

# Down the drain

## How UK aid is still being wasted on water privatisation

**DIRTY  
AID  
DIRTY  
WATER**

**Over the last seven years the UK government has given a little-known arm of the World Bank over £30 million to spend on privatisation consultants operating in the developing world. Among other things, this money has been used to develop water privatisation processes in 37 different countries.**

Chances are that you won't have heard of the Public-Private Infrastructure Advisory Facility (PPIAF), one of the more obscure parts of the World Bank. Its role? PPIAF gives privatisation advice to developing countries, acting as a 'one stop shop' for privatisation. PPIAF has paid consultants millions of pounds to advise developing country governments on the privatisation of their basic infrastructure, including water and sanitation services. More worryingly, it also funds activities designed to persuade skeptical populations about the 'benefits' of privatisation.

While the evidence of the failure of water privatisation in developing countries is clear, international donors continue to spend money supporting this approach. The

UK government claims that it does not push water privatisation in developing countries, yet it set up this little known organisation, and it continues to be PPIAF's largest funder.



### The secret unfolds

Over the last decade, water privatisation projects in developing countries have failed to deliver clean, affordable water to the poorest communities. Faced with growing opposition, the large international water companies have begun to pull out of the developing world.

When this trend first became apparent in the late 1990s, rather than develop an alternative solution to the global water crisis, the Department for International Development (DfID) got together with the World Bank to develop a strategy to try to re-engage big business in water and sanitation services in developing countries.

In 1999, PPIAF was set up as a branch of the World Bank. Other donors came on board, including Japan, France, Switzerland, Norway, Sweden and the United States. DfID's central role in supporting PPIAF's work is very clear. Not only did DfID design and set it up, but the UK remains the largest donor to PPIAF, contributing over 54 per cent of its income.

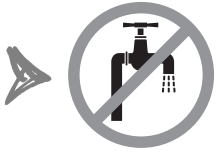


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## The flow of money

PPIAF pays consultants to support the privatisation of water and sanitation services, alongside other infrastructure facilities including energy and telecommunications. PPIAF does not directly fund infrastructure projects, but pays for the technical advice required to set them up, meaning that the contracts it awards tend to amount to thousands rather than millions of pounds. For relatively small amounts of money, PPIAF influences the policies of national governments and affect the future direction of essential service provision in countries around the world. Since its inception, PPIAF has spent up to 22 per cent of its budget on water and sanitation; this has enabled it to fund processes aimed at boosting private sector participation in water and sanitation services in 37 countries.

PPIAF funds two core areas of work, privatisation advice, and what it calls 'consensus building'.

### 1. Privatisation advice

Consultants are paid to determine the best way of introducing the private sector into a particular country. This can range from legal and policy advice to the actual type of privatisation to take place. (see Afghanistan example overleaf). WDM has found evidence of PPIAF funding water privatisation advice in at least 19 countries. PPIAF has even resuscitated water privatisation programmes in places where privatisation has already failed previously.

### 2. Promoting privatisation or 'consensus building'

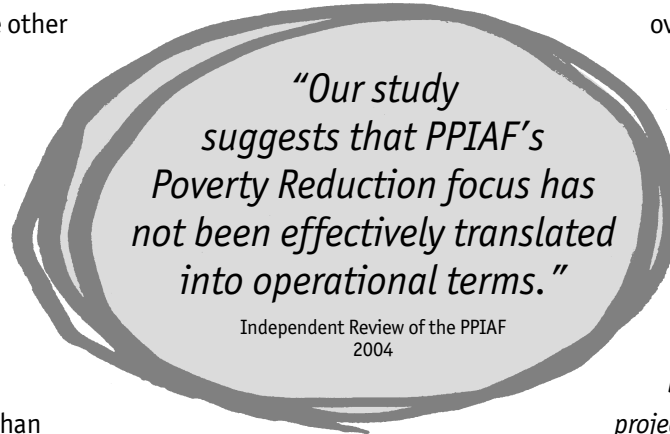
There are often strong social or political obstacles to privatisation. PPIAF's 'consensus-building' projects

attempt to overcome these obstacles by working as cheerleaders for private sector reform processes, convincing stakeholders that privatisation is the way to go (see Zambia example overleaf). PPIAF's support for

privatisation promotion activities has been growing, a trend which looks set to continue. An independent review of the first five years of PPIAF's operations found that

*"the proportion of capacity building and consensus building projects have increased. This shift ... has been attributed ... in part as a response to*

*the growing criticism of private participation in infrastructure."* WDM has found evidence of PPIAF funding 'consensus building' for water privatisation in at least 16 countries.



*"Our study suggests that PPIAF's Poverty Reduction focus has not been effectively translated into operational terms."*

Independent Review of the PPIAF  
2004

## Money down the drain

According to its mission statement PPIAF's aim is to "eliminate poverty and achieve sustainable development by privatisation in infrastructure". So rather than assessing what the best solution is for a particular country, PPIAF consultants arrive with an assumption that some form of privatisation should take place. Perhaps, therefore, it is hardly surprising that the independent review of PPIAF questioned the extent to which it was contributing towards poverty reduction, highlighting several issues that are common criticisms of water privatisation, including whether water fees were affordable, and whether access was being extended to those who live on the outskirts of major cities. Despite this, DfID described the review as "very positive" and has approved a further £15 million of funding through to 2008.

## PPIAF the facts:

### PPIAF

Public Private Infrastructure Advisory Facility.

### 1999

The year the UK government and the World Bank set it up.

### 37

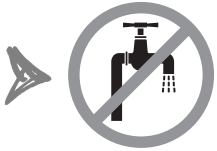
The number of countries in which it has funded water privatisation processes.

### 54 per cent

The proportion of PPIAF's income that comes directly from the UK government.

### £5.4 million

The amount of UK aid money spent on water privatisation processes via PPIAF.



There are two key criticisms of PPIAF.

● **Promotes the privatisation myth.**

The creators of PPIAF have chosen to ignore growing evidence about the failures of water privatisation. Evidence from countless water privatisation schemes in developing countries shows that the private sector has not brought substantial sums of new money to 'connect the unconnected' to water, but rather that it has raised prices and disconnected those unable to pay.

The promise of new investment is a key argument used to support water privatisation, yet evidence shows that private water companies are very reluctant to invest in funding new connections for the poorest communities. A World Bank Review paper noted that "private sector investment in all infrastructure [not only water] ... declined by over 50 per cent between 1997 and 2002." It concluded that "*reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision*". So why do donors allow PPIAF to continue with a clear mandate of trying to increase private sector funding in infrastructure? Surely there are better uses of aid money.

● **Eliminates developing country choice.**

PPIAF only funds advice with a pro-privatisation bias, ignores existing examples of best practice amongst public utilities and artificially builds consensus around privatisation. Is it a legitimate use of foreign aid money to interfere in and skew domestic debates about the future provision of essential services?

PPIAF also serves to eliminate poor country choice by funding privatisation processes that result from damaging economic policy conditions imposed by international donors. To qualify for aid, debt or cheap loans, many developing countries have been forced to implement free market policies such as privatisation. The arguments given by donors – *that poor countries approach PPIAF for help of their own free will* – does not reflect the role that these conditions play. WDM research has found evidence that PPIAF has worked in 17 countries where water privatisation conditions have been imposed.

**PPIAF is an organisation with the wrong mission, carrying out the wrong activities, with the wrong outcomes. Donor support for PPIAF exists in the absence of any international facility to support public sector reform in the water sector. The UK government should stop wasting its aid money on funding this outdated organisation and start actively supporting public sector reform.**

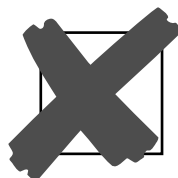
## ***PPIAF case studies***

### **Afghanistan**

Afghanistan is one of the poorest countries in the world and has suffered from chronic instability and conflict in recent years. In 2004 PPIAF conducted a study that assessed the role that the private sector could play in delivering the country's water supply. It then advised the government on which model to choose. Off the back of this pro-privatisation advice, in May 2006 the World Bank approved a £21 million grant for an 'urban sector water project in Afghanistan.' The project will 'corporatise' the existing water supply, provide training, and aims to extend access to water to the people in Kabul. The PPIAF will provide the consultants for this work.

### **Zambia**

A PPIAF funded project in 2001 promoted the idea of a privatisation contract for the public water company in the capital city, Lusaka. Facing strong local opposition, rather than reassess the options available, PPIAF then funded consultants to run a series of workshops to sell the so-called benefits of privatisation. Elsewhere in Zambia, publicly-run utilities outperform the only existing water privatisation contract, indicating that water privatisation has not been a viable working solution.



# Money well spent

## How UK aid should be spent on improving water services

**DIRTY  
AID  
& DIRTY  
WATER**

**Over the last decade, water privatisation projects in developing countries have failed to deliver clean, affordable water to the poorest communities. It is time for the UK government to develop a new approach, an approach that puts funding into public water sector reform and moves away from funding water privatisation.**

There are many examples of successful public water providers in developing countries (see *Public Reform Successes Box*), but donors have remained fixated with the

private sector and privatisation consultants. This is a big mistake; with over 90 per cent of piped water in public hands, the private sector can never play a big role in 'connecting the unconnected' to water. Instead, solutions need to focus on building capacity where it counts: public utilities. One way of increasing the ability of the public sector to deliver new connections and improve services is the creation of public-public partnerships (or PUPs).



Water pump in Cambodia Phnom Penh.

Jim Holmes/Panos Pictures



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**PUPs** *n.* Public-public partnerships or PUPs improve the performance of the public sector. In the case of water, successful public water providers would share their knowledge and expertise with less successful public providers on a not-for-profit basis.

## PUPs in practice

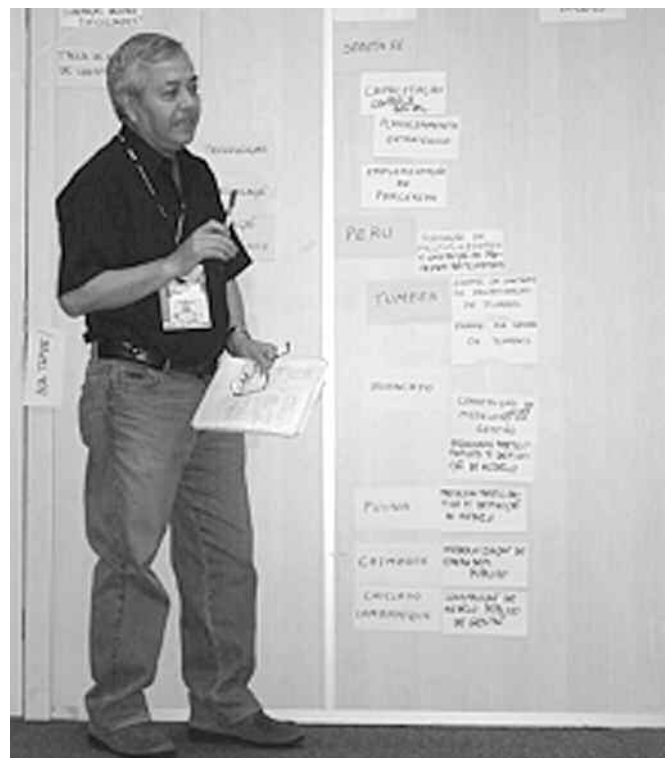
PUPs offer a real opportunity to build capacity within the public sector. The United Nations is already starting to support this idea; it is time for the UK government to do the same.

PUPs enable individual public utilities to work together, to share expertise and to spread good practice. PUPs enable a public utility that is strong in one particular area of performance, to be brought together with another utility that is keen to gain knowledge and experience in that area.

There are benefits on all sides of such arrangements. For the recipient, the benefits of PUPs are obvious: advice and support from knowledgeable engineers and managers working in the sector, at a minimal cost. And there are also many successful public utility managers ready and willing to share their expertise and give advice to others.

Critically, PUPs must operate on a not-for-profit basis. PUPs are not consultancies, and they are not about making money. They are about recognising the intrinsic value of public services and the public service ethos.

*PUPs workshop, Brazil 2006*



## Public reform successes

### Brazil

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

### Cambodia

In a 2004 survey by the Asian Development Bank, the public utility in Phnom Penh was rated as "an efficiently managed water utility that has shown dramatic improvements in performance in the last 5 years". Connection rates have risen from 25 per cent to 84 per cent over the past ten years.

### Uganda

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



## PUPs: the benefits

### ● Cost effective.

PUPs work on a not-for-profit basis with only expenses being reimbursed. These costs are likely to be significantly lower than 'traditional' consultants where fees and living expenses are high. Just one per cent of donors' annual investment budget on water and sanitation would be enough to cover the costs of hundreds, maybe thousands of PUPs worldwide.

### ● Expertise.

PUPs use targeted expertise. Water PUPs could promote technical expertise that is found in developing countries (expertise that is often overlooked by donors). PUPs could, for example, enable the expertise of water managers who are grappling with the problem of how to connect new communities to water to be shared with others.

### ● Efficiency.

As systems and new technologies are shared and utilities become more efficient, it is possible that the overall investment needed for the water sector in the long term could decrease. Certainly this has been the experience in Tamil Nadu, India, where the overall need for investment has fallen as a result of the public-community partnership.

### ● Involvement/transparency.


PUPs offer the possibility for the involvement of a wide range of stakeholders in reform processes, including civil society and trade unions. Transparency within PUPs arrangements is essential so that all stakeholders can monitor the arrangements to ensure that they are focussed on poverty-reduction and value-for-money principles.


## PUPs: the challenges

There are clear benefits to PUPs but there is currently no international donor-supported mechanism to create and fund such partnership arrangements. Such a mechanism would offer information and resources on public water reform and would provide a service to match up utilities. However, even with such a system in place, many poor country utilities would not be able to afford to pay the not-for-profit costs involved in a PUP. These challenges could be overcome with donor political and financial support. 'Water and sanitation is an essential public service that must be recognised as a human right and not be dependent on an ability to pay.

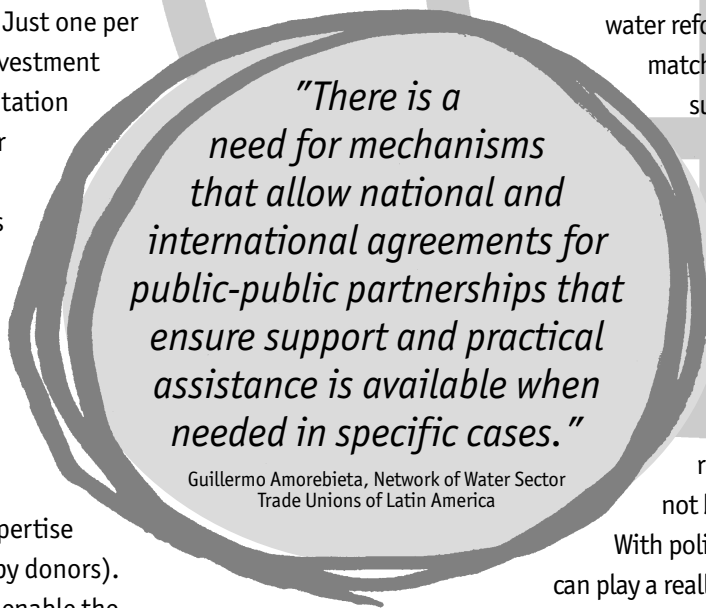
With political and financial support PUPs can play a really important role in building capacity in the public sector to make this right a working reality'. Steve Bloomfield, Head of Utilities, UNISON

There are two key ways that donors could give their political and financial backing to PUPs:

 **Support the setting up of an international facility to support PUPs.** A matching service could take place via the internet and would allow participating utilities to establish, through their own choice and initiative, the basis for the partnership.

 **Support PUPs on an individual country basis.** A donor could explore with a government whether there are public utilities elsewhere in that country or in the wider region, which could offer expertise and help.

Only the public sector has the capacity to deliver the Millennium Development Goal of halving the number of people without access to clean water by 2015. Donors like DfID should act now to support public-public partnerships.



*"There is a need for mechanisms that allow national and international agreements for public-public partnerships that ensure support and practical assistance is available when needed in specific cases."*

Guillermo Amorebieta, Network of Water Sector Trade Unions of Latin America

## Take action



Write to your MP and demand that they ask the Secretary of State for International Development to give political and financial support to PUPs and to assist in setting up an international facility to support PUPs.

To find out who your MP is call 020 7219 8272 or go to [www.wdm.org.uk/findyourmp](http://www.wdm.org.uk/findyourmp)