



## SHUTTING THE SPIGOT ON PRIVATE WATER:

The case for the World Bank to divest



**CORPORATE  
ACCOUNTABILITY  
INTERNATIONAL**



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**CORPORATE ACCOUNTABILITY INTERNATIONAL IS** a membership organization with a 35 year track record that protects human rights, public health and the environment from corporate greed and abuse around the world.

The organization, through its campaign to **CHALLENGE CORPORATE CONTROL OF WATER**, is playing a leadership role in the global movement to advance and protect the human right to water, secure people's access to water, preserve and protect water resources and systems for the public good and preserve water resources as an ecological trust.

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## EXECUTIVE SUMMARY

*“Denying people water is to deny them the right to life.”*

WORLD BANK LEGAL VICE PRESIDENCY, JULY 2004

Access to clean water is a fundamental human right: no other right can be guaranteed if this basic necessity for survival is not first secured.

Yet today:

- nearly one in eight people lack access to this essential resource;
- more people die from unsafe water than from all forms of violence, even including war; and
- waterborne diseases are a leading cause of death among children under five, killing more infants than HIV/AIDS, malaria and tuberculosis combined.



Photo credit: Corporate Accountability International

Waterborne diseases are a leading cause of illness and death in young children.

With women, children and the poor disproportionately bearing the brunt of this global water crisis, lasting solutions must be found. The good news is one tenth of the global disease burden could be eradicated by improving current water systems. Investment in this infrastructure is one of the most powerful means of disease prevention available to the public health community, not to mention a vehicle for lifting millions out of poverty.

This reality should make water a core focus for an institution like the World Bank as a critical means for furthering its mission of poverty alleviation and sustainable development. Instead, the Bank has consistently prioritized the profits of the water industry over meaningful interventions with the potential for lasting and broad impact. For more than two decades the Bank has promoted corporate control of water as the primary solution to the world's water woes, without substantiation or accountability for the results.

**As “Shutting the Spigot on Private Water: The case for the World Bank to divest” finds, privatization**

**has neither benefited the world's poorest people, nor proven economically viable. The report's findings suggest the time has come for the Bank to divest from private water and redirect support to public and democratically accountable institutions.**

The first section of this report (“**Overview of privatization,**” page 6) summarizes the past two decades of experiments with water privatization, reviewing the empirical outcomes and the extensive literature which has discredited the claims of private water advocates that corporations will bridge the water gap. Even a cursory

review of the relevant theoretical and historical scholarship demonstrates these results could have been predicted—and that the rationale for promoting water privatization is not based on sound scholarship or justifiable expectations. Historical experience and technological conditions demonstrate that water is a natural monopoly; planning, not competition, will engender efficient infrastructure systems. The report takes a closer look at the privatization of water in Manila, which has been used by the World Bank and other private water advocates as a “success story” to market similar models around the globe. On closer examination, the “success” of Manila is entirely financial: while the World Bank’s plan allowed one of the private utilities (and the World Bank itself) to earn a strong financial return, the implications for water access, quality, affordability and equity have been anything but successful.

Following the initial historical overview, the report analyzes the World Bank’s evolving strategy for inserting the private sector into water management and governance—an evolution necessitated by two inescapable lessons from early experiments with privatization:

- 1) After a long-overdue acknowledgment that private corporations will not invest in the infrastructure necessary to substantially expand access, the Bank now promotes “operational efficiency” and management contracts to run the system for a profit, while leaving the entire burden of infrastructure expansion and funding squarely in the public sector.
- 2) Because political opposition to water privatization is so potent, the World Bank has found ways to bypass governments, and even its own internal standards and transparency requirements by funding the private sector rather than collaborating with public agencies charged with water management.

**A staggering one-fourth of all World Bank funding now goes directly to the corporate sector.**

Looking at new models for private sector participation, the report assesses the impacts of a for-profit model on sustainable management of water systems. It reaches the conclusion that the key metrics for “operational efficiency,” like in the Manila case, may increase corporate profits but are overwhelmingly detrimental for water access and human rights.

The next section (“**Role of the World Bank**,” page 19) undertakes an extensive survey of the many forms of support the World Bank provides for corporate expansion in the water sector. First, the report finds that a staggering one-fourth of all World Bank funding now goes directly to the corporate sector.

The World Bank’s private-sector arm, the International Finance Corporation (IFC), serves as the “nozzle” on the flow of capital, attracting about \$15 of follow-on private investments for every \$1 it directly invests.

Direct equity (ownership) investments are a particular focus, as this intimate alignment of the World Bank’s revenues with those of its corporate clients generates an alarming set of perverse incentives for supporting the profits of water corporations, rather than the access outcomes that are the legitimate mandate of a development institution. “Shutting the Spigot on Private Water” enumerates a range of conflicts of interest which arise when the World Bank, as part owner of water corporations, also holds itself out as an impartial advisor and expert, offering research, government advisory services, public relations and marketing of private water.

Specific examples are given to illustrate the World Bank’s new strategy for inserting water corporations into governance, including its promotion of retail water kiosks in South Asia and Africa and the recent formation of a new corporate advocacy group—the 2030 Water Resources Group—housed at the IFC but chaired by the Chairman of Nestlé, the world’s largest bottled-water corporation.

The third section of the report (“**Divestment from private water,**” page 32) makes the case for the World Bank to shift course. “Shutting the Spigot on Private Water” calls on the World Bank to cease all support—financial, advisory, promotional and otherwise—for water privatization and to begin by divesting from all equity positions in water corporations. By reorienting its work on water towards access objectives, rather than profitability for private entities, the World Bank has the opportunity to use its considerable political and monetary influence to support reinvestment in publicly accountable systems. To that end, the report looks at two recent cases where the World Bank has been moved to shift its practices: its divestment from tobacco in the 1990s and its more recent adoption of safeguards and performance standards, particularly the inclusion of the International Labor Organization’s Core Labor Standards in 2006. Having demonstrated the World Bank’s ability to change course and identified the factors that have facilitated such shifts in the past, the report lays out a set of arguments selected to compel policy-makers and opinion-leaders within and surrounding this institution to support divestment from private water.

Specifically, the following arguments are highlighted:

- Investing in private water does not extend access and is also counterproductive for economic development. By contrast, infrastructure investment, which has been abandoned by the corporate sector, is where real benefit can be achieved: the World Health Organization estimates more than \$10 of economic benefit from every \$1 invested in water infrastructure systems.
- The health and financial burden of privatization falls disproportionately on women and other marginalized groups, in direct contradiction to the stated commitment of the Bank to consider these populations in its funding decisions.
- Water privatization is controversial and deeply unpopular, and the Bank’s insistence on promoting corporate involvement is detrimental to the institution’s reputation and perceived legitimacy. While the water sector comprises a small portion of the IFC’s portfolio of investments, 40 percent of the complaints received by its ombudsman are water related.
- The conflicts of interest inherent in taking an ownership stake lead to perceptions of self-dealing.
- Investing in private water is not even a sound fiscal strategy: equity investments in particular are an unnecessarily volatile, risky investment for the Bank, and a closer analysis of its investments in the French transnational water corporation Veolia Environnement exemplifies the down side of this industry as an investment.

The fourth and final section of the report (“**Recommitting to public water,**” page 44) documents the growing consensus in support of public water and the growing movement to reclaim this essential resource from corporate control. More than 35 countries as well as the U.N. itself have recognized the right to water, and support for public water is strongest in regions with the most experience with water privatization. Two recent cases are profiled: the re-municipalization of the Paris water supply in 2010 and the 2011 Italian referendum opposing private control of water.

In its conclusion (“**Conclusion and recommendations,**” page 47), the report notes the wide range of solutions available for managing water around the world in ways that are accountable to public processes and human rights. The human tragedy of water scarcity has known solutions, and the World Bank, with its resources, connections and influence, can play an important role in bringing together the financial and political



commitments required for the universal fulfillment of the human right to water. Removing institutional support for privatization will clear space for public, democratic oversight, realigning the World Bank's water development objectives with its mission.

"Shutting the Spigot on Private Water" demonstrates how change is possible when ideology, misconception and corruptive conflicts of interest are displaced by evidence and economic reality, accompanied by internal and external pressure on the World Bank. As a reference for Corporate Accountability International's campaign to Challenge Corporate Control of Water, this document is intended to open a conversation, and to unify a clear set of critiques and recommendations. It is intended to point to a constructive role for the World Bank, to work in support of, not against, the growing worldwide recognition of the critical importance of the human right to water as a springboard for the collective task of alleviating poverty and realizing a future where water is not a privilege of those who can afford it, but a right for all.

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## OVERVIEW OF WATER PRIVATIZATION

### WATER PRIVATIZATION: A TROUBLED HISTORY

*“Water is arguably the most politicized of all infrastructure sectors, and throughout history must certainly be the most political of natural resources.”<sup>1</sup>*

USHA RAO-MONARI, THE INTERNATIONAL FINANCE CORPORATION’S GLOBAL HEAD OF WATER

During the last decade of the 20th century, without historical support or solid theoretical justification, water privatization of borrower countries’ water systems was held up by the World Bank as a means to fund infrastructure and deliver water to those in need. Large municipal contracts with private operators were imposed on borrower governments as a condition of accessing financing and development assistance.



Photo credit: Amrita Institute for Water Literacy

“Don’t Privatize Water!” Women at a protest in Jakarta demand the governor terminate the city’s private water contracts.

But the fallacy of this approach became evident as major privatization concessions around the world failed to extend infrastructure or extend water access to those most in need. Public discontent with these concessions led to a growing movement in support of public water. It all came to a head in a series of high-profile “water wars,” which resulted in the death of a 17-year-old protestor, Victor Hugo Daza, in Bolivia in the spring of 2000.<sup>2</sup> By then, academics, civil society, media and policymakers were questioning the prudence of transnational corporations owning and operating water infrastructure. A 2006 World Bank assessment frankly described the controversy surrounding early experiments with large-scale privatization contracts: “As external suspicions worsened and negative campaigns intensified, it became clear that the lack of stakeholder support generated high costs to the World Bank and its clients, including not only delays in project preparation and implementation, but also cancellations.”<sup>3</sup> Indeed,

high-profile cancellations of privatization contracts in cities such as Buenos Aires, Dar es Salaam and Atlanta made clear that this approach to privatization of water could not work.

Instead of abandoning privatization all together, the World Bank turned to a new—but similarly flawed—model that focuses on “operational efficiency.” While the new approach reduces the financial risks of private operators, it has also resulted in rate hikes, the shutoff of services to those who cannot pay, utility worker layoffs, a decline in the quality of service and a failure to extend access.<sup>4</sup>

**According to the World Bank itself, 34 percent of all private water contracts entered between 2000 and 2010 have failed or are in distress, four times the failure rates of comparable infrastructure projects in the electric and transportation sectors.**

#### Privatization push ignores historical evidence

The World Bank and other private-water advocates now acknowledge that the initial rationale for privatization—that private investment in infrastructure would expand water access—was never a realistic expectation. Corporations are simply not inclined to make long-term infrastructure investments in developing countries. Indeed, historically, public investment has been the only successful model for developing and maintaining water delivery systems.

In the 19th century, small private companies in U.S. and European cities supplied water only to those who could pay a premium. Then came epidemics of cholera and other waterborne illnesses, which vividly illustrated the widespread stakes for public health and human life and invigorated the political will needed to make a shared commitment to universal access. As a result, the U.S. saw major waves of public investment in the late 1880s and early 1890s, as well as in the 1930s and after World War II.<sup>5</sup> By the early 20th century, most of Europe and North America had abandoned private provision in favor of public water systems.<sup>6</sup> With a small handful of exceptions (France, the UK and Chile, where infrastructure assets are privately held but deeply subsidized by public investment) the private sector failed to gain a lasting foothold.

Photo credit: Bill McBride



New York's Old Croton Aqueduct, finished in 1842 as part of the first wave of public investment in water infrastructure in the U.S.

But in the late 20th century, with new policies in vogue, the lessons of history were ignored and the long-held norm of public water delivery was questioned anew. In the 1980s, driven by political and policy shifts in international development, there was a push for private investment in infrastructure across all sectors. Much of the development literature now acknowledges the 1980s as the “lost decade”<sup>7</sup> because of the prevalence of policies that adhered to the so-called “Washington Consensus”<sup>8</sup>: a mandate that dictated privatization and other austerity measures through “structural adjustment programs”<sup>9</sup> of the World Bank and IMF.

For water access development, this “lost decade” extended to two decades of potential progress wasted in pursuit of the illusory promise of private water. In the mid-1990s, as the development institutions led by the World Bank turned to privatization, public water “infrastructure was viewed as a ‘sunset’ sector.”<sup>10</sup> They claimed that the private sector could fund water infrastructure “without practical substantiation that such policies were effective.”<sup>11</sup> Borrower governments were pushed to privatize and commercialize water operations as part of the package of austerity measures demanded by international financial institutions.<sup>12</sup>

What played out could have been predicted: one country after another terminated the private contracts early due to repeated failures by the water corporations to fulfill their commitments to invest in infrastructure and expand access. As Transparency International recounted the history, several “large privatisation initiatives collapsed amidst high-profile political acrimony. They failed in the daunting task of aligning their own commercial interests with the public sensibilities, social objectives or changing economic contexts of water policies.”<sup>13</sup>

According the World Bank itself, 34 percent of all private water contracts entered between 2000 and 2010 have failed or are in distress, four times the failure rates of comparable infrastructure projects in the electric and transportation sectors.<sup>14</sup>

Many of the early high-profile cases have now run their course, though some linger on in international arbitration within the World Bank’s own judicial branch (the International Centre for the Settlement of Investment Disputes, or ICSID). (That the World Bank serves as an interested investor even as it advises governments and adjudicates the resulting disputes points to a serious conflict of interest which is illustrated by the Manila case study below, and analyzed in further detail in later sections of this report.)

For the water sector, then, the 1990s was another “period of disappointment with private participation in infrastructure in the developing world.”<sup>16</sup> In September 2004, World Bank Senior Water Advisor John Briscoe, otherwise a stalwart advocate of privatization, acknowledged in a presentation to the International Water Association that the “last decade has been a lost decade [partly] due to the naïve view that the private sector will take care of the infrastructure.”<sup>17</sup>

### Illustrative examples: selected troubled water contracts<sup>15</sup>

COUNTRY	CITIES/REGIONS	YEARS	CORPORATIONS	2011 STATUS
Argentina	Buenos Aires, Santa Fe, Tucuman	1998, 2002 & 2006	Suez, Enron, Veolia, Impregilo	Terminated
Bolivia	Cochabamba, La Paz/El Alto	2000 & 2007	Bechtel, Suez	Terminated
China	Da Chang (Shanghai), Sheyang	2002 & 2004	Thames, Suez	Withdrawn, terminated
Colombia	Bogotá	2004	Suez	Terminated
France	Grenoble, Paris, Châtelleraut, Varages, Durance-Luberon, Castres, Cherbourg	1997 – 2010	Suez, Veolia and others	Terminated and expired without renewal
Gambia	National	1995	Veolia	Terminated
Germany	Potsdam	2000	Suez	Terminated
Mali	Bamako	2005	Saur	Terminated
South Africa	Amahthali (Stutterheim), Nkonkobe (Fort Beaufort)	2002, 2005	Suez	Terminated
Tanzania	Dar es Salaam	2005	Biwater	Terminated
Turkey	Antalya	2002	Suez	Terminated
USA	Atlanta, Laredo, Houston, Fairfield-Suisun, Felton, Gary	2003-2010	Suez	Terminated
Uzbekistan	Bukhara, Samarkand	2007	Veolia	Terminated
Vietnam	Thu Duc	2003	Suez	Terminated



## CASE STUDY: MANILA

The privatization of Manila's water systems is a revealing case study in the conflicts of interest presented by the World Bank's investment strategies, as well as demonstrating a number of other problems inherent in privatized systems.

The 1997 privatization of water in Manila exemplifies the heavy-handed approach of the time. It also illustrates the perverse incentives generated by the World Bank's private sector arm, the International Finance Corporation (IFC), when it purchases equity and becomes part owner of the corporations that stand to benefit from privatization. The IFC played a number of roles in the corporate handover of Manila's water supply: it advised the government, designed the plan<sup>18</sup> and conducted the bidding. The IFC also purchased an equity<sup>19</sup> (ownership) position in a new corporate venture, Manila Water, which supplied water to the eastern half of the city, giving it a direct financial stake in ensuring a profitable contract for the corporation.

Fifteen years later, residents of Manila have suffered under declining water quality and access. Hundreds of communities remain without safe water, and the cost of a connection, even where available, is unaffordable for many of the city's residents.<sup>20</sup> While Manila Water has been more profitable than the private venture created to supply water to the western half of the city, neither has delivered on the investment and access commitments necessary to deliver this critical service to all residents. Yet, the project is touted by the World Bank as a flagship success in promoting water privatization abroad,<sup>21</sup> demonstrating that profitability, not human access to water, is the primary incentive when the World Bank becomes a corporate shareholder.

### **Carving up the Manila network for corporate control**

Following the model used in Buenos Aires and other early World Bank-sanctioned experiments with water privatization, the IFC plan called for dividing Manila into two separate zones—East and West—and awarding

contracts to separate corporations to serve each area. In the largest deal of its kind to date,<sup>22</sup> two new corporations were created as joint ventures of local Filipino elites (the Ayala and Lopez families) and transnational corporations.<sup>23</sup> The contract for the West Zone, which covered the older part of the city, was awarded to Maynilad, a joint venture of Suez Environnement and the Lopez family's Benpres Holding Company. The East Zone contract was given to Manila Water, a venture of the Ayala family in partnership with Bechtel and United Utilities. The IFC also invested heavily in Manila Water, loaning \$110 million and acquiring a \$15 million equity share in the new venture.<sup>24</sup>

The IFC's plan for Manila's water was clearly designed to enrich Manila Water and shift decision-making control into corporate hands. With the public utility struggling under an enormous debt load—\$177 million to the World Bank alone—the new plan loaded 90 percent of the debt obligation onto Maynilad, with just 10 percent picked up by Manila Water.<sup>25</sup>

This approach was particularly significant because the debt was denominated in dollars: within a couple of months of the contracts being finalized, the “Asian financial crisis” erupted, with a resulting devaluation of the peso. As the value of the Philippine peso dropped by half relative to the U.S. dollar, the effect was a doubling of the value of the debt<sup>26</sup> with particularly crippling consequences for Maynilad, given its disproportionate share of the load.

Even the Suez subsidiary invested in Maynilad, Odeco, has acknowledged that the uneven debt load was necessary to make the initial contract appear viable long enough to approve and then renegotiate it.<sup>27</sup> Its motives for entering into such an unfavorable contract are open to question, but in an industry where “dive-bidding” and premature contract renegotiations are common, it stands to reason that both contractors could have foreseen that the terms of the contract would be subject to change. As Manila-based economist Jude Esguerra observed, “[b]oth of the companies appeared to have made particularly low bids, on poor foundations, with the assumption they would change the terms of the contract once it was won.”<sup>28</sup> Indeed, had the extraordinary rate adjustment granted less

than a year into the contract been factored into the original competitive tender process, Manila Water would not have won the contract, giving strong credence to critics' claims of "dive-bidding" and regulatory favoritism.<sup>29</sup>

### **Corporate profits trump increased access to safe water for residents**

While Maynilad has been through bankruptcy and restructuring,<sup>30</sup> Manila Water and its backers at the IFC have earned a tidy profit from this project. Despite this, throughout Metro Manila very little progress has been made towards closing the access gap and realizing the universal human right to water for the nearly 12 million residents of this metropolis.

Fifteen years of private management of the city's water utilities have raised rates more than fivefold.<sup>31</sup> Additionally, the corporations have cracked down on unbilled water and taken a heavy hand with their workforce and regulators. The Manila Water workforce was downsized from 6.3 staff per 1,000 water connections in 1997 to 3.6 in 2001.<sup>32</sup>

But the additional revenue gained from these measures was not invested in the physical infrastructure required to extend water access. The city has suffered from periodic droughts and flooding exacerbated by crumbling infrastructure, as neither Maynilad nor Manila Water has made the \$7.5 billion in capital investments<sup>33</sup> promised in the 1997 contract. In a 2004 review of the project, the Asian Development Bank found that there were no "meaningful improvements" to the entire distribution network during the privatized period, and only 58 percent of Manila's population was connected to the city water system.<sup>34</sup> As early as 2003, the World Bank had concluded that water and sewer access in Manila was among the worst in the major Asian cities, second only to Jakarta.<sup>35</sup> Not surprisingly, water quality has declined alarmingly. In one October 2003 outbreak, 600 residents were sickened and eight died when Maynilad's E. coli level exceeded seven times the national limit.<sup>36</sup>

As the Freedom from Debt Coalition concluded from an extensive review, the outcomes of Manila's water privatization "run counter to the common good and,



Contaminated water in Manila. While private corporation Manila Water has reaped profits from its operation of the system, very little progress has been made in improving water access, quality or sustainability for the city's nearly 12 million residents.

in turn, defeat the people's right to water."<sup>37</sup> Yet, despite vocal opposition from civil society, Manila Water's contract was extended in October 2009 without competitive bidding, continuing the troubled arrangement through 2037.<sup>38</sup>

### **Regulatory capacity sharply decreased**

A range of public voices—unions, community groups, church members and government officials—have raised concerns about the management of Manila's water. Private control inherently limits public input, transparency and accountability.<sup>39</sup> "One of the most significant problems that private water contracts create is their impact on the democratic structure and control of the society. Such projects demand, and get, secrecy on grounds of their commercial aspects and due to the nature of their for-profit operations."<sup>40</sup>

The IFC's plan created a new regulator to oversee the private contracts, with a sharply constrained mandate and dependence on the corporations for its budget and authorization for rate changes.<sup>41</sup> Today, the post of Public Works Secretary is held by a former president and CEO of Maynilad.<sup>42</sup>

Regulatory capture—the weakening of oversight authorities and redirection of system priorities toward profitability above the public interest—is a common problem in many cases where water distribution has been privatized. With the loss of transparency inherent in corporate control comes decreased oversight

ability; over time regulatory agencies lose the institutional capacity and even the detailed knowledge of the system necessary for expert oversight and long-term planning.<sup>43</sup> Without sufficient information and institutional expertise, agencies are hard-pressed to competently regulate and negotiate with corporate providers.

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**Water consumers from Asia all learned the unfortunate truth about privately provided water: it discriminates. It flows to where the money is.**

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The loss of regulatory capacity is particularly damaging in an industry in which corporate providers frequently demand multiple renegotiations and adjustments to prices and other contract terms.<sup>44</sup> The Manila case is representative in this respect as well; the regulator established by the IFC's plan demonstrated time and again its inability to stand up to the private utilities. It conceded extraordinary price increases ahead of schedule<sup>45</sup> that undermined the validity of the original bidding and contracts, and provided liquidity bailouts to subsidize the corporate operators.<sup>46</sup> Perhaps most troublingly, the corporate-sponsored regulator took the step of defining the private utilities as "agents and contractors" of the public Metropolitan Waterworks and Sewerage System, not public utilities in their own right, which bypassed the applicable regulations such as a legal maximum profit margin and a prohibition on passing corporate income taxes onto consumers.<sup>47</sup>

#### **World Bank: Manila a profitable "success"**

While Manila's civil society has been vocal in its dissatisfaction with the city's water quality and access, and there is consensus among water experts who list Manila among the "list of failed experiments"<sup>48</sup> in privatizing water,<sup>49</sup> incredibly, the IFC continues to offer Manila as a flagship "success" story to justify further promotion of water privatization. The World Bank is even shopping this model abroad, supporting Manila Water in its own bid for transnational status to pursue water privatization contracts in India, Vietnam and other countries in the region.<sup>50</sup>

For the IFC, its investment in Manila Water has been quite profitable, beginning with \$62 million in advisory fees<sup>51</sup> for its work designing the privatization. Indeed, with at least \$1 million of the advisory fees contingent on execution of the privatization, and a direct financial stake in the profits of Manila Water through its share ownership, the arrangement guaranteed that the IFC would be incentivized to propose a plan to enhance corporate profits above all other outcomes.<sup>52</sup> As the former Chief of Corporate Planning for the public Metropolitan Waterworks and Sewerage System noted, the government may have made very different choices if they had "consultants who had no agenda." But the IFC had a financial incentive to close the deal: "If [they] had not successfully privatized the company, then they would not have become richer."<sup>53</sup>

Clearly, for the IFC the top priority is profitability, not water access. The Manila privatization's failure to extend water access is not an accident; the plan was flawed from the outset and deeply biased in favor of the privateers.

The Manila case is significant, not only because it illustrates many common problems with water privatization and the conflicts inherent in corporate ownership by a development institution, but also because of its enormous scale. The Manila privatization project, together with a World Bank-sponsored project in Jakarta, served 14 million "customers" in Southeast Asia and was responsible for a substantial share of the increase in private sector water delivery during the late 1990s.<sup>54</sup>

After more than a decade to assess the outcomes in these and other major Asian cities, debt-relief organizers from Jubilee South draw a clear conclusion:

"Water consumers from Asia all learned the unfortunate truth about privately provided water: it discriminates. It flows to where the money is."<sup>55</sup>

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**For a full case study and further references, go to:**  
[www.StopCorporateAbuse.org/world-bank-divestment](http://www.StopCorporateAbuse.org/world-bank-divestment)

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### **“Crisis of faith” leads to new approach, similar problems**

The track record of failure of private water projects, along with the new hesitancy on the part of water corporations to invest without substantial public support<sup>56</sup> provoked the World Bank to reconsider the privatized model where corporations both own and operate utilities. It shifted its emphasis from investment in water infrastructure to outsourcing the operations of water distribution. Unfortunately, but not unexpectedly, the new path has led to similarly troubling results.

Observers, including those within the World Bank, now acknowledge that the initial rationale for privatization—the private investment in infrastructure that would expand water access—was never a realistic expectation.

As demonstrated in the Manila case study (page 9), corporations are simply not inclined to make long-term infrastructure investments in developing countries. The fact that expanding water access requires public investment is now beyond serious debate. According to Antoine Frérot, CEO of Veolia Environnement, the world’s largest water corporation: “Many of the best performing contracts are those where a private operator assumes the operational and commercial risks, but not the major capital expenditures...<sup>57</sup> this is not their role: an operator is not a banker! ... The mission of an operator is to manage the infrastructure for which he is responsible, not to finance it.”<sup>58</sup>

Former CEO of French corporation Saur echoed Frérot when he spoke of “the considerable dependence of the growth of the water sector in the developing world on [donor] funding and subsidies. If it does not happen the international water companies will be forced to stay at home.”<sup>59</sup> And a 2009 report published by a consortium of major water corporations and spearheaded by global consultancy McKinsey & Company with funding and guidance from the IFC, found that “the measures with long payback periods—many of them supply infrastructure—are also the most capital intensive ones. This likely indicates that those measures will not attract private sector capital, requiring the financial burden to fall fully on the public sector.”<sup>60</sup>

In light of the private sector’s demand for public infrastructure investment, the World Bank has taken up this mantra of public subsidies for private profits. When questioned about the funding gap for water infrastructure in April, 2011, the World Bank’s Lead Water and Sanitation Specialist declared: “The money can come from the tax payers, rate payers or outside investors and clearly it will have to be a combination of all three.”<sup>61</sup>

Still, the World Bank continues to aggressively promote the involvement of the private sector, now focusing on management contracts and “public private partnerships” or PPPs. “Privatisation is now replaced by the Public Private Partnerships, which in reality means that the risks and costs are borne by the public and the profits go to the Private.”<sup>62</sup> The primary beneficiaries of this model are the private operators, with the French corporations Suez and Veolia emerging as today’s dominant water transnationals. (See pages 13 and 14.)

Indeed, the World Bank’s in-depth review of the past fifteen years’ experience with water public-private partnerships finds little to boast about. Published by the Public-Private Infrastructure Advisory Fund, a World Bank trust fund dedicated exclusively to the promotion of privatization, the survey finds the private sector’s achievements with respect to expanded access have been “mixed” at best, with private utilities often failing to meet contractually agreed targets for expanded access.<sup>77</sup>



*“The reality is that the consumers, and not the private sector, are providing the investment needed to improve water services and augment water supply.”<sup>78</sup>*

MARY ANN MANAHAN, FOCUS ON THE GLOBAL SOUTH

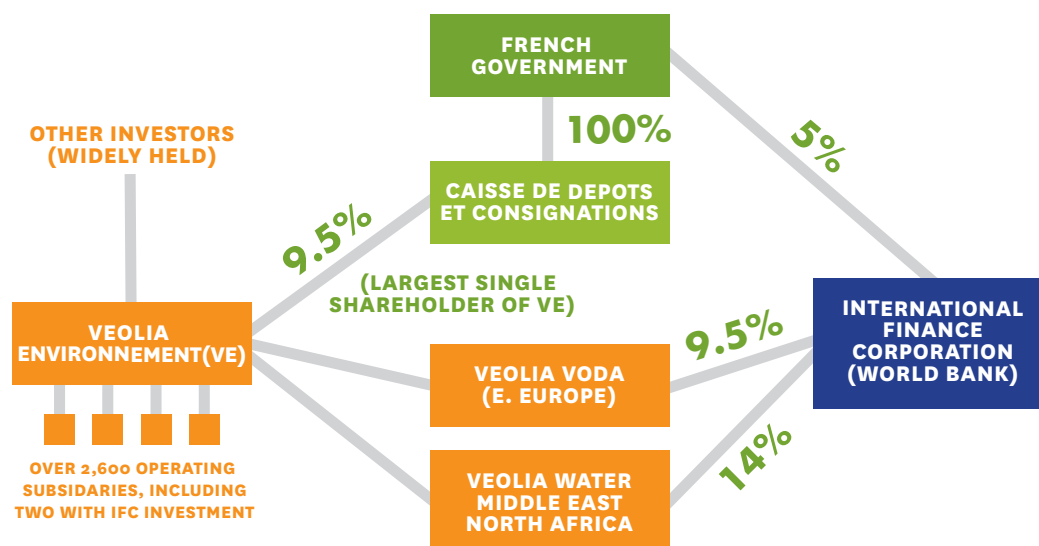
Curiously however, the World Bank concludes that further promotion of the water public-private partnerships model is justified, claiming that “the area in which the positive contribution of private operators has been the most consistent”<sup>79</sup> is not access but “operational efficiency.”

## A market dominated by two giants

Today’s for-profit water industry is dominated by the French transnational corporations Suez Environnement and Veolia Environnement: close to 200 million people worldwide receive water services from one of these two behemoths.<sup>63</sup> Both are heavily supported by the French government, which is stepping in to help bail out Veolia as it falters (see “Investing in private water is financially unsound,” page 40). The French government owns 9.5 percent of Veolia, and is considered the “global ultimate owner”<sup>64</sup> of Suez through its direct and indirect investments.

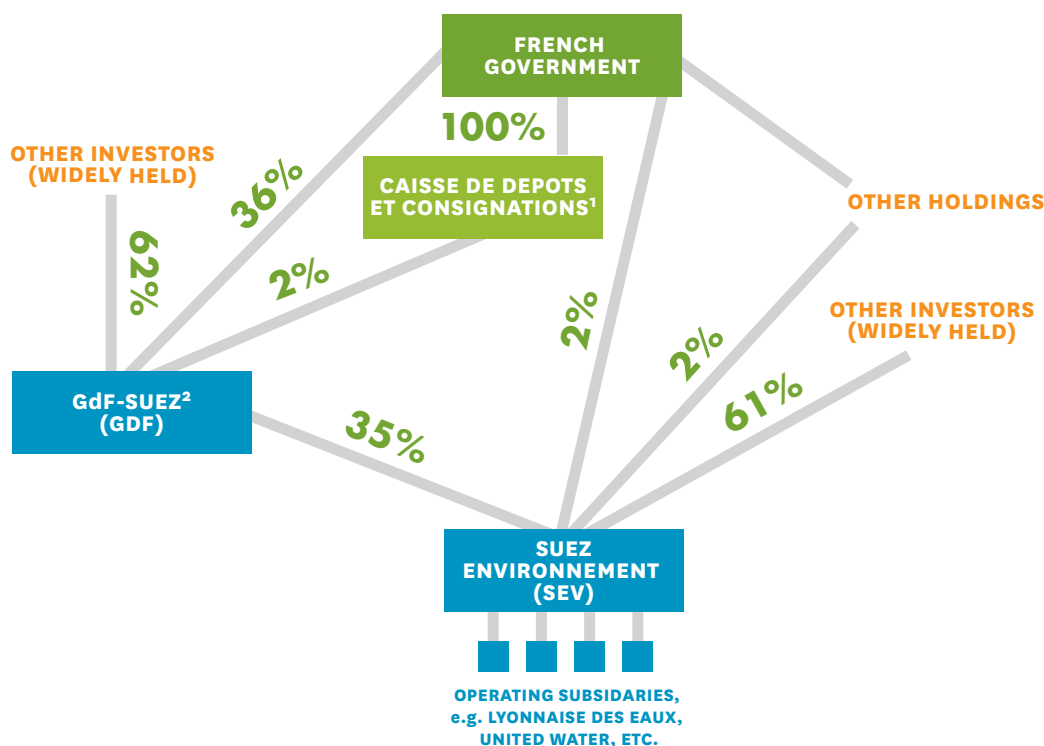
	VEOLIA ENVIRONNEMENT (VE)	SUEZ ENVIRONNEMENT (SEV)
<b>WATER CUSTOMERS SERVED</b>	100 million	91 million
<b>EMPLOYEES</b>	96,260 <sup>65</sup>	80,410 <sup>66</sup>
<b>OWNERSHIP</b> (see charts on page 16)	Widely held. The largest owner (9.5 percent) is the Caisse de Dépôts et Consignations, sometimes called the “armed wing” of France’s Treasury in recognition of its unflinching support of the national flagship corporations. <sup>67</sup>  The IFC owns equity shares in two subsidiaries: Veolia Voda <sup>68</sup> (Eastern Europe) and Veolia Water Middle East and North Africa. <sup>69</sup>	The 2008 merger of Suez and Gaz de France (GdF) resulted in the creation of a separate public company: Suez Environnement SEV).  With 17 percent ownership (2 percent directly and 15 percent through GdF-Suez and other intermediary holdings,) the largest shareholder is the French state. <sup>70</sup>
<b>FY2011 REVENUE</b> <sup>71</sup>	€29.6 billion. (\$41.3 billion)  €12.6 billion (\$17.6 billion) from water. <sup>72</sup>	€14.8 billion (\$20.7 billion)  €6.2 billion (\$8.6 billion) from water. <sup>73</sup>
<b>CUSTOMER BASE</b>	Veolia’s heavy reliance on the French market has allowed a less aggressive stance internationally. Europe accounts for 76 percent of Veolia’s revenue, and 53 percent of that is derived from France. <sup>74</sup> In mid-2011, Veolia announced plans to halve its countries of operations, retrenching to Europe and select international markets like China and India.	Approximately 70 percent of Suez’s water revenue derives from Europe, about half of which is from France. <sup>75</sup>  Active in Latin America through subsidiary Agbar (Aguas de Barcelona.)
<b>EXEMPLARY FAILED CONTRACTS</b>	Brussels, Indianapolis	Buenos Aires, Atlanta <sup>76</sup>

## Veolia Environnement ownership structure



Notes: Ownership values from Veolia public disclosure. The French Government also invests in Veolia Subsidiaries, e.g.: Agence Française de Développement's subsidiary Proparco owns 5.56% of Veolia Water Middle East North Africa.

## Suez Environnement ownership structure



Notes: Ownership values from Suez public disclosure. 1. CDC has been called the "armed wing" of the French Treasury for its unflinching support of French corporations. 2. GdF-Suez was created in the 2008 merger of Suez and Gaz de France, which spun off SEV as a separate corporation.

### Operational Efficiency: a “management solution to an investment problem”<sup>80</sup>

Operational efficiency, especially in the water sector, according to the World Bank’s own research, amounts to little more than reducing “non-revenue” water by enforcing bill collections and cutting off unpaid or unauthorized connections, pushing up prices and downsizing the workforce. Efficient generation of corporate profits simply does not equate to effective water delivery, much less responsible stewardship of long-term infrastructure. And there is not strong evidence that this narrower claim of “efficiency” can be justified.<sup>81</sup>



Photo credit: Corporate Accountability International

A water vending machine promoted by Veolia at the 2012 corporate World Water Forum, as part of the “Village of Solutions”...in the “Slum” section. One aspect of the move towards “operational efficiency” is the introduction of “market pricing.”

Industry insiders have focused on non-revenue water as the quickest way to “enhance our revenues and defer future capital expenditure to develop additional supply.”<sup>82</sup> Those words were uttered by a representative of the Nairobi Water Company at the 2011 Berlin Global water summit. In Nairobi and other urban areas of Kenya, the average cost of a connection to the public water network is equivalent of up to six months’ salary for poor families,<sup>83</sup> leaving many to obtain this essential resource through unauthorized connections. This is the human face of so-called “non-revenue” water. The private sector has little incentive to supply those least able to pay, and an increased focus on tightened bill collections leads to shutoffs and regressive enforcement mechanisms.

Price increases are another “operational efficiency” strategy that runs counter to the effort to increase water access. Private providers require higher margins, as they must recover all the costs associated with the service, as well as larger profits to pay for the dividends, high interest rates and other expenses of the corporate structure. For-profit corporations can’t use the same progressive rate structures and cross-subsidies available to government planners.

Taking stock of the results of fifteen years of public sector participation in water in 2007, the United Nations Research Institute for Social Development (UNRISD) found: “In most case studies, it is found that prices increase following [private sector participation]. Raising water prices increases inequality.... Water consumption varies very little with income, since individual water needs are similar in terms of drinking, hygiene and sanitation... People therefore have to pay no matter how high the prices are.”<sup>84</sup> The same result of private participation leading to price increases was found in an extensive survey of 5,000 local water authorities in France in 1998, which demonstrated a clear correlation between private participation and price increases, while controlling for all other factors.<sup>85</sup>

In addition to reducing access and raising prices, “operational efficiency” gains are often realized at the expense of workers. In many countries, public utilities are an essential source of decent jobs. Key to private sector efficiency is downsizing the workforce and cutting pay and benefits. These measures may improve profits but are not constructive for water service or access, not to mention broader economic development objectives.

To justify its past actions, the World Bank continues to promote corporate management as the answer to the world’s water woes. But, as has been shown, neither private ownership and operation, nor the new “public-private partnership” models focused on “operational efficiency” have brought relief to the world’s poorest people. In fact, the measures primary to achieving operational efficiency realize profit by cutting off access to water for those who need it the most.

## THEORETICAL INSIGHTS

These problems could have been anticipated. In addition to the historical evidence of privatization failing to expand water access to the world’s poorest people, theoretical scholarship ranging from the economic to the sociological also supports the public nature of this common resource.

### Water privatization out of step with economic theory

“Privatization proponents failed to understand or follow basic economic theory,”<sup>86</sup> notes Cornell University economist Mildred Warner in an extensive U.S. survey of infrastructure privatization. Warner concludes that this form of delivery has predictably failed to live up to its advocates’ promises of expanded access and improved service.

Economic theory is clear on the advantages of public control of water: as a natural monopoly with enormous externalities, the community as a whole has a stake in democratically managing this fundamental common resource. One city manager explained: “If there is no competition, when I privatize, I simply substitute a private monopoly for a public one. Monopolies extract monopoly rents. At least in the public monopoly I can use those rents to extend service.”<sup>87</sup> Because water provision is a natural monopoly with an implicit network of infrastructure, “significant economies of scale in provision are attainable only by inclusive rather than private access.”<sup>88</sup>

It has long been understood that public infrastructure requires long-term management incompatible with the corporate earnings calendar. A 2007 U.N. Policy Note concluded that when privatization “involves assets that require maintenance (e.g., water system, roads), it can lead to the deterioration, or even destruction, of the assets involved.”<sup>89</sup>

Moreover, the cheaper costs of financing available to public agencies, as opposed to the additional costs imposed by a corporate structure, may be the most important argument in a sector where the funding gap is so glaring and the only solutions with a chance of extending access to safe water will require substantial capital investments: “Capital costs represent 75 percent or more of total costs, and so the lower cost of public finance is decisive.”<sup>90</sup> Global accounting firm PricewaterhouseCoopers estimates the private sector’s weighted cost of finance as “typically between 1 percent and 3 percent higher than the public sector’s,”<sup>91</sup> which represents the difference between success and failure in this sector. On large contracts, a single percentage point translates to millions: the capital markets measure margins in basis points (hundredths of a percent). To illustrate the scale, the original 1997 privatization contract in Manila stipulated \$7.5 billion<sup>92</sup> in investments for new infrastructure, to



be financed by the private concessionaires Maynilad and Manila Water. Had the corporations fulfilled this commitment—which they emphatically did not—a two percent premium for corporate interest rates would have amounted to an additional \$150 million in interest on the investment.

### Public attitudes at odds with private ownership

Sociological insights may be as significant as economic theory when considering the governance of such a critical public service as water. Ultimately, human behavior is a social phenomenon, not exclusively driven by rational self-interest. Social psychology is contextual; our relationship with collective goods and services is qualitatively distinct from our relationship to market goods. Entitlement based on rights rather than buying power elicits a very different type of loyalty.

When water was privatized in the U.K., the documented results underscored this changed relationship. During a drought in the U.K. in 1976, when water was under public ownership, conservation messages were popular and widespread, leading to a reduction of about 25 percent of usage. By contrast, during the 1995 drought, when the privatized Yorkshire water made a similar appeal, consumption actually increased; the company was not seen as entitled to public support. With a private corporation in control, even the discussion of water restrictions provoked widespread bitterness and anticipation of possible rate hikes.<sup>93</sup>

Photo credit: Stormtrooper WB, Flickr Creative Commons



Lake Allatoona, GA, a crucial source of municipal water supplying Atlanta, during its 2007 drought, which required residents to conserve usage while Coca-Cola's bottling continued unabated.

In the U.S., Atlanta residents had a lesson in the damaging consequences of water privatization on equitable allocation and community solidarity. With the city threatened by drought in 2007, public criticism was levied at Coca-Cola for its undiminished extraction from public water sources for bottling operations. Despite Governor Sonny Perdue's orders to reduce usage, Coca-Cola continued to pump water from the same plant that pulls water from the city's municipal sources: Lake Allatoona and the Chattahoochee River.<sup>94</sup> Many consumers were shocked to learn that the Dasani-brand bottled water that they were stockpiling to

comply with drought restrictions was the very same water being pumped from their own municipal source, earning Coca-Cola a hefty profit from the shortage.

These examples demonstrate how a market model which treats water as an exclusively economic good devalues the other roles—collective, cultural, even spiritual—that water plays in the life of a community.

## A NEW COURSE NEEDED

The most recent statistics available indicate that bilateral and multilateral development institutions contribute over \$8 billion annually in assistance for financing water and sanitation in developing countries.<sup>95</sup> The world cannot afford to continue misdirecting these resources toward propping up a discredited model. The troubled history of private water, the increasingly dire human toll of inaction, and the clear theoretical consensus all demand a change in course.

Photo credit: Corporate Accountability International



Latin American activists call for democratic control of water. History has shown that a new approach is needed to realize the human right to water.

Two decades into this failed experiment, access to clean water is still far from reach for nearly one in eight people in the world. In July 2010 the U.N. General Assembly declared the right to safe and clean drinking water and sanitation as a human right that is essential for the full enjoyment of life and all human rights.<sup>96</sup> The General Assembly resolution is an important affirmation, bolstering water's status as a fundamental human right, which had long been inferred from existing international law on the basis of its self-evident necessity for human health and survival.<sup>97</sup> Indeed, the World Bank's own Legal Vice-Presidency issued a formal interpretation of the human right to water as early as 2004, in response to U.N. actions.<sup>98</sup> The message was simple, "Denying people water is to deny them the right to life."<sup>99</sup>

The progressive codification of the human right to water in international law provides an important platform for water-access advocates and civil society around the world.<sup>100</sup> As governments have the primary responsibility for protecting human rights, the U.N.'s actions can help ensure that planning and design of water investments remain in the public realm, accountable to human rights law and protected from corporate interference.

But even as the U.N. acknowledges access to clean water as a fundamental human right, the water industry is positioning itself as the solution to the crisis it has exacerbated. And the World Bank is playing a pivotal role in promoting corporate interests and further delaying the real, lasting investment required for sustainable water solutions.

## ROLE OF THE WORLD BANK

Today, 90 percent of the world's water users get their water from public delivery.<sup>101</sup> In this context, the campaign to privatize public water resources not only flies in the face of historical and theoretical scholarship; it is out of touch with the mainstream. And the World Bank Group, as the largest external source of financing for water management in developing countries,<sup>102</sup> is playing a primary role in this campaign by disproportionately supporting the expansion of the private sector.

The catalytic role of the World Bank in setting the agenda for aid to the water sector is irrefutable. “The major push for applying market principles to the water sector comes from donor agencies such as the World Bank.”<sup>103</sup>

### The World Bank supports water privatization by:

- Providing financing that becomes a primary catalyst for more funding for water privatization
- Serving as an advisor to borrower governments
- Funding and disseminating research that promotes private sector solutions
- Running PR and marketing campaigns promoting privatization

The World Bank's promotion of private sector solution becomes particularly troublesome when the International Finance Corporation (IFC) takes equity (ownership) shares in these very same solutions. Functioning like a for-profit investment bank under the World Bank Group umbrella, the IFC uses a broad set of investment tools to support its corporate clients. In addition to issuing interest-bearing loans, the IFC provides risk guarantees and takes equity stakes in water corporations. Buying equity entrenches the World Bank's commitment to the unsound model of privatization, generating a perverse incentive that taints the legitimacy of its other functions—particularly its role as an advisor to governments and as a generator of research and PR output.

Further, the World Bank has resorted to a new suite of financial products and intermediaries that elude even its own performance standards and safeguards. Using increasingly complex and opaque avenues, the World Bank continues to advance corporate participation in water management and delivery.

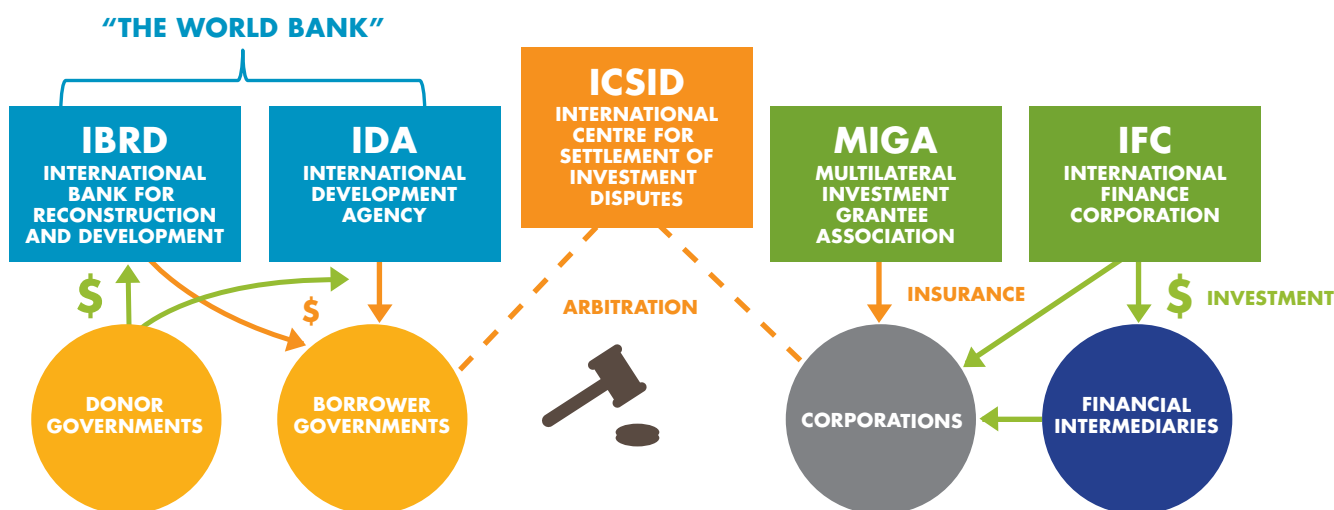
*“The Bank's strengths lie in the scale of its lending, its operations across the globe, the degree of influence it brings to bear on the policies and priorities of borrowing member countries, and its capacity to exercise intellectual leadership on global issues. Among the multilateral development institutions, the World Bank therefore plays a lead role in setting and pursuing the international development agenda.”*

THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT, U.K.<sup>104</sup>

## A GROWING FOCUS ON THE PRIVATE SECTOR

Although public perception commonly associates the World Bank with development finance for cash-strapped governments, in reality about a quarter of the World Bank's funding goes directly to the private sector,<sup>105</sup> bypassing public budgets altogether. In recent years, direct private investment has been the fastest-growing share of the World Bank Group portfolio.

### World Bank Group



The five primary agencies comprising the World Bank Group. About a quarter of the Group's funding goes directly to the private sector.

Unlike most development finance institutions, the World Bank separates its private sector investment into a distinct entity—the IFC—making the World Bank's rapid growth of private sector funding visible. According to the IFC's FY11 Annual Report, it now accounts for "about a third of the financing provided by development finance institutions to the private sector in developing countries."<sup>106</sup> The IFC has invested more than \$1.4 billion in private water corporations since 1993 and has committed to a major increase, aiming for annual investments of \$1 billion from 2013.<sup>107</sup>

The rapid growth of private-sector finance at the expense of public-sector development funding was documented in a recent report by Guillermo Perry, former Colombian finance minister and former World Bank chief economist for Latin America. In it, he questions the extent to which the pursuit of profit, rather than development outcomes, is driving funding decisions: "the development community must provide answers to the questions of why public multilateral resources should be supporting private firms in developing countries in increasing magnitudes..."<sup>108</sup>

In regards to the water sector, a pernicious effect of this shift toward the private sector is that it distracts from the very real task at hand: funding water infrastructure to achieve universal and equitable access. A review by scholars at Oxford and the International Institute for Environment and Development found that "over-optimistic forecasts of private sector finance can reduce pressure on the public sector to develop more sustainable public-sector financing systems."<sup>109</sup>

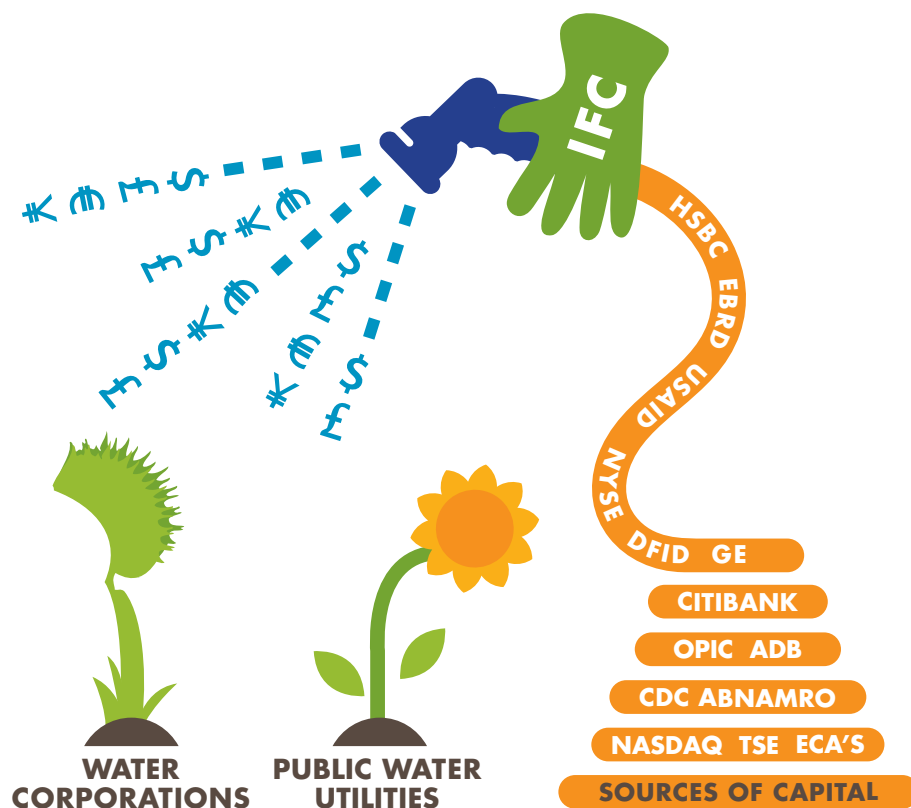


According to the World Bank's own analysis, the institution's optimism about the ability of private sector investment to replace the public role in infrastructure led to a reluctance from the 1990s onward to fund "projects that did not involve the private sector in some way."<sup>110</sup> This is a dire diversion, given that the public sector—local, national and international—will be required to step up to the challenge of funding water infrastructure.

## WORLD BANK FUNDING THE “NOZZLE” ON THE FLOW OF CAPITAL

The World Bank's focus on the private sector also has significant implications throughout the wider capital markets. IFC-supported projects earn an informal “stamp of approval” which is invaluable in attracting further funding from outside investors. In this sense, the IFC serves as a nozzle on the flow of capital, providing both pressure and directionality in support of water corporations. The Indian water organization Manthan Adhyayan Kendra summarized this dynamic: “There is a strong interlinking and coordination between the world's multilateral and bilateral donor agencies and the sources of private capital. Thus, World Bank's lending often opens the doors for the rest, and an indication of exclusion by the World Bank can turn off the tap from the other sources too.”<sup>111</sup>

### World Bank as “nozzle” on the flow of capital



Like a nozzle, the IFC exerts tremendous pressure and directionality in concentrating and aiming the flow of funding to its corporate clients.

IFC funds have a particularly robust multiplier effect: in FY11, the IFC directly syndicated \$6.5 million on \$12.2 million of its own commitments, a 0.53 “core mobilization ratio.”<sup>112</sup> These are funds that the IFC has directly brought into the transaction through formal arrangements; typically through B-Loan participation agreements, where the IFC extends a full loan package to the borrower, part of which is underwritten by third-party banks and financial institutions. So in FY11 for example, the IFC effectively extended \$18.7 million in loans to the corporate sector, while drawing in \$6.5 million in direct underwriting to amplify their own \$12.2 million contribution by more than 50 percent.

A simple example illustrates the mechanism: In 2004, the IFC loaned \$66 million to Aguas Nuevo Sur Maule, a Chilean subsidiary of U.K.-based Thames Water, at the time the third-largest global water corporation. This was structured as a very successful syndication package, where half of the loans (\$33 million) were underwritten by three banks: HSBC, ABN AMRO and BBVA, leaving only \$33 million for the IFC to extend from its own capital.<sup>113</sup> The IFC’s own documentation justifies the investment as an attempt to ensure the (financial) sustainability of the privatized utility “by both limiting its overall costs and keeping tariffs at a reasonable level for consumers.”<sup>114</sup> However, as in so many of these cases, the extra financing did not stop the utility from gouging its customers: in May 2010, the Chilean Supreme Court fined ANSM and condemned their practice of charging “abusive prices”<sup>115</sup> for household water connections. However, the 100 percent mobilization ratio on the deal—syndicating as much as they invested directly—still makes this a “success” story for the IFC.

**For each dollar directly invested, the IFC’s projects leverage an additional \$14-\$18 from the capital markets.**

In addition to the direct mobilization of third-party capital, however, the impact of the IFC’s involvement can mean more than a ten-fold indirect increase in funding. Veolia CEO Antoine Frérot described this multiplier role in 2009: “International financial institutions often play a key part in the financing, and therefore in the success, of work done on the ground. They contribute some of the necessary funds but, above all, they exert leverage to attract other finance.”<sup>116</sup> For each dollar directly invested, the IFC’s projects leverage an additional \$14-\$18 from the capital markets.

With the recent creation of an in-house private equity fund (IFC Asset Management Company) designed to manage third-party funds, this multiplier effect is expected to intensify.<sup>117</sup>

Beyond its financial clout, the World Bank’s government backing and access lends assurance to investors in politically risky “emerging markets.” At a panel on multilateral development banks’ direct support to the private sector in April 2011, former IFC Chief Economist Michael Klein described Venezuela’s decision to waive its capital controls to facilitate IFC clients’ activities. Such examples demonstrate the IFC’s ability to instill confidence in its private co-investors with its preferred creditor status: “in a complicated [political] environment, [the IFC’s participation provides] a little cover.”<sup>118</sup> And as a result, IFC projects attract even more investors and further funds from the private sector.

## CONFLICTS OF INTEREST INHERENT

The IFC's initial 1956 Articles of Association prohibited equity investments categorically to avoid the appearance of self-dealing.<sup>119</sup> Serving as part owner of private water corporations generates numerous conflicts of interest between the World Bank's financial interests and the many other roles it plays in the privatization process, particularly its advisory role, but also its scholarly, PR and judiciary activities. (See chart on page 24.) This potential structural conflict of interest was apparent even at the outset, but the prohibition lasted only five years.<sup>120</sup>

Photo credit: Corporate Accountability International



The World Bank partners with the World Water Council, a trade association that hosts the controversial World Water Forum. The Forum brings government and UN officials to a corporate trade show, giving the water industry access to the policy process.

Owning equity shares aligns the IFC's profitability with the success of its investees. Rather than a fixed interest rate, the IFC's return is tied to the profits of the investee, and the IFC's eventual ability to sell its stake for a gain. While this is standard practice in the private sector, it is of grave concern when the World Bank engages in it. A March 2010 report co-authored by six NGOs explains: "It is highly problematic for a multilateral institution to position itself as an objective source of policy advice on matters where it has a direct financial stake in the outcome, particularly in low-income countries that may not have the resources to procure advice from other sources, or in countries where weak democratic processes do not provide adequate checks and balances relative to external donors."<sup>121</sup> And NGOs are not the only ones raising this concern. Former World Bank economist

Guillermo Perry concluded: "There is no doubt that dealing with both governments and private firms may create incentives or even occasion for advising on a policy or regulation that is self-serving to [the World Bank's] equity or debt interests in particular firms or sectors."<sup>122</sup>

Increasing the role of corporations in the water sector requires at least nominal assent from the interested governments, and the World Bank has made a study of strategic communications with public officials and other stakeholders to generate such demand. Leveraging the World Bank's influence over borrower governments is critical to the corporate strategy, as can be seen in the way the industry-sponsored World Economic Forum Water Initiative described the IFC's role in 2011: "The IFC is an important stakeholder, as it bridges the public and private sector."<sup>123</sup> The same publication emphasizes a role for "the ability of international finance institutions such as the IFC and the Asian Development Bank to help establish a request for water dialogue from governments, and then use the fact base that these governments request as the basis for detailed discussion and action planning."<sup>124</sup>

This boils down to direct corporate involvement in crafting national and local water policies. A recent example is the "2030 Water Agenda" unveiled by the Mexican National Water Commission (CONAGUA), which seeks a "more balanced national water management system" through the use of "technically feasible solutions with the highest cost-benefit ratio."<sup>125</sup> In other words, public investment in infrastructure is to be directed toward the uses with demonstrable short-term economic benefit, rather than the long-term sustainable planning required for water systems to deliver universal access.

## World Bank Group activities posing conflicts of interest with equity ownership

FUNCTION	WORLD BANK GROUP ENTITIES	EXAMPLES
<b>Advisory</b>	International Finance Corporation (IFC)  Public-Private Infrastructure Advisory Facility (PPIAF)	The Manila case detailed on page 9 is the clearest example of the IFC's advisory services posing a direct conflict of interest with its equity ownership. After the World Bank advised the Philippines government to privatize, it wrote the plan and conducted the bidding, then invested both debt and equity in one of the chosen contractors. This case typifies the structural conflict between serving as advisor and owner.
<b>Arbitration</b>	International Centre for the Settlement of Investment Disputes (ICSID)	ICSID is responsible for adjudicating disputes between borrower governments and the same corporate clients the IFC has a financial stake in. So its judgments can appear partial with good reason, with some of the highest-profile water disputes seeking redress in this venue.  In July 2010, ICSID ruled in favor of Suez against the government of Argentina, rejecting the notion that a government's human rights obligations to provide water to its population should take precedence over investment treaties and corporate profits. <sup>126</sup>  In the Buenos Aires privatization project, in addition to its roles as creditor (demanding privatization) and judge (ICSID), the IFC also took a 5 percent equity stake in Aguas Andinas and actively used its clout to block further World Bank and International Development Bank loans to Argentina, holding public funding hostage until the corporation's profits were secured. <sup>127</sup>
<b>Insurance &amp; Guarantees</b>	The Multilateral Investment Guarantee Agency  IFC	After the Inter-American Development Bank demanded privatization as a condition of accessing loan financing, the water supply of Guayaquil—Ecuador's largest city—was turned over to International Water in 2002 under a 30-year contract that was reached without competitive bidding. Coming on the heels of other high-profile cases such as Cochabamba and Buenos Aires, the transition to privatization was extremely controversial, including a legal challenge from the utility's workforce.  MIGA provided an \$18 million guarantee to insure the corporation against political risks including expropriation and civil disturbance. <sup>128</sup>
<b>Research</b>	Entire WBG, especially World Bank Institute and PPIAF	The IFC's financial stake in private water gives a self-dealing aspect to its pro-privatization knowledge production, including its funding of industry groups like the 2030 Water Resources Group and others which advance the interests of water-intensive corporations, as detailed in the following sections.
<b>Marketing &amp; Advocacy</b>	Entire WBG, especially Trust Funds	The promotion and advocacy work of PPIAF and other World Bank Trust Funds, as well as the legislative and technical assistance provided directly to borrower governments can appear self-serving when the World Bank has a financial stake in the outcome. A current egregious example follows this section, detailing the IFC's sponsorship of the 2030 Water Resources Group.

## PRODUCING AND DISSEMINATING RESEARCH TO PROMOTE PRIVATE-SECTOR SOLUTIONS

While evidence of the flaws of privatization mounts, the World Bank repeatedly affirms its commitment to private-sector participation not only through its financing, but also as through its role as the “Knowledge Bank,”<sup>129</sup> disseminating research and engaging in advocacy.<sup>130</sup> The World Bank claims to be a “catalyst for action that leads to change, and to serve as a global connector of knowledge, learning and innovation”<sup>131</sup> implying a level of enlightened objectivity that is directly at odds with the World Bank’s role as corporate shareholder. It is hardly surprising that the World Bank’s research affirms the value of private-sector participation, despite the preponderance of findings to the contrary. Indeed, in “An Evaluation of World Bank Research, 1998-2005,” the World Bank’s own Independent Evaluation Group found a tendency to “jump to policy conclusions that were not well-supported by the evidence.”<sup>132</sup>

This is exemplified by the enormous volume of documentation that has been produced to position the Manila water privatization project as a successful case to replicate. Just months after the contracts were signed, the World Bank put Manila forward as an example for promoting privatization in its Indian Urban Water Supply and Sanitation report,<sup>133</sup> based on the infrastructure investment and universal coverage commitments the contractors had promised but would never fulfill. As one Indian NGO observed, “the project had barely begun operating at the time of the Review, but the World Bank was in a hurry to conclude about the great benefits it offered.”<sup>134</sup>

With over 100 staff and tens of millions of dollars devoted to research, the World Bank is one of the biggest and most influential research institutions on development and water policy. “Knowledge clearly is the ‘soft power’ of the World Bank, a power that is as influential as is its money power.”<sup>135</sup>

### The Public-Private Infrastructure Advisory Facility

The World Bank houses and administers over a thousand Trust Funds<sup>136</sup> including the Public-Private Infrastructure Advisory Facility (PPIAF), which, despite a relatively small budget, has played a catalytic role as the marketing agent of water privatization over the past decade. By providing the advisory and public-relations services needed to lay the groundwork for privatization, PPIAF serves as an advance agent ahead of World Bank projects, generating demand for private sector participation among borrower governments.

PPIAF funds and disseminates research (on its own behalf, and throughout the World Bank) to encourage private sector solutions; provides hands-on assistance with the bidding and contracting process, and frequently works with borrower governments to change the legal and regulatory environment to allow for privatization.<sup>137</sup>

In addition to producing and disseminating research, PPIAF also funds broader public-relations campaigns and targeted “technical assistance” aimed at policy-makers and public officials to promote and facilitate private-infrastructure contracts, often to the World Bank’s own benefit. For instance, PPIAF grants in 2005 and 2008 incentivized the public water utility in Ho Chi Minh City, Vietnam to contract with a private corporation for reducing “non-revenue water” in the city.<sup>138</sup> The \$15 million contract was awarded to IFC investee Manila Water in July 2008.<sup>139</sup>

PPIAF’s work to market private-sector infrastructure compelled a group of NGOs led by the World Development Movement to campaign for donor governments to divest from PPIAF,<sup>140</sup> resulting in commitments from Italy<sup>141</sup> and Norway<sup>142</sup> to withdraw their participation in 2007, followed by the European Commission in 2009.<sup>143</sup> And this strategy is working. In FY 2011, nearly two-thirds of PPIAF funds were contributed by its founding donor, the U.K. government.<sup>144</sup> And the fund is clearly struggling to attract new funds: donors “have agreed in meetings”<sup>145</sup> to waive



the requirements of the Program Charter<sup>146</sup> to allow Sweden and Norway to contribute to designated projects without making the required contributions to the “core fund,” driving a 38 percent decline in the size of PPIAF’s unrestricted budget year-on-year.<sup>147</sup>

### 2030 Water Resources Group

With initiatives like PPIAF under fire, privatization advocates have been developing new tools and institutions to support research and advocacy. In 2009, the IFC partnered with global consultancy McKinsey & Company to convene a consortium of water-intensive corporations explicitly aimed at research to promote private sector solutions to the world’s water crisis. The IFC contributed \$1.5 million to the 2030 Water Resources Group<sup>148</sup> to research and publish the report “Charting our Water Future: Economic frameworks to inform decision-making.”<sup>149</sup> The purpose of the report was to construct an economic fact base which would compel governments to prioritize involvement from the private sector in water management and policy making. As Peter Brabeck-Letmathe, Chairman of Nestlé and of the Water Resources Group observed: “We expect the report to have a major impact on both national and regional water policies, and to lead to more focused and effective corporate efforts in water management.”<sup>150</sup>

After the release of “Charting our Water Future,” the Water Resources Group formalized its alliance with the World Economic Forum Water Initiative in the “Davos Initiative,” also called “Water Resources Group Phase 2,” adopted in January 2010. This new alignment of the World Economic Forum and the Water Resources Group was designed to enable a two-step approach to inserting private-sector participation into water governance and management, one country (or state) at a time. The goal is nothing less than “developing new normative approaches to water management.”<sup>151</sup>

The program for pitching private-water delivery follows two distinct steps: (1) a Water Resources Group diagnostic, and (2) direct government engagement and advisory services to institutionalize the private-sector orientation locally.<sup>152</sup> In the first step the World Bank’s research expertise comes into play, promoting a new framework of governance where economic productivity is advanced as the primary objective for policy. In this scheme, economic outcomes are prioritized above social objectives or other extra-financial considerations. The group’s aim is to ensure that “efficient allocation will direct the scarce water resource to use where water productivity is highest,”<sup>153</sup> as defined by a corporation chaired by a representative of Nestlé, the world’s largest food and beverage corporation. By defining water’s value in predominantly financial terms, “efficient allocation” becomes a euphemism for directing water to profitable uses, flying in the face of governments’ legal, moral and political obligation to promote equitable access to this common good.

This self-appointed and self-interested group of experts would like governments to define “valuable” and “less valuable” users of water according to their contribution to economic output. This is in direct contravention of water’s status as a human right, making the assumption that commodification for profit is more legitimate than household use, regardless of how each registers in official economic statistics. For example, while bottling and reselling water (a core business for Group sponsors Nestlé, Coca-Cola and PepsiCo) may have a greater GDP impact than a household’s domestic uses, a purely economic assessment discounts the social ramifications of each activity and fails to provide a more comprehensive calculation of the importance of household use and the damaging effects of the bottled-water industry. Similarly, while private water contracts may move some infrastructure financing off of the official public budget and into a more favorable column for official financial reporting, they do not address the long-term system requirements for sustainable development and maintenance of accessible water networks.

In October 2011, the Davos Initiative further institutionalized the collusion between industry and the World Bank by creating a new entity—a corporation—housed at the IFC and chaired by Nestlé Chairman Peter Brabeck-Letmathe.<sup>154</sup> Building on the research conducted by the initial Water Resources Group and institutionalizing the “Phase 2” approach to bringing private-sector participation into water governance, this new corporation will replicate the formal two-step program in country after country, aiming for ten participating governments by the end of 2013.<sup>155</sup> Currently, the process is in motion in Jordan, Mexico, Mongolia, South Africa and India (Karnataka state.)<sup>156</sup> To be eligible for support from the new entity, all projects must “provide for at least one partner from the private sector,” not simply as a charitable funder, but “as part of its operations.”<sup>157</sup> This consolidation of formal partnerships has fostered a shared agenda between the largest global water and water-intensive corporations. In one example, the IFC recently partnered with global bottled-water giants Coca-Cola and PepsiCo to promote retail water sales in South Asia and West Africa (see the case study below). This expansion of the corporation WaterHealth International, underwritten by the IFC alongside Dow Chemical, Diageo and other corporate sponsors, is an example of the new forms of collusion underway to drive commodification of water and shift the public climate to accept a commercialized model for water delivery, no matter how destructive it might be.

## CASE STUDY: GHANA

Ghana provides a clear example of how the World Bank has shifted its support from full-utility privatization to entering into partnership with private corporations in order to drive the commodification of water. In Ghana, this is being attempted through a retail delivery model.

### Initial privatization attempt fails

With World Bank financing<sup>158</sup> and pressure<sup>159</sup> to adopt a plan commissioned from the World Bank’s American and British consultants,<sup>160</sup> a five-year contract handed control of Accra’s water to Aqua Vitens Rand Limited (AVRL), a transnational corporation, beginning in 2000. The plan was highly controversial, for the same set of reasons that have emerged in so many cases. Even before the plan had been executed, Charles Abugre, executive director of the Integrated Social Development Centre (ISODEC) predicted its failure to deliver infrastructure investment: “Whichever way you look at it, the restructuring of Ghana’s water as they are proposing will not bring much extra capital as the main source of finance for expansion will continue to be concessionary donor sources. The whole project fails to address the fundamental problem in Ghana: how to mobilise resources to invest in extending water supply to the poor affordably.”<sup>161</sup>

The resulting privatization plan required little infrastructure investment by AVRL, leaving the bulk of the capital requirement squarely on the public sector. To make the private contract viable, rates were hiked dramatically: from \$0.10 per cubic meter in 1998 to \$0.75 by 2001, at a time when more than half the population was earning less than \$2 per day.<sup>162</sup> Additionally, thousands of utility workers were laid off. “As a consequence of the World Bank’s loans, the Ghanaian government was not only forced to pay private companies for managing Accra’s water system and delivering that water at an inflated price, but it was also burdened with another obligation: supporting previously employed individuals.”<sup>163</sup>

Due to intense pressure from civil society and the public workers’ union,<sup>164</sup> the private contract concluded at the end of May, 2011 without renewal, and control of Ghana’s water reverted back to the public utility. But the damage had been done: after just five years of corporate control, water quality had declined, leakage rates skyrocketed and little if any maintenance, much less extension, had been undertaken.<sup>165</sup>

### Retail water offered as the solution

In this context, the IFC and its corporate partners have introduced a stopgap solution for profiteering off of this situation: retail water kiosks.<sup>166</sup> WaterHealth International (WHI) sells small modular structures to

communities for the treatment and sale of water “at a competitive fee” of \$.06 per liter,<sup>167</sup> which comes to \$3 per cubic meter: more than triple the public rates.

WHI is majority owned by Dow Chemical, but has been supported by the IFC for over a decade, with over \$40 million in loans as well as retaining a \$1.6 million ownership share in the venture.<sup>168</sup> As part-owner of WHI, the IFC retains a direct financial interest in the corporation’s ability to extract a profit from its sales of retail kiosks. Over the past two years, beverage giants Coca-Cola, PepsiCo and Diageo have partnered with the IFC to expand the WHI model throughout Ghana, Nigeria and Liberia.<sup>169</sup> September 2011 marked a rapid scale-up, with Coca-Cola and Diageo announcing plans to install up to 50 additional WHI Centers in Ghana alone.<sup>170</sup>

The corporate funds come in the form of loans, which enable communities to purchase WHI retail water Centers. The loans are to be repaid in about eight years, with water prices expected to cover the loan repayment and all operating costs (“full-cost recovery” in industry parlance.)<sup>171</sup> In Ghana, this retail model for water delivery seeks to capitalize on the shortcomings of its water infrastructure in order to introduce market pricing at the community and consumer levels. Africa Water Network coordinator Alhassan Adam has called WHI “a new Trojan horse used for the purpose of introducing ‘market solutions’ as the panacea for the current water crisis in developing countries.”<sup>172</sup>

The IFC’s regional Vice President Thierry Tanoh remarked, “the IFC is actively supporting the expansion of the WHI model, which will leverage global and regional investment to help alleviate water challenges in Africa.”<sup>173</sup> Of course, alleviation does not mean elimination; the WHI model does nothing to address infrastructure investment, simply introducing further public debt to support a corporate scheme to fill the void.

While the IFC itself has a clear profit stake in WHI’s success, its more recent backing from the world’s largest bottled-water corporations is consistent with the same partners’ aims with the Water Resources



Collecting water in rural Ghana. Following the failure of privatization of Ghana’s water infrastructure, the IFC is now supporting a retail model, selling water to families of youth like these at kiosks for more than triple the public water rates.

Photo credit: Gates Foundation, Flickr Creative Commons

Group: to advance a “new global architecture”<sup>174</sup> for corporate control of water. Jacqueline Novogratz, founder and CEO of private equity Acumen Fund, a major WHI shareholder, recalled the corporation’s early work to market retail water to poor communities: “... there is a sense that water comes from God and should be accessed for free... When WaterHealth International started bringing clean drinking water into the low income areas, we were surprised that people weren’t just lining up to pay for it.”<sup>175</sup> In other words, a market had to be created and a willingness to pay instilled.

This attempt to commodify water is a far cry from WHI’s original mission. John Harrington, founder, shareholder and former Board member of WaterHealth (and now serving on Corporate Accountability International’s Board of Directors) recalls: “When socially responsible investors originally funded WHI in 1996, it was for the purpose of manufacturing water disinfection devices and working with governments and NGOs to... provide villages access to clean inexpensive water.” Now, this humanitarian technology is being “exploited for profit by global corporations” and is being used to promote a cultural shift where water is seen as something to buy and sell, rather than a shared resource to be managed for the good of all.<sup>176</sup>

## UNACCOUNTABLE FINANCING ARRANGEMENTS

Not only does the World Bank play a multitude of roles in the direct promotion of privatized water—from its vast research and public relations output to its direct advisory relationships with many borrower governments—it has also created a set of tools to circumvent public scrutiny and at times sidestep its own performance standards in the funding of water investments globally.

### Financial intermediaries

Like at any other investment bank, IFC staff face considerable pressure to close deals, investing large sums of money as quickly as possible. This incentive structure has been cited as a driving factor behind the IFC's support of large concessions like Manila and controversial dam projects like the Belo Monte hydropower project in Brazil.<sup>177</sup> The IFC has now deployed a new tool to keep the money flowing: financial intermediaries, including private-equity, venture and hedge funds. These financial intermediaries allow the IFC to sidestep the public condemnation these projects have frequently provoked, as well as the World Bank's own internal standards for lending.

The indirect nature of these investments inherently reduces oversight, transparency and accountability. For instance, the IFC's investments in private equity funds are classified as "financial investments," and therefore not required to apply the full suite of performance standards or accountability mechanisms required of direct investments.<sup>178</sup> Transparency and disclosure also suffer; tracking the portfolio of investments made through these indirect means is virtually impossible even for the World Bank, much less for civil society critics and other stakeholders. In practice, private equity also serves to give transnational capital a local face, obscuring the financial relationships and undermining public and community opposition to controversial projects.<sup>179</sup> Today, half of the IFC's investment dollars are spent on investments in intermediaries,<sup>180</sup> and further growth is anticipated with the development of the IFC's Asset Management Corporation dedicated to equity investments.<sup>181</sup>

Using financial intermediaries to invest in water also makes a systematic endrun around the World Bank's own safeguards. These safeguards were established in consultation with civil society stakeholders and were built upon the lessons learned from the controversy generated by earlier World Bank projects, most notably the Narmada Dam (Sardar Sarovar) project in India. This project attracted so much criticism the World Bank was forced to create an independent Inspection Panel in 1993 and withdraw from the project in the same year.<sup>182</sup> (See "Precedents" on page 33 for more on the creation of the performance standards at the IFC, which followed the World Bank's safeguards process.) With the growing use of new financial products and structures that obscure accountability and evade traditional oversight mechanisms, the World Resources Institute estimates that today, as little as 16 percent of the World Bank's total lending is currently covered by the formal safeguards.<sup>183</sup>



## CASE STUDY: ASIA WATER FUND

Half of the IFC's funding is now invested indirectly, through intermediary funds. The Asia Water Fund exemplifies the problems with this strategy by putting development objectives as a distant second after the pursuit of profits. It also disregards the IFC's mandate to fund projects that lack private-sector support, instead competing with other water corporations for the same growth markets in China.

In June 2011, the IFC invested \$20 million in a new Asia Water Fund established to purchase equity shares in Asian water corporations.<sup>184</sup> As the largest owners of the fund, the IFC and the Asian Development Bank are flagship investors. The fund is domiciled in the Cayman Islands to avoid taxes, although its exclusive aim is supporting water privatization in Asia.<sup>185</sup>

The fund will focus 70 percent of its investments in China,<sup>186</sup> the primary growth market for the global water giants Suez and Veolia,<sup>187</sup> ignoring the IFC's own "additionality" mandate, which stipulates that it fund only projects lacking private sources of capital.



Photo credit: Otrocalpe, Flickr Creative Commons

With its rapidly growing urban centers in need of safe drinking water, China is a primary growth market for private water, attracting investments from a wide range of corporations and funders. The IFC's investment in the China-focused Asia Water Fund puts the pursuit of profits ahead of development priorities.

Indeed, both of these global corporations have created their own venture capital vehicles recently, which will very likely compete and/or co-invest with the Asia Water Fund.<sup>188</sup> The potential for further conflicts of interest is evident.

Using an offshore special purpose vehicle to fund private water belies any development purpose. By avoiding the IFC's performance standards, this project and others like it delegate environmental and social due diligence to the Fund Manager, whose stated goal is "to deliver a strong, predictable and sustainable return to SPV investors."<sup>189</sup>

### GPOBA: the Global Partnership on Output-Based Aid

The World Bank houses and administers 1,038 different Trust Funds, which disbursed \$9.5 billion in fiscal year 2010<sup>190</sup> all representing opaque pots of money accountable only to their donors. Many of the activities sponsored by these Funds have significant bearing on water supply and water governance, but two are particularly problematic for the human right to water. One, the Public-Private Infrastructure Advisory Facility, was discussed on page 25. The other is the Global Partnership on Output-Based Aid (GPOBA).

A Trust Fund with World Bank and IFC funding alongside contributions from Australian, British, Dutch and Swedish international development agencies, GPOBA provides grants for governments to enter into performance-based public-private partnerships. The concept of "output-based aid" is a new and highly touted concept in the international development community, as it makes payment contingent on meeting certain goals. In the water sector, GPOBA acts most often to facilitate the introduction of "market pricing" or "full-cost recovery" in the water sector. Its grants fund subsidies that bridge the gap between the price of water and the payment that the poor can afford.<sup>191</sup> Thus it serves as a stop-gap to allow the government to nominally meet its human rights obligation to deliver universal water access, while facilitating the introduction of a market-pricing regime that will challenge such access in the medium and long term.



GPOBA's market orientation is clearly demonstrated by the fact that it currently shares a Program Manager with PPIAF – the World Bank's Adriana de Aguinaga is currently in charge of both Trust Funds.<sup>192</sup> In Manila, for instance, GPOBA stepped in to subsidize Manila Water, the more profitable of the two corporations, and the one with extensive IFC investment. In the 1997 privatization contract, the private providers Maynilad and Manila Water both committed to achieving universal service coverage within 10 years. Such investment commitments were part of the justification for the five-fold increase in water rates granted to the privatized utilities. Yet in 2007, after the private corporations failed to fulfill their commitments, GPOBA granted \$2,850,000 directly to Manila Water to fund household connections for 20,000 households who could not afford to pay additional connection fees. In other words, Manila Water is “double-dipping,” being paid by consumers in accordance with the privatization contract, and then being paid a second time by this Trust Fund for the same piped connections.<sup>193</sup> Not only is the arrangement directing donor “bailout” funds to a corporation which mismanaged its original contract, it wraps the bitter pill of market pricing in a thin sugar coating of subsidies. By subsidizing low-income households, this type of aid takes on a humanitarian appearance, while primarily serving to excuse water corporations from their obligation to extend access to those least able to pay, thereby making an unfeasible private arrangement temporarily politically palatable.

Not surprisingly, proponents of privatization are also enamored with “output-based aid” programs. Veolia CEO Antoine Frérot devotes nearly a page of his book to this model, specifically noting that private operators are able to apply for this form of donor subsidy. Privateers clearly see the opportunity that this model represents for them. Frérot observes that at the end of 2007 “water represented one-third of projects in the ‘social services and infrastructure’ sector identified by Global Partnership on Output-Based-Aid.”<sup>194</sup>

## DIVESTMENT FROM PRIVATE WATER

Even with the full support of the World Bank and its peers, private water corporations have barely attained 10 percent market share globally,<sup>195</sup> and private sector penetration of emerging markets is less than 5 percent.<sup>196</sup> That slim market share already generates over \$1 billion in annual revenues,<sup>197</sup> and Goldman Sachs estimates the entire market to be \$400 billion-plus.<sup>198</sup> While the private sector has set its sights on the whole market, tipping the scale to turn privatized water delivery into the norm is a Sisyphean task that will require a battery of institutional support. To this end, the World Bank not only finances privatization, but serves as ambassador and marketing agent for the transnational water corporations through its advisory and risk management services, research and knowledge production and other promotion activities as discussed in the previous sections.

As this report has shown, the World Bank's insistence on supporting private water concessions is counter-productive and tragically misplaced. Private players fail to deliver expanded access; in fact, such corporate water contracts too often lead to the squandering of resources that could be used to improve the daily lives of people in borrower countries and often result in more harm than good. In short, corporate management of water is both financially unsound and counterproductive for healthy, sustainable development.

The clear imperative for the World Bank is to divest from private water and recommit to lasting public solutions.

### Why is corporate control of water a threat?

There are structural risks inherent in ceding control of water to profit-seeking corporations. These fall into seven general areas, discussed throughout this publication:

- **Coverage is selective, with inadequate access for poor and marginal users.**

The private sector has little incentive to supply those least able to pay, and an increased focus on tightened bill collections leads to shutoffs and regressive enforcement mechanisms.

- **Users pay higher rates.** Private providers require higher margins, as they must recover all the costs associated with the service, as well as larger profits to pay for the dividends, high interest rates and other expenses of the corporate structure. For-profit corporations can't use the same progressive rate structures and cross-subsidies available to government planners.

- **Infrastructure investment and maintenance suffers.** There is clear consensus among the World Bank and the major water corporations that infrastructure will continue to rely on government and donor support.

- **Cost savings are realized at the expense of workers.** In many countries, public utilities are an essential source of decent jobs. Key to the "operational efficiency" of the private sector is downsizing the workforce and cutting pay and benefits. These measures may improve profits but not service, access, or even economic development more broadly.

- **Transparency is reduced under corporate control.** Accountability in a public system resides with officials who answer to the public. Corporations consider information to be “proprietary” or “trade secrets,” where a profit advantage for the private operator takes precedence over public security and planning.
- **With loss of transparency comes decreased oversight capacity.** Over time, government agencies lose the institutional capacity for expert oversight and long-term planning. Without sufficient information and institutional expertise, agencies are hard-pressed to competently regulate and negotiate with corporate providers.
- **Water, historically understood as a collective good in most cultures, is converted into a commodity rather than a human right and the basis for all life.**

## PRECEDENTS INDICATE VIABILITY OF DIVESTMENT STRATEGY

The World Bank is a dynamic organization which both drives and adapts to changed conditions over time. Examples from its history demonstrate as much. Two particularly relevant cases provide recent precedents for major changes in policy and practice: the World Bank’s decision to stop funding the tobacco industry, and the implementation of substantial policy changes within the World Bank to respect core labor rights.

### World Bank divestment from the tobacco industry

The case of tobacco represents one of the most dramatic reversals of World Bank policy and practice. Until the early 1990s, the World Bank actively funded tobacco production in developing countries. In 1991 this changed with an Operational Directive adopted by the Board of Directors, which prohibited World Bank lending to tobacco production, processing or marketing.<sup>199</sup> Following the decision to cease investments in tobacco production, the World Bank joined the tobacco control effort publicly, producing a series of economic analyses demonstrating the high costs of tobacco use, and the broad-based benefits of putting its clout behind tobacco control, rather than production.

The World Bank’s divestment from tobacco was achieved by a core group of World Bank staff who were persuaded by an economic argument about the negative overall impact of tobacco on developing countries. Beginning in the early 1990s, World Bank economists, led by Howard Barnum, published a series of articles questioning the development benefits of tobacco production. He argued that investing in the tobacco industry—although profitable for the World Bank—was in fact counter-productive for the health and development of borrower countries.<sup>200</sup> By demonstrating that tobacco promotion resulted in a net loss for developing countries, advocates within the World Bank persuaded key decision makers, including the chief economist and the president, of the wisdom of supporting tobacco control instead of production.<sup>201</sup>

To counter the World Bank’s new position, the tobacco industry commissioned and disseminated a flood of economic arguments aimed at preventing governments from implementing tobacco control policies.<sup>202</sup> They lobbied governments and even the World Bank directly, hiring consultants, lobbyists and the powerful Washington law firm Arnold & Porter, to advocate for the World Bank to reverse its position and reinvest in tobacco.<sup>203</sup> This transparent effort on the part of the industry to interfere in policy making for private gain made

the World Bank's stance appear principled, even enlightened, by contrast, and cemented the institutional commitments to support public health over tobacco industry profits. The further entrenchment of the World Bank's position culminated in a publication, "Curbing the Epidemic: Governments and the Economics of Tobacco Control,"<sup>204</sup> written by Prabhat Jha, a public health scholar with the World Bank's Human Development Network.

Big tobacco's attack on the World Bank's policy shift served only to escalate the profile of the decision and to earn some welcome positive press for an institution which is often criticized in the media.<sup>205</sup> The opportunities for positive publicity and to improve the human and development impact of World Bank projects served as powerful incentives for the World Bank to continue to promote the report and the tobacco control programs it recommended. As a result, the World Bank enjoyed the reputational benefits of prioritizing public health over the interests of the tobacco industry.

### IFC adoption of core labor standards

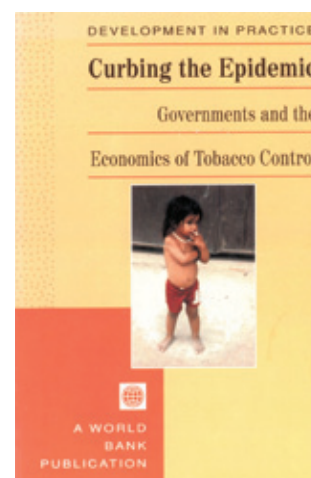
Under ongoing scrutiny from organized labor, the World Bank has also been moved on several occasions to improve its practices with respect to labor. With particular relevance for this report, the IFC adopted core labor standards in 2006, and in 2009 ceased rewarding countries with poor labor practices with its "ease of doing business" ratings. A combination of research, advocacy, internal and external pressure (including from donor governments) moved the World Bank to better align its practices with its mission in this area.

The International Labor Organization's Core Labor Standards ("Declaration on Fundamental Principles and Rights at Work")<sup>206</sup> lay out basic rules for labor practices, such as the rights of association and collective bargaining as well as prohibitions against forced and child labor and discrimination. When the Core Labor Standards were issued in 1998, the World Bank was initially hesitant to endorse them, much less enforce compliance by contractors and other recipients of the institution's financing.<sup>207</sup> With targeted advocacy led by the International Trade Union Confederation (ITUC), the World Bank was brought into compliance five years later.<sup>208</sup> When the IFC codified the environmental and social requirements for its investments in a formal set of Performance Standards in 2006, the Core Labor Standards were successfully adopted as the second standard (PS2).<sup>209</sup>

Today, the standards continue to govern IFC projects.<sup>210</sup> (The notable exceptions are indirect investments through financial intermediaries which exist, in part, to avoid such standards, as mentioned above.) The ITUC victory to achieve recognition of labor rights in the Performance Standards is significant for both practical and symbolic reasons, and serves as another example, like tobacco, where the World Bank has shifted course in response to enlightened research, targeted advocacy and a combination of "insider" and "outsider" pressure.

Another motivating force in moving the World Bank to improve promotion of labor standards came from donor governments—specifically, the U.S.—which applied pressure on the World Bank to change the rating system in its flagship publication, the "Doing Business" reports.

This report publishes annual rankings comparing the "ease of doing business" in more than 100 countries, based on how corporate-friendly their policies are.<sup>211</sup> It serves as a guide for foreign investors and as a tool to shape the policies of developing country governments. Even when not used as an explicit condition for accessing funding, these kinds of scorecards serve as "a form of conditionality in disguise," according to critics.<sup>212</sup> Before 2009, the report included anti-labor and anti-tax metrics which rewarded countries for lax labor standards and minimal corporate taxes.<sup>213</sup>



The World Bank publication "Curbing the Epidemic" provided an economic argument about the negative impact of tobacco on developing countries.

In 2003, ITUC launched a campaign against the (ease of) “Employing Workers” indicator. Along with allies from the AFL-CIO and the Carnegie Endowment for International Peace, ITUC worked with the U.S. House Committee on Financial Services. Ranking member of the committee, Congressman Barney Frank convened a hearing to air critical research and hear testimony from other observers who questioned the indicator’s validity for development purposes.<sup>214, 215</sup>



Photo credit: Konrad Fisher

Water infrastructure investment is vital to economic growth and public health. Private water corporations fail time and again to make the necessary investments.

Responding to mounting public pressure, as well as the threat from the U.S. Congress to withhold further funding until the problem had been addressed, the World Bank agreed in 2009 to eliminate the “Employing Workers” indicator and to adjust the tax indicator.<sup>216</sup> It responded to campaigners’ demands despite major opposition from some key players within the World Bank, notably IFC Chief Economist Michael Klein who resigned in protest.<sup>217</sup>

#### **When the World Bank shifts course: key elements**

The World Bank’s shift on tobacco policy is widely seen to have played a major role in creating a favorable climate for advancing a global tobacco treaty—the World Health Organization Framework Convention on Tobacco Control (WHO FCTC).<sup>218</sup> By compelling the World Bank to become a supporter, not an obstacle, the public health movement acquired a powerful ally in advocating stronger health protections the world over. Some useful lessons can be drawn for those now calling for the World Bank to divest from private water.



### Key elements in the World Bank's divestment from tobacco and its support of labor standards:

- **Knowledge production:** World Bank economists and other experts produced and disseminated economic development and public health analysis that supplied a persuasive case for advocates working to shift World Bank policies and practices.
- **Internal mobilization:** advocates within the management and governance structure of the World Bank were mobilized.
- **External pressure and support from institutions and governments:** key players put pressure on the World Bank (e.g. WHO's pressure on the World Bank, and CDC funding of pilot projects in tobacco control).<sup>219</sup>
- **Public opinion:** the World Bank considered the reputational benefit gained by heeding public opinion and acting in the public interest on important issues (e.g. the press and the public climate supported tobacco control and labor standards).
- **International legal precedents:** previous legal precedents led the way (e.g. the U.N.'s adoption of the ILO Core Labor Standards in 1998 stands as a parallel to its 2010 adoption of the Human Right to Water<sup>220</sup>).

## ARGUMENTS FOR DIVESTMENT

The examples above show that the World Bank can—and does—change its course when key elements come into play. And for the reasons laid out below, the time has come for the World Bank to cease promoting and investing in water privatization.

### Investing in private water is counterproductive for development

The World Bank's stated purpose is to reduce poverty, and in so doing support sustainable economic development in poor and middle-income countries. History has shown that strong public water systems are foundational for development, affording widespread economic and public health benefits to society at large. The World Bank itself acknowledged in 2006 that "[i]nfrastructure is essential for economic growth, and without such growth there can be no sustainable poverty reduction."<sup>221</sup>

Public investment in accessible water systems played a similar role in the development of the United States. In 1900, waterborne diseases including typhoid and dysentery accounted for 44 percent of deaths in U.S. cities—diseases which have all but disappeared as serious public health threats since the normalization of public water infrastructure.<sup>222</sup>

With chronic quality problems and "efficiency" metrics aimed at shutoffs, layoffs, and minimal maintenance, private management of water cannot be justified in terms of extending access. Perhaps even more importantly, directing development assistance and system revenues toward making this failed corporate model profitable drains the system of the resources needed to extend and sustain water infrastructure for the future.

*“Indeed, we cannot speak about development while people subsist without clean water and proper sanitation... we have a duty to fight against domestic and global apartheid in terms of access to water.”*

SOUTH AFRICAN PRESIDENT THABO MBEKI, 2006<sup>223</sup>

As in the case of the World Bank’s divestment from tobacco, there is a compelling economic and public health argument for divestment from private water. Because the private sector does not invest in water infrastructure, and because it focuses primarily on profitability, it routinely fails to extend water access to the poor. And the consequences of inadequate water access are profound and wide-reaching: beyond the obvious health effects, the U.N. estimates more than 443 million school days are lost each year because of water-related ailments.<sup>224</sup> In purely economic terms, about five percent of Sub-Saharan Africa’s GDP is sacrificed each year to illness and death caused by dirty water and poor sanitation.<sup>225</sup> Put plainly, investment in water infrastructure—the precise investment that the private sector will not make—is foundational to all other development.

Privatization of public water utilities also downsizes skilled labor and starves the technical capacity of government agencies critical for regulation and oversight—hardly positive outcomes from a development perspective.<sup>226</sup> By contrast, investments in sustainable, accessible water infrastructure yield more than \$10 in public health benefits and economic development for every \$1 invested.<sup>227</sup>

### **Women are disproportionately impacted by water privatization**

There is a disproportionate impact of water privatization on women. Representing 70 percent of the world’s poor,<sup>228</sup> women are most often responsible for family water supplies,<sup>229</sup> making access to reliable, safe water particularly important for their participation in other activities. Water-intensive domestic work, such as cooking, washing and child-rearing, presents a much more onerous burden without sufficient access to clean water. Because of these high stakes for women, it is vital that they are included in the decision-making over water access and management. Moving water management from the public to the private sector further removes its governance from community, and particularly women’s access.



Photo credit: Konrad Fisher

Representing 70 percent of the world’s poor, women are most often responsible for supplying their family’s water.

Marilee Karl, co-founder of Isis International, underscored this point in a recent address to the U.N.’s Human Rights Council:

“The nearly universal responsibility of women for the provision of water for family use is now well documented... This was not always the case... I remember very clearly the first gender analysis training programme at the Food and Agriculture Organization of the United Nations (FAO) in the

late 1980s. I was one of the trainers... Efficiency was the key word. And water projects were a prime example. One of the cases used was that of a water project in Mexico: a large development agency implemented a project to provide running water to a number of villages. The agency provided pumps and trained villagers to use and maintain them. A year later, a project team went back to see how things were working out. They found many of the pumps in disrepair. As it turned out, the agency had trained the men in the use and maintenance of the pumps, unaware that the women were the ones responsible for water.”<sup>230</sup>

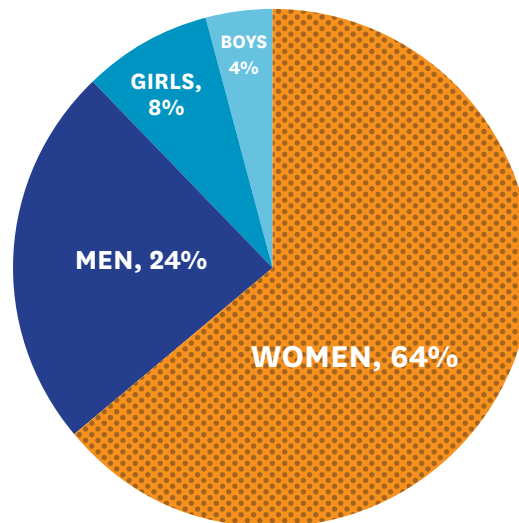
In general, when public spending on services is decreased, women are particularly impacted in two ways. They are “forced to (1) increase household income through working longer hours usually in lowest-earning informal sector jobs; and (2) increase their unpaid work to make up for shortfalls in public services.”<sup>231</sup> When it comes to water, this burden can be observed in the extra time and effort that women who cannot afford a household water connection must spend to transport and store water.



Photo credit: Corporate Accountability International

Women gather water from a broken water pipe. By redirecting support from the private sector to recognized public solutions, the World Bank can help realize the human right to water for all people.

### Who collects drinking water?

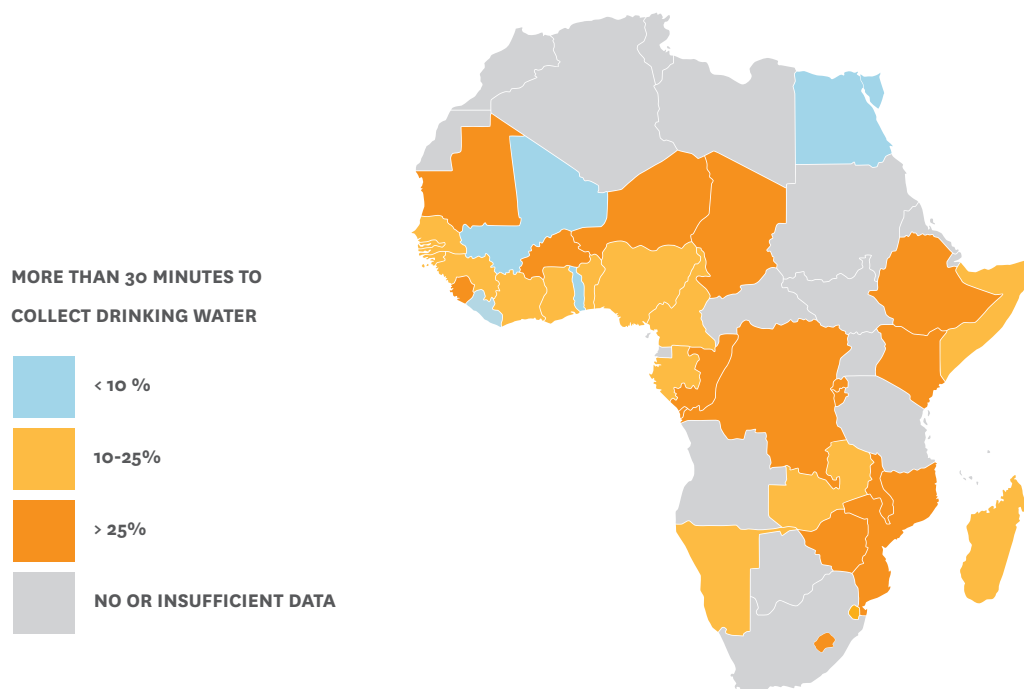


Women shoulder the largest burden in collecting drinking water. Source: WHO and UNICEF, Progress on Sanitation and Drinking Water, 2010 Update, wssinfo.org.

Additionally, privatizing water shifts the way the resource is perceived by the public at large, and this shift affects women who generally do not control the family budget. As mentioned in the section “Public attitudes at odds with private ownership” (page 17), when water is considered a shared resource, it is seen by the public as a resource to be used and taken care of collectively. When water is privatized, households are perceived as consumers whose entitlement to water is based on monetary payment. Because the vast majority of wealth and property is controlled by men worldwide,<sup>232</sup> for most women globally this is a very material shift. When entitlement to water becomes cash-based, it is mediated through male control of the family budget. In other words, women’s purchasing power is a weaker platform for access to water than their human right or community status.

The reciprocal importance of water for women and women for water is well-documented. One of the predominant trade associations representing the private water industry, the World Water Council, points to the U.N. estimate that women’s unpaid labor represents \$11 trillion of unrecognized economic activity annually, concluding that “there appears to be consensus that women must be involved in water resources management if there is to be sustainable development—both in the North and the South.”<sup>233</sup> This position stands in stark contrast to the male-dominated management of both Suez and Veolia as neither has a woman on its Executive Committee.<sup>234, 235</sup> The male bias persists at the Board level: Veolia’s May, 2010 shareholder meeting was publicly targeted by the feminist advocacy group La Barbe (“the Beard,”) which took the podium and sardonically “thanked” Veolia for excluding women from their boardroom with the sole exception of Spanish Royal Esther Koplowitz, with her vast holdings in Veolia and FCC (Fomento de Construcciones y Contratas), its main Latin American partner.<sup>236</sup>

### Percentage of the population in Africa that spend more than 30 minutes to make one water collection trip (there and back).



Source: WHO and UNICEF, Progress on Sanitation and Drinking Water, 2010 Update, wssinfo.org.

### Pushing an unpopular privatization agenda undermines the World Bank's legitimacy

The IFC trades on its reputation, making it different from private investment banks. Without the cooperation of donor and borrower governments and partnership from other players in the capital markets, the IFC's ability to carry out its business would be severely constrained. The World Bank has suffered too many "black eyes" from its past dedication to the Washington Consensus and privatization policies that advance economic growth and corporate profits ahead of attainment of development goals. Having spent untold resources to brand itself as a more humane, accountable institution, the World Bank itself is well aware of the value—and vulnerability—of the reputation and trust it requires for its operations.

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**At its 2010 Annual Meeting, the IFC's Compliance Advisor & Ombudsman (CAO) reported that despite water being a small part of the IFC's overall project portfolio, approximately 40 percent of the complaints submitted to the CAO related to water.**

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In light of this reality, it is a wonder the World Bank continues to advocate for deeply unpopular investments in private water. From the historic protests and "water wars" of recent decades to the building momentum of the "Reclaiming Public Water"<sup>237</sup> movement detailed in the next section, public opinion has made itself clear. Surveys conducted across Latin America at the end of the 1990s, "the region with the most experience of private participation in infrastructure,"<sup>238</sup> documented a steady decline in public approval for the privatization programs once the projects were implemented and experienced in operation.<sup>239</sup> Indeed, two-thirds of respondents strongly disagreed with the statement that privatization "has been beneficial" for their country.<sup>240</sup>

To champion an agenda so out of favor globally, garnering scrutiny from decision-makers and experts alike, puts the World Bank's reputation at risk. Further, taking such an unpopular stance positions the World Bank as a lightning rod for global protest movements. At its 2010 Annual Meeting, the IFC's Compliance Advisor & Ombudsman (CAO) reported that despite water being a small part of the IFC's overall project portfolio, approximately 40 percent of the complaints submitted to the CAO related to water.<sup>241</sup>

### The World Bank's interests as a water investor generate perceptions of self-dealing

When the World Bank becomes a part-owner of a private water corporation, it reinforces the prevailing—and false—assumption that "what's good for corporations is good for development," and creates problematic structural conflicts of interest with a range of related functions (see "World Bank Group activities posing conflicts of interest with equity ownership" chart, page 24).

The perception of the World Bank as an interested party undermines its desire to appear impartial in these other roles. Investing directly in water corporations generates a perverse set of incentives which lead to misguided funding decisions such as those made in Manila (see the Manila case study, page 9). In that case, the World Bank's promotion of the private water arrangement was perceived as serving the IFC's profit interests, rather than the best interests of the community at large.

### Investing in private water is financially unsound

Not only are there critical humanitarian reasons not to invest in private water, there are strong economic reasons to argue against it.

While selected investments (like Manila Water) have been made artificially lucrative for the investment bankers, private water is neither a sound nor a particularly profitable investment.



In particular, the World Bank holds millions of Euros of equity in the troubled international water corporation Veolia, in what is proving to be a highly risky investment. In general, investing in private water is a volatile strategy that the World Bank should rethink.

**Private water is neither a sound nor particularly profitable investment.**

From an investment perspective, the business fundamentals are shaky. Private water contracts over the decade from 2000-2010 have experienced among the highest failure rates of any infrastructure sector. As mentioned earlier in this report, the World Bank's own data finds 34 percent of private water contracts in distress or terminated before maturity.<sup>242</sup> This is an extremely high failure rate, even compared to sectors such as electricity (8 percent) telecoms (3 percent), and transport (8 percent).<sup>243</sup>

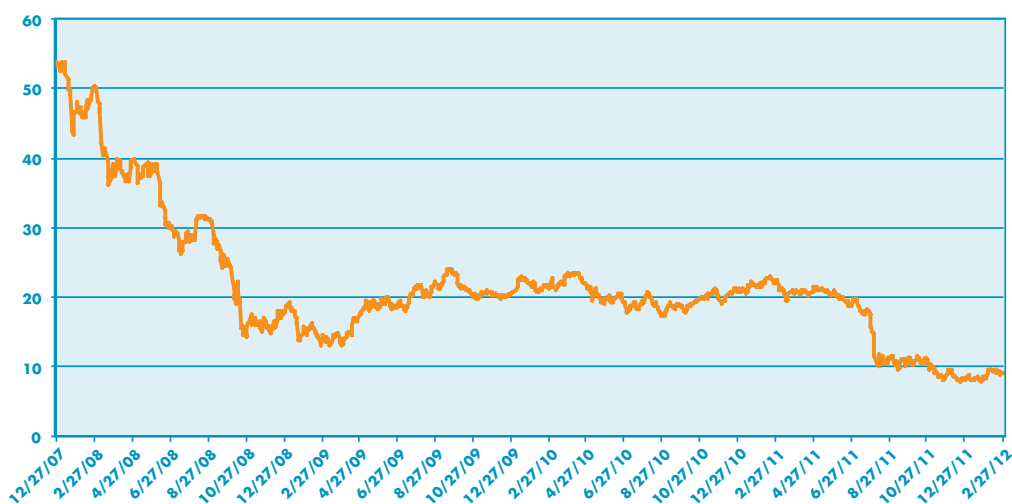
As discussed previously, the IFC provides guarantees and other risk management products, insuring its corporate clients against political and regulatory risk and other non-financial factors inhibiting their participation in water privatization deals. By participating in this so-called "risk management" market, it assumes exposures the private sector won't. It also shares the foreign exchange, political, regulatory or other macroeconomic risks to facilitate a profitable contract for corporate participation. Furthermore, these insurance and contingent guarantee arrangements are largely contained off the balance sheet. The IFC's accounting policies dictate that the contingent liabilities associated with guarantees and similar instruments only be recognized on the books when the negative outcome is both probable and quantifiable.<sup>244</sup>

In other words, the World Bank is exposing its development funds to a highly unpredictable set of risks to guarantee profits for its corporate clients, without fully accounting for, much less justifying, the potential negative consequences for its own resources if too many of these bets are called.

With more than €125 million (\$164 million) of equity investments in Veolia's subsidiaries,<sup>245</sup> the IFC should have grave concerns about the prospects for this holding. The value of Veolia shares halved in 2011, as the corporation was facing continued skepticism on the part of analysts and investors.<sup>246</sup> The corporation's dismal mid-year results shocked investors, most notably with a €476 million (\$685 million)<sup>247</sup> impairment charge against the value of its Italian contracts after that country's historic popular referendum repudiated water privatization, as detailed in the following section. Such a large writedown stunned analysts who had received positive forecasts the previous quarter,<sup>248</sup> which validates the supposition that the impact of the Italian referendum results on Veolia's financial prospects is measured in the hundreds of millions.<sup>249</sup>

To lessen its exposure to unprofitable markets, Veolia has announced plans to cease operations in 37 countries, retrenching to half of its former market, and reducing its exposure to the markets where major infrastructure investment is still required.<sup>250</sup> The retrenchment has begun with a withdrawal from the fully privatized and heavily regulated British water market. As Veolia's U.K. CEO Frederic Devos explained, "in view of the limited growth potential of the water companies, and the capital intensity, the group has made a strategic decision to focus on asset management not ownership as it believes value creation will best be achieved by a financial investor who can leverage debt."<sup>251</sup>

Veolia Environnement share price (€)



Veolia is a shaky investment, as illustrated by the decline in its stock price over the years that IFC has owned subsidiary shares.

In the midst of retrenchment, the corporation can hardly be confident in the security of its home market. A rising tide of remunicipalizations across France indicates a strong sentiment in favor of public water at home, as exemplified in the following discussion of Paris (page 44). Again, the financial impact is written in black and white. In the same poor mid-year results, Veolia CFO François Riolacci spoke of “contractual erosion in France,” which is recognized in the accounts as a €115 million (\$165.5 million) writedown of deferred taxes relating to the corporation’s French business: the historic mainstay of its global enterprise.<sup>252</sup> Deferred taxes are an accounting abstraction with very concrete significance. This writedown means that Veolia’s accounts included a large share of “tax losses,” which corporations may carry for years and offset against future profits to reduce their tax expenses. Writing off these assets indicates that the corporation no longer believes it will earn sufficient future profits in France to be able to fully “utilize” those losses. Thus, deferred tax accounting is one of the rare instances where management’s outlook on future profits is recognized on the books. Veolia’s lack of confidence in its French home market is certainly more worthy of mention than the current footnote it receives in the corporation’s annual report. With the corporation facing contract renewals covering 22 percent of its domestic revenue base in the coming three years, a weak French market should be a major red flag for investors.<sup>253</sup>

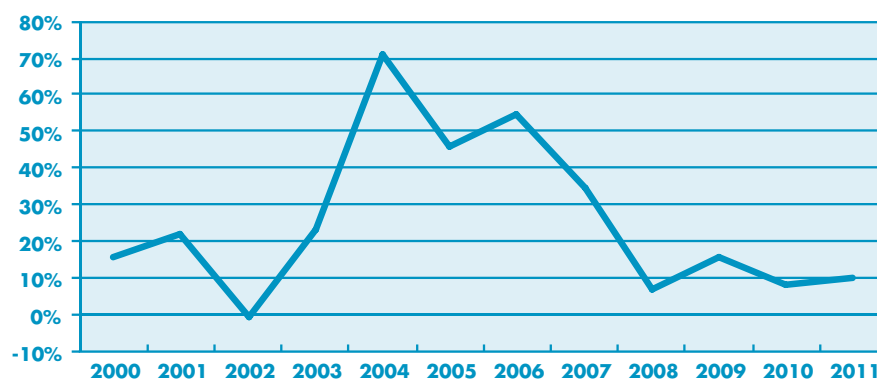
Additionally in the past year, Veolia faced an anti-trust investigation in Europe;<sup>254</sup> an investor class action lawsuit in the U.S.<sup>255</sup> and an uncomfortably public crisis of confidence within its own boardroom, with Chairman and former CEO Henri Proglio calling for a change of leadership.<sup>256</sup> For the World Bank to continue tying its development resources to the financial fortunes of such an unstable corporation is an imprudent financial decision. Worse, it is a misappropriation of the very resources required to address the real need for infrastructure investment and universal access.

Recently, the IFC also experienced a stunning reversal in its own financial success.<sup>257</sup> After more than fifty years of profitable investment,<sup>258</sup> in 2009, the IFC took its first loss since its creation in 1956. The loss was driven by a \$1.1 billion writedown in the value of its equity portfolio, including a \$1.7 million devaluation of its share of Manila Water.<sup>259</sup> Equity represents about a quarter of the IFC's disbursed investment portfolio.<sup>260</sup> The 2009 writedown represented a 27 percent decline in the value of the IFC's equity portfolio year-on-year,<sup>261</sup> a substantial enough hit to make any organization reconsider the wisdom of its investment strategy.

## Ten years of IFC equity investment performance

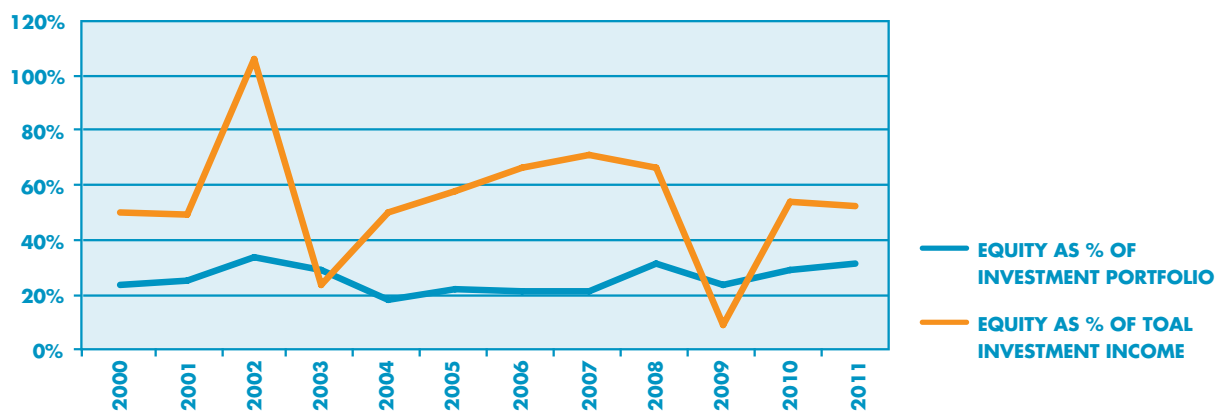
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### Return on IFC equity investments



Income from equity as a percentage of equity invested.

### Volatile returns



Values from public IFC financial statements. Equity investments have consistently comprised 20-30 percent of IFC's portfolio over the past decade, but the income from these holdings has fluctuated widely.

## RECOMMITTING TO PUBLIC WATER

As this report shows, the private sector will not invest in water infrastructure. Yet when it comes to realizing universal access and the resulting benefits to public health and economic development, such investment is primary. An analysis conducted by the Organisation for Economic Co-operation and Development recently concluded: “Until sound infrastructure is in place, and household affordability has improved, developing countries will have to rely on their public budget resources, on assistance and donations, in addition to tariffs.”<sup>262</sup> Yet the World Bank Group continues to stand by a model of privatization that is neither profitable nor successful at delivering water.

With an emerging renewed consensus that the public sector is best equipped to manage this essential resource, communities are successfully bringing water back under public control. From Uruguay to the Netherlands to South Africa, today “[r]ight-to-water legislation exists in 15 countries in Latin America, 13 in Sub-Saharan Africa, four in South Asia, two in East Asia and the Pacific and two in the Arab States.”<sup>263</sup> With water in public hands, communities have the opportunity to reinvest water revenues in long-term and broad-reaching improvements to their water systems, rather than the high interest rates and profit margins required by corporate managers. If the World Bank shifts its emphasis from private investments to offering meaningful public water aid, borrower countries around the world will benefit from increased water access and more robust development.

The following examples demonstrate the possibilities afforded when communities reinvest in their infrastructure and exemplify the rising civic sentiment in favor of public control of water.

### PARIS REMUNICIPALIZES TO GREAT SUCCESS

Mayor Bertrand Delanoë was re-elected on a promise to reverse the 1985 privatization that had turned over the water supply of Paris to Suez and Veolia. When the contracts expired at the end of 2009, he worked quickly to make the transition to public control possible. A new public operator, Eau de Paris, has provided water services for the city since January 1, 2010, with a savings of about €35 million (\$46 million) in its first year as a public utility.<sup>264</sup>

Deputy-Mayor and Eau de Paris President Anne LeStrat described the benefit: “Previously, profits were partially used to cover other activities of the private groups and strengthen their profit margins. This money is now totally reinvested in the water services.”<sup>265</sup> This has meant infrastructure investment, improved subsidies for the homeless

and other marginalized water users, and the first rate reduction since the 1985 privatization.<sup>266</sup> Paris has done what so many city officials have dreamed of, reinvesting water revenue into cutting-edge infrastructure to support the future of the city. Indeed, relieved of the financial burdens associated with the private sector, Eau de Paris has even committed resources to promoting the use of tap water as a cheaper and more ecological alternative to bottled water. For instance, it has made maps of all the city’s public water fountains widely available.<sup>267</sup>

In September 2010, Paris also made



Photo credit: Eau de Paris / Olivia Blažac

Public water fountains in Paris serve up tap water chilled and sparkling.

headlines by installing a new form of water fountains designed to serve chilled, sparkling water, to promote tap water and undermine deceptive marketing by the bottled water industry.<sup>268</sup>

Efforts have been made in the design of the new public entity to ensure stakeholder participation and increased transparency. For instance, the Board of Eau de Paris includes representatives of consumers' associations and environmental groups. The new structure also incorporates a mechanism for ongoing monitoring and input from water users, called the "Municipal Water Watch," which serves to escalate consumers' concerns at the municipal level, and also in the Eau de Paris boardroom. LeStrat sums up the implications of this victory for her city: "This reform has allowed the city of Paris and by the same token the Parisians, to regain control of their water services and to introduce designated environmental, economic, democratic and social objectives, which was not really possible with private operators."<sup>269</sup>

The Paris remunicipalization was a blow for Suez and Veolia, both on the financial and reputational front: they lost control of their flagship market, referred to by Frérot as "the cradle of delegated water management, which continues to attract others abroad."<sup>270</sup> Now, as noted previously, close to a quarter of Veolia's French water contracts face renewal negotiations in the coming three years, and the outcome of those renewals is uncertain.

## ITALIANS VOTE OVERWHELMINGLY FOR PUBLIC WATER

Recent developments in Italy demonstrate the extreme unpopularity of private water, as well as the reputational risk of advocating and financing such privatization.

Alarmed at a 2009 legislative mandate to privatize community water systems, Italians gathered 1.4 million signatures—a record in the nation's history—to bring a nationwide referendum opposing corporate control of water in the summer of 2011.<sup>271</sup>

Italian civil society mobilized in force to support the referendum, employing a full range of grassroots tactics. Local observers described the outpouring of support and organizing "with demonstrations of all kinds: banner drops, critical mass bike rides, workshops, information booths, film screenings, use of the social networking and Facebook ... and a door-to-door, neighbor-to-neighbor, person-to-person grassroots storm..."<sup>272</sup>

The results were undeniable. Prime Minister Silvio Berlusconi sought to deprive the referendum of the 50 percent voter participation required for binding force by calling for a boycott.<sup>273</sup> But his appeal was ignored. On voting day, 57 percent of Italian voters took to the polls, a resounding increase from previous turnouts and the first time the 50 percent quorum had been reached in more than a decade.<sup>274</sup>

Furthermore, an astonishing 95 percent of those voting supported the referendum, declaring water, first and foremost, a public good that must not be delegated to corporate control at the expense of



In 2011 Italian voters supported a historic referendum to oppose corporate control of water.



people's access. After the referendum victory, Italian priest Alex Zanotelli summarized the stakes of this vote: "All life comes from water, water is the mother of our existence and it must not be the multinationals that decide how it should be managed and distributed, but the people of the world."<sup>275</sup>

## THE WORLD BANK CAN PLAY A VITAL ROLE IN PUBLIC WATER'S SUCCESS

In light of the growing momentum in support of public infrastructure, it is remarkable that the World Bank has no structure to institutionally promote and fund public water, despite its many successes and the fact that public providers serve nearly 90 percent of the world's water users.

The problem is not a lack of alternatives: successful public water utilities exist as examples to emulate on every continent. The U.N. and other donors have supported a wide range of alternatives,<sup>276</sup> including public-public partnerships (water operator partnerships), community participatory models, water co-operatives and community or union management. They have also promoted internal reforms and meaningful support for public water agencies charged with this fundamental service.

With its substantial resources and its commanding voice in the market, the World Bank's support for public water can play a critical role in lasting solutions for universal realization of the human right to water.

## CONCLUSION AND RECOMMENDATIONS

Water is fundamental to life, for humans and the entire natural environment. How it is managed and who controls its governance are profound questions with the ability to spark heated debate. Even as the international community recognizes water as a human right, today one in eight people—nearly nine hundred million—lack reliable access to safe water.



Photo credit: Kris Krig, Flickr Creative Commons

“Water for the people”: Sign from a 10-year celebration of the Cochabamba “Water Wars” victory. By redirecting support from the private sector to recognized public solutions, the World Bank can help realize the human right to water for all people.

There are recognized and viable solutions to alleviate this human tragedy. What is required is a shared priority and a commitment to fulfill the promise of the human right to water. The resources, relationships and expertise of the World Bank could have a tremendous impact on public and planetary health and economic development if brought to bear in support of constructive solutions. Instead, while the “overwhelming majority of operators are public sector, ... the donors focus on operating and pricing techniques for private, or commercialised, companies.”<sup>277</sup> If the private sector itself has acknowledged that it cannot squeeze a profit from long-term infrastructure investment, then the profit-seeking arm of the World Bank, the IFC,

should not be expected to finance what is and always has been a public sector imperative.

Today, “the international financial institutions and national finance ministries—all public sector institutions sustained by public finance—act as a de facto international lobby group to protect [public-private partnerships] and discourage direct state-funding of infrastructure.”<sup>278</sup> Redirecting this support toward public infrastructure investment has the potential to represent one of the most meaningful contributions to a sustainable future in decades.

### Based on the findings of this report, the World Bank should:

- Stop all support—financial and otherwise—for water privatization, beginning by divesting from all equity positions in water corporations.
- Revitalize World Bank funding for public water agencies to expand infrastructure and access.
- Stop promoting water privatization through research, public relations, advocacy and direct advisory services aimed at marketing privatization to borrower governments and populations.

Public investment in infrastructure has proven time and again to be the only viable means of delivering broad and equitable access to water. What has worked in the past cannot be denied to those still in need. Too many decades have already been lost pursuing the pipe dream of private water; the time has come for the World Bank to commit to public water.

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<sup>25</sup> "Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal," Freedom from Debt Coalition, March 2009, [http://fdc.ph/index.php?option=com\\_docman&task=doc\\_details&gid=70&Itemid=89](http://fdc.ph/index.php?option=com_docman&task=doc_details&gid=70&Itemid=89) (accessed March 6, 2012).

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<sup>27</sup> "New Rules, New Roles: Does PSP Benefit the Poor? The Corporate Muddle of Manila's Water Concessions," WaterAid and Tearfund, 2003, [http://www.wateraid.org/documents/plugin\\_documents/pspmanila.pdf](http://www.wateraid.org/documents/plugin_documents/pspmanila.pdf) (accessed March 6, 2012).

<sup>28</sup> "New Rules, New Roles: Does PSP Benefit the Poor? The Corporate Muddle of Manila's Water Concessions," WaterAid and Tearfund, 2003, [http://www.wateraid.org/documents/plugin\\_documents/pspmanila.pdf](http://www.wateraid.org/documents/plugin_documents/pspmanila.pdf) (accessed March 6, 2012).

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<sup>30</sup> Roel Espiritu, "Water in the Green Economy in Practice: Towards Rio +20," paper presented at the UN Water International Conference, Zaragoza, Spain, October 3-5, 2011, [http://www.un.org/waterforlifedecade/green\\_economy\\_2011/pdf/session\\_2\\_green\\_jobs\\_cases\\_philippines.pdf](http://www.un.org/waterforlifedecade/green_economy_2011/pdf/session_2_green_jobs_cases_philippines.pdf) (accessed April 9, 2012).

<sup>31</sup> Many different calculations have been used to quantify the tariff increases following privatization, although all agree that the increase was over 300 percent in every area. In this case study, we use the official statistic of 450-850 percent, as cited in the Resolution taken by the Philippine legislature in July, 2010 to demand a full investigation of the concession contracts.

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<sup>32</sup> Summary of Project Information, "Manila Water Company," International Finance Corporation, <http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SPI22621> (accessed March 6, 2012).

<sup>33</sup> "Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal," Freedom from Debt Coalition, March 2009, [http://fdc.ph/index.php?option=com\\_docman&task=doc\\_details&gid=70&Itemid=89](http://fdc.ph/index.php?option=com_docman&task=doc_details&gid=70&Itemid=89) (accessed March 6, 2012).

<sup>34</sup> Itzhak Kornfeld, "A Global Water Apartheid: From Revelation to Resolution," *Vanderbilt Journal of Transnational Law*, Vol. 43, 2010, 716, [http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC4QFjAA&url=http://www.vanderbilt.edu/2Fpublications/2Fjournal-of-transnational-law/2Farchives/2Fvol-43-number-3/2Fdownload.aspx%3Fid%3D5948&ei=yds7T8HgFeL1ogHRz\\_CU&usq=AFQjCNE7e3KgXUING8gufUDYB7SStNhLvQ](http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC4QFjAA&url=http://www.vanderbilt.edu/2Fpublications/2Fjournal-of-transnational-law/2Farchives/2Fvol-43-number-3/2Fdownload.aspx%3Fid%3D5948&ei=yds7T8HgFeL1ogHRz_CU&usq=AFQjCNE7e3KgXUING8gufUDYB7SStNhLvQ) (accessed April 9, 2012).

<sup>35</sup> Sarah Hale, "Water Privatization in the Philippines: The Need to Implement the Human Right to Water," *Pacific Rim Law & Policy Journal Association*, Vol. 15, No. 3, 2006, 773, <http://digital.law.washington.edu/dspace-law/bitstream/handle/1773.1/637/15PacRimLPolyJ765.pdf?sequence=1> (accessed April 9, 2012).

<sup>36</sup> "Recalibrating the Meter: A ten-year overview of the MWSS Privatization Deal," Freedom from Debt Coalition, March 2009, [http://fdc.ph/index.php?option=com\\_docman&task=doc\\_details&gid=70&Itemid=89](http://fdc.ph/index.php?option=com_docman&task=doc_details&gid=70&Itemid=89) (accessed March 6, 2012).

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<sup>38</sup> "Manila Water's Contract Extension Approved," ABS-CBN News, October 22, 2009, <http://www.abs-cbnnews.com/business/10/22/09/manila-waters-contract-extension-approved> (accessed March 6, 2012).

<sup>39</sup> Mildred Warner, "Reversing Privatization, Rebalancing Government Reform: Markets, Deliberation and Planning," *Policy And Society*, 27, 2008, 163-174, <http://government.cce.cornell.edu/doc/pdf/PolAndSociety2008.pdf> (accessed April 9, 2012).

<sup>40</sup> Gaurav Dwivedi, *Public-Private Partnerships in Water Sector: Partnerships or Privatisation?*, (Badwani (MP), Manthan Adhyayan Kendra, 2010), 45, <http://www.manthan-india.org/spip.php?article59> (accessed April 9, 2012).

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<sup>43</sup> Dieter Zinnbauer and Rebecca Dobson, eds, *Global Corruption Report 2008: Corruption in the Water Sector*, (Cambridge University Press, 2008), 60, [http://www.transparency.org/publications/gcr/gcr\\_2008](http://www.transparency.org/publications/gcr/gcr_2008) (accessed April 9, 2012).

<sup>44</sup> Gaurav Dwivedi, *Public-Private Partnerships in Water Sector: Partnerships or Privatisation?*, (Badwani (MP), Manthan Adhyayan Kendra, 2010), 45, <http://www.manthan-india.org/spip.php?article59> (accessed April 9, 2012).

<sup>45</sup> "New Rules, New Roles: Does PSP Benefit the Poor? The Corporate Muddle of Manila's Water Concessions," *WaterAid and Tearfund*, 2003, [http://www.wateraid.org/documents/plugin\\_documents/pspsmanila.pdf](http://www.wateraid.org/documents/plugin_documents/pspsmanila.pdf) (accessed March 6, 2012).

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<sup>48</sup> Naren Prasad, "Privatisation Results: Private Sector Participation in Water Services After 15 Years," *Development Policy Review*, 24, 2006, 682, [http://www.sarpn.org/documents/doo02466/Privatisation\\_results\\_Prasad\\_2006.pdf](http://www.sarpn.org/documents/doo02466/Privatisation_results_Prasad_2006.pdf) (accessed April 9, 2012).

<sup>49</sup> "Public Private Partnership Units: Lessons for their Design and Use in Infrastructure," *Public-Private Infrastructure Advisory Facility*, October 2007, <http://www.ppiaf.org/ppiaf/sites/ppiaf.org/files/publication/WB%20-%20PPP%20Units%202007.pdf> (accessed March 6, 2012).

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<sup>51</sup> Mary Ann Manahan, "Water Privatization Project Crumbles: the Philippine Experience," paper presented at the Global Sell-Out of Public Services event organized by the EU Network, November 2004.

<sup>52</sup> Roel Landingin, "Loaves, Fishes and Dirty Dishes: Manila's Privatized Water Can't Handle the Pressure," *Center for Public Integrity*, February 7, 2003, <http://projects.publicintegrity.org/water/report.aspx?aid=51> (accessed March 6, 2012).

<sup>53</sup> Roel Landingin "Loaves, Fishes and Dirty Dishes: Manila's Privatized Water Can't Handle the Pressure," *Center for Public Integrity*, February 7, 2003, <http://projects.publicintegrity.org/water/report.aspx?aid=51> (accessed March 6, 2012).

<sup>54</sup> "Public Private Partnerships for Urban Water Utilities: A review of experiences in developing countries," *Public-Private Infrastructure Advisory Facility*, February 2009, <http://www.ppiaf.org/ppiaf/sites/ppiaf.org/files/FINAL-PPPsforUrbanWaterUtilities-PhMarin.pdf> (accessed March 6, 2012).

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<sup>58</sup> Antoine Frérot, *Water: Towards a Culture of Responsibility* (Durham, NH: University of New Hampshire Press, 2011), 157.

<sup>59</sup> World Development Movement, "Heading for Failure: How water privatisation threatens the Millennium Development Goals," September 2005, <http://www.bvsde.paho.org/bvsacd/cd61/heading.pdf> (accessed March 6, 2012).



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<sup>66</sup> Suez Environnement, Water, “Projects and Key Figures,” <http://www.suez-environnement.com/water/projects-key-figures/> (accessed March 6, 2012).

<sup>67</sup> Scheherazade Daneshkhu, Jennifer Thompson and Stanley Pignal, “CDC to aid French municipalities,” *Financial Times*, October 10, 2011, 16.

<sup>68</sup> IFC purchased €100 million equity in Veolia Voda in 2010. The investment proposal was for €50 million. Veolia Voda, “Summary of Proposed Investment,” International Finance Corporation, [http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SPI\\_DP27973](http://www.ifc.org/ifcext/spiwebsite1.nsf/ProjectDisplay/SPI_DP27973) (accessed March 6, 2012). For coverage of the full €100 million as executed, see: Scott Thrill, “Watch Out: the World Bank is Quietly Funding a Massive Corporate Water Grab,” *AlterNet*, November 2, 2010, <http://www.alternet.org/story/148700/> (accessed March 6, 2012).

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<sup>74</sup> Veolia Environnement, “Registration Document 2010: Annual Financial Report,” 408, [http://www.finance.veolia.com/docs/VEO\\_DRF\\_EN\\_MEL.pdf](http://www.finance.veolia.com/docs/VEO_DRF_EN_MEL.pdf) (accessed March 8, 2012).

<sup>75</sup> Suez Environnement, “Consolidated Financial Statements of Suez Environment Company For the fiscal years ended Dec 31 2010 and 2009,” 36-38, [http://www.suez-environnement.com/document/?f=finance/en/consolidated\\_financial\\_statement\\_suez\\_environnement.pdf](http://www.suez-environnement.com/document/?f=finance/en/consolidated_financial_statement_suez_environnement.pdf) (accessed March 8, 2012).

<sup>76</sup> David Hall, Emanuele Lobina and Violeta Corral, “Replacing Failed Private Water Contracts,” Public Services International Research Unit, February 2011, available on request from PSIRU: [psiru@psiru.org](mailto:psiru@psiru.org) (accessed March 6, 2012).

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<sup>82</sup> Joseph Karanja, “Focusing on Performance,” *Global Water Intelligence*, April 2011, 212.

<sup>83</sup> Antoine Frérot, *Water: Towards a Culture of Responsibility*, (Durham, NH: University of New Hampshire Press, 2011), 150.

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