a report by

Public Citizen

Profit Streams

The World Bank & Greedy Global Water Companies

Profit Streams

The World Bank &

Greedy Global Water Companies

A special report by Public Citizen's
Water for All program.

September 2002

This document can be viewed or downloaded
www.wateractivist.org

Photograph by Maj Fiil-Flynn

Water for All Campaign
215 Pennsylvania Ave. S.E
Washington, D.C. 20003
tel: 202.546.4996
fax: 202.547.7392
cmep@citizen.org
www.wateractivist.org

Water for All Campaign, California
1615 Broadway 9th floor
Oakland, CA. 94612
tel: 510.663.0888
fax: 510.663.8569
california@citizen.org
www.citizen.org/california/water

Public Citizen, founded in 1971, is a non-profit research, lobbying and litigation organization based in Washington. D.C. Public Citizen advocates for consumer protection and for government and corporate accountability, and is supported by over 150,000 members throughout the United States.

Profit Streams: The World Bank & Greedy Global Water Companies

The World Bank shuns the growing criticism from thousands of civil society organizations around the world. These organizations claim that the institution's policies of privatization, de-regulation, trade liberalization and fiscal austerity are having drastic impacts on employment, small farmer's livelihoods, the environment, funding for schools, health care, water, sanitation, labor rights and much more. While the grievances of civil society organizations are studiously ignored, World Bank "partnerships" with major corporations remain more than cozy.

Mr. Gérard Mestrallet, the chief executive of the global water giant Suez, was the keynote speaker at an annual World Bank conference in June. Other participants at the Staff Exchange conference included executives from Dow Chemical, Exxon-Mobil and Citibank. Most major corporations have staff exchange programs with the World Bank in order to build "partnerships." You might ask what these partnerships have to do with the World Bank's stated mission to alleviate global poverty. World Bank officials argue that promoting private sector investment, i.e. facilitating deals that enable Suez to purchase public water utilities in Ghana, Argentina, or the Philippines is good for the poor. And letting Exxon-Mobil extract oil and gas reserves in Ecuador or letting Dow export chemical pesticides to small farmers in Indonesia is also helping the poor. This is all part of the World Bank's standard policy prescription called *structural adjustment* which promotes privatization, deregulation, trade liberalization and fiscal austerity.

The World Bank is suffering a crisis of legitimacy. Critics argue that the market-oriented policies of *structural adjustment,* imposed during the last two decades, are actually benefiting major corporations and increasing poverty and inequality in the developing world. Much of the evidence appears to concur with the critics.

The latest U.N. figures indicate that the income gap between the fifth of the world's people living in the richest countries and the fifth in the poorest countries was 74:1 in 1997, up from 60:1 in 1990 and 30:1 in 1960.[i]

In developing countries, economic growth rates and gains in the areas of infant and child mortality, life expectancy, literacy rates, and school attendance have all been rolled back during the period of globalization[ii] (1980-2000) when compared with progress documented during the previous twenty years (1960-1980).[iii]

The total external debt of developing countries rose from $90 billion in 1970 to $2 trillion in 1998;

Even within the World Bank dissent is growing. The Nobel prize-winning ex-chief economist of the World Bank, Joseph Stiglitz, openly dissents with basic tenets of structural adjustment and current World Bank economist, Branco Milanovic, just released a study showing that trade liberalization increases income inequality. Of course, this isn't news to many grassroots citizen's organizations around the world who have suffered the impact of these policies and have been trying to change the approach of the World Bank and IMF for more than two decades.

Although the critics of corporate globalization grow, and the legitimacy of the World Bank is tottering, this has not dissuaded the institution from pursuing, in alliance with the global water companies, a new power grab to place a natural resource under the command of transnational corporations and market-oriented policies. This report addresses a dangerous new frontier where the World Bank's privatization and liberalization policies are encroaching: ***water.***

Water Policies at the World Bank: Shifting Currents

In the current debate about how to equitably manage the world's decreasing freshwater resources, the World Bank, not surprisingly, has aligned itself with the camp arguing for more market-oriented policies, i.e. utility privatization, full cost recovery, and trading in private water rights. However, this has not always been the case. From the 1960s through the 1980s, World Bank loans to developing country governments for the creation and expansion of ***public*** water utilities were standard practice. Large infrastructure projects were the central focus of Bank lending. Probably the most infamous legacy of this period was the large dam projects that later became highly controversial as they displaced millions of people, destroyed livelihoods and had unexpected environmental consequences.

In the 1960s and 1970s, the prescription of World Bank economists and other development "experts" was that investment in public utilities and other large infrastructure projects would trigger the development "take off." Water utilities were viewed as a "natural monopoly" that precluded market competition and therefore required public ownership or government regulation. The thesis was that "public utilities, accompanied by financial stability and the encouragement of private investment, would do more than almost anything else to trigger development."[iv]

The turnaround in World Bank policy from support for *public* water to promotion of *privatization* mirrored the global trend toward supply-side economics. During the 1980s and 1990s the theories that took dominance argued that government was too big and should be rolled back. The private sector could do it better. Budget deficits must be cut and a balanced budget achieved. Government regulation and protectionism discouraged private investment, according to the standard wisdom. Deregulation, privatization and trade liberalization were the solution. This collection of policies became known as the Washington Consensus and they were adopted by the World Bank and pushed on governments around the world in the form of structural adjustment loans.

Privatization is a cornerstone of structural adjustment policies. The World Bank promotes privatization of banks, mining companies, telecommunications, transportation, electricity, and finally, beginning in the 1990s, privatization of water was added to the World Bank policy prescription.

The growth and concentration of the global water industry. The concept of water privatization is relatively new. In fact, one could say it is a massive social experiment. Over the last 300 years, most water utilities have been publicly managed. And, the vast majority of people in North America, Europe and Japan receive water and sanitation services from publicly owned and operated facilities. The first major water privatizations took place in Britain during the 1980s. Most countries have only recently begun to consider privatization of their water utilities and globally only 5% of the world's water services are currently run by private companies (although if outsourcing of small components of water delivery are included, that figure would expand dramatically).[v] In most cases, water and sanitation services were publicly run because private companies were not interested in owning or managing water utilities.

What changed? Growing freshwater scarcity, exacerbated by pollution, deforestation, rapid urban development and climate change, led major corporations to recognize that water could be the oil of the 21st century. They recognized the tremendous profit potential in control over the world's freshwater resources. The battle over control of water will provoke "the wars of the next century" predicted World Bank vice-president Ismael Serageldin in 1995.

As private corporations have begun to view water as a lucrative natural resource, much like oil or gold, we have seen the growth and concentration of water services in the hands of increasingly fewer and larger multinational corporations. The two largest water corporations in the world are the French transnationals, Vivendi Universal and Suez, ranked 91st and 118th among Fortune's Global 500 list. These two companies capture nearly 40 percent of the existing water market share, providing water-related services to more than 200 million customers in 150 countries. Other frontrunners include the German water giant, RWE AG, Severn Trent (British), and Bouygues SAUR (French). The major U.S. water corporations were all bought by the big five in the last couple of years – Vivendi Universal bought USFilter, Suez bought United Water and RWE AG bought American Water Works. The sheer size of the global water market – estimated in the order of US$4 trillion per year – and its potential for growth will ensure continued aggressive maneuvering on the part of the major multinational water corporations in the years to come.

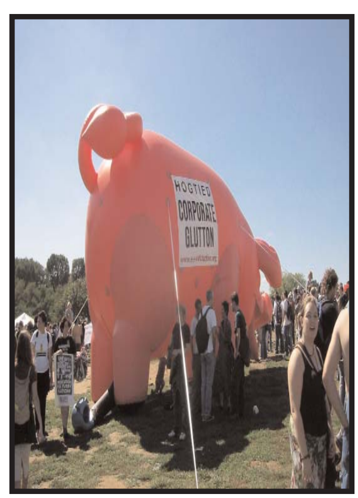
The World Bank and the IMF provide new business opportunities for the global water companies by requiring cash-strapped and indebted governments around the world to privatize their water systems as a condition for loans and debt relief.

What's Wrong with the World Bank's Water and Sanitation Policies?

While most Americans take for granted that the water will run when they turn the tap, in many developing countries more than a third of the population is without access to potable water. Globally, more than a billion people lack access to clean and affordable water. Approximately 2.4 billion people lack access to proper sanitation services. Over five million people, mostly children, die each year of diarrheal diseases, such as cholera and dysentery, related to lack of access to clean water and sanitation.[vi]

The World Bank is not responding to this public health crisis by providing new resources and technical assistance to governments to reorganize, restructure, rehabilitate and expand public water services. Rather, the World Bank uses its leverage to provide new business opportunities for the global water corporations . It prescribes *water privatization* and *full cost recovery* as conditions for their structural adjustment and water and sanitation loans. The Bank claims that the private sector is best able to provide the financial resources and expertise needed to address these problems.

The World Bank and full cost recovery. Many World Bank loans require governments to replace public funding of the water utility with a policy promoting full cost recovery. Full cost recovery refers to collecting fees from the consumer for the full cost of the operation and maintenance of the water utility service. In some cases the consumer fees may also include the capital costs, or the costs of building and expanding the water service infrastructure (pipes, treatment and storage facili-



BOX 1: World Bank Water & Sanitation Loans for Fiscal Year 2001

Country	*Total amt. of loans in millions of U.S.dollars*	*% of total budget*	*Cost Recovery Conditions*	*Privatization Conditions*	*Both Conditions*
Burkina Faso	70	12.6	X	X	X
Comoros	11.4	2.1	X	X	X
Ecuador	32	5.8		X	
India	65.5	11.8	X	X	X
FYR Macedonia	29.3	5.3	X	X	X
Niger	48	8.7		X	
Russian Federation	122.5	22.1	X		
Senegal	125	22.6	X		
Ukraine	24.3	4.4	X		
Uruguay	6	1.1		X	
Republic of Yemen	20	3.6		X	
Total	554	100.0	80.9%	51	31.8

Source: World Bank, Project Information Documents and World Bank Annual Report, 2001.

ties, etc). The IMF and the World Bank are concerned about stemming budget deficits (and insuring that debt service payments are made) and therefore generally advise governments to cut public funding and implement full cost recovery. In 2001, World Bank water and sanitation loans with increased cost recovery measures made up more than 80 percent of the approved loans. (See Box 1 and Appendix A) In contrast, it is important to note that public funding of water and sanitation services is standard practice in the U.S.

Full cost recovery has high social costs. When water becomes more expensive and therefore less accessible, women and children, who bear most of the burden of daily household chores, must travel farther and work harder to collect water. The cost of treated water will often drive people to resort to water from polluted streams and rivers. This increases the risk of diarrheal diseases, including cholera and parasitic diseases.

In developing countries, many people do not have piped water. Those who are outside the piped water system must depend upon costly tanker trucks or streams, rivers and lakes that may be polluted. Those without piped water generally pay exorbitant fees to buy their daily bags, buckets and barrels of treated water. In Ghana, after IMF and World Bank policies required a 95 percent raise in water fees in May 2001, three buckets of water cost a family almost 20 percent of the minimum wage. In India, some poor households pay as much as 25 percent of their income on water. In Lima, Peru, poor residents pay as much as $3 per cubic meter of water – in the U.S., on average, people pay less than $0.50 for the same amount of water. [vii]

In developing countries, waterborne diseases are usually the second most common cause of morbidity and mortality. Diarrheal diseases due to pathogens such as cholera, E.coli, shigella, amoebas and giardia account for up to half of all clinic visits. Increased water fees reduce access to clean, affordable water. Families are forced to make daily trade-offs between safe water, food, clothing, school fees and health care.

In South Africa, increased water fees led to water supply cuts for people who were too poor to pay their accounts. This resulted in the outbreak of a cholera epidemic in KwaZulu-Natal, the Water Affairs and Forestry Ministry admitted in October 2000.[viii] Similarly, water-borne guinea worm has been making a comeback in a region of Ghana where World Bank water and sanitation projects require unaffordable capital contributions from rural communities as a precondition for installing standpipes and bore-holes.

Full cost recovery is bad public health policy. In developing countries where the majority of the population earns less than US$2 a day, imposing full cost recovery and raising the price of water places an unnecessary burden on the poor. It increases obstacles to clean and affordable water.

Public funding, not full cost recovery, will ensure universal access to potable water. The responsibility of governments to provide public funding to ensure universal access to water and sanitation services has been accepted in the U.S., and many European countries.[ix] In the U.S. and Europe much of the poor population was excluded from adequate water and sanitation facilities during the early 19th century. However, by the turn of the century, cholera and other public health problems had motivated governments to begin making the public investment necessary to ensure universal access to clean water and sanitation services. Today, those living in the U.S. and Europe assume as a basic right the principal of universal access to adequate water and sanitation facilities.

There are excessive economic, political and social inequities between developed and developing countries that have precluded the extension of this right to many countries in the south. Public health officials and academics have noted that developing country governments are paying a high cost for additional public health services and lost human productivity due to the fact that water and sanitation systems are inadequate[x] The burden is particularly heavy on women and girls. In many rural areas, the average woman spends one-quarter to one-third of her time fetching water.[xi] The public health literature suggests that expanding access to water has such great human and economic benefits that it is worth considering having governments provide it at a loss, to be subsidized by other sectors that benefit. There are a variety of avenues that can be used to raise public monies for water and sanitation systems. In addition to monies raised through tax revenues, bonds and bank loans, the water sector may ensure funding for universal access through cross-subsidies among urban and rural residents, among residential, industrial and agricultural water consumers, among different classes of residential users, and between the water delivery and sanitation systems.

The World Bank and Water Privatization

The World Bank's policy of imposing increased cost recovery, discussed above, is often a first step toward privatization. Raising the price of water *after* the privatization could discredit the process and stir social opposition. In several of the early large privatizations (Manila and Buenos Aires), consumer water rates were raised high enough prior to the privatization, that the new private operators were initially able to lower fees

There are a variety of new forms of privatization of water utilities. Traditionally, the term privatization has referred to the full divestiture or sale of state assets. However, privatization can also refer to the transfer of some subset of public duties to private sector companies for a stated period of time. Short of a full asset sale, there can be leases, management contracts, service contracts, out-sourcing, BOTs (Build Operate and Transfer) and BOOTs (Build, Own, Operate and Transfer).

Box 2: Water Privatization: Common Legal Arrangements

	Source of company income	*Control over labor*	*Control over tariff structure*	*Responsible for infra-structure and expansion*	*Length of legal arrangement*	*Control over assets*
Manage-ment Contract	Set fee for man-agement service	Remains with state	Remains with state	Remains with state	Varies. Most often shorter than lease or concession	Remains with state
Lease/ Concession	Company derives revenue from cus-tomer fees	Passed to pri-vate company	Private company with state over-sight	Private company takes partial responsibility	10-30 years	Remains with state
Full asset sale	Company derives revenue from cus-tomer fees	Passed to pri-vate company	Private company with state over-sight	Private company	Permanent	Private compa-ny gains assets at end of con-tract

The World Bank has attempted to quell concerns about water privatization by insisting that the growing number of "deals" with major transnational water companies are not really privatization — since many of them are not full asset sales. The World Bank prefers the terms Private Sector Participation (PSP) or Public Private Partnerships (PPPs). In fact, it appears that increasingly the major global water companies prefer a lease, management or service contract that intersects directly with the source of revenue without burdening the company with the responsibility of infrastructure investment costs

The Social Impact of Water Privatization. The privatization of water is a radical new social experiment. Most major water privatizations are less than a decade old, but already it appears clear that they follow the pattern of privatization in other service sectors – no commitment to expanded access to low-income consumers, inequity in the quality of service based on ability to pay, service cut-offs, weak regulatory oversight, and lack of accountability to local consumer needs.[xii]

Private sector companies are organized to make profit, not to fulfill socially responsible objectives such as achieving universal access to water and sanitation services. In many developing countries, where most citizens earn less than US$2 a day, private sector companies are unable to meet shareholder obligations to provide a market rate of return and also implement universal coverage with acceptable quality and at affordable prices. Water rates soar and large sectors of the low-income population remain unserved. Private sector companies have little incentive to address the fundamental need to expand access to potable water when large sectors of the population are poor. Investment costs are too high to install piped water systems and future revenue flows are low.

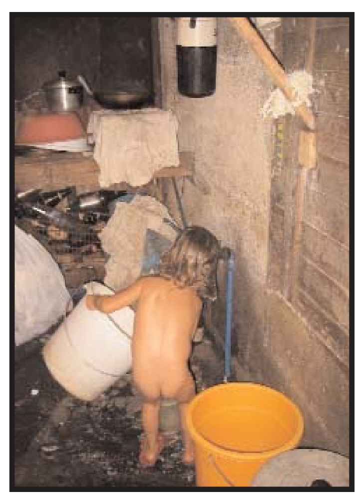
While the social experiment is still relatively new, there are a large number of failures from which to learn.[xiii] In Cochabamba, Bolivia, the 40-year concession with Bechtel caused water prices to soar to 20 percent of family incomes sparking an uprising that met with an armed military response leaving six residents dead. When the privatization projects fail and the companies exit, as in the Bolivian case, international trade agreements can leave governments vulnerable to lawsuits and expensive financial claims. Public sector underwriting of private investment risks can have devastating effects on the economy and social welfare in the case of default. This was the case in failed projects in Tucuman, Argentina, where a payment boycott caused the private company (Vivendi) to exit and in Dolphin Coast, South Africa, where the contract terms precluded extracting the needed rate of return. In Manila, the 25-year lease agreements granted to two private sector water companies were the biggest water sector privatizations in the world when they took place in 1997. Manila Water (co-owned by Bechtel and the Ayala family) and Maynilad Water (co-owned by Ondeo/Suez and the Lopez family) have been locked in battle with the regulatory bodies and public officials over controversial rate increases such as the proposal for "automatic tariff adjustment mechanisms" that would tie consumer water rates to exchange rate fluctuations.

Mechanisms of Coercion: How the World Bank Imposes its Corporate Agenda

The leverage of loan conditions. The power and influence of the World Bank and other international financial institutions is leveraged primarily through loan conditions and "policy advice," rather than reflected in the actual monetary value of water sector lending. Water-related investments are about 14% of the World Bank's overall loan portfolio. At the end of fiscal year 2001, the World Bank had outstanding loan commitments in water-related sectors of about $20 billion: $4.8 billion for urban water and sanitation; $1.7 billion for rural water and sanitation; $5.4 for irrigation and drainage; $1.7 billion for hydropower, and $3 billion for water-related environment projects.[xiv]

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 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.[xv] World Bank water and sanitation loans with privatization conditions amounted to 50 percent of projects approved in 2001. (See Box 1 and Appendix A.) Unfortunately, many of the lending conditions attached to World Bank structural adjustment loans, generally the largest World Bank loans in monetary terms, are not disclosed to the public. However, given the general trend in the Bank it can be assumed that numerous structural adjustment loans also include water privatization and full cost recovery conditions A new form of World Bank structural adjustment lending, now called, in rather Orwellian fashion, Poverty Reduction Support Credits (PRSCs), are made public. They reveal water 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.[xvi]

The number of IMF loans with water privatization conditions is highly significant. It is the most influential of the international financial institutions. Noncompliance 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 and World Bank 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.



The Corporate Arms of the World Bank: The IFC and MIGA.

Today the World Bank is desperately trying to sell its image as that of an institution dedicated to ending poverty. The public relations department hopes to keep well-hidden the fact that the World Bank Group contains two agencies that provide loans, guarantees and technical assistance primarily to major corporations: the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA).

The International Finance Corporation (IFC) claims to "promote sustainable private sector investment in developing countries as a way to reduce poverty and improve people's lives.[xvii] 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."[xviii] 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 in solving 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.[xix] MIGA just signed its first guarantee for a water project in Guayaquil, Ecuador. International Water Services B.V. of the Netherlands (a Bechtel subsidiary) contracted a 30-year concession for the Guayaquil water utility with an $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, major infrastructure, sewage treatment, and rural water service, will remain in the public sector. These are currently not areas where the major water companies see easy profits.

This new form of water privatization directly intersects with the "unbundled" profitable sectors, mainly 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, and suffer growing mountains of debt, 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 corporate water ventures using their political influence, policy advice and direct leverage through conditionality. And, they argue, it's good for the poor.

ICSID: The World Bank's Legal Arm Protects Corporate Investors

Another little-known agency of the World Bank is the International Centre for the Settlement of Investment Disputes (ICSID). ICSID was founded in 1966.

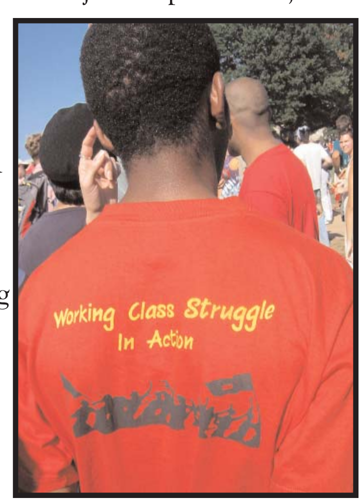
> *...the bank's overriding consideration in creating ICSID was the belief that an institution specially designed to facilitate the settlement of investment disputes between governments and foreign investors could help to promote increased flows of international investment.*[xx]

ICSID is the World Bank's new international legal institution, set above that of a nation's own court system, and designed to protect the interests and expand the rights of transnational corporate investors. Provisions requiring ICSID arbitration are commonly found in investment contracts between corporations and governments. Advance consents by governments to submit to ICSID arbitration can be found in about twenty investment laws and over 900 bilateral investment treaties (BITs). Arbitration under ICSID is also a main mechanism for dispute resolution in various multilateral trade and investment treaties such as the North America Free Trade Agreement (NAFTA), the Cartagena Free Trade Agreement and the Colonia Investment Protocol of MERCOSUR.

By requiring ICSID arbitration, bilateral and multilateral trade and investment treaties are essentially allowing foreign investors to bring arbitral proceedings against sovereign states. These trade and investment treaties also protect the foreign transnational corporation against expropriation, and most often provide the foreign corporation with guaranteed national and most favored nation status. Bechtel, forced out of Cochabamba, Bolivia, following a massive citizen revolt against the water privatization in 2000, filed suit against the government of Bolivia demanding $25 million in compensation for lost profits. Bechtel took its case to ICSID where it currently waits to be heard. Given the international attention this case has received, and the infamy that surrounds Bechtel's actions in Bolivia, it may be difficult for the ICSID arbiters to decide in Bechtel's favor without exposing to the world its prejudice in favor of the corporate investor.

The Integrated Framework: How the IMF, World Bank and WTO work together to push the Corporate Agenda

The IMF, the World Bank and the World Trade Organization (WTO) have developed a number of formal mechanisms - embodied in the Integrated Framework — to ensure what they call "policy coherence" in their initiatives. The core of the "policy coherence" agenda is re-structuring national laws and institutions to allow entry of major corporations, exit of profits, and to protect corporate investment while it is in the country. These are what the World Bank and the WTO call the "behind the border" issues found in developing countries' domestic legal and institutional structures and regulatory systems.



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 mechanism for the "free trade" agenda, IMF and World Bank loan conditions have also been principal vehicles for eroding import taxes, custom duties, and tariff and non-tariff barriers 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; (6) "unbundling" or separation of profitable and unprofitable sectors of the water service; and (7) bi-lateral investment treaties to protect foreign investor rights. All of these reforms can be controversial within the domestic political context and many of them can impact negatively on access to clean and affordable water, especially for low-income citizens, and the water rights of small farmers.

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.

Reforms promoting independent and autonomous regulatory bodies are related to the objective of promoting full cost recovery tariffs and automatic adjustment mechanisms.[xxi]

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 in small, developing countries, given the power and influence of external actors such as the international financial institutions and the multinational water companies? A typical example revealing the limits of regulatory independence can be found in Ghana. Recent IMF loan conditions mandated the Ghana Public Utility Regulatory Commission (the PURC was created in response to World Bank policy advice) to develop a strategy for achieving full cost recovery in the public utilities, and implementation of automatic tariff adjustment formulae for electricity and water."[xxii]

Private Water Rights: Is Water an Economic Good or a Human Right?

The World Bank is playing a critical role in promoting new domestic legal frameworks that promote water titling, commodification, and private water rights. Following a common pattern, the Bank is holding up Chile as the model of neo-liberal reform. Bank officials state that the current emphasis on private water rights comes from experience in Chile, which has been trading private water rights 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.*[xxiii]

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.[xxiv] 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.

The Knowledge Bank. The World Bank holds a pre-eminent 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 international 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."[xxv]

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 public acceptance of water as an "economic good" rather than a "social good" or a human right, the role of the public sector and of public funding and cross-subsidies can be more easily undermined. The consumer must pay a market price or face cut-off of services. 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.

The World Bank also 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.*[xxvi]

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.

Water Partnerships: Soft-selling the Corporate Agenda

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 deregulation, 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, 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 , 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 human right. And, more importantly, what the debate about these contrasting conceptual frameworks imply for public policy.

Conclusion The World Bank continues to claim that promoting foreign investment, privatization and trade liberalization is good for the poor. However, it is becoming increasingly clear that this is a corporate agenda and not in the interest of most of the population in developing countries. Full cost recovery and water privatization do not increase the access of the poor to clean and affordable water. The shared agenda between the World Bank and the global water companies is just one more example of corporate interests overriding basic human needs and livelihoods, as well as labor, environmental, and human rights protections. It is not appropriate for World Bank privatization conditions to promote new business opportunities for foreign investors. Immediate changes are necessary.

Untie the aid. World Bank loans should not impose conditions requiring full cost recovery for water or water privatization.

Prioritize public health. Rather than full cost recovery and water privatization, the objective of World Bank grants and loans should be to increase access to water and sanitation services in low-income and underserved areas.

Appendix A

Projects Approved for World Bank Loan Assistance in Fiscal 2001 For Water Supply and Sanitation

Region/Country	*Name of Project*	*Loan Amount (US$m)*	*Loan Conditions/Objectives*
Latin America & The Caribbean			
Ecuador	Rural and Small Towns Water Supply and Sanitation Project	32	Sector reform and institutional development; restructuring in support of decentralization, strengthening of municipal governments, NGO's and private sector service providers. Formation of water users' association (juntas).
Uruguay	Public Services Modernization Technical Assistance Project	6	Implementation of decrees for the sector law and regulations for granting licenses to operators. Review of tariffs and subsidies. Preparation of midsized concessions. Identification of projects for potential private sector participation; training in concession management.
Africa: Sub- Saharan			
Burkina Faso	Ouagadougou Water Supply Project	70	Use of cost recovery, adjustments of tariffs for water and sanitation. Strengthening of ONEA (the National Water and Sanitation Authority) and the Ministry of Water through provision of technical assistance, equipment and training. Introduction of private sector participation in the sector.
Comoros	Infrastructure Water and Environment Project	11.4	Improvements in urban water infrastructure. Development and implementation of an efficient, effective and sustainable water management and cost-recovery system. Financing of public consultants to assist in the selection and management of a private operator and in changing the culture of non-payment for water.
Niger	Water Supply Project	48	Rehabilitation and extension of physical system and promotion of private sector participation. Project aimed at securing long-tern sustainability of the urban water sector after privatization. Implementation of an adequate tariff, and improved commercial and financial approaches cited as likely to ensure long term financial sustainability of the sector.
Senegal	Long Term Water Supply Project	125	Restructuring of the sector's institutional and regulatory framework to adapt to the contracts of private operators. Continuation of the institution of a tariff policy for better cost recovery.

Continued....

Europe & Central Asia			
Macedonia, Former Yugoslav Republic	Water Utility Improvement Project	29.3	Improvement of the operational efficiency of the Skopje Vodovod, the largest water and wastewater utility in the country, through a lease contract with the private sector to address institutional, technical, commercial and financial issues. Leases require cost recovery of investments over economic life of project.
Russian Federation	Municipal Water and Wastewater Project	122.5	Implementation of institutional and commercial reforms to improve the physical system. Implementation of technical and commercial reforms. Reductions in operational costs, improvement of service quality. Key requirements for sustainability include increased overall efficiency, introduction of cost recovering tariffs and improvements in revenue collection.
Ukraine	Municipal Water and Wastewater Project, Odessa and Lviv	24.3	Investment in rehabilitation and improvement of efficiency of existing water and wastewater facilities. Emphasis on full cost recovery measures such as metering and reduction of unaccounted for water, among others.
South Asia			
India	Kerala Rural Water Supply and Environmental Sanitation Project	65.5	Decentralization results in local authorities being responsible for Rural water supply and sanitation and the transfer of all small supply schemes to the Gram panchayats (village government) with joint powers to levy and recover cost for services. Project must demonstrate partial cost recovery in order to achieve financial sustainability.
Middle East and N. Africa			
Republic of Yemen	Rural Water and Sanitation Project	20	Establishment of a rural water supply and sanitation (RWSS) strategy. Experimentation with decentralized, demand-based community participation methods. Expansion of RWSS service coverage with sustainable drinking water and safe sanitation facilities.

[i] UNDP website: www.undp.org/poverty/initiatives/wider/wiid.htm

[ii]This is actually the period of IMF and World Bank structural adjustment policies. Globalization is a vague term that is often used to mean the revival of supply-side economics.

[iii] Center for Economic Policy Research, *Scorecard on Globalization*, www.cepr.net/pressreleases/scorcardpr.htm

[iv] Mason, E and Asher R. *The World Bank Since Bretton Woods.* The Brookings Institute, Washington, D.C., 1973, p.190.

[v] Public Services International Research Unit, www.psiru.org

[vi] World Health Organization. Water and Sanitation Fact Sheet #112. www.who.int/inffs/enfact/fact112.htm

[vii] International Fact Finding Mission on Water Sector Reform in Ghana, August 2002. http://www.citizen.org/documents/factfindingmissionGhana.pdf

[viii] Cottle Edward, *The Cholera Outbreak.* Rural Development Services Network, South Africa. http://www.hst.org.za/images/pdf1.gif

[ix] The global water companies also see the U.S. market as a lucrative frontier. Some U.S. agencies view privatization as a substitute to public funding for water.

[x] Bond P. Valuing water beyond "Just Price It:" costs and benefits of water for basic human and environmental needs. Downloaded from www.isodec.org.gh/Papers/valuing-water.pdf. 6/23/02.

[xi] Statement of Kal Gautan, executive director, UNICEF, statement at the World Summit on Sustainable Development, Johannesburg, South Africa, August 29, 2002.

[xii] U.N. High Commission on Human Rights, *Report of the Special Rapporteur on adequate housing,* 58th session, item 10, page 22.

[xiii] For detailed reports see: www.psiru.org

[xiv] World Bank "FY01 Annual Report on Portfolio Performance," Report R2001-0216, December 21, 2001.

[xv] News and Notices, Globalization Challenge Initiative, Washington, D.C., Vol. 2, No. 4, Spring 2001 or www.challengeglobalization.org

[xvi] World Bank, Poverty Reduction Support Credits for Uganda and Burkina Faso, see loan documents for the two countries at www.worldbank.org

[xvii] See website: http://www.ifc.org/about/basicfacts/basicfacts.html

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

[xix] See website at http://www.privatizationlink.com/

[xx] See http://www.worldbank.org/icsid/about/main.htm

[xxi] 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.

[xxii] 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.

[xxiii] World Bank, *Bridging Troubled Waters: Assessing the Water Resources Strategy Since 1993.* Operations Evaluation Department, Washington, D.C. October 15, 2001, p. 21.

[xxiv] 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.

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

[xxvi] World Bank, *Bridging Troubled Waters: Assessing the Water Resources Strategy Since 1993.* Operations Evaluation Department, Washington, D.C. October 15, 2001, p. 24.

Public Citizen
Water for All
215 Pennsylvania Ave SE, Washington DC 20003 Ph. +1-202.546.4996
1615 Broadway 9th floor, Oakland, California 94612 Ph +1-510.663.0888
www.wateractivist.org
e-mail: cmep@citizen.org

Public Citizen