

## Thinking inside the box: the World Bank position on the private and public sector <sup>1</sup>

by

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March 2009

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 at The Hague in 2000. These emphasise the role of the private sector in managing water operations; and call for public sector to provide subsidies "where the private sector is unwilling or unable to participate". Jamal Saghir, Director of Energy, Transport and Water, World Bank has even emphasised the role of the private sector in delivering capital investment, despite a number of World Bank studies and multinationals presentations acknowledge that the private sector has not contributed and should not be expected to contribute the expected amounts of private investment.

The World Bank aspires to be a "Learning Organisation", the "Knowledge Bank".<sup>1</sup> However, the evidence on the World Bank's position on water services from The Hague World Water Forum in 2000 to the Istanbul World Water Forum suggests that the Bank's cognitive process is dysfunctional. 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 the problems with private sector participation (PSP) and the developmental potential offered by public sector reform. 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.

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 individuals. 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.psiu.org/reports/2000-03-W-Hclub.doc>).

The below table lists a number of key events from the Hague World Water Forum in 2000 up to the Istanbul World Water Forum in 2009. It shows that World Bank's thinking on the role of the private and public sector in water services, far from being creative, consists in thinking inside the box of the Bank's own neoliberal ideology and the multinationals' commercial interests. From The Hague to Istanbul, despite the problems that have crippled private water operations worldwide (see events 3, 5, 6, 9, 10, 11, 20, 21, 25, 26, 27, 28, 30, 31, 34, 37, 38, 41, 42, 45 and 50) the World Bank's position on the role of the private and public sector has changed in rhetoric but little in substance (compare events 2, 44, 48, 51 and 52). The World Bank's position on the role of the private and public sector in water in the last nine years has mirrored the multinationals' changing strategies in respect of markets in developing countries. The Bank's "soul searching" on the merits of private sector participation corresponded with the multinationals signalling their intentions to exit developing markets (see events 12, 17, 24 and 36). It regained enthusiasm as the multinationals announced that they were still

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<sup>1</sup> This briefing is a shortened version of a detailed examination of World Bank position papers from 200 to 2009. For the full report see [www.psiu.org/reports/2009-03-W-wbank.doc](http://www.psiu.org/reports/2009-03-W-wbank.doc)

interested in exploiting profitable market opportunities (compare events 39, 40, 44 and 51). Since then the Bank's position on the role of the private sector has once again chimed, and strikingly so, with that of the multinationals (compare events 39 and 52). At the same time, the Bank's IFC and other IFIs are bailing out or bankrolling multinationals (see events 18, 33, 46, 47, 49, 53 and 54). Irrespective of what this means for development, the World Bank insists on thinking inside the box, prey to the vested interests of the multinationals and trapped in the cage of its own pro-market ideology.

**Table 1. Not moved by experience: World Bank thinking and empirical evidence**

Event	Date	What happened
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".
3	April 2000	IWL's Cochabamba, Bolivia concession is terminated.
4	December 2000	Jamal Saghir becomes Director of Energy and Water, World Bank
5	2000	Malaysia renationalises failed sewerage privatisation
6	December 2001	Argentine financial crisis
7	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.
8	March 2002	Jamal Saghir states that private sector financing worldwide is imperative and that PSP in Latin America should increase.
9	March 2002	Enron's Azurix concession in Greater Buenos Aires, Argentina is terminated, service is re-municipalised.
10	June 2002	Paraguay's parliament vote to indefinitely suspend the privatisation plans for Corposana.
11	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".
12	January 2003	SUEZ announces that it will withdraw from developing countries, except from activities that offer a better risk/return ratio. Suez expects protection from IFIs, failing which it would "prepare to depart".
13	February 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.
14	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.
15	March 2003	At Kyoto World Water Forum, "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".
16	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".
17	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.
18	August 2003	EBRD bails out United Utilities and IWL in Tallinn (Estonia), Sofia (Bulgaria), and Aqua (Poland).
19	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 Perceived Risks"; calls for IFC loan and guarantees and MIGA instruments.
20	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.
21	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".
22	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.
23	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.
24	June 2004	The World Bank: "there was probably some 'irrational exuberance' in recent years on the potential benefits of privatization".
25	June 2004	Kirkpatrick et al (2004) on 110 African water utilities finds no significant difference between public and private operators in terms of cost.
26	Oct 2004	Netherlands passes new law makes private water services illegal ; Uruguayans vote for constitutional amendment to make water privatisation illegal.
27	December 2004	Briceño-Garmendia et al. (2004) argue that the collapse in aid in infrastructure investment was "largely" due to unrealistic expectations of the private sector.
28	February 2005	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 countries.
29	February 2005	Jamal Saghir urges World Bank staff to " <i>Think creatively</i> and outside of conventional policies" but WB still promotes PPPs.
30	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".
31	May 2005	Biwater's contract in Dar-es-Salaam, Tanzania is terminated
32	October 2005	Aquafed is established to promote PSP
33	November 2005	IFC bails out Veolia in Gabon concession
34	December 2005	SAUR concession in Mali is terminated, service is renationalised
35	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.
36	March 2006	At 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".
37	March 2006	Suez' Aguas Argentinas concession in Buenos Aires terminated, service is re-nationalised
38	November 2006	Annez (2006): 38% of water projects in World Bank's PPI database are "problem projects"
39	November 2006	Aquafed's Gérard Payen speaking at joint OECD-WB event: you got it all wrong! 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 still interested in exploiting profitable market opportunities".
40	November 2006	Jamal Saghir speaking at joint OECD-WB event refers to drop in private investment levels 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".
41	November 2006	Thames Water exits all remaining contracts in developing countries
42	January 2007	Suez concession in La Paz/El Alto, Bolivia is terminated, service is renationalised
43	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".

44	February 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.
45	February 2007	Suez announces it has no more employees in Latin America: withdrawal is complete. SAUR announces it is leaving all Latin American business.
46	November 2007	EBRD bankroll Veolia by acquiring a 10% equity stake in Veolia's operating vehicle in Former Soviet Union countries, including Russia and Ukraine.
47	January 2008	IFC and French Development Agency AFD bankroll Veolia by jointly acquiring a 20% equity stake in Veolia Water's division for Africa, the Middle East and India.
48	June 2008	Total spending on PPIAF over 9 years reaches \$175 million.
49	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.
50	December 2008	Paris mayor announces the remunicipalisation of water from January 2010.
51	February 2009	Jamal Saghir: "How can we engage the private sector more vigorously?"
52	February 2009	Philippe Marin, World Bank: perceived failures/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.
53	March 2009	A Spanish € 1.18bn government fund to support development of public water in developing countries is opened to private sector projects with no explanation.
54	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."

## Notes

<sup>1</sup><http://web.worldbank.org/WBSITE/EXTERNAL/WBI/0,,contentMDK:20212624~menuPK:575902~pagePK:209023~piPK:207535~theSitePK:213799,00.html>

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### Public Services International and water

PSI union members in 150 countries are working to deliver quality public water services to all citizens. This is not an easy task when the public utilities are so starved of capital that they can't afford to pay a living wage, ensure proper training or supply the necessary safety equipment, let alone to invest in expanding and maintaining the network to those not served.

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