

Water privatisation and conditionality

**DIRTY
AID
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WATER**

Stop press: campaign success!

Thanks to almost two years of concerted campaigning by World Development Movement (WDM) members and other campaigners, in February 2005 the UK Government agreed to stop attaching free market economic conditions like privatisation to its own aid programme, recognising that if development is to be successful then it must be owned and supported by the people and Government of the country in question.

The Government's new policy acknowledges that its old style conditionality has failed and that its aid relationship with poor countries must become focused on poverty outcomes - such as access to healthcare - rather than on specific policy conditions. Conditionality will now be limited to ensuring aid is not used corruptly or for purposes other than those intended.

This represents a major victory for WDM campaigners who have worked hard to convince the Government to stop imposing economic policies on poor countries. WDM has congratulated the Government for taking this significant step forward.

Water privatisation through the backdoor.

This new UK policy paper clearly recognises that privatisation has not worked in several countries and commits the Government to abolishing privatisation conditions in return for UK aid. However, despite this the Government is continuing to push water privatisation through various backdoor routes which effectively leave developing countries with little choice but to pursue water and sanitation privatisation:

1. Expensive advice. The UK's 'technical assistance' aid budget will continue to pay for privatisation consultants like Price Waterhouse Cooper (PWC), Halcrow and Adam Smith International to advise developing countries on water sector reform. These consultants routinely recommend some form of privatisation as the solution.

2. Public relations offensives. The Government also pays these consultants to produce public relations campaigns designed to convince objecting communities that water

Conditionality in a nutshell

The term conditionality derives from the strings often attached to international aid, loans and debt relief. Donors like rich country governments and the International Monetary Fund (IMF) and World Bank, often only issue aid, loans or debt relief if poor country governments agree to implement certain free market policies, like water privatisation, in return. Conditionality denies developing countries of their sovereignty and their right to decide their own future. And these prescribed conditions have proved disastrous for numerous countries around the world and have plunged the world's poorest people further into poverty.

privatisation is in their best interests. For example, the Government paid Adam Smith International £273,000 to produce public relations materials including a pop video to convince Tanzanians that water privatisation was the best solution to their water problems - the lyrics of which included: "Our old industries are like dry crops and privatisation brings the rain. When the harvest comes there is plenty for everyone." In May 2005, City Water, a subsidiary of UK water company Biwater - which had been awarded the privatisation contract - was thrown out by the Government of Tanzania, just two years into a ten year contract. According to the Government of Tanzania, City Water had invested only US\$4.1 million instead of the promised US\$8.5 million and had failed to improve services. Biwater denies these claims.

3. Funding for privatisation. The UK's aid budget is used to directly subsidise private water companies in developing countries. Our Government has been the driving force behind the creation of what are called 'multi-donor' financing initiatives at the World Bank. These programmes set aside funding to specifically help finance private sector involvement in essential service delivery, such as water and sanitation. The UK co-founded at least two of the seven major initiatives that WDM investigated and is the only country involved in funding all of them.

While such funds involve no overt privatisation conditions, the clear bias in the aims of the initiatives (i.e. increased private sector provision of services) leaves poor country governments in no doubt about what they can secure funding for. Unfortunately no such initiatives have been set up to help fund public or community-led water and sanitation provision.

4. World Bank/International Monetary Fund (IMF) economic policy

conditions. 12 per cent of UK aid is channelled through the World Bank which, along with the IMF, still attaches policy conditions, including water privatisation, to loans, aid and debt relief. The threat of withholding money is used to ensure compliance. While the new policy paper does commit the Government to encouraging the World Bank and IMF to align with the UK's new policy, the Government needs to ensure they undergo fundamental reform.

"[Increasing private sector involvement] is not a 'solution' that should be promoted internationally in the name of those who currently lack adequate water and sanitation."

UN-Habitat (2003)

5. 'Conventional wisdom'. The institutional bias of organisations such as the World Bank and IMF has led to a wealth of research and advice directed at increasing private sector involvement in water and sanitation (e.g. producing 'privatisation toolkits') and a dearth of investigation into and support for, workable different approaches to supplying water and sanitation services to the poor.

This more subtle influence has led to a 'conventional wisdom' – adopted by some developing country governments – that the private sector will bring significant investment and will be more efficient than the public sector. This is a far cry from the truth. Private companies often commit little of their own capital and are instead looking to governments to provide the money. They also routinely cherry-pick the most profitable contracts, leaving the challenging, unprofitable areas to the cash-strapped state. And evidence shows that private water providers are no more efficient than the public sector.

Worst offender: UK Government

Despite the Government's new commitment to stop attaching privatisation conditions to its own aid programmes, it still remains the worst offender in the push for water privatisation, as demonstrated by for example, its leading role in the World Bank's 'private sector only' funding initiatives.

The way forward

If the UK is to help achieve the Millennium Development Goals by 2015 – which require major improvements in water and sanitation provision – it must put its political and financial effort into supporting workable solutions to the problem rather than subsidising water and sanitation privatisation, which has demonstrably failed to deliver for the poor over the past 10 years.

WDM's Dirty Aid Dirty Water campaign is tackling head on the UK Government's unquestioning push for water privatisation and exposes the 'conventional wisdom' that water privatisation will benefit the poor, as fundamentally flawed.