BEHIND THE WORLD BANK'S SPIN:

PRIVATE WATER'S FAILURES IN MANILA AND NAGPUR





Photo credit: Kuni Takahashi



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Introduction

Over a billion people today don't have enough safe water to drink—a global water crisis of epic proportions.¹ Worldwide, governments face a tremendous challenge to fund the infrastructure essential to deliver safe, clean water to their communities. But today, one of the world's largest water funders —the World Bank—continues to spend its tremendous resources to privatize water, making the situation worse, not better.

Today, the World Bank is aggressively promoting private water contracts to governments. But unfortunately, these contracts, or public-private "partnerships" (PPPs), are just privatization under a new name.² In fact, its two flagship "success" stories— in Manila, Philippines, and Nagpur, India—demonstrate the same problems as the older forms of privatization now universally agreed to have failed.



A resident in Nagpur, India carries a community container that's filled only once every two days by a water tanker. Photo credit: Sangeeta Mahajan.

So, why the continual push of this discredited model? One stark fact, conveniently missing from the World Bank's prolific marketing and PR materials, makes it clear. Its private sector arm, the International Finance Corporation (IFC), is a part-owner of and lead investor in the water corporations poised to profit from the operating contracts it so heavily promotes. It's a clear conflict of interest—compromising the lives of millions of people and access to their fundamental human right.

"The IFC presents itself as a partner and formal advisor in the struggle to alleviate poverty. What many don't realize is this: the IFC is a part-owner of water corporations around the world, setting itself up to profit from the deals it designs and facilitates. Decision-makers beware; the IFC's advice and water PPPs are wolves in sheep's clothing."

– Gaurav Dwivedi, Manthan Adhyayan Kendra in Madhya Pradesh, India



Public-private "partnerships": A deadly distraction

The World Bank fails on infrastructure investment

The good news: Real solutions to the global water crisis exist. Where near-universal access has been achieved, it has virtually always been through a public commitment to build and maintain infrastructure, which represents 75 percent of the cost of delivering drinking water to residents.³ Decades of privatization projects cancelled or renegotiated through arbitration have finally proven that the model has failed: corporations do not deliver funding for water infrastructure.⁴

The bad news: The private-sector "solutions" now promoted by the World Bank differ only in the details, and still fail to provide the infrastructure funding required for the 1.8 billion people in need of water today.

PPPs: Old wine in a new bottle

The World Bank most often defends its shift from promoting outright sales of water utilities to pushing operating contracts by referring to water specialist Philippe Marin's 2009 review of outcomes of watersector PPP contracts over the past 15 years.⁵ His findings? Private projects do not provide funding for water infrastructure. Instead, Marin touts PPPs for their "operational efficiencies." But this is merely a euphemism for raised rates, water shutoffs for those unable to pay (so-called "non-revenue water"), and drastic workforce reductions. Meanwhile, the PPP model leaves the underlying need for infrastructure funding unaddressed, saddling governments and water users with the additional costs of a private contract. Just as the word "privatization" was coined to escape the unpopularity of "denationalization" in the 1980s, today advocates of water privatization would prefer to use terms like PPP or "private sector participation."⁶ The World Bank's PR and marketing as well as its direct government consulting doggedly continue to pitch private water as the "new" answer for funding water infrastructure. But unfortunately putting the old wine of privatization in new bottles hasn't changed the results: driving up rates, threatening access, undermining water quality and putting millions of people's lives at risk.

Conflict of interest drives IFC's PR spin

The World Bank's promotion of a discredited model is not surprising, since its private sector arm, the IFC, has a direct financial stake in the profitability of the corporations it promotes.

While the IFC refers to its investment activity as its "buy side," the advice it offers governments is referred to as its "sell side,"⁷ as it functions to generate sales for IFC's corporate clients. But no matter the smoke-and-mirrors terminology, it all adds up to a glaring conflict of interest.

No wonder city officials around the world are hearing so much about the "successes" of private water in Nagpur, India, and Manila, Philippines. In both cases, the IFC is a part-owner of the corporations involved. As the World Bank advises governments from India to Romania to Mozambique to privatize their water systems, it is promoting these cases as "proof-of-concept" and models to emulate.⁸ The following pages reveal the truth behind this misleading PR.



Private management: A false solution to an investment problem

The need for infrastructure investment is a very real issue that governments must face with clear eyes. The inherent flaw in the PPP model is the proven fact that corporations simply do not fund infrastructure. Either the government makes funds available from taxes, cross-subsidies, development funds, or other sources, or the public pays through rising water bills. In fact, only public agencies have the mandate and obligation to command the necessary resources to make infrastructure improvements a reality. The dangerous assumption behind the World Bank's PPP model is that water users ought to pay the full cost of water infrastructure as a price of accessing this basic human right, a doctrine known as "full-cost recovery."⁹



Increased bill collections and more than fivefold rate hikes have made drinking water unaffordable for Manila's low-income people. Here, residents of Quezon City protest outside the water concessionaire's office, demanding the immediate implementation of the city's decision to cut rates in Metro Manila after yet another proposed hike in 2013. Photo credit: Sunshine Lichauco de Leon.

"Private water contracts divert the precious resources necessary to achieve universal water access. The public's funds are used to prop up corporate profits instead of building the infrastructure we so desperately need. It's an outright waste, and fails to address—and even exacerbates—the underlying problem."

– Muhammad Reza Sahib, National Coordinator at KRuHA, Indonesia, the coalition of community organizations which successfully blocked Manila Water Corporation's 2013 attempted takeover of the Jakarta water utility, and won a commitment from the governor to take the system back under public control.



Manila, Philippines: The World Bank's flagship model of "success"

Behind the spin: Unreliable access, unaffordable rates, and dirty water

The 1997 privatization of Manila's water system is the IFC's go-to "success" story for marketing to public officials as a model to replicate around the world.¹⁰ But the PPP scheme has gouged consumers, weakened transparency and democratic oversight, and failed to deliver on its promises of infrastructure investment and universal access to safe drinking water. The IFC advised the government, designed the plan and wrote the private contracts, then purchased equity in Manila Water Company (MWC)¹¹—the more profitable of the two resulting corporations. The full story of Manila's nearly twenty-year debacle with private water is complex, and further reading is referenced on the next page.

A sure recipe for disaster

While the IFC invested only in East Zone Manila Water Company, the contract for the city's west zone, with older infrastructure and 90% of the utility's existing debts, went to Maynilad – a joint venture with water giant Suez. Within six years, Maynilad had defaulted on its contract obligations, most disastrously by delivering water with an E. coli level over seven times the national limit, sickening 600 residents and killing eight.¹² After a costly arbitration, restructuring, public bail-out, and private buy-out, a Suez spokesperson eventually acknowledged IFC's design to have been a "sure recipe for disaster."¹³ Conversely, it was a recipe for profit for Manila Water Company, the corporation in which the IFC holds an ownership stake.

"Success": Profitability at the expense of access

No doubt, Manila's water privatization has been successful by the financial measures valued by investors like IFC. While some system improvements have been made, they have come at a devastating cost to residents and democratic control of water. The corporations have drastically cut the workforce,14 with dire consequences for water quality and disaster preparedness.¹⁵ They have increased bill collections and raised water rates more than fivefold, making drinking water unaffordable for many residents.¹⁶ And despite the "competitive and transparent bidding process"¹⁷ IFC touts, had the unscheduled price hikes demanded by the corporations less than a year into the process been factored into the bids, MWC would not have won the contract,¹⁸ making Manila a textbook case of dive-bidding.19

But with \$1 million of IFC's advisory fee contingent on closing the deal, as one former Manila water official remarked, "If [the IFC] had not successfully privatized the company, then they would have not have become richer," also noting that the outcome of the process might have been different if the government had "consultants who had no agenda."²⁰ Yet the IFC, as the architect of the plan as well as part-owner and major creditor to MWC, continues to present this so-called success story to expand the model around the world.

Years of protests, investigations, and legal challenges from policymakers and civil society came to a boil when the corporations demanded another major price hike in 2013. While residents testified and demonstrated to defeat the proposed rate hikes,²¹ the IFC and the Financial Times were honoring MWC with a Sustainable Finance Award for its "achievement in inclusive business."²² At the gala awards ceremony, financial decision-makers were treated to a story of MWC's infrastructure investments, affordable rates, and reduced costs for local governments,²³ despite the ongoing protests on the ground.



A costly battle to reduce rate hikes

Last year, water regulators in Manila rejected the new rate hikes, citing the need to balance "fair returns" for the corporations with "reasonable tariffs" for consumers, given the public interest and human rights at stake.²⁴ The regulator found numerous instances where the corporations had violated the contract, charging people for unimplemented and discontinued infrastructure projects and other inappropriate expenses. Corporate income taxes, marketing costs, and even "charitable contributions" were billed to water users with a markup for corporate profits.²⁵

In response to this ruling, Manila's private water utilities have now taken the government to arbitration, which IFC's contract places at the International Chamber of Commerce.

Regardless of the outcome, residents of Manila will pay inflated water bills to cover billions in promised infrastructure investments which have yet to be fully delivered. And the costs of the arbitration will also be billed to the public—with a profit markup.²⁶ "Seventeen years after Metro Manila's water service was privatized, the water corporations still refuse to bring pipes into poor communities like ours. After years of waiting, we have been forced to make do with sub-standard PVC connections that we ourselves have to put up and maintain. How can this be called a success story when poor families have to pay more than the rich just to get water flowing from their taps?"

– Mercedes Donor, resident of a low-income community within Metro Manila's East Zone Concession Area

Double-dipping and self-dealing

Acknowledging the infrastructure shortfall, the IFC funded a 2007 grant from a World Bank Trust Fund to pay Manila Water Company again for connections it has already been paid for and failed to deliver.²⁷ This double-dipping by Manila Water Company constitutes self-dealing on the part of the IFC, diverting water funds to the profits of the corporation in which it has a direct stake. The subsidy is only available for East Zone residents, despite serious problems with water access in the West Zone. While the Fund describes the residents of Manila as the grant's beneficiaries,²⁸ the real benefits flow to Manila Water Company and its shareholder, the IFC, which points to the program as further evidence of the PPP's "success."

"Calling the Manila Water project a success smacks hard against the fact that the water corporations continue to fail in securing Manila's water needs. Much of the Metro's population still suffers from poor water service and inadequate coverage, which is a biting reality considering the enormous debt incurred by the government to finance private water projects. In the end, the water corporations continue to make profits despite their floundering performances while the government is saddled with debt obligations that are being subsidized by the taxpayers.

"If the government had spent that same money to finance the infrastructure we desperately need, Manila would be light-years ahead in the struggle to provide safe water. My message to other governments is clear: turn down the IFC. You don't want to follow in our thirsty footsteps."

- Rep. Ibarra "Barry" Gutierrez III, Akbayan Party, House of Representatives, Philippines

More detailed studies of the Manila case:

Recalibrating the Meter: A Ten-Year Overview of the MWSS Privatization Deal, Freedom from Debt Coalition: http://fdc.ph/resources/file/61-recalibrating-the-meter?tmpl=component

The Corporate Muddle of Manila's Water Concessions, Jude Esguerra: http://www.wateraid.org/~/media/Publications/private-sector-participation-manila.pdf

Loaves, Fishes and Dirty Dishes, Roel Landingin: http://www.icij.org/project/water-barons/loaves-fishes-and-dirty-dishes



Nagpur, India: The World Bank's new poster child for privatization

Behind the spin: Price hikes, water shutoffs, and multiple breaches of contract

The World Bank's latest poster child—Nagpur's water PPP—is being pitched to public officials as the exemplary model to replicate in cities across India. But its repeated failure to deliver the infrastructure improvements promised,²⁹ multiple project delays,³⁰ inequitable water distribution,³¹ service shutdowns, allegations of corruption and illegal activity,³² ongoing protests by residents,³³ and direct testimony from public officials declare this to have been anything but a success.

In 2007, the regional subsidiary of French water giant Veolia secured its first pilot project in Nagpur. The corporation gained a powerful new backer when the IFC purchased nearly 14 percent and championed its expansion throughout the region.³⁴ Even with all investment responsibility remaining entirely with the public, the project still failed to meet its objectives and was considered a dismal failure by most residents (but a "success" by the World Bank.³⁵)³⁶ Nonetheless, in 2011, the pilot expanded into a 'full city' PPP, when a 25-year contract was awarded to Orange City Water Limited (OCWL), a Veolia joint venture, to operate the city's entire water network.

From the outset, the goal was to use Nagpur as a proofof-concept to persuade cities across India to follow suit.³⁷ In 2013, the project was included in IFC's list of the world's top 40 PPPs and celebrated at an awards ceremony at the World Bank headquarters in Washington, DC.³⁸ But within weeks of the awards ceremony, OCWL shut down the system for two days, leaving half the city without water to drink, bathe in, or cook with.³⁹ Coming on the heels of OCWL's many failures, this shutdown brought public outrage to a boiling point when OCWL failed to provide sufficient emergency water supplies despite a clear directive from the mayor. The resulting protests prompted Mayor Anil Sole to authorize municipal legal action against the water corporation for multiple breaches of contract.⁴⁰

The truth is, OCWL has failed to deliver on its commitments while drastically raising rates to cover its supposed costs.⁴¹ But though civil society is organizing to hold OCWL to account for its failure to secure the water access for which it has already been paid by people and public agencies, the battle ahead looks set to be as long and costly as Manila's. Why? Because the contract is rigged in favor of OCWL. None of its contractual commitments—like delivering a continuous water supply—are required until five years into the contract. And even after that time, the corporation's penalties for failing to deliver are limited to five percent of its corporate revenue. And OCWL can demand additional rate hikes as needed to ensure profitability.⁴²

Indeed, the primary achievements touted by the Bank are that the Nagpur PPP has proved "the poor are willing to pay... for water,"⁴³ and has reduced theft and under-billing.⁴⁴ In other words, the World Bank is congratulating itself for removing water lifelines for the city's poor: cutting off water to low-income communities that can't pay steep water bills or who rely on unpaid connections for their very survival.⁴⁵

It's an outrage. But despite all this, a 2014 World Bank project review stated that "... no serious issue appears to have arisen so far." 46



Broken promises and overbilling

The IFC has stamped Nagpur as a success in a bid to sell this model in cities throughout the region. But in reality, a pattern of broken promises and overbilling continues to undermine residents' access to affordable, drinkable water:

- Contract violations have provoked city officials to call for investigations and litigation.⁴⁷
- OCWL is being paid more than double what it would cost to run the system publicly,⁴⁸ yet the corporation is not contributing any capital investment. The national government is directly funding 70% of the investment costs, while the remaining 30% will be covered by the city, which must pay OCWL fourfold for these investments before the corporation begins to invest them in infrastructure.⁴⁹
- OCWL has repeatedly failed to meet its deadline to complete the contractually obligated infrastructure investments required to qualify for subsidies from the national government. Yet the deadline has been repeatedly extended without consequence for OCWL.⁵⁰
- To add to the project's dubious awards, in November, 2013, Veolia won the infamous "Pinocchio Prize" from a coalition of NGOs, specifically for its disinformation about the disastrous project in Nagpur.⁵¹

"The IFC and the water corporations are squeezing profits from the public water system while our workers suffer and our families struggle to pay unaffordable bills. This is a glaring violation of the fundamental human right to water that puts corporate profit before human life."

– Jammu Anand, President of Nagpur Municipal Corporation Employees Union



Women fetch water from a community water faucet in Nagpur, India. Residents in this low-income community have access to running water for only about five hours each day. Photo credit: Kuni Takahashi.

"The results of Nagpur's PPP project—and the PPP in Delhi—are less than encouraging, and a far cry from the solutions they were thought to be. The water corporations are not obligated to invest much into infrastructure, yet they are guaranteed profits before any actual progress is made. Worse, the corporations have failed to complete their contractual commitments to improve water service and ensure regularity, reliability, quality, and efficiency. Instead, increased water tariffs have fueled the high profit margin of the private operators."

– S. A. Naqvi, Convener for Citizens Front for Water Democracy and National Coordinator of the National Platform Against Water Privatisation



The path forward

Strong, public water systems

Public officials have every reason to be skeptical when considering research and services offered by the IFC, private water corporations, or both. The most important consideration is this: in whose interests does the system run? Does the operation of a water supply system prioritize profit or the welfare of residents?

The word "partnership" implies that each partner shares a common goal. For governments, the goal is universal access to water. For a private corporation, the priority is generating shareholder profits and minimizing its risks, rather than investing in necessary water infrastructure.⁵²

Water is a fundamental human right. As such, it should be managed by government as a public good, not delegated to corporate control. Indeed, once cities realize the pitfalls of PPPs outweigh any shortterm benefits they might provide, they often face uphill battles to regain control of their water systems. Today, from Berlin to Paris to Jakarta, municipalities across the world are taking their water back at great time and expense, up against powerful corporations that force long legal battles to prevent community action.



Workers and residents of low-income communities in Nagpur protest in front of the Nagpur Municipal Corporation demanding the end to OWCL's "24 x 7" private water scheme. Photo credit: Sangeeta Mahajan.

Efficient, effective, infrastructure investment

Local governments in Nigeria, India, and other places targeted for World Bank expansion can more efficiently and effectively create strong water systems when they are not saddled with private contracts. Only the public sector can access the full range of funding mechanisms, from tax revenues and crosssubsidies to development assistance and progressive pricing, necessary to marshal the resources to secure water supplies now and for the future.

"For years Paris was not only the home for private water giants Suez and Veolia, but also the poster child for water privatization in cities across the globe. But in 2010, Paris ended 25 years of mismanagement by the private sector when it took its water back into public hands. The remunicipalization of our water has been a resounding success from both a financial and human rights perspective. We have regained financial mastery of the service, reduced water rates, developed a long-term investment program, and implemented social and environmental policies. And, crucially, we have bolstered democratic governance of the water service as a whole."

– Anne LeStrat, former Deputy Mayor of Paris in charge of water and former President of Eau de Paris (Paris' public water utility)



Public water works! Officials that reject PPP water contracts can:

- Protect precious financial resources from being siphoned out of their communities.
- Avoid counterproductive public debt.
- Retain their long-term flexibility.
- Pave the way toward universal access through infrastructure development that prioritizes access to clean water.

Further information about Manila, Nagpur, and the World Bank's misleading marketing of PPPs is available at www.stopcorporateabuse.org/Behind-World-Bank-Spin

Please contact <u>info@stopcorporateabuse.org</u> for more information on keeping your water public.



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Endnotes

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⁸ IFC's PPP Advisory program has its lowest success rate in the water sector: by its own reports, 72% of IFC's water PPP advisory projects fail. <u>http://www.ppiaf.org/sites/ppiaf.org/files/documents/5-IFC-PPP-Lessons-Learnt-Vipul-Bhagat.pdf</u>

Less than half of IFC's PPP Advisory projects are rated high by its own development outcome measures, by far the lowest-performing advisory business line. IFC 2014 Annual Report, p. 81,

http://www.ifc.org/wps/wcm/connect/CORP_EXT_Content/IFC_External_Corporate_Site/Annual+Report/2014_Online_Report/

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