Privatising other people’s water
– the contradictory policies of Netherlands, Norway and Sweden

by

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1. Introduction

The Nordic countries, including Norway and Sweden, are famous for their strong welfare state and public services. Stockholm’s public sector water company hosts the world’s leading annual conference of water, in a week that celebrates its achievement of cleaning the waters of Stockholm harbour. The Netherlands is equally famous for its water services, managed and financed through a network of public authorities, banks and managements. In all three countries, not surprisingly, there has been almost universal resistance to the idea of allowing private water companies to run this public service – in the Netherlands, a proposed law to make private sector water supply illegal has received backing from nearly all parties.

Yet in all three countries, the agencies responsible for aid to developing countries are financing and supporting programmes that are promoting water privatization in developing countries. This paper presents the details of these aid policies, and discusses the problems raised by the policies themselves and the contradictions with their domestic water supply policies.

2. Netherlands

2.1. New law for Netherlands own water

Water supply in the Netherlands is run by a number of municipally owned companies, which are well known for their efficiency and expertise. They have restructured themselves over recent years, but only one company has proposed privatization. The Netherlands has not only avoided privatization, the Dutch parliament is in the process of passing a law that would make water privatization illegal. This draft law has support from almost all political parties in the Netherlands, with the exception of one small right-wing party. It has been approved by the lower house of the Dutch parliament, and is currently awaiting final approval by the Senate.

Under the proposed law (Art. 3i, 3j), it will be forbidden for anybody to produce drinking water for consumers, or to deliver drinking water to consumers, except for a water company which is a controlled directly or indirectly by a public authority – state, province, municipality or water board (Art 1f.,g.). This is interpreted as outlawing even privately run BOT treatment plants.

2.2. Funding pro-privatization programmes

For developing and transition countries however the Dutch government is supporting programmes to introduce the private sector into water services. In 2002 the WB and the Netherlands Ministry of Foreign Affairs created the Bank-Netherlands Water Partnership (BNWP). The BNWP has been joined by a number of other partners, including UNESCO-IHE (see below), the Global Water Partnership (GWP – see below), and the Asian and Interamericas development banks, but the Netherlands remains the sole country sponsor of this programme.

The BNWP does a range of work, but includes promotion of privatization structures that could be illegal in the Netherlands itself under the new law. For example, a January 2004 discussion paper, funded by the BNWP, advocates the use of franchising for water services in developing countries, using a private business model. The report points out that franchising is most used in retail food outlets, like Kentucky Fried Chicken (KFC), and advises that: “Potential franchisors and franchisees require an entrepreneurial spirit that is focused on actively developing new business opportunities”.

Other BNWP products include two projects aimed at developing markets for private water companies in Europe and central Asia. One (project no 57) called “Market Development for Private Water Utility Management in the Europe and Central Asia Region”, an ongoing project which
“aims to initiate better access to water supply and sanitation (WSS) services for the poor through outsourcing, management, or lease contracts” …[by] “Assessing the possibilities of how to increase the number of players in the market, risks for the private sector and consumers”.

A second project, called “Potential for Domestic Private Sector Participation in Water Supply Service Delivery in the Europe and Central Asia Region” (project no 77)\(^6\), describes its aim as:

“Exploring innovative methods for increasing private management of water supply and sanitation utilities that may open the domestic market for local players”.

The BNWP is also active in Brazil, where the current government has a clear policy, on which it was elected, of developing water and sanitation through public sector provision. Nevertheless the BNWP is financing project no. 60 “Improving Efficiency and Competition of Water Supply and Sanitation Provision in Medium and Small Municipalities in Brazil”\(^7\) which says it has the:

“overarching objectives of (i) increasing the level of knowledge regarding PSP[private sector participation] options, benefits, and processes in water and sanitation among key players at the municipal level in Brazil; and (ii) strengthening the quality of PSP contracts….”

The project’s active promotion of a pro-private policy in Brazil includes the distribution of detailed materials:

“recent discussions with mayors have revealed a low level of knowledge regarding options for PSP …. The activity addresses the above knowledge gap in order to enable mayors and municipalities to make informed decisions regarding WSS alternatives, including PSPs. To this end an existing Toolkit for PSP in water and sanitation is being updated and a workshop is being developed and conducted.”

The BNWP is also being used to advise the Argentinean government on renegotiation of the privatised utility concessions (project 51)\(^8\). It is a matter of political controversy whether these contracts contributed to the economic crisis, but the aims of the project are clearly to rescue the privatised concessions, of which it takes a very benign view:

“Private sector participation (PSP) arrangements in Argentina have been successful in extending coverage of water and sanitation to the poor. The success of the renegotiations has critical influence on this extended coverage as well as future extensions.”

In the most recent review of progress, the Dutch government is reported as having given a favourable evaluation of the BNWP, observing that the support from the Netherlands is crucial to the projects: “They are innovative and additional in the sense that it is unlikely that they would be financed with WB resources”\(^9\).

2.3. IHE Delft - sponsored by Suez

The Netherlands long tradition of global education in water expertise has also become linked to a private water multinational. The IHE at the University of Delft, Netherlands, has been a leading teaching and research institute in water for many years, financed by the government of the Netherlands. In 2001 IHE was adopted by UNESCO as its international Institute for Water Education, and the institute is now known as the UNESCO-IHE Institute for Water Education.\(^10\)

In the next two years this institute accepted funding from water multinational Suez, in the form of general financial support, then of specific funding for a professorship; and it signed a bilateral agreement with Suez that it would aim to use Suez executives as lecturers on its courses.

In October 2002 Suez and UNESCO announced that the IHE will receive 300,000 Euros from Suez\(^11\); and on 17 Jul 2003 UNESCO-IHE accepted an unspecified amount of money from Suez to finance a professorship. According to the memorandum of understanding:

“Suez committed to financing a Professorial Chair relative on the topic of "Public-Private Partnerships" (PPP) in the field of Water and Sanitation. This Chair will be established at UNESCO-IHE on the basis of an average one day per week formation, and focuses on aspects related to the management and business administration of private utilities…”

In addition IHE will use speakers from Suez in their education programme:
“Both organisations will also identify opportunities to involve experts of the SUEZ group as guest lecturers in the educational programmes of UNESCO-IHE.”

3. Norway

3.1. Norway’s own water

Water and sewerage services in Norway, like the majority of its public services, are provided directly by public authorities. Both water supply and sanitation are provided by municipalities, with some inter-municipal ownership of treatment plants. There has been little consideration of using the private sector in water, with the exception of one suburb of Oslo, in the 1990s.

3.2. Norwegian government finances private sector infrastructure

In 2002 the World Bank created a new initiative for infrastructure, worldwide. It is not a programme of direct investment in infrastructure projects; it is rather a programme promoting certain approaches to infrastructure in public services. The fund is financed solely by the Norwegian government, through the Ministry of Foreign Affairs, under an agreement which commits Norway to financing projects under this heading “over a period of years” ; and in suitable acknowledgement it is called the “Norwegian Trust Fund for Private Sector and Infrastructure” (NTFPSI).

There are few conditions and little accountability in the agreement. The WB is allowed to use the funds to support its emerging strategy on ‘Private Sector Development and Infrastructure’, including paying for a secretariat within the WB’s infrastructure division; and can “commingle” the money with other funds; it has to exercise the same care as it does with its own money, but otherwise the WB “shall have no further liability to the donor.”

The programme covers water, energy, urban development, and transport and private sector development, with two main ‘windows’. The first window concerns “the creation of a sound investment climate as a prerequisite for private sector development and market-led growth”. The second window concerns ‘infrastructure service delivery to the poor’ – which, despite acknowledging some problems with the private sector, in its specific headings makes uncompromising reference to the WB’s private sector development strategy:

“The Bank Group’s Private Sector Development Strategy calls for more extensive use of private sector solutions in infrastructure -- through concession arrangements with private companies, private participation in infrastructure projects”.

On the water sector, the programme is explicitly entirely concerned with the private sector and conscious that it is promoting the interests of the private companies:

“Over the next three years we see expanded lending and non lending services emphasizing water concessions for the poor (private sector management of water supply), small-medium enterprise initiatives in water and sanitation (urban, small town, rural), and community based approaches. The global trust funded Water and Sanitation program is a vital partnership and has broad Bank regional participation. It is closely aligned with corporate goals in the water sector.”

Up to February 2004, Norway has put $15m into the NTFPSI. Nearly $7m of this has been ‘commingled’ with existing projects, including, in respect of water, the WB’s Public-Private Infrastructure Advisory Facility (PPIAF).

Norway has also hosted and promoted the PPIAF’s activities on at least one occasion. In 2002 the Norwegian Regional Adviser for Private Sector Development organised a workshop for embassy staff in south Asia, which included a speaker from the PPIAF urging the need for private sector participation in developing water supply services in the region: one participant questioned whether the private sector was so necessary, and referred to the example of water in Norway itself.
4. **Sweden**

4.1. **Water in Sweden**

Water in Sweden is overwhelmingly delivered by the public sector, through municipal companies: the private sector has holdings in water companies in only two places. The annual Stockholm water festival, which celebrates the successful programme by Stockholm Vatten to eliminate the pollution in Stockholm harbour, includes the world’s leading international scientific symposium on water.

4.2. **Successful international support role: PUPs**

Sweden played an outstanding role in the early 1990s in financing and supporting a series of public-public partnerships (PUPs). Through these ‘twinning’ arrangements, financed by SIDA and other donors, the public water companies of Sweden, notably Stockholm Vatten, helped municipal water operators in the Baltic States to build their financial and managerial capacity to a level of competence.

SIDA itself, like others, regarded these partnerships as great successes. The SIDA review of its overall municipal twinning programme described it as “a successful experiment”; the review of the Kaunas experience in 1998 described it as “overwhelmingly positive”;[20] the evaluation of the twinning with three smaller cities in the three Baltic states stated that “the water enterprises have gone through an enormous change...Water companies have learned to manage their businesses according to western standards”, though suggesting that twinning depends on the commitment of individuals.[21] The review of the Riga twinning set out a striking summary of major technical, environmental, financial, managerial and governance achievements: “SWC [Stockholm Water Company] has assisted RW [Riga Water] in the preparation and implementation of an investment programme (RWEP) for improving the city’s water supply and wastewater treatment. The RWEP has promoted/will promote environmentally sustainable management and improved municipal infrastructure in the Baltic region. The effluent load from Riga to Daugava River, and further to the Baltic Sea, has been essentially reduced. As a direct result of the project, the quality and reliability of water supply and wastewater services has improved in Riga. The twinning arrangement has essentially stimulated and supported the process of transforming RW into an autonomous, self-financing and self-governing enterprise. There is a better understanding and appreciation on a political level of the requirements for arriving at an administratively and financially independent water company. RW is very satisfied with the twinning arrangement and wishes to continue close cooperation with SWC beyond the current twinning agreement. RW currently complies with all the covenants of the financiers.”[22]

4.3. **Funding privatization initiatives**

SIDA however is now actively supporting the role of the private water companies in developing countries. The SIDA water strategy paper issued in January 2004[23] sets out 11 ‘principles and approaches...considered most important’, one of which is:

“Development of mixed public/private sector solutions for sector investment, service delivery and operations and maintenance.” (p.5)

This shift towards support for privatised water, outside Sweden, can be seen in SIDA’s support for a number of key global initiatives.

4.3.1. **Public-Private Infrastructure Advisory Facility (PPIAF)**

The PPIAF was created in 1999, initially by the World Bank, Japan and the UK, and is now funded by a number of donors, including SIDA, which is increasing its contributions. At the end of 2002 Sweden agreed to extend its funding until 2005, and increase its contribution by an extra $1million per year[24]: by 2003 it had contributed a total of $4.2 million, 5.8% of PPIAF’s total income.

The PPIAF necessarily supports the private sector option: it is “aimed at helping developing countries improve the quality of their infrastructure through private sector involvement.” The PPIAF uses privatization as a simple measure of success. For example the 2003 annual report states that: “As a result of
PPIAF-funded strategy recommendations, 11 countries have adopted or are now implementing 14 different sector reforms in water, power, gas, telecommunications, or transport. These policies involve core strategies for private provision of infrastructure…”

Some current and recent projects illustrate the impact of PPIAF projects. In India, PPIAF:

“Presented a seminar on best practice in private infrastructure, necessary legislation and regulation, and financing options to jump-start private infrastructure contracts. Some 250 key decision makers from national, state, and local governments and the private sector attended”

The seminar concluded that private participation needed: “Strong and sustained political support from the highest authorities”; expert studies - which would need financing from donors; a further series of regional seminars around the country “to encourage private participation for better efficiency and service quality.”; and the formation of “a core group in the Government of India with representatives from States, cities, investors, operators, bilateral/multilateral agencies be constituted to accelerate the reform in water supply and sanitation sector”. 26 Similar projects in Kenya provide simple statements of objectives: “Preparing a strategy for the privatization of the water supply and sewerage in Nairobi and build consensus among stakeholders on the preferred option” (this project involved $490,000 from the PPIAF)27; “Developing a road map for privatizing water supply and sewerage in Mombassa and the coastal region and building consensus on preferred options that would expand services to the poor” ($441,000) 28.

One PPIAF project is in Lithuania, “Reviewing options and recommending an approach for the structure and development of private sector participation in water and wastewater service provision.” (at a cost of $288,000). 29 Ironically, SIDA is now co-financing a project to introduce privatisation into one of the countries whose water sector has been run efficiently as a result of the SIDA-financed twinning.

4.3.2. Supporting WUP

SIDA is financing capacity-building projects in water in Africa through the African Water Utility Partnership (WUP). The evaluation report 30 makes clear that the objectives of the project were not simply to invest resources into water utilities in African cities to make them better at their job. The more fundamental objective was to make them more attractive objects of privatization:

“Although the requirement for investment in the water and sanitation sector is considerable, the private sector is only expected to be attracted if and when the water utilities have improved their performance. The objective of the project is to enhance the performance in utility management.”

In Benin and the Congo, for example, the project was helping improve the management capacity of water operations that were about to be taken over by multinationals.

4.3.3. Funding research for Suez’ private concession

In La Paz, Bolivia, SIDA have funded development work for a private water concession. The city’s water and sanitation was taken over by the French multinational Suez, with an obligation to extend services to all households. Suez wished to save money by using a cheaper form of sewerage provision known as Condominial, which was developed by municipalities in Brazil: SIDA provided the money “to finance the research and training activities required to transfer and adapt the condominial system from Brazil to Bolivia”. 31

4.3.4. Global water Partnership (GWP)

The Global Water Partnership (GWP) has been a leading advocate of the private sector managing water and sanitation, with directors of multinationals on its main committee. It was created in 1996 by the World Bank, the United Nations Development Program (UNDP) and SIDA, and was based in Stockholm until 2003. SIDA was the largest single donor to the GWP, providing over 1/3 of its income in 1998 – more than the World Bank, and as much as all other bilateral donors put together (see table): and SIDA provided additional money for its regional committees. 32

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<th>Table 1. Contributions to Global Water Partnership, 1998</th>
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<td>World Bank, TAC</td>
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28/07/2010
Norad, Norway 66  
The Netherlands 328  
France 54  
SDC, Switzerland 196  
DFID, UK 221  
Denmark 123  
SIDA, Sweden 982  
Total 2,916  
Prepaid Contributions -75  
2,841  
Source: GWP Annual Report 1998

5. Discussion

These policies are part of an increasingly coordinated and globalised system of aid, which involves not only these three countries, but all the major donors and development and financial agencies. An increasing proportion of aid is channelled through special vehicles of the World Bank such as the PPIAF, or coordinated through international bodies such as the EU and OECD. This flow of aid shares common policy conditionalities, often linked to private sector participation in sectors such as water and energy, with the policies laid out by the IMF and the World Bank in PRSP and CAS reports playing a central role. The World Bank’s policy and aid processes are still driven by strategies which make the private sector central – like the Private Sector Development Strategy (PSD) – and by the growing importance of the International Finance Corporation (IFC), the bank’s division which lends only to the private sector, and the Multilateral Investment Guarantee Agency (MIGA), which insures private companies against political risk.  

There are three key reasons for concern with these policies.

The first is that they are promoting policies which are certainly unbalanced and arguably unwise - they exclude or downplay the option of public sector provision, despite the fact that the public sector provides 95% of the world’s drinking water, and that historically the development and extension of public water and sanitation has been successfully carried out by public authorities – as in the cases of Netherlands, Norway and Sweden. The limitations of the private sector in water and energy are now recognised even by the WB, which acknowledges in its 2003 infrastructure review that: “the recent decreases in private sector interest in infrastructure show that reliance on the private sector alone will not be sufficient to guarantee a scaling-up of infrastructure service provision.”

The second is that it undermines national sovereignty, and provides resources that are tied only to the private sector option, or promote only the private sector option. This is the more important because the policies are highly contentious.

The third problem is one of transparency and accountability of donor organisations. When aid is channelled through international joint funds, there is less public accountability. The SIDA water strategy paper has no mention of the PPIAF, nor of its support for the Suez concession in Bolivia; it does mention the support for the African Water Utility Partnership – but not the fact that at least some of it is intended to make public utilities more attractive purchases for the private sector. Yet in countries like Norway, Sweden and the Netherlands, which all retain water within their own public sector, it is not clear that these conditional aid policies would have public support.

The contributions of Sweden, Netherlands and Norway have been highlighted not because they are the major players in supporting private sector expansion in water – the aid programmes of the UK and France remain of greater importance – but because of the stark contrast between these countries domestic policies, founded on the central role for public authorities, and their aid policies, based on funding the development of private activities.
The contradictions between these positions all exacerbate the three problems identified:

- If public water is the best system for these three countries – why are they advocating a worse option for developing countries?
- If nations are free to decide their own policies, why are countries tying aid to one set of policy options – especially when those options are rejected at home.
- And is it possible to assume public support for aid funds which are channelled through indirect ‘trusts’ and promotions, especially when these are promoting a policy so at odds with the publicly supported municipal systems sustained by the environmental ministries of the same governments?

3 Now expected to happen in September 2004.
7 SUEZ : Water for all Koichiro Matsuura, Director-General of UNESCO, and Gérard Mestrellet, Chairman and CEO of the company SUEZ, have signed a cooperation agreement to improve access to water for all. http://portal.unesco.org/en/ev.php@URL_ID=10541&URL_DO=DO_TOPIC&URL_SECTION=201.html
10 See Norwegian Trust Fund for Private Sector and Infrastructure http://wbln0018.worldbank.org/infrastructure/ntfpsi.nsf/
12 See 'Description of NTF Windows of Funding and Potential Activities or Programs’ http://wbln0018.worldbank.org/infrastructure/ntfpsi.nsf/pages/Description+of+NTF+Windows
13 See ‘Infrastructure Services for the Poor Window’ http://www.newdelhi.mfa.no/infrastructure/ntfpsi.nsf/pages/Infrastructure+Services+for+the+Poor
14 See http://www.newdelhi.mfa.no/Embassy/Consulates+and+Offices/Office+of+the+Regional+Adviser/default.htm
15 For the workshop see http://www.newdelhi.mfa.no/NR/exeres/3D9AF498-B8C7-463D-B349-9033D59051DB.htm ; for the PPIAF presentation see http://www.newdelhi.mfa.no/NR/exeres/3D9AF498-B8C7-463D-B349-9033D59051DB-2754/72ePPIRegionalIPSDSSeminarDelftinal.ppt.
17 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
18 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
19 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
20 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
21 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
22 Sida Evaluation 00/41 Water and Environment Project in Estonia, Latvia and Lithuania
23 Sida Strategy for Water Supply and Sanitation Jan 2004 http://www.sida.se/content/1/t/02/44/24/SIDA3952_web.pdf. It is instructive to compare the private management in the Water Resources (1999), which had little mention of the private sector and a more prominent account of the Baltic twinnings. http://www.sida.se/Sida/isp/polopoly.jsp?id=1265&aa=13754
28 See PPIAF Activity.nsf/DocByUnid/7D36D9DF8F81415A8525698B005F6202?OpenDocument
33 The technical advisory committees (TACs), GWP: Annual Report for the Financial Year 1998
34 For a longer discussion of these issues see the PSIRU/War on Want report on

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Infrastucture Action Plan.