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World Bank 'gambling assets' by investing in private water firms

Activists lobby World Bank to disinvest amid concerns over access to poorest communities and conflict of interest

Stella Dawson, for Thomson Reuters Foundation, part of the Global development network
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A boy drinks water from a roadside tap in Allahabad, India. About 2.5 billion people worldwide have inadequate supplies. Photograph: Rajesh Kumar Singh/AP

Civil society groups are pressuring the World Bank to disinvest from private water companies, saying that privatising ownership and management of this natural resource has failed to improve access to clean drinking water.

The World Bank is subsidising private profiteering from an essential resource by lending public money to private corporations that manage or run water utilities but have failed to improve services, says Corporate Accountability International (CAI), a Boston-based advocacy group that focuses on corporate abuse and represents an international coalition of water activists.

"The World Bank Group's reputation and assets are being gambled. Millions of people's lives are being imperiled," CAI said last month in a letter to the World Bank president, Jim Yong Kim.

The group has been lobbying the World Bank for more than 17 months to end investments by its banking arm, the International Finance Corp (IFC), in private water corporations, and has stepped up the pressure since April.

In its 2012 report, Shutting the spigot on private water: the case for the World Bank to divest, CAI laid out what it called a litany of failures by private corporations, particularly multinationals, that have failed to expand water supplies to benefit the world's poorest. Private ownership or management of water utilities, encouraged by and funded by the IFC, has diverted money critical for maintaining water systems into shareholder dividends, executive pay packages and corporate taxes, it said.

IFC officials concede that not all contracts with private companies for water utilities have proven successful, especially the early World Bank forays in the 1990s, and that privatisation is not the only solution for improving the delivery of potable water.

But 2010 World Bank research into public-private partnerships for urban water utilities reached more nuanced conclusions about a sector fraught with political problems, IFC water specialist Patrick Mullen said.

Its research found that private operators have improved the efficiency of water systems and the quality of service, though there were no clear-cut benefits on tariffs or access to water. The biggest contribution from private participation came from efficiencies, such as reducing the amount of water lost through leaky pipes and better bill collection, which produces rising revenue streams. More money allows water utilities to make capital improvements and further upgrade systems, leading to more hours of service and better quality water and better municipal health, it said.

"Ideologically, we are not pressing one ownership or the other. We are just trying to support effective water utilities, whether they are public or privately held," Elena Bourganskaia, IFC global head of water and municipal infrastructure, said.

Disagreements

One disagreement between the World Bank and the CAI, which represents a coalition of 75 individuals and activist groups worldwide, centres on the way the World Bank leverages its resources to attract private capital to invest in developing economies.

CAI sees no appropriate role for private company management or ownership of water utilities and hence opposes World Bank funnelling investment toward the sector.

Kim, on the other hand, has said the public sector cannot raise enough capital to finance the infrastructure investment needed, so the World Bank must attract private sector money if it is to help countries develop.

Another area of disagreement focuses on the role of water as a scarce natural resource essential to life. CAI and water activists view water as a commodity that should be provided without profit for the wellbeing of all. The World Bank takes a more pragmatic approach based on who can deliver safe drinking water effectively to the most people.

Both sides agree, however, that expanding access to safe drinking water is a high priority. About 2.5 billion people – roughly a third of the world – have inadequate supplies, multiplying the risks of water-borne diseases from dysentery to typhoid and cholera, according to World Bank and World Health Organisation data.

Poor sanitation and limited access to water lowers a country's annual gross domestic product (GDP) on average by 1.5%, and India lost output is $54bn (£33bn), nearly the entire annual GDP of Canada, the World Bank estimates.

Litany of failure

CAI, which grew from a US-based coalition that boycotted Swiss-based Nestlé in the 1970s for marketing baby formula to poor countries, lists a range of problems it sees from privatising water:

• Private-sector ownership leads to higher water rates because companies face additional costs compared with a municipality. They must pay corporate taxes and shareholder dividends and they spend unproductive time negotiating contracts with government officials

• Infrastructure investment to improve and expand service frequently falls short

• Conflict of interest occurs when the IFC advises governments to divest from public water, then lends money to the private company bidding on the contract, and takes an equity stake in that same company

• Public accountability is reduced if water oversight boards are appointed and financed by the private water company.

Private sector role

The World Bank survey of public-private partnerships concludes that while privatisation is fraught with political risks and a high degree of uncertainty, it does have a valuable role to play in introducing competition to improve performance in water utilities, which often are huge inefficient bureaucracies.

In June, Kim responded to the concerns of civil society groups. He said while it was keen to examine any problems with private participation in World Bank water projects, "we do not believe that our work disproportionately emphasises private ownership".

The World Bank invested $4bn in public sector water improvements in fiscal year 2011, dwarfing the $96m in financing from the IFC for private-sector ventures, it said. Its total portfolio that year was $57bn, making water roughly 7% of its investments.

"Neither the public nor the private sector alone can meet the challenge of ensuring that everyone has sustainable access to water and sanitation services. Rather both the public and private sectors have to learn from each other to maximise delivery," Kim said.

Progress, meanwhile, has been made in improving access to water over the past 20 years. The share of people connected to a public standpipe or protected well or spring had risen to 89% worldwide by 2010, up from 76% in 1990, the UN reports.

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