



**THE MYTH OF PRIVATE SECTOR FINANCING:
Global Water Corporations Seek New Public Hand-outs**
*An analysis of the Report of the World Panel
on Financing Water Infrastructure, chaired by Michel Camdessus
March 2003*

Private sector participation (PSP) in the water sector, more commonly known as *water privatization*, is promoted by the World Bank, the global water corporations (Vivendi, Suez and RWE are the big three) and a web of think tanks, government agencies and lobby groups. These groups claim that global water corporations will bring much-needed private financing, as well as efficiency, management skills, and technology to the water services sector. The global water corporations claim their goals are altruistic -- getting water and sanitation services to the billions who are without. **But, the real objective of the global water corporations is to re-shape institutional structures to ensure that investing in “water markets” is a profit-making venture.**

This is not a case of socially responsible corporations working to meet the Millennium Development Goals. Rather, the World Bank, the global water corporations and allied agencies are determined to re-structure international institutional and financial frameworks to formulate a lucrative global “investment climate” in water infrastructure. The objectives are to remove corporate liability and risk and access new sources that will provide public financing, financial guarantees and political risk insurance.

The corporate vision for our water future means more public hand-outs for the global water corporations. The global water companies are NOT bringing new sources of private financing. Instead they plan to drain the coffers of multilateral and bilateral aid agencies, such as the World Bank and Export Credit Agencies, to guarantee their own profits. Here’s the detailed proposal from Michel Camdessus, ex-managing director of the International Monetary Fund (IMF) and now chair of the World Panel on Financing Water Infrastructure.

- ***The report states that project revenues and returns to equity must be acceptable, though this does not preclude the use of aid to reduce the debt or equity burden of the project or to fund revenue shortfalls.***

The statement seeks to reassure the reader that the use of aid monies from the World Bank or the regional development banks to support PSP projects would not amount to “subsidizing profit.” Yet it is hard to see how this would not be the case since money is fungible and making up shortfalls in one area releases funds for other uses – such as shareholder dividends.

- The report states that attracting private investment will require increased cost recovery and more predictable revenue flows. Full cost recovery from users is the ideal long-term aim.***
 This means that consumers will have to pay for the new corporate ventures. In most countries there has been a commitment on the part of governments, using the re-distributive power of taxes, to subsidize public water and sanitation services. Consumers do NOT pay full cost recovery in most countries around the world. In Europe and North America, universal access to water and sanitation services has been achieved, not because it is a lucrative venture for international investors, but because governments have recognized the public health benefits of prioritizing these commitments and subsidizing public water utilities. Twenty years of IMF and World Bank structural adjustment programs have devastated the public sector in many developing countries. Gaining access to clean and affordable water is a daily struggle for most of the world's poor. Often the poor in developing countries must pay more than 10% of their scarce income for water. Increased cost recovery is not realistic for the almost 3 billion people that live on less than US\$2 a day. The World Bank argues that increased revenue flows from cost recovery will expand the water system to poor neighborhoods, but the theory doesn't match reality. The World Bank also argues that those who can't afford water will receive "targeted subsidies." Is this the vision for our future? Should low-income populations be forced to apply for subsidies to get their water "rations?"
- The report calls for the creation of a Revolving Fund to finance the preparation and structuring costs of complex projects, including legal, financial, and technical advisory costs. The Fund would be replenished by the public partner on the award of the project to the successful bidder.***
 The development establishment is made up of a large number of, mostly European and North American, international consultants and law firms that advise governments on how to package and negotiate the sell-off of their public assets. This fund would ensure that governments (taxpayers) pay the cost of hiring the consultants to package the deal.
- The report calls for the development of a new Devaluation Liquidity Backstopping Facility as one method of mitigating the risk of foreign exchange fluctuations in water projects.***
 This proposed new facility would lend to governments specifically to reimburse private sector investors for losses due to foreign exchange fluctuations. The government would then "recoup proceeds from a specific surcharge on water tariffs." In other words, consumers would be paying an international market price for water. Global water corporations usually receive payments and collect revenues in local currency. Yet, they repatriate their profits in hard currency, borrow and re-pay loans in hard currency, and use imported inputs that require hard currency. This makes them vulnerable to the impact of local currency devaluations.
- The report states that the World Bank, the regional development banks and the export credit agencies should make greater use of their risk insurance and guarantee programs to leverage other kinds of finance for the water sector.***
 Multinational corporations are risk-adverse. They want the major development banks to provide them with more guarantees and political risk insurance that will protect them against expropriations, breach of contract, war and civil disturbance.

- ***The report proposes that the international financial institutions (IMF, World Bank and regional development banks) should extend their use of partial credit and risk guarantees to promote local capital markets and encourage the use of local pension funds in the water sector.***

The global water corporations would like to get their hands on local pension funds.

- ***The report proposes that 2% to 3% of the aggregate credit of the export credit agencies (ECAs) be directed annually to water projects.***

The global water companies would like to access more credit from the export credit agencies.