substantially increased the proportion of the population with access to safe water over the period from 1970 and 1998. The population served increased from 30,000 to 330,000 while the average daily consumption rose – from five to 84 megalitres.

Cambodia: The public utility in Phnom Penh was rated as “an efficiently-managed water utility that has shown dramatic improvements in performance in the last five years” in a 2004 survey by the ADB. Consumer satisfaction is high with water available 24 hours a day in the served areas. Connection rates have risen from 25 per cent to 84 per cent over the past ten years.

Brazil: A survey of consultants came up with over 80 case studies of good practice in water and sanitation provision around the country. These include Porto Alegre where the communities have assumed part of the responsibility for the quality of services. Users have promised the utility that they will help to prevent clandestine water connections, conserve the supply network, control consumption and combat the loss of water.

While there is no one-size-fits-all solution for reforming public utilities, there are some common themes which can be drawn out from these successful examples. Efficiency, accountability, re-investment of any surplus back into the network, transparency and community participation are principles which recur.

Utilities must know their customers well in order to be truly demand-led and to better meet their needs. This can happen through better communication, transparency and accountability to users. However, in many cases, serving public needs is enabled and enhanced by direct citizen participation and decision-making by communities. In Brazil, for example, participatory budgeting processes within water utilities have helped ensure greater community ownership over decisions such as tariff levels and priority areas for investment. Education and information sharing about the issues facing the utility enables communities to take informed decisions. At the same time, government must not shirk its responsibility of making explicit the performance that they expect from the utilities.

The critical issue in meeting the water and sanitation MDG is creating new connections, especially for poor communities. The key challenge is levering the funding and capacity into the utility to facilitate that. Whilst some utilities will require external funding from donors of one form or another, getting better value for money out of existing resources by driving up efficiency can make a difference. Efficient and effective utilities will also boost the faith of existing customers and may be reflected in a greater willingness to pay water bills.

Tariff collection can provide extra resources to be re-invested back into the utility to fund new infrastructure. Getting the tariffs right is clearly a complex and potentially politically fraught area. Being accountable, transparent, efficient and participative can ensure that communities agree, understand and respect changes to tariff levels.

In conclusion, what these utilities have in common is a new public service ethos, where 'public-ness' is redefined as something that goes far beyond public ownership and management by public employees. It is also about both users and staff taking pride in a utility which delivers a good service to all users.

Reforming public utilities to meet the Water and Sanitation MDG. World Development Movement. UK. July 2006.

term arrangement to solve particular problems, or on a longer-term basis – to learn from each other and to spread good practice. Short-term PUPs might see a public utility (the offerer) which is strong in one particular area of performance, brought together with another utility (the recipient), which is keen to gain knowledge and experience in that particular area. Longer-term PUPs might see an all round strong utility working with a weaker one to review and improve performance in a number of organisational and operational areas.

PUPs are able to cover the full range of water and sanitation issues – from a technical detail of a particular type of pump or filtration system, to modern staff management; from a new way to fix old cast-iron pipes, invented by someone who works in a small village, to the most up-to-date technology for billing and revenue collection.

There are benefits on all sides of such arrangements. For the recipient, the benefits of PUPs are obvious: advice and support from knowledgeable engineers and managers working in the sector, at a minimal cost, in what should be a supportive/sharing environment. For the offering utility, the benefits can include promoting their own utility, fulfilment of a motivation to help others, as well as a personal learning experience too.

Critically PUPs must operate on a not-for-profit basis. Whilst travel expenses and labour costs must be recouped by the offering utility so that it does not lose money by taking part in a PUP, partnerships should not be seen as a money-making, revenue-generating operations; indeed such an approach would jeopardise the public sector ethos of the offering utility and the goodwill of the recipient utility. PUPs are not consultancy contracts such as that which PPIAF funds.

6.2.1 PUPs in action

While there is no systematic international framework for the support of PUPs, a number of PUPs do nonetheless exist.

PUPs between utilities can happen at a variety of levels and contexts. PUPs can happen within a country (domestic PUPs), where one utility shares experiences with another in the same country. Often this might be facilitated or enabled by a national level organisation such as the National Association of Municipal Sanitation Services in Brazil (ASSEMAE) which represents public water operators in the country. Through fora such as conferences and reports, it brings together utilities in order to exchange good practice. In their 2006 national conference, ASSEMAE members from different utilities around the country took part in workshops to put forward requests for assistance. This was then followed by a process of utilities putting forward offers of help in response.

Box 4

PUPs

Probably the biggest potential for PUPs is via arrangements which match together two public utilities:

- Stockholm Water has been involved in PUPs in Lithuania, Latvia and South Africa. In a PUP between the utility and Riga Water, Stockholm Water brought in technological and management expertise which led to improved sewage and water treatment, reducing pollution in the Baltic Sea.
- In Japan, a number of utilities work in partnership arrangements with utilities in the south. Yokohama Waterworks Bureau seeks to transfer technology to developing countries, while the public water company in Osaka has sent experts overseas to Kenya, Sri Lanka and Indonesia.
- Waternet, the municipal water company in Amsterdam, has not-for-profit projects underway to improve drinking water supply in Surinam, Indonesia and Palestine.

More information on these and other PUPs can be found in Hoedeman, O. (2006). Public Water for All: The role of PUPs. Transnational Institute and Corporate Europe Observatory. March 2006.

PUPs can also occur beyond national borders, as shown by the experiences of Stockholm Water and Waternet, Amsterdam. Both of these feature the exchange between a northern (offering) and southern (receiving) utility. However, as will be discussed later, a key untapped potential of PUPs is to facilitate south-south exchanges where a good performing utility in a developing country is able to act in the role of offerer. The potential of south-north exchanges (with a southern utility giving advice to a northern one) should not be discounted either as some southern operators have far more experience of, for example, participatory processes to involve communities in decision-making.

The term PUPs can also be used to describe a wider set of arrangements whereby a public utility works in partnership with local communities, in order to provide a better service. These PUPs may be especially successful in rural areas where public provision of infrastructure and services may be weaker and where the role of a community in building, running and maintaining aspects of the water supply may be the most cost-effective way of delivering an adequate service. In Honduras, the public water operator SANAA (National Service of Aqueducts and Drainage) has worked with community water boards in rural areas to provide technical support to build and maintain piped water supplies.[151] In Tamil Nadu, South India, a project to democratise the utility has transformed its relationship with the communities it serves. Amongst other results, 90 per cent of households in the pilot areas are undertaking rainwater harvesting while communities have helped to revive 150 traditional water bodies.[152]

PUPs can take a variety of forms depending on the need and the individual context and circumstances.

6.3 Meeting a real need

PUPs meet a real need within the public water sector and offer a variety of benefits. Specifically, they can overcome a number of the criticisms which this report has levelled against mechanisms like PPIAF.

6.3.1 Cost-effectiveness

PUPs are cost-effective, operating as they do – in the absence of profit-making requirements – to simply repay the costs of salaries, travel and subsistence expenses for those taking part from the offering utility. These costs are likely to be significantly lower than the costs incurred by traditional style consultants of the type regularly contracted by PPIAF, where fees and cost-of-living expenses are high and probably at a rate expected in a developed country.

Such cost-effectiveness maximises the amount of money available to the recipient utility. In fact, a one digit percentage of the IFIs' annual investment budget on water and sanitation could be enough to cover the costs of hundreds, maybe thousands of PUPs worldwide.[153]

6.3.2 Expertise where it counts

PUPs are focused on getting specialist, sometimes technical advice, into a utility. Those offering the advice and expertise will have years of practical experience of solving similar problems within their own utility. They will understand the complexities of delivering water and sanitation on the ground and will be able to liaise with those requiring advice and assistance.

PUPs can promote the expertise found in developing countries that the technical assistance traditionally provided by donors (especially via mechanisms like PPIAF), tends to overlook. This is important, especially in the context of extending water and sanitation networks to unconnected communities, where resources are low and expensive technologies may not be appropriate. Extending networks is a problem that some developing country utility engineers and managers grapple with on a daily basis and they will have knowledge of affordable and appropriate technologies and processes which could be applicable to the recipient utility community. The potential for such south-south capacity building has been overlooked in donor-driven development of the water and sanitation sector.

6.3.3 Reducing investment needs

PUPs are not about investment, they are about capacity building within utilities and the sharing of good practice to drive up performance. But a potential benefit of PUPs is that they may lead to an overall reduction in investment needs as systems and processes become more efficient and new technologies are shared. Additionally, as a better-performing utility gains an improved reputation amongst its users, this could impact positively upon payment rates.

In Tamil Nadu, the overall need for investment has fallen as a result of what they call a 'public-community partnership' between the state utility and local, rural communities. In the 472 villages where the reforms were initially rolled out, households contributed 10 per cent of the cost of projects in either cash or labour. At the same time, the overall investment required has fallen as previous plans have been revived, appropriate technology used, and alternatives examined. Overall, investment needs have fallen by 40 to 50 per cent.[154]

The Tamil Nadu figures are impressive. But in order to significantly boost the numbers of people connected to water and sanitation systems, improving the infrastructure in public utilities around the world will still require significant investment. This will have to come either from within the utility's existing resources, or more likely from an external source such as donors or the government.

PUPs will not eliminate the need for investment; but neither do PPIAF-sponsored reform processes. PPIAF does not reduce the need for investment, indeed it often acts to lever in significant levels of investment from the World Bank and others to follow through on the privatisation reform process initiated and to pay for follow-up infrastructure work. Any process to further develop PUPs will require a corresponding shift in willingness by donors to fund the infrastructure proposals that may result.

6.3.4 *Tackling the MDG challenge*

The challenge of meeting the MDG is to build the capacity of public providers to expand their services to meet the needs of the one billion people without access to water and the 2.6 billion people without access to adequate sanitation.

Whilst PUPs have had a relatively low-profile up to now, the potential scale of them is enormous, and expected demand is high with hundreds or thousands of public utilities around the world likely to be interested in both offering and receiving expertise via PUPs, were an easy-to-access system available.

Critically, PUPs offer governments, utilities and water users a new way of building capacity within utilities which does not rely upon the private sector. As global public opinion hardens against water privatisation after a number of infamous cases have hit the headlines – Cochabamba, Manila, Dar es Salaam – PUPs offer a change of approach; one which brings the expertise and experience in developing countries to the fore.

6.3.5 *Involvement and transparency*

PUPs offer the possibility for the involvement of a range of stakeholders in reform processes, including civil society and trade unions. While PUPs may primarily be between utilities, PUPs between utilities and communities can also be effective in increasing access to water. Meanwhile, partnerships between utilities and trade unions, or amongst trade unions, could also promote good practice in areas such as workforce restructuring and training. Building good relations with civil society, users, and trade unions and becoming a more participative and accountable utility are all potential issues that PUPs could seek to address and areas in which good practice is already available from good public providers.

Transparency within PUPs arrangements is essential, so that NGOs and governments as well as the users of both the offering and recipient utilities can monitor that such arrangements are focused on poverty reduction and value-for-money principles.

6.4 Barriers

With the benefits of PUPs clear, it is perhaps surprising that there are not more such arrangements already in existence. But several barriers towards the scaling-up of PUPs exist:

- Lack of a central source of information or a mechanism whereby public utilities can find out about other public utilities and be matched with potential partners.
- Lack of resources within poor country utilities to pay for visits from offering utilities, even at subsistence rates.
- Restrictions on the financial remit of offering utilities that prevent their own funds from being spent on PUPs outside their geographical area.

Perhaps, the ultimate barrier to the development of PUPs concerns political will and the low recognition by donors of the potential of PUPs, based on the existing good practice within current public utilities in both the North and the South.

6.5 Scaling-up PUPs

So, how can these barriers be overcome so that PUPs move from a handful of good examples to becoming standard practice in the water and sanitation sector? There are a number of ways in which donors could give their political and financial support to PUPs.

6.5.1 An international facility to support PUPs[155]

It is a disgrace that a mechanism like PPIAF has been actively created and supported by donors to promote PPPs in developing country water supply, particularly in the absence of any equivalent mechanism to support PUPs. This situation needs to be remedied quickly.

An international facility to support PUPs should be set up by donors. Such a facility would create a global network of PUPs, by offering a ‘matching service’ and funding to enable PUPs to take place. The facility would also disseminate good practice on the provision of public water and sanitation.

The matching service could take place via an internet-based platform which would allow participating utilities to establish, through their own choice and initiative, the basis for partnership. Utilities and other organisations (trade unions, civil society) would register on the internet site, using pro-forma information screens which would allow them to describe their situation and their needs. This system would use database software to create matches among the registrants according to the general descriptions of their needs and offers. A list of possible partners would be sent to the utility, which could then contact the offerer(s) for details. The utility can then select the most appropriate partner(s).

Such a mechanism will allow these utilities to systematically communicate with eachother and with any other organisations or institutions that could help, without having to wait for donors or other external actors to establish contacts and develop projects.

Many of these partnerships would likely be at a very low cost. Nonetheless, the facility should create a funding stream to support the emerging PUPs, especially where the offerer is short of, or unable to allocate, funds to PUPs work. A low level of funding could be made available to the recipient utility, on occasions, if that were to mean that they could maximise the opportunities offered by the PUP. However, the not-for-profit principle (whereby no side sees PUPs as an income stream) must be preserved.

All PUPs arrangements, especially those receiving funding from the facility, would need to be monitored and evaluated to ensure that they were taking place in a way which was legitimate, transparent, beneficial to the recipient's water and sanitation sector, and offered good value-for-money.

Once the facility was operational and facility-sponsored PUPs were underway, emerging needs or proposals for investment in infrastructure that followed from the capacity building in recipient utilities should be looked upon favourably by donors, in the way that PPIAF consultancy work is often succeeded by large World Bank or other donor credits or loans.

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.

6.5.2 Water operator partnerships

During the fourth World Water Forum, held in Mexico in March 2006, the UN secretary-general's advisory board on water and sanitation (UNSGAB) proposed the creation and implementation of a global mechanism to promote water operator partnerships.

Water operator partnerships are not dissimilar to PUPs, the difference being the possibility of participation of the private sector as a partner, (although also on a not-for-profit basis). While there is much to welcome in the water operator partnership proposal, the inclusion of the private sector as possible partners is a disappointment and this inclusion may cause more confusion and problems than real benefits.

However, it is very significant that a body like the UNSGAB has now formally recognised the principle of not-for-profit cooperation between utilities. Specifically, it has now committed itself to:

- Advocate the use of water operator partnerships and demonstrate their potential importance and benefits.
- Develop, in cooperation with public utilities' associations, a prototype of a database and internet-interface for operating a matching mechanism.
- Initiate discussions with donors to strengthen the model and gain their commitment to water operator partnerships.
- Review annually the outcomes of water operator partnerships and assess their contribution to meeting the MDG.[156]

Meanwhile, the UN secretary-general has been requested to give strong support to the water operator partnerships programme, including giving specific encouragement to national governments to aid its implementation. UN-Water will be asked to coordinate support from amongst UN agencies and the UN Department of Economic and Social Affairs (UNDESA), in cooperation with appropriate bodies, will develop a database and internet-interface for operating the matching mechanisms. Relevant donors will be asked to provide financial and technical support to the programme too. Meanwhile, a capacity building workshop to develop such partnership arrangements further, was held in July 2006 in Bangkok, Thailand, organised by UNDESA.

This proposal is exciting and despite the inclusion of private operators, is worthy of support, if the focus on not-for-profit is maintained. Donor governments should look to give it their full political and financial support, as required.

6.5.3 Donor support for individual PUPs

Donors need not restrict themselves to only funding PUPs through international facilities. As donors increase the amount of direct budget support given to developing country governments, the opportunities to fund PUPs on an individual basis may grow.

In particular, donor emphasis on sector-wide approaches for the provision of water and sanitation in developing countries could include provision to learn from existing good practice in-country or in neighbouring countries in the area of water, via PUPs. Meanwhile, the integration of water provision with health and education services also opens up the possibility of learning from good practice in these related sectors. PUPs in the field of healthcare may be more established than those in water for some countries, offering opportunities to learn across sectors.

Country-to-country or bilateral technical assistance also offers a way for donors to fund PUPs. Once a poor country government approaches a donor for assistance to reform a struggling public utility, the donor could explore with the government whether there are public utilities elsewhere in that country or in the wider region, which could offer expertise and help. This would be an alternative way forward, rather than resorting to the approach offered by traditional private sector consultants.

Other opportunities for donor support for individual PUPs could include working with national level organisations like ASSEMAE, PERPAMSI (the Association of Indonesian Water Utilities), or the External Services Unit in the National Water and Sewerage Corporation in Uganda, which are already working to develop good practice models and PUPs within their own countries and beyond, on a not-for-profit basis.

Donors work to support individual PUPs or PUP-supporting organisations may inevitably mean more *ad hoc* arrangements than either of the more formal PUPs facilities detailed above, but they also offer flexibility. Such *ad hoc* PUPs could be especially helpful for developing domestic PUPs where experience in one sector or region of a country is shared with other sectors or regions on a partnership basis. An emphasis on domestic PUPs will also help donors make good on their ‘country-ownership’ rhetoric.

6.5.4 Wider donor support for PUPs

As documented at the beginning of this report, the creation of PPIAF was preceded and followed by conferences and reports which made the case for the establishment of the facility. In contrast, donors have been more reluctant to hold conferences and write reports on the potential of PUPs and the public sector, let alone to fund such partnerships in a comprehensive way. This needs to be rectified. The development of PUPs must rise up the political agenda of all donors interested in making a significant contribution to the water and sanitation sector and meeting the MDGs. Donor-funded conferences could be a useful way of contributing to international political debate on these issues and getting the PUP facility proposals off the ground. But more research is required in this area too. Some donors appear sceptical about the idea of PUPs because of bad experiences with 'twinning' policies in the 1980s. It is possible to learn from all experiences – good and bad – and more research is needed to find out why the earlier twinning experiences failed and what pitfalls should be avoided as more PUPs are developed. Equally, not all PUPs are successful and research is needed to explore the conditions and factors in successful and not successful PUPs.

PSIRU, in their report *Public-public Partnerships in Health and Essential Services*, have come up with a variety of areas where more research was required. These include: which specific components of PUPs contribute most strongly to improved service delivery; the long-term effects of PUPs; an assessment of structures that involve the community most effectively; and the issue of funding by comparing the total cost of funding a PUP with the total cost of restructuring through PPPs.[157]

Undertaking such research should not be an excuse for donors to sit on their hands for three years and not move forward with more concrete proposals for PUPs, whilst the research is completed. But it is clear that while there needs to be more PUPs, it is important that they are effective too, and research can help to identify how to maximise their value.

6.6 Existing support from donors

There is no donor-supported international mechanism for supporting PUPs. But, as noted above, a range of PUPs do already exist and some of them have received donor support.

Stockholm Water's PUP with Riga Water was supported by the Swedish, Finnish and Swiss governments, the European Investment Bank and the European Bank for Reconstruction and Development. The Japanese International Cooperation Agency supports the PUPs involving Yokohama Waterworks Bureau, as well as other Japanese utilities working in PUPs. Meanwhile the Dutch government has been a funder of PUPs, although it has recently shown more support for PPPs.[158]

In June 2006, DFID stated: "DFID is supporting Kano State's [Nigeria] plans to improve water supply management through a pilot public-community partnership. The project will provide water for an estimated 280,000 people. Importantly, it will also develop a new model of community management. This should show that the Kano State Water Board can recover more of its costs if it works more closely with communities and develops delivery systems that meet local needs."[159] It is unclear how this relates to DFID's joint Country Partnership Strategy with the World Bank, agreed in 2005 and specifically the World Bank's National Urban Water Sector Reform Project which is funding network rehabilitation and the development of PPPs in three states including Kano. But perhaps it signals the beginning of a change of approach by DFID, which would be welcome.

There is clearly a trend amongst donors, especially those with successful public providers, to fund *ad hoc* PUPs involving their own domestic sector. There is a role for this if technology and expertise is appropriate for the recipient countries and contexts.

However, donors cannot limit themselves to funding occasional PUPs involving their own domestic utilities. Such support would be a mere drop in the ocean of what is required, and it would also ignore the good practice in public utilities outside donor countries, and especially in the global south. Besides, the UK, with its privately-owned and managed water supplies in England, has less opportunities to fund PUPs involving domestic providers.

Whilst any existing support from donors for PUPs is welcome, there is an important role for donors to fund a major scaling-up of PUPs across the globe.

7 Conclusions and recommendations for donors

This report has demonstrated that PPIAF is an organisation with the wrong mission, carrying out the wrong activities, with the wrong outcomes. The analysis in this report has shown how the donors' policy of using aid money to fund PPIAF's technical assistance in the area of water privatisation and 'building consensus' around this default policy position, has been wholly misguided.

- PPIAF is designed to promote the outdated pursuit of water privatisation which, time and again, has been shown to fail the poorest communities. Private investments, new connections and an improved water service for the very poorest communities have not materialised.
- Since its creation in 1999, PPIAF has been directly involved in promoting, facilitating and/or developing privatisations in the water and sanitation sectors of 37 countries.
- PPIAF plays a significant role in undermining the choice of poor country governments to decide their own development path and contributing to the pressure to privatise water and sanitation services. It does this by collaborating with conditions imposed by IFIs; failing to consult on all reform options possible for the sector; interfering in legitimate debate by undertaking so-called 'consensus building' activities to overcome resistance to privatisation; and not funding reform options which keep water sectors under public control.
- PPIAF has been involved in projects which seek to 'build consensus' – or promote privatisation – in at least 16 countries.
- PPIAF ignores the good practice in public water provision already underway in developing countries.
- PPIAF's operations are untransparent, despite it being responsible for spending public money and developing countries have little say in how PPIAF is run.
- PPIAF's focus on poverty reduction is ineffective, as its own review of operations has indicated.

Despite these failings, donors - especially the UK government which helped create PPIAF and has since funded over 50 per cent of its work – have maintained their support for PPIAF. At the same time, they have failed to give strategic and concerted political and financial support for PUPs in the water and sanitation sector. PPIAF is able to operate in the absence of any mechanism giving advice and expertise on alternative, public-focused reforms.

PUPs could meet a genuine need to build capacity within the public sector to meet the MDGs:

- PUPs can be cost-effective as they operate on a not-for-profit basis.
- 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.
- PUPs could even reduce the overall need for investment in the water sector, as their focus is on building capacity and assisting a utility to become more efficient and effective. Notwithstanding this, donors must scale-up their investments in the public water and sanitation sector.
- PUPs are focused on building capacity within the public sector, the main agents to deliver the MDGs.
- PUPs offer the potential for involving a wide range of stakeholders, including NGOs and trade unions. More generally, good public sector reforms place an emphasis on strong accountability and transparency to users and even community participation in utility decision-making.

As a result of this analysis, WDM and FIVAS call on donors to:

- Set up a facility to exclusively support PUPs in the water and sanitation sector, eg, not-for-profit exchanges between different public utilities, and other stakeholders: This report has outlined several ways in which such a PUPs facility could work: a Public-public Infrastructure Advisory Facility (which would be created to specifically address the criticisms of PPIAF) and/or a UN facility, such as that already being discussed under the guise of not-for-profit water operator partnerships. More debate and discussion will be required to assess how to maximise the effectiveness of these proposed institutions and how donors can best support them.

- Increase individual donor support for PUPs within bilateral funding programmes: Ideally, PUPs should be between south-south operators. There is a role for donors funding one-off PUP arrangements, especially between southern utilities where limited funding is available and where the respective utilities and governments believe that a partnership could make a useful contribution to building capacity. Donor countries with successful domestic public water sectors could set up partnerships to build capacity in underperforming developing country public utilities.

- Develop research programmes to maximise the effectiveness of PUPs: PUPs are not a wholly new idea, but further research and wider information exchange is required, in order to ensure that future arrangements work as well as possible. Research could usefully be carried out to explore: funding for PUPs; the lessons to be learnt from recent and historical PUPs; and the relative merits of PUPs amongst operators *within* countries and *between* countries. However, undertaking research into these areas should not be an excuse for donors not to undertake the scaling-up of PUPs at the same time.

- Recognise the ongoing role of conditionality within the international aid system in pushing water privatisation policies: Individual donors should not allow their aid to directly or indirectly support the imposition of damaging economic policy conditions. Both the Norwegian and UK governments have made several welcome steps in this area in recent years – as detailed in Boxes 5 and 6 below. But both could do more. Other country donors to PPIAF – Japan, Switzerland, Sweden, Netherlands, Canada, Germany, France, United States, Italy – need to take urgent action on the area of policy conditionality, as does the World Bank.

- Recognise the primary role of governments and their public water and sanitation providers in meeting the MDGs: At intergovernmental meetings, in reports and in policy statements, donors must recognise that, as with health and education, it is governments and the public sector that are best placed to deliver water and sanitation services. Going one step further and recognising that access to clean drinking water is a human right, to be enforced by a UN treaty which also recognises that water must be publicly controlled and managed, will create an important tool with which to press weak public providers to make more progress in the run up to 2015 and the deadline to meet the MDGs.

Box 5
UK government and conditionality
In March 2005, the UK government announced a new policy that it would no longer attach damaging economic policy conditions, like water privatisation, to the aid that it gives direct to poor country governments.[160] This is a policy change that has been welcomed by groups like WDM.

In September 2006, the UK government signalled that it might be prepared to withhold up to £50 million of its most recent annual allocation to the World Bank, pending adequate implementation of the Bank's conditionality review.[161] Again, this is a step which WDM has welcomed. Nonetheless, the UK could go further.

£50 million represents a small share of the total £1.3 billion UK grant to the World Bank, and will make little difference to the World Bank's overall expenditure. It is also unclear on what basis DFID will release the funding (ie, what it considers would be an adequate implementation of the conditionality review) or whether it will withhold more of the UK's next allocation if the Bank fails to adequately improve its policy on conditionality.

DFID continues to use bilateral aid to fund the water privatisation processes that stem from the conditions imposed by the World Bank and other IFIs, eg, in Sierra Leone.[162] Also, DFID continues to argue that if a policy is included in a PRSP (which is heavily influenced by the IMF and World Bank) then it is legitimate to use conditionality to ensure the policy is implemented, even though this undermines domestic political processes that might end up changing or even reversing the policy. *WDM, UK*

Box 6

Norwegian government and conditionality

The Norwegian Trust Fund for Private Sector and Infrastructure justifies its support for PPIAF on the grounds that there is a need to stimulate more private investment in developing countries by improving the climate for business.[163] An increase in private sector investment as well as privatisation is viewed as making a positive impact on the quality of infrastructure services. The content of the Norwegian strategy is based on the World Bank's Private Sector Development Strategy.

However, PPIAF operations and practice contradict the new priorities set out by the centre-left government coalition that was elected in October 2005. According to the government's *Soria Moria* declaration, the coalition's political platform: "Norwegian aid should not go to programmes that contain requirements for liberalisation and privatisation."[164] Two months after this announcement, Norway announced that it was withdrawing all its requests to developing countries, under the General Agreement on Trade in Services negotiations at the World Trade Organisation, to open up water sectors for market access. The government argued that these demands could be seen as a potential barrier to countries' managing their public services.[165]

In short, there is a new scepticism within official circles towards privatisation. Furthermore, two other aspects can be discerned from this and Norwegian development policy in general:

- Firstly, an undemocratic introduction of privatisation should be avoided. According to several statements made by Norway, countries must be given a choice, implying that they should not be pressured into privatisation. Moreover, this is underlined by a principle in the main strategy for development, called: "A common fight against poverty – a holistic development policy", which says that poor countries should shape their own policy and priorities. It also emphasises a free and open public debate engaging civil society within developing countries.[166]

- Secondly, the positive social impact of publicly-controlled public services (as opposed to private management of public services) is recognised. According to the government's Action Plan for Environment in Development Cooperation, Norway will work to "secure all people the right to water and promote acceptance of the principle that water resources are a common good".[167] This position appears to oppose defining water as an economic good which is normally used to justify privatisation.

Despite the new political space that has opened in Norway, the government has decided to extend support to PPIAF through fiscal year 2007. The decision was taken by the Ministry of Foreign Affairs.

However, the same ministry declined a request by PPIAF for Norway to act as a host for the annual programme council meeting in May 2007. The official rationale given was that the government did not think it would be suitable to act as a host before undertaking a closer inquiry into Norwegian support for PPIAF. In this regard, the Norwegian Agency for Development Cooperation is currently reviewing the operations of PPIAF in the light of the government's development priorities as laid our in the *Soria Moria* declaration.

Consequently, the Norwegian government recognises the need for rethinking its support for PPIAF. There is now an opportunity for decision-makers in Norway to take the evidence set out in this report into consideration and to get practice in line with policy, by withdrawing support from PPIAF.

FIVAS, Norway

If donors were to carry out the above demands, they would be going some way towards creating a 'level-playing field' between the public and private reform options available for consideration by poor country governments. But would this go far enough towards meeting the MDGs?

PPIAF is a relic of the 1990s when donors pinned their hopes on private water companies providing the finance necessary to solve the global water crisis. But this approach has clearly failed. There is no substitute for public finance and public capacity if we are to meet the MDGs; donors should reflect this in their approach and:

- Withdraw all funding from PPIAF that is used for projects in the area of water and sanitation and change its remit to prevent future work in this area: The evidence on the failure of water privatisation to deliver for poor communities is now so overwhelming that using development funds, which are supposed to tackle poverty, to pay for PPIAF water projects is not appropriate. It is time to reprioritise the use of public money into initiatives with a greater chance of success. The funds that would have been allocated to PPIAF for water and sanitation sector projects should instead be redirected into PUPs.[f]

  It could be argued that, by making this recommendation, we are advocating closing down the possibility for developing countries to choose privatisation. However, if a developing country government and its people freely choose to privatise the water sector, they have every right to follow this path if they feel the private sector really is able to provide the required investment in extending networks to the poor. The recommendations in this report concern the use of public money which should not be used to subsidise water privatisation.

- Withdraw all funding from PPIAF that is used for so-called 'consensus building' projects and change its remit to prevent future work in this area: As this report has demonstrated, aid-sponsored privatisation promotion activities represent external interference in democratic debate that should take place within countries. Paying for what is arguably a propaganda exercise does not represent a legitimate use of aid money.

- Review contributions to other organisations and processes which are intrinsically restricted to the private sector: This could include other facilities such as the PIDG, or aid given direct by donors bilaterally, or via export credit agencies as support for water privatisation processes. Whilst outside the scope of this report, the evidence presented here at the very least calls into question this wider support for water privatisation. A spotlight must be shone on these other related activities of donors.

f PPIAF's work in other sectors – electricity, transport, telecommunications – may also be linked with damaging economic policy conditions, meaning that its activities in these areas also lack legitimacy and do not represent an effective use of aid money aimed at reducing global poverty. While these sectors have been beyond the scope of this report, we believe they are worthy of further research and consideration.

Appendix 1:
Reference chart

This table references the countries mentioned throughout the report where PPIAF-funded projects have been implemented. It shows the type of work funded by PPIAF and allows comparison with any World Bank conditions or projects within that country. It also shows where privatisation has taken place.

	PPIAF options study	**PPIAF consensus building/ communications**	**World Bank funding /conditions**	**Privatisation situation**
Afghanistan	September 2004		• Project approved in May 2006.	• Management contracts planned – no date yet specified. • World Bank funding includes more consultancy.
Argentina	December 1999	December 1999	• Water sector reform projects promoting private sector participation funded in December 1990 and December 1999. • CAS 2006 promotes private sector participation.	• Tucuman: Privatisation proposals rejected. • Private water concessions rescinded in Buenos Aires, Cordoba and Santa Fe.
Azerbaijan	June 2002	June 2002	• CAS 2003 to 2005 conditional on water privatisation.	• None yet happened.
Botswana	September 2003		None	• Intention to privatise announced.
Cambodia	December 2001	December 1999	• World Bank project in 2003 requires private sector participation. • PRSP requires water privatisation.	• BOT-style contracts for water supply beginning, first began in 2004.
Democratic Republic of Congo	Planned for 2007	October 2003 World Bank project planned for 2007	• Project to begin in 2007.	• Project moving towards privatisations to begin in 2007.
Ethiopia	November 2002		• Project promoting private sector participation.	• Not yet promoting a particular form of private sector participation.
Georgia	March 2003		• PRSP requires privatisation through management contracts.	• Privatisation process ongoing.
Honduras	March 2004	March 2004	• IADB aid conditional on further privatisations.	• Concession in San Pedro in 2000 has failed to make investments as required. • More private sector participation required by IADB.

India	April 2005 December 2005 October 2006	November 1999	• CAS funding conditional on private sector participation in water. • Article V consultation- Promote private sector participation.	• Delhi Jal Board project stalled amid popular resistance and legal issues. • Gujarat project ongoing Mumbai project ongoing.
Kenya	November 2000 June 2001 June 2002	June 2002 December 2003 World Bank project includes further communications	• PRSP 2004 – private sector participation in water. • CAS – World Bank funding conditional on private sector participation in water.	• Lease contracts planned for Nairobi, Mombasa and Kisumu, beginning in 2006 or 2007.
Malawi	June 2000	World Bank communications strategy September 2005	• PRSP 2002 – Accelerate privatisation process in water.	• Pre-privatisation activities underway to be followed by lease contracts in Blantyre and Lilongwe.
Nepal	September 2000	September 2000	• PRSP 2003 – private sector participation in urban and semi-urban areas. • ADB backer of management contract for Kathmandu Valley.	• Management contract to be introduced – Severn Trent International are the only bidder.
Nigeria	December 1999 (Lagos) June 2000 (Kaduna) March 2001 (Ogun)		• DFID/World Bank CAS requires private sector management of water. • Kaduna, Kano and Ogun project begun May 2004, funding management contracts. • Lagos project begun June 2005, funding management contracts.	• Many management contracts are planned, but few have yet been awarded.
Paraguay	December 2000	December 2000	• CAS funding conditional on water privatisation. • IMF stand-by arrangement conditional on a management contract for main water utility.	• A management contract for the main water utility should be introduced by December 2006.
Thailand	February 2000	February 2000	• Plans for privatisation were IMF conditions during Asian financial crisis.	• Plans for private involvement currently delayed and unlikely to progress further.
Vietnam		May 2005	• CAS 2002 funding conditional on privatisation.	• PPIAF process ongoing.
Uzbekistan	December 2000		• 2002 project funding a management contract.	• Management contract began in July 2004.
Zambia	March 2001	February 2000 December 2002	• PRSP 2002 – private sector participation in water. • World Bank project in 2006 – to support a coordinated approach for public and private investment.	• Management contract in the Copper Belt – performance weaker than reformed public utilities. • Lease contract for Lusaka cancelled because of private sector concerns.

Appendix 2:
Country case studies

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.

As described in the preceding chapters, 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.

PPIAF funds a range of services: from legal and policy advice on changes required to domestic legislation, institutions and regulations so as to better attract private companies, to consultancy work which recommends a precise form of privatisation that a given country should implement.

In the same way as PPIAF strives to overcome structural and bureaucratic obstacles to privatisation, it also seeks to overcome social and political obstacles to privatisation, which can slow down or even halt the process. PPIAF's 'consensus building' projects act as cheerleaders for private sector reform processes, restricting the consultation of stakeholders to a mere 'fine-tuning' role within a pre-decided outcome.

The following case studies illustrate how PPIAF works in practice and they demonstrate these two approaches in a range of different countries. Both approaches have sometimes been pursued when there are clear indications of working alternatives to privatisation already in place; this is detailed below too. But perhaps the most audacious approach that PPIAF employs is operating in a scenario where a privatisation has already taken place, and failed. This is highlighted in the final group of case studies. And of course, a common theme running through many of the examples is the link between PPIAF and the pro-privatisation conditions levied by IFIs.

Preparation for water privatisation
Afghanistan
Afghanistan is an example of a country where PPIAF has promoted greater involvement by the IFIs and the private sector in water and sanitation

services. In September 2004, PPIAF paid US$74,500 for a study to: “Assess the suitability of involving the private sector in the water sector through management contracts and to assist the Government of Afghanistan to select the appropriate model for managing its water and sanitation services operations.”[168] This work has been completed, although PPIAF has not published the outcomes.

Following this, in May 2006 the World Bank approved a US$40 million grant for an Urban Water Sector Project in Afghanistan. Based, at least in part, on PPIAF project findings, the aims of this project are to turn the Afghan Urban Water Supply and Sanitation Company into a viable company through corporatising it, providing training and extending connections in Kabul by 37,000 (reaching an estimated 600,000 people).[169] PPIAF is the funder of consultants for this specific purpose and will pay US$450,000.[170] The project will also fund consultants to work up options for possible future PPPs in water.[171] PPIAF will guarantee the assistance of the consultants until the project maintains “an acceptable level of sustainability in financial management activities” as a “risk mitigating measure”.[172]

Vietnam

In Vietnam, PPIAF can be seen facilitating the changes required to meet World Bank conditions. World Bank support for Vietnam’s water sector has been conditional on privatisation since 2002. The World Bank’s 2002 CAS for Vietnam states:

“For public utilities (especially power and water), the Bank will provide support to those companies willing and able to move towards modern market-based approaches. As an example, the planned Urban Water Supply Project would establish competitive funds for high-performing water companies and for those willing to contract out management to the private sector.”[173]

Elsewhere, the strategy goes on to say:

“Water supply and sanitation facilities will require huge investments to keep up with the accelerating urban population growth and industrial demand… the Bank Group’s involvement in support for infrastructure will be guided by three concerns. First, there will be additional emphasis on improving access to services among poor communities and in rural and remote areas. Second, in view of the huge investment needs, high priority will be given to mobilising private sector involvement …”[174]

The Urban Water Supply Project began in December 2004 and provides funding of US$135 million over eight years.

In May 2005, PPIAF supported the privatisation process in Vietnam with a grant of US$68,000 with US$157,000 from other sources. The project aims to "assist the Government of Vietnam in drafting a [public-private partnership] or equitisation decree in urban water supply for Vietnam. This initiative would delineate to the government and other stakeholders the institutional and legal issues to be taken into account for the implementation of the full range of [public-private partnership] options in that sector".[175]

Uzbekistan

PPIAF funded the first stages of a water privatisation process in Uzbekistan. In 2000, PPIAF began a US$355,000 project to assist in developing and awarding a management contract for water provision in two large cities, Bukhara and Samarkand. According to PPIAF the "activity involved preparing contractual and procurement documents and providing technical advice and training in executing and monitoring contracts".[176]

In 2002, the World Bank began funding the Bukhara and Samarkand Water Utilities Project, with US$62 million to be spent over five years on investment in the system, fees for a private management contract and consultants.[177] A for-profit management contract was subsequently awarded to a joint venture of Stockholm Water Company, Swedish Water Development (Sweden) and InfraMan GmbH (Austria), beginning in July 2004.[178]

Georgia

In 2003, PPIAF funded a US$471,000 contract for a consultant to recommend appropriate privatisation for Georgia's water and wastewater sector. The country's World Bank and IMF-endorsed PRSP for 2003 to 2006 stated that there would be: "Privatisation or transfer under management contract of the water supply and sewage system (including those in big towns)."[179]

One of the French water companies was due to begin a management contract in Tbilisi in January 2004.[180] According to a Poverty and Social Impact Analysis conducted for the World Bank in 2003, Tbilisi residents thought ideally it would be desirable to have a local water company but did not see it as a realistic option. Residents were willing to accept a foreign private operator as it "is the only way to raise the necessary investment and to introduce management reform".[181] However, a management contract means the private operator will not have any responsibilities for investment, but it does not appear as if the World Bank or PPIAF sought to correct this misunderstanding on the part of Tbilisi residents.

Nigeria

Privatisations are being pushed in four Nigerian states: Lagos, Kaduna, Ogun and Kano. Three of these states have been the subject of PPIAF projects on water privatisation and/or World Bank projects.

The World Bank and DFID have explicitly made their aid to the urban water sector in Nigeria conditional on some form of privatisation. DFID's joint Country Partnership Strategy with the World Bank, agreed in 2005, says two national water projects "will concentrate on rehabilitating basic infrastructure, establishing financial sustainability of service delivery and perfecting PPPs".[182] The strategy goes on to say:

"In large cities, the emphasis has been on involving the private sector in the management of water utilities and to achieve financial sustainability and quality of services … The national water project under implementation seeks to involve the private sector in the delivery of water services."[183]

In order to meet the MDGs, "Nigeria also needs to do more to rejuvenate the non-oil economy, including continuing to scale up investment in roads, power, ports and water (especially in rural areas), accelerating the privatisation programme (especially for utilities)".[184]

Lagos

In December 1999, PPIAF paid Deloitte-Touche-Tohmatsu US$365,000, with a further US$350,000 from other sources, to assist the Lagos state government in moving towards a market-based water system, so that a private operator could take control of water supply operations. The Deloitte report recommended a concession contract for the richer area of Lekki and islands zone, with a management contract for the mainland of Lagos state. The report stated:

"The Lekki and islands zone can be contracted as a concession because it has higher incomes and more existing connections. The same is not true for the mainland. Conditions in the mainland zone are so difficult that no private operator would take the risk of a full concession. Therefore, an interim arrangement was designed that includes strong incentives for performance with features of a management contract."[185]

The report also produced proposals on regulation, recommending that:

"Regulatory discretion must be very limited. This is because Nigeria has a history of high political risk, no tradition of effective utility regulation, and no emerging utility regulatory framework. Second, the opportunities for political interference must be very limited. This is again because of the past history of political risks and lack of recent experience with utility regulation."[186]

PPIAF followed this work up in Lagos with a further US$461,251 to assist in establishing a regulatory framework for the private sector.[187] The World Bank says that between 2000 and 2002, the International Development Association (IDA) and IFC worked on a plan for a concession contract in Lagos, but this failed due to the lack of private interest in the contract. The Bank's strategy now is to take a step-by-step approach through management contracts: "If the private sector can develop a positive track record, then higher forms of PPP can be considered where necessary."[188]

Other Nigerian states

In May 2004, the World Bank began a National Urban Water Sector Reform Project aimed at funding network rehabilitation and management and the development of PPPs in three states: Kaduna, Kano and Ogun. The World Bank was to provide US$120 million with the Nigerian government providing US$20 million. Of the project, US$16.5 million was budgeted for developing PPPs in the three states.

At the time, the World Bank said that private sector participation was required because, "expert opinion [says] that a significant private sector intervention was the fastest and most secure way of restoring the state water authorities to financial sustainability".[189] The form of private sector participation planned was through management contracts. Although such contracts involve no private sector investment, the World Bank was still peddling the myth that one of the reasons for privatisation was to bring increased investment:

"Finally, urban water utilities will need substantial financing from private sources, and the Bank is perhaps uniquely positioned in terms of expertise and knowledge to assist the government in establishing the necessary conditions and environment to make this possible."[190]

By June 2005, the World Bank had initiated a Second National Urban Water Sector Reform Project, worth US$220 million,[191] including US$164.4 million in network rehabilitation and expansion, and US$7.8 million in developing PPPs.[192] The World Bank emphasises the key context for the project:

"In the urban water sub-sector, the Nigerian government would like to separate the functions of infrastructure investment and ownership from service operation thereby introducing competition and efficiency increases. Eventually, the government envisages that significant private sector funding could be available for urban water investments. On the service side, the strategy is to improve service delivery through optimal public-private partnerships for the management and delivery of water services."[193]

Although named a national project, it actually focuses on just two states, Lagos and Cross River. There are three main aims for the project: "Improve reliability of water supply from the treatment works in Lagos state; increase access to piped water in four cities in Cross River state; improve the financial viability of the urban water utilities in Lagos and Cross River."[194]

In June 2000, PPIAF provided US$74,500, with US$15,000 co-financing from other sources, to provide consultants to assist the Kaduna state water board.[195] No further detail is given, but given PPIAF's involvement, the work was presumably aimed at making Kaduna state water board more viable for privatisation.

PPIAF became involved in a third privatisation in Nigeria through paying US$265,650, with US$100,000 from elsewhere, for a consultant to identify options for greater private sector involvement in the water sector in Ogun state. Again, PPIAF gives no further detail of what this work entailed.[196] The UK engineering consultancy Jacobs Babtie say they have been working on the options for involving the private sector in Ogun's water supply, which was presumably through the PPIAF contract.[197]

However, nobody seems to have informed DFID of the World Bank's plans in Kano. In June 2006, DFID stated:

"DFID is supporting Kano State's plans to improve water supply management through a pilot public-community partnership. The project will provide water for an estimated 280,000 people. Importantly, it will also develop a new model of community management. This should show that the Kano state water board can recover more of its costs if it works more closely with communities and develops delivery systems that meet local needs."[198]

So far, none of the management contracts in Lagos, Kano, Kaduna or Ogun have been awarded. The UK water company Biwater already has a presence in Nigeria through construction and BOT contracts, and Global Water Intelligence (GWI) magazine has reported that Biwater will certainly be considering the water management contracts resulting from the World Bank projects.[199]

Promotion of water privatisation

PPIAF has funded projects focused exclusively on promoting privatisation to policy-makers, governments, the press and the general public at continental, regional, national and local levels.

Africa

In February and March 2000, PPIAF paid for a programme for African journalists covering water issues, the stated aim of which was "to increase press coverage related to water issues in Africa and to improve the quality and objectivity of this coverage".[200] The programme included a workshop in Durban, an email discussion group and attendance at the second World Water Forum in The Hague. 32 journalists from nine African countries were involved, with the largest group of participants coming from Zambia.[201]

Themes covered by the workshop included: "Understanding the roles of the state, the private sector, and civil society; paying for water; changing institutions and involving the private sector; and providing services to the poor."[202] Perhaps in a more candid moment, PPIAF says that the workshop was intended to "discuss private involvement in water and sewerage and other infrastructure sectors".[203]

The programme was followed up by the launch of the *Worldwide Journalists Training Programme* in March 2001. According to PPIAF at the time: "The training is expected to help dispel journalists' misconceptions about and biases against private participation in infrastructure."[204] The documents on this programme also indicate DFID's close involvement, saying: "Finally our thanks go to the sponsors, the Government of the UK through PPIAF."[205]

Latin America

In November 2000, PPIAF funded a workshop for 400 participants from nine South American countries[206] 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".[207]

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".[208]

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.[210]

India

India has also been a target for PPIAF-funded 'consensus building' activities. 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.[211] The explicit aim of the workshop was to seek ways in which the private sector could participate with the public sector, in bringing an end to problems in water supply and sanitation. Some 250 key decision-makers from national, state, and local governments and the private sector attended.

Although the seminar "concluded that the reforms should be designed using innovative approaches so as to provide [water] access [of] good quality at affordable prices to the urban poor", there was no mention of options which did not involve privatisation.[212] An outcome of this workshop was the intention to create a secondary workshop entitled *Running Water: A Dialogue for Journalists* designed to build an informed press on issues around the water sector.[213]

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, and well as in Gujarat state and at the national level. Meanwhile, PPIAF is also funding a $692,000 contract with French consultancy firm Castalia, to design and develop a pilot model for water supply in Mumbai, “amidst some degree of opposition from resident[s’] associations”.[214]

Democratic Republic of Congo

In October 2003, PPIAF funded a national seminar with 80 participants on PPPs in water. The aim of the seminar was “to build a national consensus … to involve the private sector in the management of water supply services”.[215] Exactly what a national consensus might look like and how it would be achieved in a country that had been ravaged by ethnic strife and civil war for a decade was not made clear by PPIAF.

The World Bank has since proposed a project to fund further moves towards privatisation, which is scheduled to be agreed in March 2007. Both the World Bank and PPIAF are to fund studies to propose options for introducing private sector participation into the DRC water sector. The Bank is also proposing to fund communication programmes in order to: “Guarantee a better understanding of the improvements intended by the reform by civil society and the main stakeholders; promote a dialogue with key stakeholders to achieve consensus building needed for the reform; enable the social environment to facilitate payment for water use.”[216]

IDA is to contribute US$100 million with a further US$30 million from the French Agency for Development.[217]

Preparation for, and promotion of, privatisation

In many countries, PPIAF has combined the tasks of giving privatisation advice and consensus building.

Cambodia

In 1999, PPIAF initiated a US$73,600 project, with US$11,000 from the World Bank, to assess the relative performance of the public and private sector in water provision in Cambodia.

PPIAF reports that there are four privately-run water systems in four provincial towns, but that: “Many government officials believed that they needed to be replaced by publicly-run systems, like those in the other 19 provincial towns.”[218] Whilst PPIAF reported its funding was to compare the performance of public and private providers, it stated that a further reason for its funding was that:

"There was potential for building on the experience to enhance private participation in the sector. A critical prerequisite, however, was a consensus among policymakers, stakeholders, and NGOs on how to proceed. Efforts to build this consensus included donor-financed seminars, study tours, policy reports, and specialised studies."[219]

Unsurprisingly, given that the purpose of the research was to build consensus in favour of more private sector reform, the PPIAF research concludes, "that households served by private utilities are significantly more satisfied than those served by the public utilities".[220] The research report and its findings are not published on PPIAF's website. However, PPIAF also go on to say:

"Households served by private utilities pay significantly more for piped water service than do customers of public utilities, facing both higher connection fees and higher unit tariffs. In towns where private utilities operate, some low-income households lack service in part because of the high connection fees … In the current situation the private sector is not superior to the public sector in all respects, with the primary difference focused on connection and the impact that this has on network expansion in low-income areas. This is to be expected."[221]

Elsewhere, evidence has been presented of strong performance by the public sector in Cambodia. In 2004, an ADB report concluded that the publicly-run Phnom Penh Water Supply Authority is "one of the better run utilities in the Asian region". It has improved performance since the early 1990s, in terms of extension of connections, financial efficiency, ending of corrupt practices and leakage.[222]

PPIAF then followed up this promotional work in December 2001 by funding a consultant to draw up plans for extending the role of the private sector in water provision in provincial and peri-urban areas throughout Cambodia. The work was funded with US$68,000 from PPIAF and US$155,100 from the World Bank and European Union, and was carried out by US consultancy Econ One.[223]

The World Bank began funding the outcomes of the PPIAF work in 2003, with an IDA loan of US$23.27 million over five years which "aims at building partnerships with the private sector and user groups in financing, operating, and maintaining constructed facilities".[224] GWI reports that in 2004 a joint venture between a Singaporean and a Cambodian company won a bid to operate in four villages, with connections subsidised by the Bank.[225]

It is no surprise that Cambodia's PRSP, signed-off by the IMF and World Bank in 2003, states that a "privatisation programme [is] to be vigorously pursued (including agro-industries, railways, electricity, water)."[226]

Ethiopia

In Ethiopia, the World Bank has followed up PPIAF work to identify the 'bottlenecks' to privatisation.

In November 2002, PPIAF paid for a workshop on involving private sector participation in the Ethiopian water sector, attended by 68 participants. The objectives of the workshop were to: "Identify bottlenecks and opportunities for private participation in the Ethiopian water sector; reach consensus on the roles of all stakeholders in promoting private participation in the sector; agree on an action plan for … reforms needed to encourage private participation in the sector."[227]

A key issue identified in the workshop was that: "Potential customers' limited ability to pay tariffs restricts the options for private participation, so some support will be needed to help private operators get into business and win contracts."[228]

Recommendations for how to improve the financial viability of public utilities to make them more attractive to the private sector were to be implemented through a World Bank Water Supply and Sanitation Project, starting in 2004.[229] This project has now commenced, with funding of US$100 million from IDA, and US$20 million from the Ethiopian government. The project is seeking to promote the role of the private sector in water supply and sanitation, including funding assessments and consultancy contracts, but it is not yet at the stage of recommending a particular form of privatisation.[230] Between 2003 and 2004, DFID allocated £210,284 bilateral funding to support the World Bank's Water and Sanitation Programme in Ethiopia.[231]

Nepal

In Nepal, PPIAF's activities have been a small but important part of an expensive and controversial private water project.

In September 2000, PPIAF paid Environmental Resources Management US$74,000, with a further US$20,000 from the World Bank, to draw up plans for an institutional structure for water supply and sanitation in the Kathmandu Valley. PPIAF also funded a programme to "facilitate dialogue and consensus among key stakeholders in the institutional reform progress".[232]

Nepal's PRSP, signed-off by the IMF and World Bank in May 2003, stated there would be, "Private sector involvement in urban and semi-urban areas."[233]

Privatisation in Nepal is being pursued as part of the Melamchi Water Supply Project (MWSP). The MWSP began in 1998 with technical assistance funding from the ADB,[234] and has the aim of transferring water through a pipe from the Melamchi River to Kathmandu Valley, which contains the capital Kathmandu, and two other major cities, Lalitpur and Bhaktapur. Part of the project now includes a management contract for Kathmandu Valley water authority.[235]

The ADB has remained the principal funder of the project. Two loans with a combined value of US$15 million have been made available to fund restructuring of the water institutions and to fund the management contract. The contract will have a fixed fee with performance incentives, and is planned to be for six years with the possibility of extensions.[236]

DFID funds the ADB's Poverty Reduction Cooperation Fund. In 2002, this fund was set to fund a research programme on identifying ways in which the private sector operator in Kathmandu Valley would be able to distribute water to the poor.

Four companies were originally shortlisted for the management contract: Gelsenwasser, Biwater/Gauff, Severn Trent International and Saur. However, none submitted a final bid by the original deadline of 31 May 2005. A sole bid from Severn Trent International was finally received and it alone is currently being evaluated.[237] The lack of competition for the contract has not prevented the privatisation process from moving forward.

The Water and Energy Users' Federation-Nepal (WAFED) is campaigning against the Melamchi Water Supply Project, including the water privatisation. Campaigners have already begun legal proceedings in the Supreme Court of Nepal and the ADB corruption mechanism to contest the way the contract has been tendered.[238] They also argue that there is a strong tradition of community management of water in Nepal, and they could achieve the same aims with one fifth of the money. Public opinion is generally opposed to privatisation because they can see that there are alternatives.[239] There have also been allegations of corruption in the project, involving former Prime Minister Deuba, other ministers and government officials.

However, campaigners have found it difficult to publicly oppose the privatisation due to the crackdown on political dissent by the government of King Gyanendra. Gopal Siwakoti, coordinator of WAFED was arrested and detained for several weeks in February 2006 after speaking at a public rally in Kathmandu.

In October 2006, two pieces of legislation were tabled in the Nepali parliament. According to a news report, the bills will open the door to the "privatisation of drinking water distribution mechanism and, according to the activists working to make them poor-friendly, will cause tariff hikes and make [water] inaccessible to poor communities living in the capital valley". The report goes on: "These bills are being passed as per the demands of the donors of Melamchi water projects, who have demanded privatisation of water distribution before carrying out the project."[240]

Resuscitation of failed or terminated privatisations

Argentina

The French company Vivendi won a 30 year concession contract in 1995 to manage the water supply in the Argentine province of Tucuman. Upon taking control of Tucuman's water, Vivendi introduced an immediate price increase of 68 per cent on all customers. Despite this increase in revenue, the company failed to accomplish the planned investment and the water supply turned brown.[241] A campaign of non-payment by customers led to the termination of the contract in October 1998.[242] World Bank researchers commented that a price rise right at the start of the concession was "probably a misjudgement".[243]

In 1999, PPIAF paid US$111,300, plus direct funding of US$25,000 from the World Bank, to a team of consultants to learn lessons from the first concession and propose options for a second concession. In June 2001, the work recommended that a short-term management contract should be awarded ahead of a second longer-term concession. A workshop for all 'stakeholders' was reported by PPIAF to be "successful in generating consensus on the implementation of the strategy".[244]

However, in December 2001, the Argentine government scrapped plans to award a new privatisation contract for Tucuman. Instead, the utility SAT SAPEM has been set up which is 90 per cent owned by the province of Tucuman and 10 per cent owned by the workers union.[245] As of October 2006, the utility continues to operate in this form.

Honduras

In Honduras, PPIAF facilitated further privatisation despite the previous poor record of the existing private concession which had met popular resistance. This was in a country with a history of good public water management.

Between 1994 and 1998 there was a successful restructuring of SANAA, the state-owned water company responsible for the capital Tegucigalpa, which dramatically improved efficiency, management and effectiveness. It was based on joint working with the trade unions, through a process aimed at positively involving the workforce.[246] SANAA also worked in PUPs with rural water operators, leading to improvements in services.[247]

In November 1998, Honduras was hit by Hurricane Mitch, which resulted in US$3 billion worth of damage, US$60 million to the water sector.[248] Donors have contributed to the rebuilding efforts, but they have sought to push privatisation at the same time. Towards the end of November 1998, the Inter-American Development Bank (IADB) agreed a project to invest in urban services including water supply in San Pedro Sula, Honduras' largest city. This was conditional on privatisation.[249]

In August 2000, a concession contract for San Pedro was awarded to a consortium called 'Acea y Otros', which included a group of Italian companies, headed by Acea.[250] Upon beginning the concession, the consortium named itself as Aguas de San Pedro (ASP). The privatisation process was financed by the IADB.[251]

In 2003, GWI reported that ASP was struggling to make the investments required under the contract and had failed to cut the high leakage rate. ASP blamed meddling in the project by local and national politicians for the failure to extend the network, whilst GWI reported that many of San Pedro Sula's residents, "reject the intervention of foreign companies in managing their water supplies, preventing basic tasks such as the installation of measurement equipment in some streets".[252] In 2002, the IADB agreed a loan of US$13.7 million to assist the investment programme in San Pedro.[253]

In 2003, the UK Technical Cooperation Trust Fund for Consulting Services paid US$35,000 for a consultant to work up options for a concession in the capital city, Tegucigalpa.[254] The fund was established by the Department for Trade and Industry in 1994, and is administered through the IADB. All consultancy services are tied to the use of UK companies.[255]

In August 2003, thousands of people took to the streets of Tegucigalpa to protest against the passing of a law to assist in the water privatisation process. One indigenous group staged a mock crucifixion as a symbol of the suffering which will be caused by restricting access to water.[256]

In its 2003 CAS, the World Bank had reported that "efforts to deepen private involvement in infrastructure provision [including water and sewerage] have been hampered by weaknesses in the existing regulatory framework, weak public confidence in the benefits of privatisation and political opposition by vested interest groups".[257]

Despite, or perhaps because of, these problems, in 2004, PPIAF provided US$574,000, with further financing of US$600,000 from elsewhere, to support the process of introducing further private water supply and sanitation. PPIAF's website holds no further information on what this programme entailed.

In 2004, the IADB, along with Sweden, the Nordic Development Fund and the Organization of the Petroleum Exporting Countries (OPEC) Fund for International Development, began funding a new programme for investment in water and sanitation services, worth US$32 million. The IADB stipulated that a 'high priority' will be given to municipalities which have advanced furthest with reforms, "especially those with high prospects for private sector participation".[258]

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.[259]

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".[260] 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."[261] 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.[262] 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.[263] 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 public-private 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."[264]

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."[265]

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.[266]

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."[267]

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 by PPIAF.

Ignoring a history of good public provision
Thailand

Water privatisation was first pushed in Thailand following the Asian financial crisis in 1997 and 1998. One condition of the IMF bailout was the initiation of a privatisation programme, including the Metropolitan Water Authority (MWA), which services Bangkok, and the Provincial Waterworks Authority (PWA), which provides water in 73 provinces.[268] However, according to a 2003 report by the ADB, the MWA has addressed the two key issues of water utilities in Asia, governance and tariffs, and as a consequence "it provides good service to the people in its service area".[269]

In February 2000 PPIAF spent US$74,000, with co-financing from other sources of US$109,880 on a project to promote "reforms aimed at opening the water and sewerage sector to increased involvement by independent private service providers" in Thailand.[270] It is likely that this work correlates with a plan drawn up by US consultants Tasman Asia for privatisation of MWA and PWA by 2003. The Thai government rejected these plans, and instead decided to issue shares in the two companies, but with the government retaining a majority holding.

The share offering has yet to happen, although there are plans to contract an international water company to assist in the management of MWA and PWA once the restructuring has taken place. However, GWI reports that opposition from campaigners and court rulings means "it looks unlikely that the privatisation programme in its current form will make much progress".[271]

Malawi

Back in 1987, the World Bank funded a project where, then UK public water utility, Severn Trent worked alongside the publicly-run Lilongwe water board to improve service provision. A review by the World Bank's OED in 1997 found that: "Access to water improved significantly; an effective management support and training programme was developed; efficiency increased; unaccounted-for water fell to 16 per cent; labour costs were reduced."[272]

Despite this successful process of reform within the public sector, a shift in the World Bank's approach to water privatisation in the 1990s has meant that, since 1998, the Bank has been pushing private sector involvement in water supply in Lilongwe and Blantyre, rather than continuing with the process of public sector reform.

In 2000, a World Bank project was agreed to fund utility privatisation, including water. This was supported by a PPIAF-funded study by the US consultants Stone and Webster into how to privatise water in Blantyre and Lilongwe.

Accelerating the privatisation process, including water privatisation, was included in Malawi's 2002 PRSP. 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."[273]

However, the Bank states that there is high level political support for the privatisation programme. Therefore, in order to push the privatisation's forward, the World Bank has amended the 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) programmes targeted at specific stakeholder groups such as members of parliament, trade unions, employees and state-owned enterprises and civil society."[274]

The executive directors approved the amendments at a meeting on 6 September 2006. Caroline Seargent, the UK's alternate executive director, was present at the meeting.[275] 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.

There is no indication yet as to when lease contracts for the two water boards will be advertised and agreed upon.

DFID is not directly funding the water privatisation process. However, in their Malawi CAS, they state they are prepared to help other donors who are leading on supporting the privatisation strategy.[276] In a recent water document, DFID says:

"DFID is one of five donors attending the water and sanitation aid coordination group with the government … The World Bank is close to agreeing a new programme for the sector. This will involve supporting the water boards for the two cities and the small towns."[277]

DFID fails to mention that the plan for the two cities is for privatisation, that PPIAF funded the initial study for privatisation or that the World Bank is actively pushing the plan, including the communications strategy.

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