

CASE STUDY

Tanzania

**DIRTY
& DIRTY
WATER**

In May 2005, Tanzania took the drastic step of terminating its contract with City Water, a foreign-controlled company that for the previous two years had been struggling to supply water to a major city, Dar es Salaam. Within weeks three City Water executives had been deported, marking the end of another unhappy phase in what was supposed to be a flagship water privatisation scheme in Africa.



CRISPIN HUGHES/PANOS PICTURES

A fiasco in the making

Tanzania is a very poor country. The statistics make grim reading. 60 per cent of the population live on less than two dollars a day. One in five children die before their fifth birthday. Average life expectancy is a shockingly low 44 years.

This pattern of poverty is also reflected by low access to water and sanitation. At least 9.8 million Tanzanians (27 per cent of the population) do not have access to safe water and 40 per cent of children under five suffer from diarrhoea as a result.

Before privatisation the water system in Dar es Salaam was, like much of the country, in very poor shape. Its water system had failed to grow with the population. In 2003 only about 4 per cent of households had a direct water connection and 74 per cent of water was lost as leaks or illegal connections.

It is against this background that the push by international aid donors and lenders for the privatisation of Dar es Salaam's water system began.

The drive for privatisation

Examples from around the world have consistently shown that water privatisation is not the answer to the global water crisis. But the World Bank and the International Monetary Fund (IMF) continue to push this approach. Tanzania was the latest in a long line of countries to be targeted. In the past decade, Tanzania has been advised by foreign consultants on privatising over 350 state-owned firms.

**"Young plants
need rain, businesses need
investment. Our old industries are
like dry crops and privatisation brings
the rain. When the harvest comes,
there is plenty for everyone."**

**Lyrics from a pro-privatisation pop song by
Adam Smith International, paid for by UK
taxpayers via DfID**

In general, pressure was applied either by making lending conditional on moves towards privatisation, or by pushing the privatisation process in return for more lending. For example, in 1997 the World Bank said it would offer Tanzania £186 million per year to speed up the sale of state-owned companies, but only £62 million per year if the privatisation programme stalled. In essence, the Bank offered cash-strapped Tanzania a £124 million incentive to privatise more quickly.

By the late 1990s, pressure for the privatisation of the city's water system, the Dar es Salaam Water and Sewerage Authority (DAWASA), became more focussed.



Sabina Nicholas and her family used to have piped water to their homes in Dar es Salaam, Tanzania. After UK-funded privatisation, their water was cut off.

Between 1996 and 1999, the IMF first made privatisation of DAWASA a condition for lending via its Enhanced Structural Adjustment Facility. Then in 2000 IMF lending via the more benign sounding Poverty Reduction and Growth Facility was made conditional on specific negotiations for privatisation of DAWASA being completed by March of the same year.

The first stage of the privatisation of DAWASA also became one of the pre-conditions given to Tanzania to qualify for debt relief under the Heavily Indebted Poor Country (HIPC) initiative.

While some members of the government undoubtedly favoured privatisation, Tanzania was in effect given no other choice. Money for improvement was desperately needed but loans were only available for projects involving private companies. Faced with a failing water system and the possibility of debt relief, what other option could they choose?

The City Water deal

After numerous delays the Tanzanian government and its lenders settled on a form of privatisation called an "operating lease contract", in which a private company would take over routine maintenance, billing and tariff collection while DAWASA would retain ownership of the physical water system and renew the dilapidated pipe network.

To support the proposed deal, the World Bank, African Development Bank and the European Investment Bank offered total loans of £87 million to rehabilitate the water system, with £24 million allocated to the private company to do specific work. The aim of these loans was likely to be to improve the state of the water system, so that after the initial ten year operating lease contract, DAWASA itself

would be more attractive for foreign investors and could be fully privatised.

However when the Tanzanian government invited bids for the contract, there was a notable lack of interest. In fact only **one** bid was made,

by a consortium of Biwater (UK), Gauff (Germany) and Superdoll (Tanzania), otherwise known as City Water.

Despite the lack of competition, the contract was awarded to City Water in December 2002. From then on Dar es Salaam's water supply became reliant on a complex mixture of public and private service provision.

What private money?

One of the advantages that privatisation is supposed to deliver is major investment by foreign companies. However in this case, the vast majority of the investment continued to come from public sources, either from international lenders or directly from the Tanzanian

"I used to get tap water at least once a week. The cost was included in the rent, which was 85,000 shillings a month. But since City Water took over, I have consistently been buying water from the vendors for 24,000 shillings a month. As a result, the total cost is 109,000 shillings due to City Water's inefficiencies."

Silas D. Likasi, Dar es Salaam

Pop for privatisation: The role of the UK government

The UK has a vote at both the World Bank and IMF so must share responsibility for their policies. It has also played a more direct role in promoting privatisation in Tanzania, with the Department for International Development (DfID) spending £9.5million of 'aid' on supporting privatisation between 1998 and 2004.

At least £574,556 of DfID's money went to Adam Smith International, including £273,000 in 1999 to pay for communications and public relations work to promote privatisation. Bizarrely part of this money was spent on producing a pop song with lyrics that are, in essence, pro-privatisation propaganda (see quote on first page).

In September 2006, during a question time event at Labour party conference, Hilary Benn, Secretary of State for international development finally admitted that "the Tanzanian pop song was not DfID's finest hour".

- ❶ **Failed to collect** revenue from customers effectively. Under City Water, revenue is alleged to have declined from the 1.2 billion shillings (£610,000) collected by DAWASA three years ago, to 800 million shillings (£434,000) per month.

If true, these allegations suggest that City Water was facing serious financial and practical difficulties. This fits with early reports that City Water officials had admitted to a 'difficult' first year of operations and were expecting to make a loss of £428,000.

Customer revolt

"There is a problem with water privatisation because local people don't have water. After privatisation, the bills are coming, but no water." – Members of Africa Youth for Development, Dar es Salaam

City Water's difficulties seem to have been caused, at least in part, by behaviour which angered their customers – the residents of Dar es Salaam. Evidence from interviews conducted by Action Aid show that within ten months of the contract starting consumers had begun to resent being charged more without getting a better service.

Complaints were numerous and mostly focussed on City Water's tariff increases and patchy, irregular service. Action Aid also discovered that City Water continued to charge households for water even when it only came through occasionally, meaning that they often had to pay twice – once to City Water and again to the street water vendors selling at much higher prices.

Unsurprisingly those that refused to pay were threatened with disconnection, but City Water went even further by disconnecting whole areas in an attempt to get those with illegal connections to pay up - even though this meant no water for households who were paying!

Within a year of City Water taking over, anger had reached such levels that, according to one local group, City Water bill collectors were being "chased away with dogs and knives".

A population unwilling to pay high prices for a poor service would certainly explain City Water's failure to collect revenue and reluctance to make the payments and investments to which they were committed.

Excuses, excuses...

City Water claims that they failed to deliver due to "unexpected circumstances", including the discovery that the number of active customers was 50,000, not the

government. In fact of the total £100 million project cost, City Water only agreed to invest £5.2 million, mostly to cover removable assets, such as computers. City Water was also granted a tax holiday by the Tanzanian government, until at least year six of the contract.

The failure unfolds

The Tanzanian government enthusiastically signed the City Water deal. But just two and a half years later, in May 2005, the same government terminated the contract. Considering the dire state of things before City Water took over, how could things have worsened so quickly?

The Tanzanian government claims that its reasons for terminating the contract are simple: *"The water supply services in Dar es Salaam and neighbouring places have deteriorated rather than improved since this firm [City Water] took over two years ago. The revocation was made following persistent complaints by city residents over incompetence of the firm."*

They also allege that City Water:

- ❶ **Failed to invest** £5.2 million as promised during the first two years of operation, delivering only only £2.5 million.
- ❷ **Failed to contribute** to a fund to pay for water supplies to the very poor.
- ❸ **Failed to pay** their contract lease fee to the government, which accumulated to debts of over £1.9 million.

100,000 they had been led to believe and that the Tanzanian government had not disclosed the extent of leakage and illegal usage from certain main water pipes.

"Far from 'pocketing big profits', we've had mounting losses since the contract went live 22 months ago," says Cliff Stone, CEO of City Water. "Our tender was based on the information supplied by the Tanzanian government which we took to be complete and accurate. Our view is that it was not."

However consultants hired by the Tanzanian government to assess City Water's claims, concluded that the conditions had not substantially varied from the time the contract was signed. What's more, according to the Financial Times, *"experts from multilateral agencies are understood to have taken the view that the UK-German-Tanzanian joint venture performed poorly and that the Tanzanian government had abided by its agreement"*.

Wasted time, wasted money

While City Water and the Tanzanian government may blame each other for this fiasco, what is indisputable is that this privatisation experiment has wasted three years and millions of dollars which could have been spent improving the failing water supply in Dar es Salaam, so that poor people could get the clean water they desperately need for their health and well being.

Back in Tanzania a new public corporation, the Dar es Salaam Water and Sewerage Corporation (DAWASCO), has taken over, absorbing 1,300 City Water staff. The Tanzanian government claims the replacement company is performing well, increasing bill collection by 12.5 per cent from £570,000 in May to £660,000 in June 2005. Hopefully DAWASCO will prove more of a success than City Water and the long-suffering residents of Dar es Salaam will not have to put up with further incompetence.

A sting in the tail

Unfortunately, the City Water saga may not yet be over. In June 2005, the UK partner, Biwater, announced that City

Water had applied successfully to the English High Court *"for an interim injunction to prevent the Tanzanian government from unlawfully terminating the contract without submitting to arbitration"*. In short, City Water is now looking for compensation, which would mean that Tanzania would once more have to pay up.

Rejecting claims that they had not met performance targets or investment obligations, City Water *"feels strongly that the government's actions are unlawful, its accusations are entirely untrue and the real tragedy is that it is the people of Dar es Salaam who will end up suffering as a result"*.

For some people water privatisation in Tanzania was a flagship project with high expectations, but in less than two years it has turned into a disaster that has hit the poorest the hardest. The UK government needs to rethink its approach to projects like this and to start funding successful alternatives.

It does not end there. Biwater, the UK partner, is now suing Tanzania for 'expropriating its assets' through the International Court for Settlement and Investment Disputes (ICSID). The final hearing is due to take place in April 2007.

Take action

-  **Send an action card to the Secretary of State for International Development**, asking him to support public solutions to the global water crisis.
-  **Sign up as a WDM activist** and receive urgent actions and regular updates on WDM's campaigns.

To order cards or sign up as a WDM activist call or email WDM (see below left).