



INTERNATIONAL MONETARY FUND
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Ms. Sara Grusky
U.S. Coordinator International Water Working Group
215 Pennsylvania Avenue, S.E.
Washington, D.C. 2003

Facsimile: (202) 547-7392

Dear Ms. Grusky:

Thank you on behalf of Mr. Horst Kohler, Managing Director of the International Monetary Fund, for your letter of February 19, 2002.

On the question of private sector involvement in the water sector, the IMF looks to other institutions that have the necessary expertise, notably the World Bank, to provide policy advice to the government. In this as in other areas, however, we would endorse the principle that key policy choices should be subject to public debate and participation, as you suggest.

As regards the pricing of water, the basic elements of a sound policy apply regardless of how the ownership or management of the sector is structured. Since there are major implications for the public finances and macroeconomic stability, the IMF has provided advice in this area. Far from imposing solutions, however, as your letter suggests, we have in fact supported the proposals drawn up by the independent Public Utilities Regulatory Commission (PURC) to move to full cost recovery, and to adopt automatic adjustment formulae to keep tariffs in line with the costs of water provision. The PURC's plan was developed through extensive consultation with civil society in Ghana, and seeks to balance the interests of the consumer with the need to ensure the financial viability of the utility companies. We believe that pricing mechanisms of the kind proposed by the PURC are essential to avoid a repeat of the experience in 1999-2000, when a failure to adjust tariffs in the face of rising costs led to huge and unsustainable debts in the public utilities. Such debts are ultimately a drain on the budget and divert resources in an arbitrary fashion from other essential expenditures on public services in Ghana.

This being said, we would emphasize that neither the principle of full cost recovery from the point of view of the utilities nor the adoption of automatic tariff adjustment formulae rule out the provision by the government of subsidies to water consumers. If such subsidies are

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deemed to be a relatively effective way to alleviate poverty, if they are targeted accordingly, and if their cost is fully and transparently reflected in the government's budget, we would support them. Indeed, the government indicates in its latest letter of intent under Ghana's PRGF arrangement (see www.imf.org) that it is considering the provision of targeted subsidies to "buy down" water rates for the poor. Meanwhile, the government's program for 2002, which is supported by the IMF under the PRGF, has budgeted 0.8 percent of GDP to cover the transitional subsidies on water and electricity implied by the PURC's tariff adjustment plan.

Looking ahead, the IMF will continue to support homegrown policies, in this area as in others, that are transparent, fully financed, and help to promote faster growth and poverty reduction.

For your information, we are also responding to a communication on the same issue from the Ghana National Coalition Against Privatisation of Water, Accra, Ghana. We would appreciate it if you could share our response with other relevant parties on your distribution list.

Sincerely yours,



for Kathleen L. White
Acting Chief, Public Affairs Division
External Relations Department