

Thinking inside the Box: Why the World Bank is not Learning

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The World Bank aspires to be a “Learning Organisation”, the “Knowledge Bank”¹. The evidence on the World Bank’s position on water services from The Hague World Water Forum in 2009 to the Istanbul World Water Forum suggests that the Bank’s cognitive process is dysfunctional. More precisely, the Bank’s processing of information and turning knowledge into action is dogmatically devoted to the development of market opportunities for private companies. This approach has been maintained despite the increasing emergence of evidence on two crucial aspects: a) the problems with private sector participation (PSP); and b) the developmental potential offered by public sector reform under full public ownership and full public management. The Bank justifies continuing promoting PSP and the commercialisation of public utilities as a result of a selective processing of knowledge. We offer two explanations for the Bank’s insistence on ignoring the evidence on the problems with PSP and the merits of strengthening public sector water delivery. First, the Bank’s cognitive process is prey to the vested interests of influential water multinationals and their lobby groups. Second, World Bank thinking and action is informed by neoliberal ideology which does not recognise any substantial role in development for non-market instruments (unless these are functional to supporting market development). The combination of these two factors seriously undermines prospects for achieving what is the ultimate, intended remit of the Bank: promoting social and economic development on the ground.

1. From The Hague to Istanbul, the World Bank’s position on the private and public sector has changed in rhetoric but little in substance

From The Hague World Water Forum to Istanbul, the World Bank’s position on the role of the private and public sector in water has changed in rhetoric but little in substance. In essence, World Bank positions in the last nine years reflect the main messages of the World Water Vision and the Framework of Action launched by the World Water Council (WWC) and Global Water Partnership (GWP) at The Hague World Water Forum in 2000. The World Water Vision and the Framework of Action expected major private investments, a major operational role for multinationals and public subsidies to meet social goals “where the private sector is unwilling or unable to participate”². After nine years and much “soul searching” (see below for details), the current World Bank position on the role of the private and public sector, as represented by Philippe Marin’s presentation at the February 2009 World Bank Water Week, has not moved further in many respects. This still emphasises the role of the private sector in managing water operations, and call for public sector to provide public investment capital and subsidies to enable private operations³. Jamal Saghir, Director of Energy, Transport and Water, World Bank has even emphasised the role of the private sector in delivering capital investment⁴, despite a number of World Bank studies and multinationals’ presentations acknowledging that the private sector has not contributed and should not be expected to contribute the needed amounts of investment capital⁵. The World Bank is now calling for an end to the debate on public vs. private service provision. As the Bank’s initiatives remain skewed to the private sector and to transform public utilities into partly-privatised and commercially-oriented operators behaving like private companies⁶, the Bank’s call appears disingenuous.

2. World Bank thinking has been informed by documents launched at The Hague, Kyoto and Mexico World Water Forum by a self-referential elite

The World Bank’s thinking in the last nine years has been informed by documents launched by the World Water Council (WWC) and the Global Water Partnership (GWP) at The Hague, Kyoto and Mexico World Water Forum. These documents include the World Water Vision/Framework of Action, the Camdessus Report and the Gurria Task Force Report. The development of these reports revolved around the systematic involvement of like-minded organisations, including the World Bank and other international financial institutions (IFIs) and multinationals, and select individuals.

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The private sector-friendly network of organisations and individuals behind the World Water Vision/Framework of Action and The Hague World Water Forum was illustrated by the PSI Briefing “Controlling the Vision and Fixing the Forum: the politburo of privatisation” (available at <http://www.psiru.org/reports/2000-03-W-Hclub.doc>). The composition of both the Camdessus Panel⁷ and the Gurria Task Force⁸ shows a recurrent pattern of connections between pro-market organisations (e.g., IFC, IMF, IADB, ADB, AFD, OECD, EBRD) and involvement of the same individuals (e.g. Ismail Serageldin, Angel Gurria, Gérard Payen). What is striking is the systematic influence exerted by water multinationals: a) through direct representation in the Panel and the Task Force; b) through the representation of lobby groups - former Suez CEO Gérard Payen sat on both the Camdessus Panel and the Gurria Task Force as President of the water multinationals lobby group Aquafed; and, c) through their influence on bodies like the WWC and GWP (see the briefing “Controlling the Vision and Fixing the Forum: the politburo of privatisation” for more details)⁹. The second part of this paper looks in more detail at the web of organisations behind the Istanbul World Water Forum and the effect this has on controlling its agenda and the expected outcomes.

3. The World Bank’s position on the private sector has changed in function of the multinationals’ interest in entering developing markets

The World Bank’s position on the role of the private and public sector in water in the last nine years has changed in function of the multinationals’ interest in entering developing markets. The watershed was represented by the January 2003 press release announcing that Suez would “prepare to depart” from developing countries unless it was shielded by governments and IFIs from the risks of providing capital investment and managing infrastructure¹⁰. Between January 2003 and March 2006, the World Bank has reportedly admitted to past “irrational exuberance” on the expected benefits of PSP¹¹, it has gone through “soul searching” on the role of the private sector and has claimed to have become “agnostic” on privatisation¹². Jamal Saghir has even acknowledged at the Mexico World Water Forum that the previous 15 years had been wasted in developmental efforts as a result of the insistence of multilateral agencies on imposing privatisation¹³. The Bank’s soul searching was interrupted eight months later, in November 2006, by an Aquafed presentation at a joint OECD and World Bank event in Paris¹⁴. Gérard Payen’s presentation claimed that PSP was growing, that the termination of flagship concessions like Buenos Aires and La Paz/El Alto had to be reassessed, and that PSP in developing countries had successfully delivered. It also called for policy makers to abandon the unrealistic expectations of the private sector’s ability to provide private capital investment (expectations which, incidentally, had been fuelled by the World Bank and the multinationals up until The Hague World Water Forum). Instead, public authorities had to support PSP politically, with public subsidies and removing risks for private operators. The multinationals thus signalled that they were still interested in exploiting profitable market opportunities. Since then, and despite a few nuances, the Bank’s position on the role of the private sector has once again chimed with the multinationals. In his Water Week 2009 presentations, Philippe Marin, World Bank interprets the significance of cancelled concessions, the global presence of PSP (including the local private sector) and the delivery of private operations in line with Aquafed’s 2006 presentation¹⁵. In November 2006, Jamal Saghir announced in Paris that the “Private sector is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development ... PPPs need to be mainstream as an important policy tool to provide public services ... IFC and the World Bank stand ready to continue supporting PPPs”¹⁶. Mr. Saghir repeated similar statements at the World Bank Water Week 2007¹⁷. It is not clear whether this shows that the World Bank is still expecting private operators to deliver private capital. In fact, Philippe Marin’s Water Week 2009 presentations emphasise the importance of public funding of investment under private operations¹⁸. The old insistence on full cost recovery has also diminished in World Bank documents, provided that cross subsidies and public subsidies ensure profitability. The Bank stands ready to adapt its neoliberal dogmas as long as the interests of the multinationals are safeguarded.

4. The World Bank has ignored studies showing that assumptions of superior private efficiency are unfounded

The World Bank has ignored or downplayed studies showing that the assumptions on which its position on the role of the private sector is based are unfounded. Such assumptions include expectations of superior private efficiency, that risk allocation/mitigation can serve as driver for private sector efficiency, and that private sector involvement is a conduit for private investment. These studies have been produced by academics and experts from as varying backgrounds as to include the Brookings Institute (Clarke et al., 2004; Wallsten and Kosec (2005), World Bank experts (Estache and Rossi, 2002; Briceño-Garmendia et al., 2004; Estache et al., 2005; Annez, 2006), IFIs such as the IMF and the ADB (IMF, 2004; ADB, 2004)¹⁹, the University of Manchester (Kirkpatrick et al., 2004) and the University of Greenwich (Lobina and Hall, 2003)²⁰.

Estache and Rossi (2002) on the performance of water operators in 50 Asian cities conclude that: "The results show that efficiency is not significantly different in private companies than in public ones"²¹. In 2004 the Asian Development Bank conducted a survey of 18 cities in Asia, which included two cities with private sector concessions - Manila and Jakarta. These were performing significantly worse than average on some indicators of coverage for water and sewerage, investment, about the same on six indicators, and relatively well on another five indicators (including revenue collection, and minimizing the number of staff per 1000 connections). Clarke et al. (2004) use household surveys to compare the increase in household water and sanitation connections in Argentina, Bolivia and Brazil. The study looks at both cities which had private sector participation, and cities which had no private sector involvement. It concludes that: "while connections appear to have generally increased following privatization, the increases appear to be about the same as in cities that retained public ownership of their water systems". An IMF paper, written in consultation with the World Bank and published in March 2004, indicates that the evidence does not support a general assumption of superior private sector efficiency. It states that: "It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services..." and supports this by reference to the arguments and evidence: "Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed. ...". Kirkpatrick et al. (2004) look at 110 African water utilities, including 14 private, and find no significant difference between public and private operators in terms of cost. Estache et al. (2005) summarise the econometric evidence on the efficiency of public and private water operators in transition and developing countries thus: "in general, there is no statistically significant difference between the efficiency performance of public and private operators in (the water) sector". Wallsten and Kosec (2005) look at public and private water operators in the USA in terms of regulatory compliance and household expenditure on water. They find that "when controlling for water source, location fixed effects, county income, urbanization, and year, there is little difference between public and private systems".

Finally, Annez (2006) finds that 38% of water supply and sanitation deals recorded in the World Bank's own database on private participation in infrastructure (PPI) are characterised as "problem projects", a much higher percentage than for transport and energy. Lobina and Hall (2003) review the problems with more than 40 private water concessions and operating contracts in 22 countries in developed, transition and developing countries. They find evidence of systematic problems in terms of private operators' performance and opportunistic behaviour. They argue that risk allocation/mitigation is not the solution but often the problem behind the poor performance of private water operators and that PPPs imply considerable risks for host countries' taxpayers and citizens.

The World Bank has ignored the lack of evidence supporting the assumption of superior private sector efficiency and has overlooked the evidence of the problems with PSP, including those with risk allocation and mitigation. Instead, the Bank has opted for insisting on promoting PSP. In that sense, despite acknowledging that private operators have delivered below contracted targets, Philippe Marin's Water Week 2009 presentations are in line with the multinationals' narrative. This is centered around the ideas that private operators can and do deliver quality service and efficiency provided they are relieved from the duty to finance capital investment, are supported by public subsidies in delivering service for the poor and generally protected from a variety of operational and political risks.

Recent World Bank studies (Marin, 2009; Gassner et al., 2009) implicitly confirm that there is no superior private sector efficiency as they find little variation in tariff levels between private and public water operators. However, the World Bank is still promoting PSP as a way to achieve efficiency even if the assumed efficiencies of private operations are not apparently passed on to end users in the form of lower tariffs.

5. The World Bank sees risk mitigation as key to enabling greater private sector involvement

The World Bank reserves an important role to risk mitigation (among others, through resort to the World Bank Group's IFC and MIGA) as a vehicle for enabling greater private sector involvement. For example, the IFC and French Development Agency AFD have jointly acquired a 20% equity stake in Veolia Water's division for Africa, the Middle East and India. IFC's involvement in supporting private operations should be considered as part of the transaction costs borne for the promotion of PSP. The higher transaction costs associated with the introduction of private operations, as opposed to reforming public water operators or developing public-public partnerships - PUPs (Lobina and Hall, 2003; Lobina and Hall, 2006), are usually not considered when evaluating the relative advantages of public and private operations. Lack of consideration for the cost effectiveness of using IFC funds to protect private operators in their pursuit of profitability is surprising given the incidence of termination affecting private concessions supported by the IFC. The IFC was involved as a shareholder in the Aguas Argentinas concession in Buenos Aires and the Aguas del Illimani concession in La Paz/Elto, both of which failed. The IFC was also indirectly involved in the SANEPAR

concession in Paraná, Brazil through its shareholding in Andrade Gutierrez. The Brazilian company participated in Domino Holding, a Veolia-led consortium part-owning and operating SANEPAR. Domino's performance has caused considerable controversy, not least for drastically cutting down the number of families benefiting from social tariffs, until Domino exited from the SANEPAR concession.

The IFC and a number of bilateral development agencies are reacting to the global financial crisis by bailing out private projects with public funds. The IFC has created a global "equity fund" and a "loan financing trust" to support PPPs or purely private infrastructure projects that would be otherwise be extremely difficult to fund. The IFC is contributing \$300 billion of public sector money to this equity fund, and expects 'others' to contribute between \$1.2 billion and \$10 billion. Locking up aid in this way would prevent it being used to finance other services. In March 2009, the AFD and ODI jointly called for "new modes of development financing" in response to the global financial crisis. These would be aimed at "supporting the private sector and equipping territories with coherent and well-organised infrastructures". At the same time, a Spanish government fund established to support the development of public sector water operations in developing countries has been opened to private sector projects with no explanation. Pressure on private water companies, including Spanish ones, to tap public funds has increased as a result of the global financial crisis. Increased channelling of public funds to the private sector, either through IFC, other IFIs or national governments, results in a reduction of financial support for public water operations in developing countries. The above further shows that World Bank and IFIs' publicly-funded resources are being used for developing market opportunities in the interest of multinationals, not for promoting development.

6. The World Bank's selective approach to interpreting empirical evidence is biased towards promoting its favourite reform options

The World Bank's selective approach to interpreting and presenting empirical evidence to the public is biased towards promoting its favourite reform options. These are PSP, with current emphasis being placed on operating and management contracts, and the commercialisation of public utilities through listing on stock exchanges or the adoption of private sector practices. The latter objective, inducing public utilities to behave like private companies, is consistent with the Bank's neoliberal ideology. The Bank's approach to promoting policy options systematically ignores the successes obtained by fully publicly owned and managed and socially-oriented water operators following in-house restructuring and public-public partnerships (PUPs). The Bank's emphasis on market solutions thus undermines the prospects for achieving developmental and social objectives.

A clear example of the Bank's selective approach to interpreting information on the relative advantages of different organisational options is represented by a presentation made at the World Bank Water Week 2009. This claims that a service contract with Veolia from 2001 to 2007 resulted in Burkina Faso operator ONEA's "significant achievements demonstrated by levels of access and operational indicators". The presentation sends the favourite World Bank message that turning around a public utility is not a question of public or private ownership, as long as public utility reform is driven by the same principles informing PPPs. The presentation does not emphasise that, with the notable exception of purely commercial indicators, the performance of ONEA under full public ownership and management from 1990 to 2001 appears to be superior to that of Veolia's service contract. According to the presentation, under Veolia's service contract labour shedding resulted in staff productivity increasing from 8 staff/1000 connections to 5 staff/1000 connections. Also, billing collection improved more rapidly under Veolia (85% to 95% in 5 years) as compared to the fully public operations (70% to 85% in 11 years). What the presentation does not highlight is that the extension of service coverage through connection to piped water, a crucial indicator in Sub-Saharan Africa, was almost twice as effective under full public management as under Veolia's service contract. Service coverage grew from 53% in 1990 to 71% in 2001, an average annual increase of 1.64%. Veolia managed to increase coverage from 71% in 2001 to 76% in 2007, an average annual increase of 0.83%.

The World Bank makes some timid reference to Phnom Penh as a successful case of public utility reform. However, the Bank is economical in its efforts to advocate Phnom Penh's in-house restructuring under full public ownership and management, when compared to the overzealous promotion of PSP and commercialisation of public utilities. This is surprising, considering Phnom Penh PPWSA's impressive performance in extending service coverage (from 25% to 95%, 1993-2005) and reducing non-revenue water - NRW (from 72% to 11%, 1993-2005) which finds very few parallels with any progress made under private management.

Also surprising is the World Bank's lack of interest in promoting not-for-profit public-public partnerships (PUPs) such as those in Haiphong, Vietnam, where from 1993 to 1999 NRW fell from over 70% to around 32%, and Alexandria, Egypt where NRW decreased from 30% to 15%.

7. Conclusions

The World Bank position on reforming water services in developing countries is prey to the multinationals' vested interests and informed by neo-liberal orthodoxy. This is why the World Bank cannot learn the lessons from the 15 wasted years of developmental efforts with the privatisation experiment. This is why the World Bank insists on thinking inside the box of its own ideology. A fresh approach to promoting development is urgently needed in the Bank, with new structures and new people having the public sector water services as their core function.

8. Annex: Timeline of events, 2000-2009

| Event | Date | WB thinking: Jamal Saghir and others | WB allies: WWC/GWP; Camdessus; Gurria; Suez | Studies on private finance; private/public efficiency; risk allocation |
|-------|------------------|--|--|--|
| 1 | March 2000 | Ismail Serageldin states that the public sector shouldn't be a service provider and should allow local communities and multinationals to take over | | |
| 2 | March 2000 | The World Water Vision and the Framework of Action are launched at the Hague World Water Forum by the World Water Council and GWP. They expect major private investments, a major operational role for multinationals and public subsidies to meet social goals "where the private sector is unwilling or unable to participate" | The World Water Vision and the Framework of Action are launched at the Hague World Water Forum by the World Water Council and GWP. They expect major private investments, a major operational role for multinationals and public subsidies to meet social goals "where the private sector is unwilling or unable to participate" | |
| 3 | December 2000 | Jamal Saghir becomes Director of Energy and Water, World Bank | | |
| 4 | February 2002 | The Bank's new Private Sector Development (PSD) strategy envisages a major role for IFC and MIGA in support of the private sector. In water, the Bank's (draft) 'Water Sector Resources Strategy' calls for a greater role for the private sector. | | |
| 5 | March 2002 | Jamal Saghir states that private sector financing worldwide is imperative and that PSP in Latin America should increase | | |
| 6 | October 2002 | | | Estache and Rossi on 50 cities in Asia: "The results show that efficiency is not significantly different in private companies than in public ones" |
| 7 | January 2003 | | SUEZ announces that it would withdraw from developing countries, except from activities that | |

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| | | | offer a better risk/return ratio. Suez expects protection from IFIs, failing which it would "prepare to depart". | |
| 8 | March 2003 | Jamal Saghir: private investment flows to developing countries dropped significantly from 1997 to 2001, but risk mitigation is the answer to involve private sector | | |
| 9 | March 2003 | | The Camdessus Report is launched at the Kyoto World Water Forum by the World Water Council and GWP. It recommends stronger guarantees for reducing private sector risks, gives a central role to restructuring water to facilitate privatisation, and to full cost recovery. | |
| 10 | March 2003 | Kyoto: "Gérard Payen, Suez, noted that PPPs can result in "win-win" benefits for everyone, including the urban poor. Jamal Saghir, World Bank, stressed the importance of engaging the private sector in improving water infrastructure and delivery, and sanitation for the urban poor". | Kyoto: "Gérard Payen, Suez, noted that PPPs can result in "win-win" benefits for everyone, including the urban poor. Jamal Saghir, World Bank, stressed the importance of engaging the private sector in improving water infrastructure and delivery, and sanitation for the urban poor". | |
| 11 | May 2003 | Jamal Saghir: "annual water supply and sanitation investments must be doubled from \$15 billion to \$30 billion to achieve the Millennium Development Goals. Partnerships between public, private sector, and civil society will be key to mobilizing resources" | | |
| 12 | July 2003 | World Bank officials said that the bank was now 'agnostic' on water privatisation and engaged in soul-searching, but policies and practice remain overwhelmingly oriented to improving the climate for private operators, for example creating a new Department for Private Participation and Finance. | | |
| 13 | November 2003 | Jamal Saghir: "We Must Look to Private Sources of Finance"; "Hybrid Models Mixing Public - Private Finance and Management Options Offers a Pragmatic Approach in the An Environment of Increased | | |

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| | | Perceived Risks"; calls for IFC loan and guarantees and MIGA instruments | | |
| 14 | November 2003 | | | Lobina and Hall (2003), posted on the WB and IADB websites: risk allocation is not the solution but the problem behind private water operators' poor performance; PPPs mean risks for host countries' taxpayers and consumers |
| 15 | January 2004 | | | Clarke et al (2004): "while connections appear to have generally increased following privatization, the increases appear to be about the same as in cities that retained public ownership of their water systems" |
| 16 | March 2004 | | | An IMF paper, written in consultation with the World Bank, indicates that the evidence does not support a general assumption of superior private sector efficiency. |
| 17 | April 2004 | Operational Guidance for World Bank staff on Public and private sector roles in water supply and sanitation "cautions against one-size-fits-all prescriptions", says that "The Bank will work with well-performing publicly owned and - operated utilities". However, World Bank support for the private sector remains: PPPs to continue receiving public funds for social goals, local private sector and small-scale providers to be encouraged. | | |
| 18 | June 2004 | The World Bank: "there was probably some 'irrational exuberance' in recent years on the potential benefits of privatization" | | |
| 19 | June 2004 | | | Kirkpatrick et al (2004) on 110 African water utilities finds no significant difference between public and private operators in terms of cost |
| 20 | December 2004 | | | A World Bank paper concludes that the collapse in aid in infrastructure investment was "largely" due to unrealistic expectations of the private sector |
| 21 | February 2005 | | | A World Bank paper (Estache et al, 2005): "in general, there is no statistically significant difference between the efficiency performance of public and private operators in (water)" in transition and developing |

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| | | | | countries |
| 22 | February 2005 | Jamal Saghir urges World Bank staff to “ <i>Think creatively</i> and outside of conventional policies” but WB still promotes PPPs | | |
| 23 | March 2005 | | | Wallsten and Kosec (2005) on regulatory compliance and household expenditure on water in USA: “when controlling for water source, location fixed effects, county income, urbanization, and year, there is little difference between public and private systems” |
| 24 | October 2005 | | Aquafed is established to promote PSP | |
| 25 | March 2006 | The Gurria Report, published by the World Water Council and GWP, is launched at the Mexico World Water Forum. It calls for targeted subsidies to connect the un-served and promotes PPPs and PSP (including the local private sector) as a vehicle to tapping investment finance | The Gurria Report, published by the World Water Council and GWP, is launched at the Mexico World Water Forum. It calls for targeted subsidies to connect the un-served and promotes PPPs and PSP (including the local private sector) as a vehicle to tapping investment finance | |
| 26 | March 2006 | At the Mexico World Water Forum, “Jamal Saghir ... acknowledged that the last 15 years were wasted in developmental efforts as a result of the insistence by multilateral agencies on imposing privatisation. Mr. Saghir stated that the World Bank is now focusing on the reform of public utilities, which will continue to be the main players for the foreseeable future” | | |
| 27 | November 2006 | | | Annez, (2006): 40% of water projects in World Bank’s own PPI database are “problem projects” |
| 28 | November 2006 | | Aquafed’s Gérard Payen speaking at OECD: 1) PSP is growing; 2) PSP in developing countries has successfully delivered; 3) policy makers have to abandon unrealistic expectations and provide political support to PSP, subsidies and risk mitigation. Point 3) is basically the same as Suez’ January 2003 press release replacing “prepare to depart” with “we are ready to go”. | |
| 29 | November 2006 | Jamal Saghir speaking at OECD refers to drop in private investment levels | | |

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| | | from 1997 to 2005; he then concludes that: "Private sector is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development ... PPPs need to be mainstream as an important policy tool to provide public services ... IFC and the World Bank stand ready to continue supporting PPPs" | | |
| 30 | February 2007 | | Presentations at the World Bank Water Week 2007 from Severn Trent, Suez, Veolia, EWP, Aquafed, Ranhill – provide an overall upbeat picture of PSP in transition and developing countries, including Veolia's reference to "the surge of new private operators in developing countries". | |
| 31 | March 2007 | Jamal Saghir: "Private sector is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth"; WB relies on risk mitigation (including joint World Bank/IFC/MIGA initiative) for delivering successful PPPs | | |
| 32 | December 2008 | In response to global financial crisis, IFC creates a global "equity fund" and a "loan financing trust" to support PPPs and private infrastructure projects. The IFC is contributing \$300 billion of public sector money to this equity fund, and expects 'others' to contribute between \$1.2 billion and \$10 billion. Locking up aid in this way would prevent it being used to finance other services. | | |
| 33 | February 2009 | Jamal Saghir: "How can we engage the private sector more vigorously?" | | |
| 34 | February 2009 | Philippe Marin, World Bank: perceived failures and cancellations are to be reassessed (in line with Gérard Payen's Nov 2006 presentation); PPPs on the increase and performing well, including local private sector (in line with Gérard Payen's Nov 2006 presentation) but | | |

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| | | acknowledges outcomes below expectation; public funding of private operations is key; private contribution is improved quality and efficiency NOT private finance; reform open to both private and public options but WB's idea of "public" is commercially-oriented and partly-privatised | | |
| 35 | March 2009 | | A Spanish governmental fund to support development of water in developing countries is opened to private sector projects with no explanation, to support Spanish private water companies during the global financial crisis. | |
| 36 | March 2009 | | In response to the global financial crisis, AFD and ODI jointly call for "new modes of development financing: supporting the private sector and equipping territories with coherent and well-organised infrastructures." | |

9. Annex II: Full Narrative of Events: 2000-2009

1) March 2000

- In occasion of the Hague World Water Forum, Ismail Serageldin states at a press conference that "I think we have to change the role of the public sector. It shouldn't be a service provider. [It] should create the framework which enables the empowerment of local communities, and international investors" (Ruba Saqr, "Government's role in water projects should be limited to monitoring — Serageldin", Jordan Times, 20 March 2000 - <http://www.jordanembassyus.org/03202000007.htm>).

2) March 2000

At the Hague World Water Forum, the World Water Council, chaired by Ismail Serageldin, launched the World Water Vision (WWV). The WWV did not envisage any significant role for the public sector and superficially assumed that all public enterprises were necessarily inefficient. It contained exaggerated and contradictory expectations on the ability of the private sector to finance the necessary investment in infrastructure. The WWV also suggested that public enterprises should be subject to the same regulatory regime of private companies (PSI, 2000: <http://www.psiru.org/reports/2000-03-W-Hclub.doc>).

The Global Water Partnership, chaired by Ismail Serageldin, launched the 'Framework of Action' which proposed that the majority of investments needed in the water sector should come from the local and international private sector. Water multinationals, it claimed, "is well able to make substantial investments to improve service delivery". As for the public sector, it envisaged a minimum role in supporting private operations with public subsidies. "Domestic governments have a role to support the poorest and meet social goals, investing in public goods where the private sector is unwilling or unable to participate" (<http://www.gwpforum.org/gwp/library/sec3b.pdf>, pp. 77-78).

3) December 2000

- "In December 2000, Mr. Saghir became Director of Energy and Water, after the reorganization of the Infrastructure Department": <http://www.wipage.de/solartransfer/download/01b92e93170a0800a/01b92e931908c8314.html>.

4) March 2002

- "The Bank's new Private Sector Development (PSD) Strategy (approved in February 2002), is essentially a blueprint for increasing reliance on the private sector in all areas of the economy, including basic service provision and infrastructure. In water, the Bank's (draft) 'Water Sector Resources Strategy' calls for a greater role for the private sector".

Bayliss, K., Hall, D. (2002) Unsustainable conditions – the World Bank, privatisation, water and energy. PSIRU Reports, 7 August 2002, p. 2 (<http://www.psiru.org/reports/2002-08-U-WB-WDR2003.doc>).

5) March 2002

- Jamal Saghir and others (Michel Camdessus, plus Enrique Iglesias, President of the Inter-American Development Bank, plus private sector representatives) at an IADB seminar in March 2002:

http://www.africanwater.org/iadb_fortaleza_conference.htm

"Jamil Saghir of the World Bank made a presentation showing that 150 billion USD per year would be needed in the region until 2015 for the improvement of water services. He went on to say that public funds would not be able to achieve this level of investment, and that the engagement of private sector financing was imperative. He stressed that already around 50 million people in the region were being served by private water operators, and that number should increase, making use of lessons learnt in the process so far.

Mr. Saghir paid special attention to the situation of the private water operators in Argentina under the financial crisis of that country. Although he considered the Argentina water privatisations a success, he indicated that there were important lessons learnt from mistakes, and that a coping strategy was needed to deal with the current crisis.

Mr. Iglesias, President of the Inter-American Development Bank, in reaction to Mr. Saghir's final point presented one possible role for the International Financing Institutions in providing certain guarantees to private operators against unmanageable risks, such as the present crisis in Argentina, and risk reduction in general to improve competition, improve services and lower prices.

The panellists from the private sector confirmed the views of the earlier speakers. They pointed out that for private investors the two major issues are and will remain: risk and return on investment. Risks must be reduced as much as possible to protect the investment and lower the cost of risk insurance. Return on investment must be realised. Most private sector speakers in this context mentioned the insensitivity of public sector regulators to the issue of return on investment, with regulators being more interested to protect the interest of the public by maintaining low prices"

6) October 2002

A study by Estache and Rossi on 50 cities in Asia, published in 2002 in the World Bank's own economics journal, concludes that: "The results show that efficiency is not significantly different in private companies than in public ones" (Antonio Estache and Martín A. Rossi: How Different Is the Efficiency of Public and Private Water Companies in Asia? World Bank Econ Rev 2002 16: 139-148. The quote is from the abstract at <http://wber.oupijournals.org/cgi/content/abstract/16/1/139>).

Willner and Parker (2002) survey the large number of studies on the question of private versus public efficiency, in both developed, developing and transition countries, and conclude that "it appears from the empirical evidence that a change of ownership from public to private is not necessarily a cure for an under-performing organisation." (Centre on Regulation and Competition, Paper No. 22 The Relative Performance Of Public And Private Enterprise Under Conditions Of Active And Passive Ownership. Johan Willner and David Parker October 2002 <http://www.competition-regulation.org.uk/wpdl149/wp22.pdf>)

7) January 2003

In January 2003, SUEZ announced that it would withdraw from many investments in developing countries, except from activities that offered a better risk/return ratio and enhanced cash generation. The crisis in Argentina had caused losses of over US\$500 million to Suez, which responded by adopting a tough bargaining strategy. Suez implied it expected protection from IFIs failing which it would simply exit developing markets.

Suez CEO Gérard Mestrallet was blunt about SUEZ approach to developing countries:

- "reduce investments,
- freeze financing in strong currencies
- and, with multilateral institutions, perfect appropriate intervention procedures
- ensure that concession granting authorities and partners stick to their commitments, failing which prepare to depart".²²

The last two clauses in particular highlight the group's conditions for any continued operation in developing countries. Multilateral institutions, meaning the development banks and the IMF, are expected to perfect 'intervention procedures' which will protect multinationals like Suez from the currency and political risk experienced in Argentina. In effect, future dollarised profits must be guaranteed, or else Suez will not invest.²³ (Hall, 2003)

"Suez' retreat poses a major problem for the financial strategies of the World Bank, the Camdessus panel on water financing, and the EU Water Initiative, all of which lay central emphasis on raising finance through extending private sector involvement" (Hall, 2003).

Suez, 2003a. Suez 2003–2004 Action Plan. http://www.suez.com/documents/english/print_VA_010903.pdf, accessed in January 2003.

Suez, 2003b. SUEZ introduces its 2003–2004 action plan: Refocus, reduce debt, increase profitability. Suez Press Release, Paris, 9 January.
<http://www.archives-suez.com/document/?f=presse/en/up970.pdf>.

Hall, D. (2003) Water multinationals in retreat - Suez withdraws investment, PSIRU Reports, January 2003 (<http://www.psiru.org/reports/2003-01-W-Suez.doc>).

8) March 2003

Hall, Lobina and de la Motte (2003) Public solutions for private problems? - responding to the shortfall in water infrastructure investment, PSIRU Reports, September 2003, p. 5 (<http://www.psiru.org/reports/2003-09-W-strats.doc>) on Jamal Saghir acknowledging decreasing private sector interest and informed of growing political opposition to privatisation at World Bank Water Week 2003.

"The acknowledgement of the failure of the policy of relying on private sector investment was made even more strikingly in presentations at the World Bank's energy week in February 2003, where a presentation by a speaker from the global consulting firm Deloitte noted *"Growing political opposition to privatization in emerging markets due to widespread perception that it does not serve the interests of the population at large"*, which they attributed to a number of features of privatisation: *"Pressures to increase tariffs and cut off nonpayers; loss of jobs of vocal union members that will be hard to retrain for the new economy; the perception that only special interests are served - privatisation is seen as serving oligarchic domestic and foreign interests that profit at the expense of the country...."*²⁴ At the same forum, the WB director for water and energy, Jamal Saghir,²⁵ identified some of the key problems in the sector as: declining interest of private sector; decreasing faith in markets; the WSSD energy agenda; and delivery of energy services to the poor.²⁶

- Jamal Saghir's presentation at World Bank Water Week 2003.

http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213366309673/0.1Jamal_Saghir_Role_of_WB_In_Changing_Water_World.pdf

Slide 11 ("Global capital flows to emerging markets have dropped significantly since 1997")

Chart showing decrease in net private investment flows to developing countries from 1997 to 2001 of around 40% (from US\$ 300 billion to well below US\$ 200 billion).

Slide 15:

Risks faced by investors in the water sector

S Currency risk

~ Dollar debt and local currency earnings

S Regulatory risk

~ Regulatory framework not implemented

S Payment/performance risk

~ Government fails to pay amounts due

S Sub-sovereign risk

~ Water investments are often at the sub-sovereign level

S "Affordability risk"

~ Private operators and consumers will not do it all – role of public investments and subsidies

Slide 29:

New instruments to leverage funding - So what to do?

S IFC, PRG and MIGA continue working with investors
 S Bank working with governments to improve investment climate and governance
 S Coordination among IFIs
 S Output Based Aid to increase private involvement
 S Reforms should facilitate local investors

9) March 2003

The Camdessus Report is launched at the Kyoto World Water Forum by the World Water Council and the GWP. Hall (2003) assesses the Camdessus report. Hall, D. (2003) Financing water for the world – an alternative to guaranteed profits, *PSIRU Reports*, March 2003 (<http://www.psiru.org/reports/2003-03-W-finance.doc>).

The Camdessus Panel recommends stronger guarantee systems for reducing private sector risks, so that the private sector can continue to play a leading role in their development model. It also gives a central role to restructuring water sectors along the French model, to facilitate privatisation; and to full cost recovery. The Camdessus Panel:

- overestimate the capacity of the private sector;
- ignore the risks for countries in providing guarantees for private concessions or BOTs;
- fail to address the central role of public sector operation and finance, and
- prefer top-down conditionalities to local political decisions on governance issues.

Former Suez Vice-President Gérard Payen sat in the Camdessus Panel (Hall and Hoedemann, 2006: 4). Hall, D., Hoedemann, O. (2006) *Aquafed - another pressure group for private water*. *PSIRU Reports*, 20 March 2006 (<http://www.psiru.org/reports/2006-03-W-Aquafed.doc>).

10) March 2003

- Jamal Saghir and Gérard Payen speaking at the Kyoto World Water Forum:
<http://www.iisd.ca/sd/3wwf/sdvol82num3.html>

“Gérard Payen, Suez, noted that PPPs can result in “win-win” benefits for everyone, including the urban poor. Jamal Saghir, World Bank, stressed the importance of engaging the private sector in improving water infrastructure and delivery, and sanitation for the urban poor”.

11) May 2003

Jamal Saghir’s views on Camdessus Report, Kyoto World Water Forum and the role of public—private partnerships.
 - Jamal Saghir, “Making Water Work for Development”, *Daily Star*, 26 May 2003:
<http://www.globalpolicy.org/security/natres/water/2003/0526making.htm>

“And during the Third World Water Forum held in Kyoto in March, governments, donors, multilateral institutions, nongovernmental organizations and the private sector were all encouraged to undertake concrete action for improved water management. The recent report of the World Panel on Financing Water Infrastructure, chaired by Michel Camdessus, has also urged the international community to intensify support in all aspects of the water sector. According to estimates of the World Commission on Water, which were quoted by the panel, water investment must increase from \$75 billion to \$180 billion annually. As part of this, annual water supply and sanitation investments must be doubled from \$15 billion to \$30 billion to achieve the Millennium Development Goals. Partnerships between public, private sector, and civil society will be key to mobilizing resources”.

12) July 2003

- “In July 2003 the Wall Street Journal ran a story headed ‘The World Bank as Privatisation Agnostic’, quoting senior WB officials on the re-appraisal of their policies on privatisation: “*There’s certainly a lot of soul-searching going on’ says Michael Klein, the World Bank’s vice president for private-sector development*”: and the article announced that “*World Bank officials have now decided it doesn’t matter so much whether infrastructure is in public or private hands*.” (Hall and Lobina, 2005: 2).

Hall, D., Lobina, E. (2005) The relative efficiency of public and private sector water. *PSIRU Reports*, September 2005 (<http://www.psiru.org/reports/2005-10-W-eficc.doc>).

13) November 2003

10. - Jamal Saghir’s presentation at IADB Conference on Financing Water and Sanitation Services: Options and Constraints, 10-11 November 2003: http://www.iadb.org/sds/conferences/waterconference/sesion5_Saghir.ppt

Slide 17

- “Public Sources of Debt Finance Are Limited – We Must Look to Private Sources of Finance”.

Slide 33

Recapping (2)

- Mobilizing balanced mix of public and private funding sources –more innovative use of public funds and subsidies
- Powered by sustained cashflows instead of taxes
- Private funding to increasingly comprise local currency alternatives
- Make PPI contracts "pro-poor".
- A Fund Channeling and Governance Framework Based on the Appropriate Allocation of Risks and Third Party Agreements is the Mechanism Needed to Align Incentives and Improve Governance
- Partial Risk and Partial Credit Guarantees
- IFC loan and Guarantees
- MIGA instruments
- Hybrid Models Mixing Public - Private Finance and Management Options Offers a Pragmatic Approach in the An Environment of Increased Perceived Risks.

14) November 2003

A PSIRU paper, posted on both the World Bank and the Inter-American Development Bank websites, reviews the problems with more than 40 private water concessions and operating contracts in 22 countries. It finds that risk allocation/mitigation is not the solution but often the problem behind the poor performance of private water operators. It finds that PPPs imply considerable risks for host countries' taxpayers and consumers. Lobina, E., Hall, D. (2003) Problems with private water concessions: a review of experience. *PSIRU Reports*, June 2003 (<http://www.psiru.org/reports/2003-06-W-over.doc>).

15) January 2004

A paper published by the Brookings Institute studies the growth in water and sanitation connections in cities in Argentina, Bolivia and Brazil, both in cities which had private sector participation, and in cities which had no private sector involvement. It concludes that “while connections appear to have generally increased following privatization, the increases appear to be about the same as in cities that retained public ownership of their water systems” ([Has private participation in water and sewerage improved coverage?: empirical evidence from Latin America.](http://www.aei-brookings.com/admin/authorpdfs/page.php?id=325) G Clarke, K Kosec, SJ Wallsten, Working paper 04-02 AEI-Brookings Joint Centre for Regulatory Studies, January 2004 <http://www.aei-brookings.com/admin/authorpdfs/page.php?id=325>).

16) March 2004

An IMF paper, written in consultation with the World Bank, indicates that the evidence does not support a general assumption of superior private sector efficiency. The IMF paper states that: “It cannot be taken for granted that PPPs are more efficient than public investment and government supply of services...” and supports this by reference to the arguments and evidence: “Much of the case for PPPs rests on the relative efficiency of the private sector. While there is an extensive literature on this subject, the theory is ambiguous and the empirical evidence is mixed. ...” (International Monetary Fund, “Public-Private Partnerships”, 12 March 2004, <http://www.imf.org/external/np/fad/2004/pifp/eng/031204.htm>).

17) April 2004

The April 2004 Operational Guidance for World Bank staff on Public and private sector roles in water supply and sanitation services state that “The Bank will work with well-performing publicly owned and -operated utilities as well as those that put in place a credible program to improve performance over time” (World Bank, 2004, p. 14).

The Foreword to the Guidance note explained that “Private financing flows for water supply and sanitation in developing countries have declined in recent years, alongside declines in private flows for other infrastructure sectors. Much of this reflects difficulties in sustaining the reforms required to place the water supply and sanitation sector on a commercial footing in many countries as well as a wider reduction in investment flows to emerging markets”. It went on saying that it “cautions against one-size-fits-all prescriptions, recognizing the variations in circumstances among developing countries”.

However, World Bank support for the private sector remained. “The recent decline in private interest means that governments face greater challenges in bringing in the private sector, particularly where investments are sought. Most public-private partnerships in the sector will continue to see substantial levels of public funding. This should be

focused on specific goals, such as improvements in access or covering a temporary shortfall in revenues over costs. Reforms should encourage the local private sector to participate where feasible, and should accommodate small-scale providers, which often serve the poor”.

World Bank (2004) Public and private sector roles in water supply and sanitation services, Operational Guidance for World Bank Group Staff, April (Washington DC: The World Bank).

<http://siteresources.worldbank.org/INTWSS/Publications/20249486/Guidance%20note%20Public%20and%20Private%20Sector%20Roles%20in%20Water%20Supply%20and%20Sanitation%20Services%20Apr%202004.pdf>

18) June 2004

The World Bank acknowledges that “there was probably some ‘irrational exuberance’ in recent years on the potential benefits of privatization” (CEFE, ‘Credible regulation vital for infrastructure reform to reduce poverty, says World Bank’. Press release, 14 June (Bad Homburg v.d.H., Germany, Competency based Economies through formation of Enterprise). Available at <http://www.cefe.net/forum/CredibleRegulation.pdf>).

19) June 2004

A study by Kirkpatrick et al, covering 110 African water utilities, including 14 private, finds no significant difference between public and private operators in terms of cost (Kirkpatrick, C. D. Parker and Y-F. Zhang (2004), “State versus Private Sector Provision of Water Services in Africa: An Empirical Analysis”, University of Manchester, Centre on Regulation and Competition, Working Paper Series, Paper No70, June 2004 <http://www.competition-regulation.org.uk/conferences/southafricasep04/kirkpatrick&parker&zhang.pdf>).

20) December 2004

A World Bank paper offers the conclusion that the collapse in aid in infrastructure investment was “largely” due to unrealistic expectations of the private sector: “Ultimately, many of the adjustments in public financing and ODA largely reflect the fact that the expectations of private sector participation in the financing of infrastructure needs were overoptimistic” (Briceño-Garmendia, Estache and Shafik. (2004). *Infrastructure Services in Developing Countries: Access, Quality, Costs and Policy Reform*. World Bank Policy Research Working Paper 3468. World Bank. Washington DC. December 2004).

21) February 2005

A World Bank paper by Estache et al in 2005 summarises the econometric evidence on the efficiency of public and private water operators in transition and developing countries thus: “Probably the most important lesson is that the econometric evidence on the relevance of ownership suggests that in general, there is no statistically significant difference between the efficiency performance of public and private operators in this sector....For utilities, it seems that in general ownership often does not matter as much as sometimes argued. Most cross-country papers on utilities find no statistically significant difference in efficiency scores between public and private providers” (Infrastructure performance and reform in developing and transition economies: evidence from a survey of productivity measures. A. Estache, S. Perelman, L. Trujillo World Bank Policy Research Working Paper 3514, February 2005).

22) February 2005

- Jamal Saghir’s presentation at World Bank Water Week

http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213804320899/0.2Implementation_Progress_and_Future_Directions_in_WSS.pdf:

Slide 16

Jamal Saghir urges World Bank staff to “Think creatively and outside of conventional policies”.

- Jamal Saghir’s presentation on ORT (Operators Round Table) at World Bank Water Week shows that World Bank’s support is still biased in favour of PPPs: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213804320899/6.0Introduction_by_Chair.pdf

- Abel Mejia’s presentation at World Bank Water Week points to Chile (where greatest majority of water services is privatised) as the only Latin American country with an advanced reform of WSS, with most of the other Latin American countries categorised as “ongoing” (slide 12): http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213804320899/1.0Introductory_Remarks_by_Co-Chairs.pdf

23) March 2005

In March 2005, a Brookings Institute paper looks at public and private water operators in the USA in terms of regulatory compliance and household expenditure on water. It finds that “when controlling for water source, location fixed effects, county income, urbanization, and year, there is little difference between public and private systems” (“Public or Private Drinking Water? The Effects of Ownership and Benchmark Competition on U.S. Water System Regulatory Compliance and Household Water Expenditures” by Scott Wallsten and Katrina Kosec. Working Paper 05-05. (March 2005) <http://www.aei-brookings.com/publications/abstract.php?pid=919>).

24) October 2005

Aquafed is established in October 2005: http://www.aquafed.org/pdf/AquaFed_PressRelease20051027_English.pdf

25) March 2006

The Gurria Report, published by the World Water Council and the GWP, is launched at the Mexico World Water Forum. The Gurria Report calls for targeted subsidies to connect the un-served and promotes PPPs and PSP (including the local private sector) as a vehicle to tapping investment finance.

http://194.242.113.59/fileadmin/Financing_water_for_all/Reports/Financing_FinalText_Cover.pdf

The Gurria Task Force on Financing Water for All included: Angel Gurria, chair of the Task Force and Secretary-General of OECD since 1st June 2006 (he was Appointed Secretary-General, OCED when chairing the Task Force); former Suez Vice-President and member of the Camdessus Panel Gérard Payen; James Winpenny, who had written the Camdessus Report; and Ismail Serageldin, former Vice-President of the World Bank until after the Hague World Water Forum.

26) March 2006

- PSI on Jamal Saghir at the Mexico World Water Forum 2006: <http://www.world-psi.org/TemplateEn.cfm?Section=Utilities&CONTENTID=11508&TEMPLATE=/ContentManagement/ContentDisplay.cfm>

“Fifteen wasted years

World Bank admits privatisation is a mistaken policy. Speaking at an official session, Jamal Saghir, Director of the World Bank’s Energy and Water division, acknowledged that the last 15 years were wasted in developmental efforts as a result of the insistence by multilateral agencies on imposing privatisation. Mr. Saghir stated that the World Bank is now focusing on the reform of public utilities, which will continue to be the main players for the foreseeable future. PSI welcomes such a change in the World Bank, but remains vigilant on whether the international financial institutions will effectively promote the genuine public sector solutions. We suspect that they continue to attempt to impose market dynamics, focusing on national and local private operators”.

- Water Integrity Network on Jamal Saghir at the Mexico World Water Forum 2006:

<http://www.waterintegritynetwork.net/page/198>.

“Privatization was mistaken:

World Bank

A change of course was signalled by Jamal Saghir, Director of the World Bank’s Energy and Water Division, who reflected that the last 20 years of efforts to privatize water supplies had been largely wasted. To avoid the next decade being similarly unsuccessful, he went on to say that we should accept that the vast majority of water services will continue to be provided by the public sector. The focus must therefore be on helping public sector utilities to function better, he said. It was pointed out that, of all the utilities, water is by far the least profitable and is therefore a very difficult sector for the private sector, compared to others like telecoms and energy. Privatization policies were the main subject of a protest on the opening day of the forum, when some 15,000 people marched through Mexico City”.

27) November 2006

Annez (2006), World Bank: 40% of water projects in PPI database are problem projects. PPPs have mobilized little private finance for urban infrastructure (water, road, rail) in developing countries, based on WB database. Local governments need good sources of public finance to fund those services.

Annez, P.C. (2006) Urban Infrastructure Finance From Private Operators: What Have We Learned From Recent Experience? World Bank Policy Research Working Paper 4045, November 2006 http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2006/10/25/000016406_20061025122215/Rendered/PDF/wps4045.pdf

28) November 2006

Aquafed presentations at UNCTAD emphasise the private sector’s contribution to universal access:

- “Private Sector Operators should be regarded as powerful tools for Public Authorities to achieve efficient and rapid implementation of their (universal access) policies”; “The impact of Private Sector Participation (PSP) on (universal access) policies has been enormous over the past decades” http://www.aquafed.org/pdf/2006-11-14_AquaFed-TVANWAEYENBERGE_PSPToolforUAPolicies_UNCTAD.pdf

- Refers to Chilean system of direct public subsidies to users, refers to concrete examples of new connections under private operations in Buenos Aires, Manila (figures refer to both concessions bundled together), Gabon and Jakarta (figures refer to only Suez concession), refers to role of small scale private sector providers http://www.aquafed.org/pdf/2006-11-15_AquaFed-XMAITREROBERT_UniversalAccesstoWaterServices_UNCTAD.pdf

The above messages are reiterated and reinforced by Gérard Payen’s presentation at the OECD Global Forum on Sustainable Development: http://www.aquafed.org/pdf/2006-11-29_OECD-WorldBank_AquaFed-Payen_WSS-globaltrends_Pc_2006-11-29.pdf

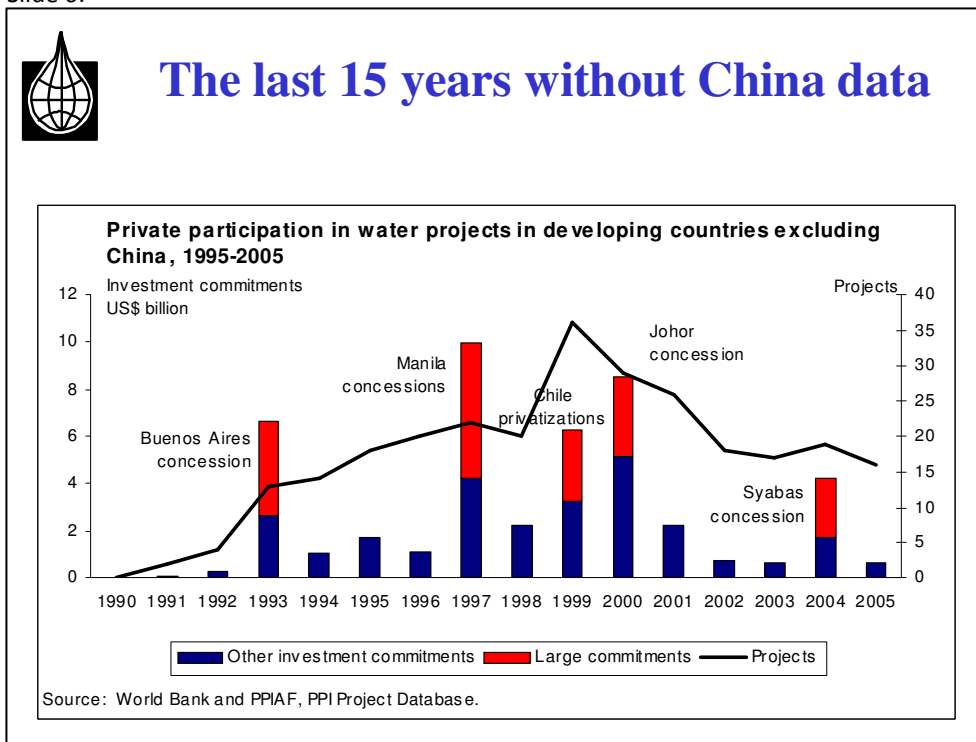
Key messages: 1) PSP is growing (slides 8-11); 2) PSP in developing countries has successfully delivered and all this talk about failures and withdrawals is nonsense (slides 17-19); 3) policy makers have to abandon unrealistic expectations and understand the importance of political support to PSP, subsidies and risk mitigation (slides 20-24). Point 3) is basically the same as Talbot’s presentation and Suez’ January 2003 press release replacing “prepare to depart” with “we are ready to go”.

29) November 2006

- Jamal Saghir (2006) Public-Private Partnerships in Water Supply and Sanitation – Recent Trends and New Opportunities. OECD Global Forum on Sustainable Development:

http://www.oecd.org/document/22/0,2340,en_2649_34343_37456726_1_1_1_1,00.html

Slide 6:





Way Forward: Rebuild and adapt the PPI/PPP

- We need to rebuild and adapt the **PPI/PPP Model** of the 90s on the basis of the lessons and experiences of the recent years and the immediate needs:
 - ✓ **Public sector role** as enabler (policy maker and regulator) and in some cases provider cannot be substitute.
 - ✓ **Private sector** is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth.
 - ✓ **End-users** play a significant role in the “political economy” required to sustain a successful PPP Program.
- The World Bank Group is committed to assist our client countries in the design and development of their PPP programs.
- We believe that only through effective partnering and increase mobilization of private resources will we be able to make a “dent” in the growth and poverty reduction agenda.
- PPPs need to be mainstream as an important policy tool to provide public services.
- IFC and the World Bank stand ready to continue supporting PPPs

Presentations at the World Bank Water Week 2007 from a host of MNCs – Severn Trent, Suez, Veolia, EWP, Aquafed, Ranhill – provide an overall upbeat picture of PSP in transition and developing countries, including Veolia’s reference to “the surge of new private operators in developing countries”.

- Philippe Marin, World Bank: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.1_New_Trends_in_Water_PPPs.pdf
- Severn Trent: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.2_Public_Private_Partnerships_in_Water_Supply_Sanitation_Services.pdf
- Suez: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.3_Toward_Sustainable_Public_Private_Partnerships.pdf
- Jamal Saghir: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.4_New_Trends_in_PPPs_for_WSS.pdf
- Veolia: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.9.1_PPPs_in_Water_Supply_and_Sanitation_Services.pdf
- EWP, Eurasian Water Partnership: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.9.2_Emerging_Private_Water_Company_of_Russia.pdf
- Gérard Payen, Aquafed: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.9.3_Achievements_and_Diversity_of_Private_Water_Operators.pdf
- Ranhill, Malaysia: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.9.4_Management_of_Water_Uilities_in_Developing_Countries.pdf

31) March 2007

- Jamal Saghir’s opening presentation at World Bank Water Week shows that World Bank’s approach to sub-national reform is still reliant on private sector solutions (slide 11 on joint World Bank and IFC initiative, in coordination with MIGA): http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/0.1.1_Water_andSustainability_Water_Week_2007_Keynote.pdf
- Jamal Saghir’s presentation at World Bank Water Week session on PPPs in WSS shows that, despite the failure of the private sector to deliver investments and results on the ground, World Bank thinking has gone full circle to where it was at The Hague – “**Private sector** is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth”; rely on risk mitigation for delivering successful PPPs: http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.4_New_Trends_in_PPPs_for_WSS.pdf

Slide 19

“Key Lessons Learned: (2) Smart Risk Allocation

The most important “P” for successful PPPs is the last one **Partnership**

- The key is to efficiently share risks, liabilities and profits between government, PPP entity and end-users.
- **Principle : Risk should be allocated to those best able to manage them**
- Allocating PPP Risk Guidelines:
- Allocate to the **party best able to influence the risk** factor (e.g., constructions cost to private sector – completion risk).
- Allocate to the **party that can best anticipate or respond** to the risk factor --influence impact or sensitivity of risk factor on project value (e.g., shifting inflation risk to users of the facility linking tariffs to CPI)
- Allocate to the **party best able to absorb** the risk (e.g., tariff setting to public sector)
- Understanding how much risks can the private party and end-user absorb is the best proxy for defining how much public money support (i.e., subsidies and guarantees) is required in that particular PPP project”

Slide 25

“Conclusion: Rebuild and adapt the PPI/PPP

We need to rebuild and adapt the **PPI/PPP Model** of the 90s on the basis of the lessons and experiences of the recent years and the immediate needs:

- **Public sector role** as enabler (policy maker and regulator) and in some cases provider cannot be substitute.
- **Private sector** is still a key player to provide the large amounts of capital and management needed to sustain infrastructure development and economic growth.
- **End-users** play a significant role in the “political economy” required to sustain a successful PPP Program.
- The World Bank Group is committed to assist our client countries in the design and development of their PPP programs.
- Effective partnering and increase mobilization of private resources could contribute in making a “dent” in the growth and poverty reduction agenda”

32) December 2008

The IFC, the private sector financing arm of the World Bank, believes that the credit squeeze will make it even harder to finance PPPs. It estimates that \$110 billion worth of proposed PPPs may be delayed or cancelled, and that \$70 billion of existing PPPs are at risk because of increased costs of financing these projects for the private sector.²⁷

The IFC also states that private investors are less interested in infrastructure in developing countries: “Hedge funds are rapidly scaling back their investments and private equity funds are hoarding capital; Asian and Middle Eastern sovereign wealth funds may divert more of their portfolios to their regions; investors are demanding higher returns for a given level of risk; poorer developing countries are being crowded out as private investors are focusing on the largest emerging markets.”²⁸

The IFC itself has created a global “equity fund” and a “loan financing trust” to support PPPs or purely private infrastructure projects. The IFC is contributing \$300 billion of public sector money to this equity fund, and expects ‘others’ to contribute between \$1.2 billion and \$10 billion. These ‘others’ are probably intended to be donor countries or agencies, contributing more public sector aid and finance, to sustain private sector infrastructure projects. Locking up aid in this way would prevent it being used to finance other services.

IFC Infrastructure Crisis Facility Fact Sheet. 2008

[http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/IssueBrief_ICF/\\$FILE/IssueBrief_ICF.pdf](http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/IssueBrief_ICF/$FILE/IssueBrief_ICF.pdf) .

Hall, D. (2009) <http://www.psiru.org/reports/2009-01-crisis-2.doc>

33) February 2009

- Jamal Saghir, WB Water Week 2009, Keynote Speech

(http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/0.1_WaterWeek2009_Jamal_Keynote.pdf), slide 37:

“How can we engage the private sector more vigorously?”.

- Jamal Saghir, WB Water Week 2009, INFRA presentation

(http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/0.4_WBG_INFRA_JS.pdf), slide 6: “Infrastructure Recovery and Assets (INFRA) is a WBG response to

the financial crisis to assist countries provide fiscal stimulus through infrastructure investment and create and maintain employment. INFRA proposes to do this by ... **supporting PPPs in infrastructure**”

34) February 2009

Philippe Marin, World Bank, two presentations at World Bank Water Week 2009: perceived failures and cancellations are to be reassessed (in line with Gérard Payen's Nov 2006 presentation); PPPs on the increase and performing well, including local private sector (in line with Gérard Payen's Nov 2006 presentation) but acknowledges outcomes below expectation; public funding of private operations is key; private contribution is improved quality and efficiency NOT private finance; reform open to both private and public options but WB's idea of "public" is commercially-oriented and partly-privatised.

Source: Philippe Marin, Public Private partnerships for Urban Water Utilities: a Review of Experiences in Developing Countries, Part One: Performance of water PPPs, World Bank Water Week 2009, Washington DC, February 17, 2009 (http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/3.1_Water_PPP1.pdf); Philippe Marin, Public Private partnerships for Urban Water Utilities: a Review of Experiences in Developing Countries, Part Two: New trends for water PPPs, World Bank Water Week 2009, Washington DC, February 17, 2009 (http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/3.5_Water_PPP2.pdf).

35) March 2009

A Spanish governmental fund to support development of water in developing countries is opened to private sector projects with no explanation, to support Spanish private water companies during the global financial crisis.

Source: S. PÉREZ DE PABLOS, El Ejecutivo abre el fondo del agua a la gestión privada - Polémico arranque del millonario plan de cooperación, El País, 3 March 2009 (http://www.elpais.com/articulo/sociedad/Ejecutivo/abre/fondo/agua/gestion/privada/elpepusoc/20090303elpepusoc_6/Tes).

36) March 2009

In response to the global financial crisis, French Development Agency AFD and the UK's Overseas Development Institute (ODI) jointly call for "new modes of development financing: supporting the private sector and equipping territories with coherent and well-organised infrastructures."

Source: Jean-Michel Debrat and Simon Maxwell, The recession's storm holds a silver lining for development cooperation, *Europe's World*, Spring 2009 (<http://www.europesworld.org/NewEnglish/Home/Article/tabid/191/ArticleType/articleview/ArticleID/21356/Default.aspx>).

¹ Source:

<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/0,,contentMDK:20212624~menuPK:575902~pagePK:209023~piPK:207535~theSitePK:213799,00.html>.

² Source: GWP, "Tackling urgent water priorities", Themes for action (<http://www.gwpforum.org/gwp/library/sec3b.pdf>, pp. 77-78).

³ Source: Philippe Marin, Public Private partnerships for Urban Water Utilities: a Review of Experiences in Developing Countries, Part One: Performance of water PPPs, World Bank Water Week 2009, Washington DC, February 17, 2009 (http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/3.1_Water_PPP1.pdf); Philippe Marin, Public Private partnerships for Urban Water Utilities: a Review of Experiences in Developing Countries, Part Two: New trends for water PPPs, World Bank Water Week 2009, Washington DC, February 17, 2009 (http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/3.5_Water_PPP2.pdf).

⁴ Source: Jamal Saghir, Public-Private Partnerships in Water Supply and Sanitation – Recent Trends and New Opportunities, OECD Global Forum on Sustainable Development, Paris, 29-30 November 2006 (<http://www.oecd.org/dataoecd/3/61/37723389.pdf>), slide 27.

⁵ See for example Philippe Marin, note 3 above; Gérard Payen, Aquafed, Water & sanitation services - Trends at the global level: a private perspective, OECD Global Forum on Sustainable Development, Paris, 29-30 November 2006 (<http://www.oecd.org/dataoecd/37/16/37770297.pdf>), slide 13: "Operators are not bankers".

⁶ Source: Philippe Marin, Public Private partnerships for Urban Water Utilities: a Review of Experiences in Developing Countries, Part Two: New trends for water PPPs, World Bank Water Week 2009, Washington DC, February 17, 2009

(http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1234469721549/3.5_Water_PPP2.pdf) , slides 15-16.

⁷ See “List of panel members and others”, pp. ix-x in Camdessus, M. (2003) Financing Water for All - Report of the World Panel on Financing Water Infrastructure. Chaired by Michel Camdessus. Report written by James Winpenny. Presented at 3rd World Water Forum, Kyoto, Japan, 16–23 March 2003.

⁸ See “Annex I - List of Task Force members”, pp. 32-33 in Gurria, A. (2006) Task Force on Financing Water For All, Report 1: Enhancing access to finance for local governments - Financing water for agriculture. Chaired by Angel Gurria, report written by Paul van Hofwegen, World Water Council (http://194.242.113.59/fileadmin/Financing_water_for_all/Reports/Financing_FinalText_Cover.pdf).

⁹ PSI Briefing “Controlling the Vision and Fixing the Forum: the politburo of privatisation”

(<http://www.psiru.org/reports/2000-03-W-Hclub.doc>)

¹⁰ Suez (2003) SUEZ introduces its 2003–2004 action plan: Refocus, reduce debt, increase profitability. Suez Press Release, Paris, 9 January

<http://www.archives-suez.com/document/?f=presse/en/up970.pdf>; Hall, D. (2003) Water multinationals in retreat - Suez withdraws investment, PSIRU Reports, January 2003 (<http://www.psiru.org/reports/2003-01-W-Suez.doc>).

¹¹ Hall, D. & Lobina, E. (2004) Private and public interests in water and energy, in *Natural Resources Forum*, 28, p. 292 (<http://www.psiru.org/reports/2005-06-W-E-resist.pdf>).

¹² Hall, D., Lobina, E., and de la Motte, R. (2003) Public solutions for private problems? - responding to the shortfall in water infrastructure investment, PSIRU Reports, September 2003, p. 5 (<http://www.psiru.org/reports/2003-09-W-strats.doc>); CEFE (2004) ‘Credible regulation vital for infrastructure reform to reduce poverty, says World Bank’. Press release, 14 June, p. 1 (Bad Homburg v.d.H., Germany, Competency based Economies through formation of Enterprise). Available at <http://www.cefe.net/forum/CredibleRegulation.pdf>.

¹³ PSI (2006) PSI Brief - PSI activities at the World Water Forum, “Fifteen wasted years” (<http://www.world-psi.org/TemplateEn.cfm?Section=Utilities&CONTENTID=11508&TEMPLATE=/ContentManagement/ContentDisplay.cfm>); John Butterworth and IRC International Water and Sanitation Centre (2006) The 4th World Water Forum, Mexico: A practitioner’s forum, “Privatization was mistaken: World Bank” (<http://www.waterintegritynetwork.net/page/198>).

¹⁴ Gérard Payen, Aquafed, Water & sanitation services - Trends at the global level: a private perspective, OECD Global Forum on Sustainable Development, Paris, 29-30 November 2006 (<http://www.oecd.org/dataoecd/37/16/37770297.pdf>).

¹⁵ See Philippe Marin, note 3 above.

¹⁶ Source: Jamal Saghir, Public-Private Partnerships in Water Supply and Sanitation – Recent Trends and New Opportunities, OECD Global Forum on Sustainable Development, Paris, 29-30 November 2006 (<http://www.oecd.org/dataoecd/3/61/37723389.pdf>), slide 27.

¹⁷ Jamal Saghir, New Trends in Public-Private Partnerships for Water Supply and Sanitation Services in Developing Countries, presentation at World Bank Water Week 2007, slide 25 (http://siteresources.worldbank.org/EXTWAT/Resources/4602122-1213366294492/5106220-1213649450319/3.8.4_New_Trends_in_PPPs_for_WSS.pdf).

¹⁸ See Philippe Marin, note 3 above.

¹⁹ ADB (2004) Water in Asian Cities - Utilities Performance and Civil Society Views. ADB. January 2004 (http://www.adb.org/Documents/Books/Water_for_All_Series/Water_Asian_Cities/regional_profiles.pdf).

²⁰ See Hall, D., Lobina, E. (2005) The relative efficiency of public and private sector water. PSIRU Reports, September 2005 (<http://www.psiru.org/reports/2005-10-W-effic.doc>).

²¹ Antonio Estache and Martín A. Rossi: How Different Is the Efficiency of Public and Private Water Companies in Asia? *World Bank Econ Rev* 2002 16: 139-148. The quote is from the abstract at <http://wber.oupijournals.org/cgi/content/abstract/16/1/139>.

²² Suez 2003-2004 Action Plan http://www.suez.com/documents/english/print_VA_010903.pdf

²³ The model here is presumably the action by MIGA, the World Bank’s own investment guarantee agency, which underwrote one of Enron’s projects in Indonesia. When the currency and the dictatorship of Indonesia collapsed in 1998, Enron’s project could not be afforded: so MIGA paid Enron full compensation of \$15m for their investment, and has now recouped it by forcing the Indonesian government to pay for Enron’s insurance as a condition for covering further investment in Indonesia. FT Energy Newsletters - Power in Asia March 6, 2001 Indonesia/Finance: MIGA restores risk guarantees.

²⁴ The Declining Role of Foreign Private Investment, Matthew Buresch, Deloitte Emerging Markets, World Bank Energy Forum 2003 February 24, 2003 (<http://www.worldbank.org/energy/week2003/Presentations/EnergyForum1/BureschWBForumpresentation.pdf>)

²⁵ World Bank Energy Week presentation by Jamal Saghir

(<http://www.worldbank.org/energy/week2003/Presentations/EnergyForum1/jsaghir.pdf>)

²⁶ See presentations by WB director of water and energy Jamal Saghir.

²⁷ IFC Infrastructure Crisis Facility Fact Sheet. 2008

[http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/IssueBrief_ICF/\\$FILE/IssueBrief_ICF.pdf](http://www.ifc.org/ifcext/about.nsf/AttachmentsByTitle/IssueBrief_ICF/$FILE/IssueBrief_ICF.pdf) . Thanks to Natalia Reznichenko for drawing my attention to this report.

²⁸ IFC Infrastructure Crisis Facility Fact Sheet. 2008

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