The IMF, the World Bank and the Global Water Companies: A Shared Agenda

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It is important to complement the recent attention on the WTO's General Agreement on Trade and Services (GATS) with an examination of the two-decade long role of the IMF and the World Bank in undermining access to basic services, including health, education and water, through budget cutbacks, privatization and de-regulation. In addition to its visibility in GATS, the privatization and commodification agenda of the global water companies has been very explicit in the programs and policies of the international financial institutions (IFIs).

The IMF and the World Bank have increasingly come under attack for imposing policies on the developing world that reflect the neo-liberal agendas and the geo-political imperatives of the G-7 governments, rather than the needs or aspirations of developing country citizens. The IMF and the World Bank claim their mission is to end poverty. Critics claim the policies of the institutions – trade liberalization, de-regulation, fiscal austerity and privatization -- benefit major corporations and actually increase poverty and inequality in the developing world. More starkly contrasting perspectives can hardly be imagined. This article will provide some empirical teeth for the claim that the IMF and the World Bank promote corporate globalization by examining the water policies of the international financial institutions and how they intersect with the agendas of the major transnational water corporations.

There are five key areas in which the agendas of the international financial institutions (IFIs) and the global water companies intersect. First, in the broadest sense, the IFIs promote the corporate agenda through the leverage of loan conditions and the "seal of approval." The IMF's "seal of approval," connotes that developing country governments have complied with the basic agenda of privatization, de-regulation and trade liberalization. The "seal of approval" exercises powerful sway in cash-strapped and indebted countries, and in all countries dependent upon external capital flows. Without the IMF's seal of approval, a country can be cut-off from access to Paris Club debt relief, bilateral and multilateral aid and loans, and private investment flows. A major thrust of IMF and World Bank policies and programs is euphemistically called "public sector reform." A central component of such reform is the privatization of state-owned companies, including water services. The leverage is applied quite directly as structural adjustment and water sector restructuring loans from the World Bank and the regional development banks require privatization of water services – concessions, leases, or management contracts with "international operators" or other forms of public-private partnerships in water sector management.

Second, the World Bank Group has two agencies designed exclusively to provide loans, technical assistance and guarantees to the private sector -- the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). Second only to banking and finance, private investment in utilities and infrastructure receives a high proportion of IFC and MIGA loans and guarantees. Most of this investment is in power and telecommunications, not water. From the IFC perspective, private investment in water and sanitation is more complex and less lucrative than investment in the rapidly privatizing sectors of telecommunications and power. Extensive pricing, regulatory, and risk mitigation measures are needed to improve the attractiveness of private sector investment in water and sanitation services in developing countries. (And the WTO's General Agreement on Trade in Services will help to do this!) In addition, the IFC and MIGA are currently designing new models of political risk insurance for the major water companies to help address some of these concerns.

This leads us to the third area where the agendas of the international financial institutions and the global water companies intersect – legal, regulatory and institutional reform. The IMF, the World Bank and the WTO coordinate their initiatives and policy advise through a mechanism called the "Integrated Framework." Through the Integrated Framework, specific initiatives of the WTO and GATS, for example the "behind-the-border" regulatory and legal reforms needed to improve investment climates, are proposed as policy advice or imposed on governments through IMF or World Bank loan conditions. The global water companies see legal, regulatory and institutional reform as is a key objective to minimize risk and ensure the profitability of their investment in the water systems of developing countries.

The fourth area of influence is through the "knowledge monopoly" held by the World Bank in the field of development economics. Part of the public relations campaign of the World Bank has been to promote itself as the "knowledge Bank" and there is no doubt that the institution houses a tremendous stockpile of data, information, and theory (with neo-liberal perspectives predominating) regarding developing countries. Even in a political climate of declining institutional credibility, World Bank research and publications continue to hold tremendous influence over a range of institutions including G-7 government development agencies, the United Nations, private voluntary agencies and academia. It is hardly surprising that the World Bank would play a lead role in developing supply-side theories and applying market-based solutions to the field of water resource management.

The final area where the initiatives of the global water companies and the international financial institutions converge is in what the World Bank calls, *partnerships*. Two notable partnerships are the Global Water Partnership and the World Water Council, both founded in 1996. An older partnership is the 1977 UNDP World Bank Water and Sanitation program. The partnerships provide an arena for negotiation and collaboration between the multilateral banks, U.N. agencies, bilateral development agencies, non-governmental organizations, and the major water companies. In the context of partnerships, the economic motives of the major water companies become rationalized as, or embedded in the façade of, broader public interest objectives. The World Water Council and the Global Water Partnership have played a key role in softening the image of the global water companies and providing them with international arenas in which to embrace the rhetoric of environmental sustainability and poverty reduction while promoting their agenda of privatization and commodification.

Each of these five areas will be explored in more detail below.

The leverage of loan conditions. The power and influence of the international financial institutions in water sector restructuring is leveraged primarily through policy advice and loan conditions, rather than reflected in the actual monetary value of water sector lending. The World Bank currently supervises 86 water and sanitation projects with loan and credit amounts totaling $5.3 billion. The Inter-American Development Bank has a current portfolio in water and sanitation of $4.4 billion made up of 47 projects. These figures are only partial snapshots of water projects since many projects are multi-sectoral and address broader issues of water resource management.

The real influence of the international financial institutions in the trend toward water privatization in developing countries is not captured by monetary loan figures, but rather by examining IMF and World Bank lending conditions. A random review, carried out by the author, of 40 IMF loans approved in 2000, found 12 loan agreements with borrowing countries that included conditions imposing water privatization and/or cost recovery requirements.[1] This is highly significant. The IMF is the most influential of the international financial institutions. Non-compliance with conditions in IMF loans can influence not only the flows of IMF lending, but the IMF's "seal of approval" which regulates access to multilateral credit, bilateral credit and aid, and private sector investment flows. Eager, and sometimes desperate for external loans, developing country governments often adopt IMF policy prescriptions in secret negotiations behind closed doors without the knowledge or consent of citizens. Cash-strapped and indebted countries are being pushed to sell their public assets, including their water utilities, in order to make quick cash for survival and debt service payments.

World Bank structural adjustment loan agreements have historically been secret documents, so the public does not know the full content of the conditions. It is assumed, however, that World Bank structural adjustment loans also include water privatization and full cost recovery conditions – and there have been a fair number of leaks to verify that assumption. A review of the newer World Bank structural adjustment loans, now called (in a rather Orwellian fashion) Poverty Reduction Support Credits (PRSCs) reveal water

[1] The 12 countries where the IMF imposed water privatization and cost recovery conditions in 2000 were primarily in Africa and included some of the smallest, poorest and most debt-ridden countries. For details of the study see: *News and Notices*, Globalization Challenge Initiative, Washington, D.C., Vol. 2, No. 4, Spring 2001 or www.challengeglobalization.org

privatization as part of the policy reform agenda. Two out of the three PRSCs that have been approved to date, the PRSCs for Uganda and Burkina Faso, include water privatization.[2]

In contrast, World Bank water sector loan documents *are* public. Most World Bank water sector restructuring loans and water and sanitation loans contain "private sector participation" requirements. In countries where the water utility is operating in the red, the World Bank is unlikely to approve a water sector loan *without* explicit or implicit conditions requiring water privatization. This can take the form of concessions, leases, or management and service contracts. Loan conditions pushing "full cost recovery" or the "market price of water" are also common in structural adjustment and water and sanitation loans. The IMF and the World Bank push governments to impose "full cost recovery" for water and sanitation services in order to address budget deficits and growing debt *and* to create an investment climate that will attract the major water companies. Governments receive pressure from the international financial institutions and private investors to improve consumer revenue generation capacity as a pre-condition to negotiating private sector water contracts. In addition, imposing major tariff increases prior to privatization protects the image of the major water companies.

The IFC and MIGA: the World Bank Group provides loans, guarantees and technical assistance to major corporations. The popular image promoted by the World Bank is that of an institution dedicated to helping countries alleviate poverty. However, the International Finance Corporation (IFC), a World Bank agency, makes loans to major corporations. The IFC has a large portfolio of loans and guarantees servicing private sector companies investing in utilities and infrastructure ($1.2 billion). The majority of this investment is in telecommunications and power with only $150 million currently in water infrastructure. According to the IFC, private investment in water lags as much as ten years behind that of power or telecommunications. "Politically sensitive tariffs, limited scope for competition, slow asset turnover requiring long-term debt finance, and a daunting mix of currency, information, country and sub-sovereign risks all require careful handling if private participation is to succeed."[3] The potential of private investment in the water sector depends upon substantial reforms in legal, regulatory and institutional structures. The World Bank Group helps promote such reforms, not only with the leverage of loan conditionality, but also directly through its Private Sector Advisory Services (PSAS) and its Foreign Investment Advisory Service (FIAS). PSAS and FIAS provide advise to enterprises and governments on policy, transaction implementation, privatization, and investment climate.

The Multilateral Investment Guarantee Agency (MIGA) has been assisting the major water companies solve some of the key risk factors impeding the growth of private investment in water services. MIGA, a World Bank agency which manages the website "Privatization Link," a virtual auction block for developing country and eastern European publicly-owned companies, specializes in providing political risk insurance to private investors. MIGA just signed its first guarantee for a water project in Guayaquil, Ecuador. International Water Services B.V. of the Netherlands contracted a 30-year concession for the Guayaquil water utility with a $18 million guarantee from MIGA, including a performance bond, to protect the company against expropriation, war, civil disturbance, and breach of contract. This first MIGA guarantee for a major water project will serve as a model for the political risk insurance industry.

In general (and until the desired legal and regulatory reform takes place and risk factors are mitigated), the global water companies are less interested in undertaking large-scale infrastructure investments in the water and sanitation infrastructure of developing countries, and more interested in shorter-term leases, management and service contracts. Developing country governments, with support from bilateral and multilateral creditors and donors, continue to invest in expansion, upgrading and rehabilitation of water and sanitation infrastructure. In order to attract private sector investment, the policy advice of the World Bank and regional development banks calls for "unbundling," – separating the profitable and unprofitable pieces of water and sanitation services. The unprofitable sectors, infrastructure, sewage treatment, and rural

[2] The World Bank has just revised its information disclosure policies and will now be releasing "program documents" for structural adjustment loans that contain what the World Bank Board has concluded is non-confidential information about the loan.

[3] World Bank Group, Urban Water and Sanitation: www.worldbank.org/html/fpd/water/urban

water service, will remain in the public sector. These are currently not areas where the major water companies see easy profits.

Rather than full asset sales or concessions, the current form of privatization is more often negotiated as a lease, management or service contract that intersects directly with the major source of revenue -- the urban rate-paying consumer -- without burdening the company with responsibility for infrastructure costs. This is where the profit potential lies. Governments continue to bankroll water sector infrastructure, with loans from multilateral, bilateral and commercial sources, while increasingly private sector companies will reap profits through leases, management and service contracts, and take their earnings abroad. The World Bank and the regional development banks promote, direct, and manage these ventures using their political influence, policy advice and direct leverage through conditionality. As mentioned previously, the World Bank and regional development banks often require leases, management or service contracts with "international operators" prior to approving loans for water sector rehabilitation or expansion.

The Integrated Framework: Legal, regulatory and institutional reform. The IMF, the World Bank and the WTO have developed a number of formal mechanisms – embodied in the Integrated Framework -- to ensure coherence and cooperation in their initiatives. The World Bank and the WTO are focused on tackling the "behind the border" issues found in developing countries' domestic legal and regulatory systems. The international financial institutions, the WTO, and the global water companies have a shared agenda of legal, regulatory and institutional reform in a variety of areas. The major water companies, no different than other transnational corporations, are keen to establish beneficial entry and exit laws and regulations for goods, services and capital. IMF and World Bank structural adjustment loans often include conditions requiring governments to liberalize laws or regulations on capital controls, transfer restrictions and other provisions governing conversion or transfer of local currency. While trade agreements are commonly viewed as the major mechanisms for neo-liberal trade reform, IMF and World Bank loan conditions have also been principle vehicles for eroding import taxes and custom duties bothersome to cross-border corporate trade. World Bank water sector restructuring loans, and other loans with large infrastructure components, often contain specific clauses waiving import taxes and duties – saving foreign firms millions of dollars (and undercutting developing countries' much-needed revenues).

The World Bank promotes a thorough "modernization" of a countries' legal and institutional framework for water supply and sewerage services as part of the water sector restructuring process. The most common "behind-the border" legal, regulatory and institutional reforms being promoted by the World Bank in the context of water sector restructuring include the following: (1) definition and establishment of water rights and licenses; (2) legal and regulatory reform granting private sector operators equal treatment to public providers; (3) separation of regulatory and operator functions, and development of an independent and autonomous regulatory function; (4) establishment of tariff structures based on full cost recovery and automatic adjustment with the rate of inflation; (5) decentralization of rural water services from national to local government control; and (6) "unbundling" or separation of profitable and unprofitable sectors of the water service. All of these reforms can be controversial within the domestic political context.

The World Bank is playing a critical role in promoting new domestic legal frameworks that promote commodification and private water rights. Following a common pattern, the Bank is holding up Chile as the model of neo-liberal reform, claiming that its current emphasis on private water rights comes from experience in Chile, *which has been trading water rights and increasing economic efficiency since 1981.* The World Bank openly recognizes the extent of popular resistance to its position on private water rights stating:

> *A major impediment to awarding water rights is the resistance of borrowers (*developing country governments) *to relinquishing control – many borrowers fear that private rights would lead to private monopolies. Many of these fears are unfounded.*

The World Bank is undertaking research in Pakistan, India and other countries in order to document successful examples of private trade in water rights, and identify model legal and regulatory frameworks. World Bank policy advice has played major roles in the development of new water legislation in South Africa, Namibia and Zimbabwe which include elements of water commodification and concepts of water as an economic good.[4] There are also current World Bank pilot projects in Mexico and Brazil to identify and register private water rights. World Bank research and pilot projects are then leveraged into future policy advice and loan conditions.

World Bank policy advice and loan conditions in numerous countries (Ghana, Nicaragua, Mozambique, to name a few) include institutional reform calling for independent and autonomous public utility regulatory bodies. This follows from earlier critiques (primarily of failed privatization in Russia and Eastern Europe) concluding that successful privatization requires appropriate "sequencing" and the preliminary step is institutional and regulatory reform.

From the World Bank perspective, reforms promoting independent and autonomous regulatory bodies are related to the objective of promoting full cost recovery tariffs and automatic adjustment mechanisms. [5] An independent public utility regulatory body lends credibility, and implementation and enforcement mechanisms, to the project of promoting full cost recovery tariffs and automatic adjustment mechanisms. But how independent and autonomous can the public utility regulatory bodies be, given the constrained domestic political space in small, developing countries, and the power and influence of external actors such as the international financial institutions and the multinational water companies? In Ghana, for example, the water rate-setting guidelines of the Public Utility Regulatory Commission (PURC) includes the mandate of a full cost recovery tariff structure. Even more revealing, in terms of exposing the limits of regulatory independence, recent IMF loan conditions mandated the Ghana PURC to develop its *strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water."*[6]

The Knowledge Bank. The World Bank holds a preeminent position within the development establishment that enables it to exercise tremendous influence in determining the "policy fundamentals" in every area of development economics. Not surprisingly, the World Bank has played a key role in developing and promoting market-based theories and practices for the management of water resources. The project of commodification and privatization of water begins with the need to re-package water as an "economic good." Philosophically the concept of "free water" is a threat. As World Bank officials put it "…work is still needed with political leaders in some national governments to move away from the concept of free water for all."[7] Central to the neo-liberal project in water has been the concept of "getting the prices right." Getting the prices right, from the World Bank perspective, requires acceptance of the idea that consumer tariffs should achieve "full cost recovery," (operation and maintenance costs) or sometimes "average costs" (operation, maintenance and capital costs). In either case, the role of the state as guarantor of universal access to a basic human need and a basic human right– water -- is undermined. With the acceptance of water as an "economic good" rather than a "social good," the role of the public sector and of public subsidy and cross-subsidies can be more easily undermined. The consumer must pay a market price or face cut-off of services. Clearly there are huge social costs when the state or public sector abdicates responsibility. More than 2 million people, mostly children, die each year from diarrheal diseases related to lack of access to safe, affordable water. Imposing full cost recovery, or a "market price" for water, will ensure that the rich can use water as wastefully as they want, as long as they can pay, while the poor will continue to suffer from the lack of access to water.

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[4] Bond, Madubanya, Ngwane, Swatuk and Zandamela, *Bretton Woods Water Management in Southern Africa*, draft paper for the Centre for Social and Development Studies Project on Donor Funding, University of Natal, Durban, October 30, 2001.

[5] Automatic adjustment mechanisms tie domestic tariffs to hard currency exchange rates. Foreign multinational water companies may be paid in domestic currency, but will insist on having the value guaranteed with relation to hard currency exchange rates. This tends to ratchet-up tariffs as domestic currencies depreciate or are devalued.

[6] International Monetary Fund, *Third Review under the Poverty Reduction and Growth Facility and Request for Waiver of Performance Criteria,* IMF, Washington, D.C., June 14, 2001, Appendix 1, Attachment 1, p. 70.

[7] World Bank, *Sourcebook on Community-Driven Development in the Africa Region,"* Africa Region, World Bank, Washington, D.C. March 17, 2000, Annex 2.

The "knowledge Bank" has also played a cutting-edge role in developing other market solutions to water management problems – furthering the process of *commodification* and *privatization*. In terms of *commodification*, the World Bank has played a key role in establishing shadow prices for water as an environmental good, and promoting the development of private water rights, water licensing, and water-trading in specially designed markets. Establishing the concept of "full cost recovery" has been key to the *privatization* process as this consolidates, legitimizes and extends the ability of the utility to extract tariffs, making investment more attractive to the private sector. Related to the aim of imposing full cost recovery, is the concept of "unbundling" the water services sector, separating the profitable and the unprofitable sections of water services in order to "make subsidies explicit" and reduce the practice of cross-subsidization. This groundwork is also part of the process of "getting the prices right." In addition, unbundling the water services sector and "making subsidies explicit" is part of the groundwork necessary to providing private water companies with lucrative investment packages.

The World Bank openly acknowledges that "full cost recovery" and the concept of water as an economic good is not broadly accepted. In a October 2001 World Bank review of its water strategy since 1993, the following conclusion was drawn.

> *The policy to mainstream economic and financial aspects of pricing policy has largely been won in the Bank, but not in client countries or the international political arena. A large external constituency of stakeholders still wants to maintain social water pricing, which is difficult to manage with formulaic guidelines.*[8]

Some of the public relations work necessary to promote the full cost recovery and privatization agenda takes place in the numerous "partnership organizations" described below.

Partnerships. It has become increasingly clear to the major water companies, and to the IMF and World Bank, that a strategic and well-managed public relations endeavor will be necessary to achieve the goals of de-regulation, commodification and privatization of water resources. To this end, the World Bank along with the major water companies, and government development agencies, has spawned a broad array of international organizational bodies. The Global Water Partnership and the World Water Council are the most notable of these organizations with substantial work programs, conferences, advisory boards, task forces, global agendas, vision statements and glossy publications. The Advisory Committee of the Global Water partnership includes representatives from the World Bank and Suez Lyonnaise des Eaux, as well as representatives from government, academia, and the NGO sector. The founding organizations of the World Water Council include the Canadian International Development Agency, Suez Lyonnaise des Eaux, the United Nations Development Programme, UNESCO, and others. The former general manager of the IMF, Michel Camdessus, heads the panel of distinguished financial experts.

There are also regional partnerships such as the African Water Utilities Partnership for Capacity Building and bilateral partnerships such as the UNDP World Bank Water and Sanitation Program – the oldest global water partnership. Many of the "partnership organizations," especially the Global Water Partnership and the World Water Council, strive to co-opt NGO principles and statements regarding environmental sustainability, local participation, and gender while promoting the key concept that water is an economic good and should be valued based on a commercial market price. The Global Water Partnership, the World Water Council, and the World Bank all cite the Dublin Principles as the guidelines for their own policies and strategies. The Dublin Principles, generated at the 1992 Dublin Conference on Water and the Environment, recognize that *fresh water is a finite and valuable resource, essential to sustain life, development and the environment*. However, the Dublin Principles then go on to conclude that *water has an economic value in all its competing uses and should be recognized as an economic good.* The Dublin Principles continue to spark extensive debate about the concept of water as an economic good and the contrasting concept of water as a social good. And, more importantly, what the debate about these contrasting conceptual frameworks imply for public policy.

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[8] World Bank, *Bridging Troubled Waters: Assessing the Water Resources Strategy Since 1993,* Operations Evaluation Department, World Bank, Washington, D.C. October 2001, p. 24.

The five areas discussed above, where the agendas of the international financial institutions and the major water companies overlap, reveal how the nuts and bolts of the basic policies and programs of the institutions are geared toward supporting the corporate sector. The public relations machine of the World Bank has developed sophisticated arguments to show that water privatization will provide a solution to poverty and deprivation -- as the large private water companies will provide technical and managerial skills (and occasionally even capital) that will enable the water system to become more efficient, cost-effective and to expand services to the poor. Nevertheless, most developing country governments do not seek water privatization independently. Rather, the policies are imposed by the international finanical institutions. And, increasingly critics from around the world are claiming that water privatization and increased cost recovery are reducing access to safe, affordable water to the poor – making a bad situation even worse. More divergent perspectives can hardly be imagined.