Dogmatic Development

Privatisation and Conditionalities in Six Countries

a PSIRU report for War on Want

by David Hall and Robin de la Motte

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DOGMATIC DEVELOPMENT: Privatisation and conditionalities in six countries

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<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>BOO/BOT</td>
<td>Build-Own-Operate/Build-Operate-Transfer</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CDC</td>
<td>Commonwealth Development Corporation (DFID)</td>
</tr>
<tr>
<td>CDF</td>
<td>Comprehensive Development Framework</td>
</tr>
<tr>
<td>CEM</td>
<td>Country Economic Memorandum</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee (OECD)</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development (UK)</td>
</tr>
<tr>
<td>ESAF</td>
<td>Enhanced Structural Adjustment Facility (IMF programme – now turned into PRGF)</td>
</tr>
<tr>
<td>ESW</td>
<td>Economic and Sector Work</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIAS</td>
<td>Foreign Investment Advisory Service (IFC)</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GATS</td>
<td>General Agreement on Trade in Services</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GEF</td>
<td>Global Environment Facility</td>
</tr>
<tr>
<td>HIPC</td>
<td>Highly Indebted Poor Country</td>
</tr>
<tr>
<td>IAS</td>
<td>International Accounting Standards Institute</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>ICSID</td>
<td>International Centre for the Settlement of Investment Disputes (WBG)</td>
</tr>
<tr>
<td>IDA</td>
<td>International Development Association (WBG)</td>
</tr>
<tr>
<td>IDB</td>
<td>Inter-American Development Bank</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation (WBG)</td>
</tr>
<tr>
<td>IFIs</td>
<td>International Financial Institutions</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>IPPs</td>
<td>Independent Power Producers</td>
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<tr>
<td>MDG</td>
<td>Millennium Development Goal</td>
</tr>
<tr>
<td>MIGA</td>
<td>Multilateral Investment Guarantee Agency (WBG)</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organization</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OED</td>
<td>Operations Evaluation Department</td>
</tr>
<tr>
<td>PRGF</td>
<td>Poverty Reduction and Growth Facility (IMF programme)</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>PSD</td>
<td>Private Sector Development</td>
</tr>
<tr>
<td>PSIA</td>
<td>Poverty and Social Impact Assessment</td>
</tr>
<tr>
<td>PSP</td>
<td>Private Sector Participation</td>
</tr>
<tr>
<td>SWAP</td>
<td>Sector Wide Approach</td>
</tr>
<tr>
<td>TA</td>
<td>Technical Assistance</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WBG</td>
<td>World Bank Group (IBRD, IDA, IFC, MIGA, ICSID)</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>

See also Table 4 for overview of multi-donor programs
1. Introduction

1.1. Summary
This report looks at how conditionalities and pressures from aid agencies and development banks force developing countries to adopt privatisation policies in public services.

It focuses specifically on the sectors of water, electricity, and healthcare, in six countries: Colombia; El Salvador; Indonesia; Mozambique; South Africa; and Sri Lanka. It examines the impact of the requirements and policies of the International Monetary Fund (IMF), World Bank (WB), and other agencies including regional development banks, the European Commission (EC) and donor countries. It includes a specific examination of the various ways in which the UK’s Department for International Development (DFID) supports privatisation in these services.

It concludes that the pressures for privatisation have been strengthened through new structures of ‘globalised aid’; that they create serious limitations on independent decision-making by developing countries, and generate some strong political responses; and that policies of development banks and donor agencies, including DFID, should be reviewed to remove such pressures and ensure that policy-making in developing countries is determined by local democratic processes.

1.2. From tied aid to globalised aid: GRIPT
The ways in which conditionalities are applied are now more complex, because the structure of aid programmes has become more complex. Aid policies have moved away from the paradigm of donor countries (like the UK) giving loans or grants towards projects, towards greater cooperation between countries and international agencies, and the elimination of ‘tied aid’, under which aid was given on the condition that it was spent on purchasing goods and services from companies based in the donor country.

The UK, through DFID, has played an active and leading role in calling for the end of tied aid, and ended its own use of the practice in 2001, although it is still practised by most other donors.

The benefits of these changes are clear: the elimination of donor-centric ‘tied aid’, the avoidance of duplication, contradiction or wasteful competition between donors, and the potential for better planning of the totality of aid. However, these changes mean that, in assessing the impact of aid programmes and donors such as DFID, and the effects on the adoption of privatisation policies, it is no longer sufficient to look at project funding alone. The impact of aid and donors is increasingly through their contribution to multilateral programmes and policies.

One general effect of this process is to globalise aid, and conditionalities, in two senses:

- Firstly, aid is increasingly channelled by international mechanisms and institutions, tied to general policies requiring the sectors to be opened to the international business community. This has the effect of moving decision-making to the international level, where the influence of multinational companies is at least as strong as it is on national governments. Democratic accountability is also weaker, because the connection to elected parliamentary representatives is indirect.

- Secondly, instead of the conditions benefiting companies in one country, such as the UK, the benefit is attached to the international private sector as a whole. This is significant in relation to privatisation in these sectors: instead of aid requiring that a company based in the donor country is given a contract, the globalised form of this conditionality is simply that the water sector should be privatised, or that the health service should open up to using private providers. This ‘global tied aid’ allows the recipient country to choose any private company – but not to choose to prefer its own public sector. The benefit of these requirements is not tied to one country, but it is tied to the collective, global, interests of private water companies.

The mechanisms through which these globalised conditionalities work can be categorised into five groups:
1.2.1. **(G)lobal policy conditions**

At the centre of these policies are the IMF and the WB. IMF loans are now tied to countries’ poverty reduction strategy programmes (PRSPs), which contain commitments to a range of policies, frequently including some form of privatisation. PRSPs are subjected to the approval of the IMF and WB boards. This policy conditionality has a much wider impact than the traditional ‘contract conditionality’: support is tied to policies which change the structure of an entire sector, e.g. by the privatisation or liberalisation of electricity systems, rather than just one specific contract, such as building a power station. The WB’s country assistance strategies (CASs) function in the same way, as a core set of policy conditions to which other WB aid is linked.

1.2.2. **(R)einforcement through collective donor action**

At the same time there is a move by donors away from funding specific localised projects in a country, towards providing funding which supports a certain set of policies in recipient countries. The PRSP usually functions as a common reference point for the policies expected to be followed. This shift from micro to macro level takes a number of forms through shifting aid from project support to more general budget and policy support, through ‘pooling’ of donor aid from different countries behind common policy conditions, or the use of regional aid instruments.

This collective action reinforces the power of the core policy conditions, and the PRSP process becomes even more central when all aid is focused around it. Aid is increasingly administered through global collectives of developed countries, under the auspices of joint institutions such as the Organisation for Economic Co-operation and Development (OECD), the EU or the IFIs; international bodies – like the EC or World Bank – or through ad hoc multi-lateral organisations at global level (such as the Global Water Partnership) or at country level (e.g. the donor group in Mozambique).

1.2.3. **(I)nstruments which are intrinsically restricted to the private sector**

Some institutions and programmes are so structured that they can only be used to support the private sector, without the need for conditions attached to specific items of expenditure. The largest examples of this are the WB divisions, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), which are of increasing importance in the WB’s activities. They support only private sector development: the IFC can only invest in private sector ventures; MIGA’s insurance is only of use to private companies. A plethora of other programmes and institutions have been developed which support privatisation policies: for example, Business Partners for Development (BPD) only operates where private businesses are involved.

1.2.4. **(P)roject conditionality**

The traditional form of conditionality is still used through project funding. The impacts of this can be seen in many WB, development bank and donor projects which specify a variety of forms of privatisation and private sector involvement as part of project design, or as ‘trigger’ conditions for payments of parts of loans.

1.2.5. **(T)rade policies.**

The pursuit of trade policies also acts as a pressure to encourage and sustain privatisation, through both old (national) pressure from individual countries on behalf of their companies, and new (global) mechanisms, like the General Agreement on Trade in Services (GATS) of the World Trade Organisation (WTO).

The rest of this report sets out the ways in which these different categories apply pressure in the selected sectors and countries for privatisation in the specified sectors. The summary of the impact that we have identified can be seen from the table below.
Table 1. Table: GRIPT – Conditionalities, pressures and privatisation in 6 countries

<table>
<thead>
<tr>
<th></th>
<th>Global policy - IMF/WB PRSP/CAS conditions</th>
<th>Reinforcement - PRSP-linked and pooled aid</th>
<th>Instruments - multi-lateral restricted instruments</th>
<th>Project - conditional or restricted projects:</th>
<th>Trade - Trade pressures and GATS (UK/EC/USA)</th>
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<td>T</td>
<td></td>
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</tr>
<tr>
<td>Colombia</td>
<td>EW</td>
<td>W</td>
<td>WE</td>
<td>WE</td>
<td></td>
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<tr>
<td>El Salvador</td>
<td>E</td>
<td>H</td>
<td>WE</td>
<td>WE</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>E</td>
<td>EW</td>
<td>WE</td>
<td>WE</td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>WE</td>
<td>WE</td>
<td>E</td>
<td>WE</td>
<td>W</td>
</tr>
<tr>
<td>South Africa</td>
<td>WE</td>
<td>E</td>
<td>WE</td>
<td>WE</td>
<td>WE</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>EW</td>
<td></td>
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</table>

E – Electricity, H – Health, W – Water

2. The machinery of privatisation conditions

2.1. Policy conditionality: the IMF and PRSPs

The central set of policy conditionalities are those applied by the International Financial Institutions (IFIs), in particular the IMF and World Bank. The IMF and World Bank attempt to coordinate through a division of labour (with the IMF focusing on macroeconomic conditions), and often cross-conditionality in the form of a demand for completion or maintenance of successful programmes with the other institution.

Conditionalities were initially developed by the IMF to promote conservative macroeconomic policies to ensure the repayment of its loans. In the late 1970s and early 1980s, however, the types of policies imposed through conditionality changed, coming to reflect more and more the developing ‘Washington Consensus’ of export-oriented development through rapid liberalisation and privatisation. Between the 1987-1990 period and 1997-99, the proportion of IMF structural conditions that related to privatisation rose from 4% to 16%; while the proportion of conditions relating to the IMF’s original remit, the exchange and trade regime, fell from 30% to 8%. Over the same period both the IMF and the World Bank also increased the strictness of the conditions – for example through dividing loans into tranches, and making later disbursements conditional on implementation of agreed policies. Budhoo Davison, who resigned as senior manager at the IMF in 1989 after 12 years’ service, stated:

“President Reagan effectively told us to go out and make the Third World a bastion of free-wheeling capitalism… Everything we did from 1983 onward was based on our new sense of mission to have the ‘south’ privatise or die; towards this end we created economic bedlam in Latin America and Africa in 1983-88.”

The IFIs and other donors still experienced difficulties in persuading recipient governments to implement policy changes the governments thought inappropriate, ineffective, or politically unsupportable, and the use of more detailed conditions and the design of stronger incentives (e.g. disbursement through tranches) had only limited success. The new policy is to streamline conditionality, and encourage ‘country-driven’ policy development through PRSPs designed by the recipient government, preferably including participation from other stakeholders.

However, PRSPs must be approved by the boards of the IMF and World Bank, which encourages governments to say what they think the BWIs wish to hear. The end result is much the same as it was with conditions attached to aid: funds are only available if the ‘right’ policies are pursued. The IMF Executive Board, approving new guidelines in 2002, could agree with confidence that: “properly designed conditionality can complement and reinforce national ownership.”
Table 2. PRSP and CAS privatisation conditionalities in case study countries

<table>
<thead>
<tr>
<th>PRSP (IMF, WB)</th>
<th>CAS (WB)</th>
<th>IMF programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>none</td>
<td>none</td>
</tr>
<tr>
<td>El Salvador</td>
<td>E privatisation</td>
<td>none</td>
</tr>
<tr>
<td>Indonesia</td>
<td>E framework for privatisation, N cost-reflective tariffs</td>
<td>E liberalisation, preparation for privatisation</td>
</tr>
<tr>
<td>Mozambique</td>
<td>W framework and strategy for PSP, E promote PSP</td>
<td>W privatisation, tariff increases, E liberalisation</td>
</tr>
<tr>
<td>South Africa</td>
<td>n/a</td>
<td>n/a</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>E, W framework for PSP, E, W tariff increases, H encourage private hospitals</td>
<td>E liberalisation, E, W PPPs, W tariff increases</td>
</tr>
</tbody>
</table>


2.2. The World Bank and private sector development

PRSPs and CASs are targeted by the World Bank’s Private Sector Development (PSD) strategy, which is centrally concerned with promoting the role of the private sector in infrastructure investment, especially water and energy. The WB’s June 2003 review of progress with PSD identifies PRSPs and CASs as key areas which will be subject to systematic attempts to prioritise the role of the private sector: “Enhancing private sector participation in PRSPs will be a priority item in the World Bank Group’s (WBG) PSD agenda”. This is to be pursued by vigorous involvement in the internal processes of a country as it develops its PRSP, through “working with client countries to help them ensure that the private sector has a strong voice in the development of the country’s own development strategies, policies and programs, especially PRSPs”. The PSD Sector Board is working on selected countries with upcoming CASs to “mainstream the treatment of investment climate issues in CASs and the Bank’s operations”. The countries will be selected “taking into account both the extent and significance of investment climate problems, and the countries’ commitment and readiness to address them”.

This policy is reinforced by a new institutional structure, introduced in May 2003, which created a new vice-presidency to head the PSD strategy which will “help co-ordinate investment climate related activities across the Bank, International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA), and …help feed WBG input on private sector issues into PRSP and CAS processes.” The vice-president will be the WB’s central point of contact for, and external representative to, the private sector.

2.3. Reinforcing the conditions: coordination by the OECD, EU and donor groups

The IFIs’ conditionalities are reinforced by other donors and commercial lenders, who frequently link the availability of their funding to a satisfactory current assessment from the IFIs. This cross-conditionality also applies to debt relief – both through the relatively recent HIPC process and through the much longer-established “Paris Club” debt rescheduling. The former is based around the IMF’s PRSP process, whilst in the latter case, creditor nations agreeing debt relief almost invariably attach an “IMF clause” requiring stabilisation programmes monitored by the IMF.

The impact of PRSPs is further magnified as donors coordinate their policies behind common approaches, with the PRSP becoming the common reference point. In effect, donors provide a “united front” to recipients so that the proportion of aid available without these conditions is considerably reduced:

“Conditionality is most powerful when collectively imposed. In recent years, individual bilateral donors have ceded much of their decision-making power to the IMF, which certifies that the macroeconomic management of a country is sound and deserving of support. In addition, donors have increased coordination among themselves and increasingly present a united position to the recipient countries.”

This coordination is being developed, partly through greater exchange of information on what countries are doing and partly by increasing co-operation at global, regional and country level. Multi-lateral institutions,
including the OECD’s Development Advisory Committee (DAC)\textsuperscript{30} and the European Union (EU), have become key vehicles both in the distribution of financial aid, and in developing common policies.

The OECD’s role is coordination. A meeting in Rome in February 2003 of over 20 multilateral and bilateral development organisations and about 50 countries endorsed a series of good practice papers on “Harmonisation of Donor Practices for Effective Aid Delivery” and a declaration on the benefits of harmonisation.\textsuperscript{31} This coordination has included the welcome objectives of reducing transaction costs for recipient countries and reducing tied aid.\textsuperscript{32} The OECD practice papers do not themselves promote privatisation in water, energy, health or other public services, but the vehicle of harmonisation magnifies the impact of policies which do.

The EU’s role is as a donor in its own right, and as a coordinator of EU member state donors, which can be seen in the case of water. Current EU aid on water is, at over €224m in 2001, larger than that of France and the UK combined, and larger than any single EU country contribution except Germany.\textsuperscript{33} About three-quarters of that spending – €168.2m – goes to support ‘water resources policy and administration’: much of this may be spent on developing the administrative arrangements conducive to privatisation, especially in the light of the policy objectives of the EU Water Initiative (EUWI).

The EUWI\textsuperscript{34} is an attempt, developed in 2002, to coordinate the aid of EU countries behind policies which are strongly focused on facilitating and encouraging the private sector to play a bigger role in water in developing countries: “The EU water initiative could work on making the water sector more attractive to the private sector”. The central feature of the EUWI is creating the right climate to attract private sector participation (PSP), including for example reducing risks for private business: “The EU water initiative could work on the development of financing mechanisms for managing risk, which could include the setting up of a facility to underwrite key areas of risk.” And the EUWI itself will fund work to promote the right sort of demands: “as PRSPs and other investment projects are increasingly demand-led, the EU water initiative should seek to promote demand for water via education activities and funding of civil society and private service providers…”\textsuperscript{35}

Donor co-ordination at country level is now a growing practice which strengthens conditionalities. One country where the impact of this is clearly observable is Mozambique, where donors were described in 1998 as “a powerful group”\textsuperscript{36}, but by 2003 they had formalised the grouping, under the name of “G11” in an acknowledgement of its power.\textsuperscript{37} The G11 has agreed to share a single set of conditionalities with the WB, based on the country’s PRSP, through adopting a common performance assessment framework. This is further reinforced by the EU, whose strategy and programmes, over half of which are for general policy support, are also linked to the PRSP.\textsuperscript{38} This means promoting private sector participation in both water and energy: Mozambique’s PRSP specifically promises to “promote the participation of the private sector in the field of energy…encouraging the participation of the private sector in the provision of [water and sanitation] services; update the legislative framework and strengthen the strategy for involving the private sector in the management of water supply and sanitation in urban areas…” The CAS adds to this: “introducing a private partner for EdM [the state electricity company]”\textsuperscript{39}

2.4. Instruments restricted to the private sector

2.4.1. IFC and MIGA

The IFC is a division of the World Bank, which invests solely in the private sector. As such, IFC loans in public services are bound to be restricted to privatised ventures. The IFC has a declared policy of being simply in favour of extending the role of the private sector in public services, including healthcare. Its chief executive, Peter Woicke, declared in September 1999: “…IFC is … moving aggressively to invest in sectors where we believe there is substantial scope for more private sector involvement. This ranges from water and transportation investments to healthcare, education, and the environment…”\textsuperscript{40} The IFC’s investments are simple financial investments as a shareholder in private firms - for example in healthcare, usually clinics providing various diagnostic and therapeutic services, or hospitals, to private patients. Another section of the
World Bank, MIGA, provides investment guarantees to protect mainly against political risk – again, a service only for the private sector.

The role of the IFC and MIGA is growing as a proportion of WB activity. In 1980, IFC and MIGA accounted for only 3.3% of all WB activity; by 2000, it had increased to 25%. The WB’s private sector strategy endorses further growth by these two institutions, and they are moving to more central positions in the WB group’s policies. This may be problematic for the IFC: it is expressly prevented in its Articles of Agreement from interfering in politics: “The Corporation and its officers shall not interfere in the political affairs of any member, nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions and these considerations shall be weighed impartially.”

The activities of both the IFC and MIGA have a considerable impact on policies in all three sectors in case study countries and many others. The section on Indonesia (page 21) includes an example of MIGA playing an extremely one-sided role in support of a private company, Enron, at the expense of Indonesian taxpayers.

<table>
<thead>
<tr>
<th>Table 3. IFC and MIGA operations in case study countries</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>IFC</strong></td>
</tr>
<tr>
<td><strong>Colombia</strong></td>
</tr>
<tr>
<td><strong>El Salvador</strong></td>
</tr>
<tr>
<td><strong>Indonesia</strong></td>
</tr>
<tr>
<td><strong>Mozambique</strong></td>
</tr>
<tr>
<td><strong>South Africa</strong></td>
</tr>
<tr>
<td><strong>Sri Lanka</strong></td>
</tr>
</tbody>
</table>

* regional technical assistance to identify potential projects

2.4.2. Programmes supporting privatisation

A number of global initiatives have been created, mainly but not exclusively through the World Bank, many of which seek to facilitate or finance private sector involvement in infrastructure, including water and energy. The common theme is facilitating and creating the necessary legal and regulatory environment for privatisation and foreign investment, or by financing pilot projects or studies. In effect, it is the bureaucratic preparation for privatisation.

The new global bodies share some common characteristics. Firstly, they invariably involve a number of partners - usually the World Bank, a number of donor countries, and/or other international agencies such as UNDP. Secondly, their operations are removed from the direct channel of accountability of donor governments. There has been almost no UK parliamentary discussion of DFID initiatives like the Public-Private Infrastructure Advisory Facility (PPIAF), for example. Thirdly, especially for the bodies which are investment funds, the operation involves assessments by private fund managers according to the normal criteria of financial investors. Even though impact assessments may be provided for, decisions on projects appear to lie in the hands of fund managers not with democratic institutions in developing countries.
Table 4. World Bank and multi-donor programs supporting private sector participation

<table>
<thead>
<tr>
<th>Program</th>
<th>ESMAP</th>
<th>PPIAF</th>
<th>BNWP</th>
<th>NTF-PSI</th>
<th>GPOBA</th>
<th>PIDG</th>
<th>BPD</th>
<th>EAIF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector/Theme</td>
<td>Energy</td>
<td>Private Infrastructure</td>
<td>Water and Sanitation</td>
<td>Private Sector and Infrastructure</td>
<td>Infrastructure</td>
<td>Private Sector and Infrastructure</td>
<td>Private Sector and Infrastructure</td>
<td>Private Sector and Infrastructure</td>
</tr>
<tr>
<td>Purpose</td>
<td>Energy Sector Management Assistance Program promotes the role of energy in poverty reduction and economic growth in an environmentally responsible manner.</td>
<td>Public-Private Infrastructure Advisory Facility: Helping to eliminate poverty and achieve sustainable development through private involvement in infrastructure.</td>
<td>Bank-Netherlands Water Partnership is a new program to improve delivery of water supply and sanitation services to the poor.</td>
<td>Norwegian Trust Fund for Private Sector Development and Infrastructure provides grant resources for activities in the private sector and in infrastructure for the World Bank Group, including IFC. The NTF-PSI fund concentrates on the poorest countries, and half the funds are earmarked for Africa</td>
<td>Global Partnership for Output-Based Aid (GPOBA): will assist in the development and documenting of pilot OBA schemes for basic infrastructure and social services in developing countries.</td>
<td>Private Infrastructure Donors Group</td>
<td>Business Partners for Development</td>
<td></td>
</tr>
<tr>
<td>Founders</td>
<td>World Bank, UNDP, European bilateral donors (9), Canada</td>
<td>World Bank, European bilateral donors (1), Japan</td>
<td>World Bank, Netherlands</td>
<td>World Bank, Norway</td>
<td>World Bank, UK (DFID)</td>
<td>UK, Holland, Sweden, Switzerland</td>
<td>Private Infrastructure Donors Group (PIDG) plus Deutsche Investitions- und Entwicklungsgesellschaft (DEG), Development Bank of Southern Africa (DBSA), and private banks</td>
<td></td>
</tr>
<tr>
<td>Members who have joined since inception</td>
<td>France, Italy, Japan, Poland, UK, USA (+ 22 partners)</td>
<td>France, Germany, Sweden, Norway, Switzerland, Canada, Netherlands, UNDP, Asian Development Bank (ADB)</td>
<td>Global Water Partnership (GWP), UNESCO Institute for Water Education (UNESCO-IHE), International Water and Sanitation Centre (IRC), International Water Association (IWA), Water Supply and Sanitation Collaborative Council (WSSCC), World Bank Institute (WBI), Water and Sanitation Program (WSP), Asian Development Bank (ADB), Inter-American Development Bank (IDB)</td>
<td>Multi-donor technical facility</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4.2.1. **BPD - Business Partners for Development**

BPD is a project-based initiative created by the World Bank in 1998 and funded in part by the UK’s Department for International Development (DFID). The BPD group is “designed to study, support, and promote model examples of partnerships involving business, government, and civil society, working together for the development of poor communities around the world and, in Durban, working together in the communities of Inanda and Ntuzuma.”

Currently there are seven focus areas for BPD - South Africa (Durban), Senegal, Haiti, Bolivia (La Paz), Colombia (Cartagena), Argentina (Buenos Aires), and Indonesia (Jakarta). These last four include four of the biggest urban water privatisations in the world. In three out of five BPD ‘clusters’ – natural resources, water, and knowledge resources - DFID is the only government development agency partner, amongst private firms and NGOs. Vivendi Water together with the World Bank and Water Aid of the United Kingdom are the co-convenors of the water and sanitation ‘cluster’, including a project in Durban, South Africa. A tri-sector partnership was launched in 1998 involving eThekwini Water Services (eTWS), Vivendi Water (a French-owned multinational company) and Mvula Trust (a service delivery non-governmental organisation (NGO) targeted at two areas of Durban – Inanda and Ntzuma.

2.4.2.2. **EAIF - Emerging Africa Infrastructure Fund**

The Emerging Africa Infrastructure Fund (EAIF) was created in 2002 by DFID. As its name suggests it is a fund for financing infrastructure in Africa, by lending to “significant infrastructure companies” before its launch as the EAIF, was the ‘Africa Private Infrastructure Financing Facility’. Its initial financing comprises committed equity capital of US$100 million from 4 bilateral donors including DFID, US$85 million from three development banks (the Dutch FMO, German DEG and South African DBSA); and US$120 million of commercial debt from Standard Bank Group and Barclays. DFID intends to put in further capital, to increase the fund to $450m.

The fund itself is privately managed by Emerging Markets Partnership, a Washington DC-based fund manager. Decisions on projects do not involve the governments of developing countries. By May 2003 it had already made its first loan, worth £14m., to a private mobile phone network, and was expected to make loans totalling £125m by May 2004.

A $360,000 feasibility study, funded by PPIAF, is now examining the possibility of creating a similar fund for Asia.

2.4.2.3. **ESMAP - Energy Sector Management Assistance Programme**

Another multilateral programme, the Energy Sector Management Assistance Programme (ESMAP), is concerned with energy. It is funded by the World Bank, the UNDP, and 11 bilateral donors, one of which is DFID. About half of the funding is given as core funding, which is regarded as important because it is not tied to specific projects and is therefore available for flexible use by ESMAP. DFID’s contribution to ESMAP is significant: in the three years 1999-2001, DFID contributed $2.3m out of a total funding of $17.5m. (13%) – and an even higher proportion of core funding, $2.1m out of $9.8m (21% - second only to the World Bank itself). The programme’s business plan for the next three-year period, 2002-2004, is due to more than double to a total of $40m.

ESMAP is partly tied to private sector involvement. It focuses on three strategic areas, one of which is “market-oriented energy sector reform” (the others are access to efficient and affordable energy, and environmentally sustainable production and use of energy). This area accounts for about a third of ESMAP’s portfolio. In recent years there has been “an intensification of efforts for the implementation of institutional, legal and regulatory arrangements for private sector participation – particularly in the electricity and upstream oil and gas sectors”.

Surprisingly, the “greatest dollar volume growth has been in energy trade, primarily in electricity”. Electricity trading is the phenomenon which was at the centre of the collapse of Enron, it has been associated
with the California electricity crisis of 2001\(^{51}\) and later blackouts,\(^{52}\) and is not normally identified as a priority need for developing countries: rather, promotion of decentralised generation and local self-sufficiency is being advocated as a solution to the problem of blackouts, even in developed countries.\(^{53}\)

ESMAP works closely with the multinational private sector. Its consultative committee was told that

> "the signal from international energy firms is that there is a greater need for communication between them, the World Bank and the donor community…In the ensuing discussion, the need for collaboration between the private sector and the development community on issues of investment climate and risk was highlighted…there was consensus that creative mechanisms should be contemplated for rules of engagement with the private sector without raising conflict of interest issues." \(^{54}\)

The conflicts of interest referred to here are not elaborated.

### 2.4.2.4. GPOBA - Global Partnership on Output-Based Aid

In January 2003, the United Kingdom's Department for International Development (DFID) and the World Bank established the Global Partnership on Output-Based Aid (GPOBA), a multi-donor trust fund administered by the World Bank. GPOBA states that “the core of the OBA approach is the contracting out of service delivery to a third party, usually a private firm, where payment of public funds is tied to the actual delivery of services.” \(^{55}\)

The main function of GPOBA itself is to provide supporting documentation and promote OBA, specifically “to assist in the development of pilot demonstration projects and in documenting output-based aid methods”.\(^{56}\)

### 2.4.2.5. NTF-PSI - Norwegian Trust Fund for Private Sector and Infrastructure

Another new agency is the Norwegian Trust Fund for Private Sector and Infrastructure (NTF-PSI), which funds “energy, water, urban development, transport, infrastructure and private sector development activities across the [World] Bank and the IFC”.\(^{57}\) It was set up in 2002 under an agreement which commits Norway to financing projects under this heading “over a period of years” \(^{58}\) - although Norway is a country whose water and sanitation, like the majority of its public services, are provided directly by public authorities.

The programme covers water, energy, urban development, and transport and private sector development, with two main ‘windows’.\(^{59}\) The first window concerns ‘investment climate’- “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”. Indeed, $6million out of $7million in the programme are pre-allocated to existing projects carried out through the IFC (the WB’s division specialising in financing the private sector), which “are in line with the new Private Sector Strategy.” These projects include the WB’s Public-Private Infrastructure Advisory Facility (PPIAF).

### 2.4.2.6. PIDG – Private Infrastructure Donors Group

The World Bank describes The Private Infrastructure Donors Group (PIDG) as “a group of like minded donors seeking to increase private sector investment in the infrastructure of developing countries”.\(^{60}\) PIDG is a planned multi-donor fund “for the development of financial instruments for private sector participation in infrastructure.” In October 2003 its backers included the Netherlands, Sweden, Switzerland, and the UK.

The fund will work with two mechanisms. The first is DevCo, which will provide the service of developing potential infrastructure projects “to the point where they can be offered to private sector companies”: implementation of the DevCo projects will always be “by the private sector alone or (commonly) working in
partnership with other stakeholders in-country”. DevCo Advisory was created by the World Bank in June 2003, through an agreement between two parties, the IFC’s Private Sector Advisory Service Department (PSAS) and DFID, to support IFC’s privatisation advisory work. DFID agreed to contribute $10 million over three years (FY04-FY06). The second is code-named GuarantCo, which will offer partial guarantees on bonds issued “by private sector infrastructure service providers and possibly municipalities and/or public sector authorities in lower income developing countries”. The WB credits the Swedish International Development Cooperation Agency (SIDA) with the original concept of GuarantCo.

PIDG was an initiative from DFID, whose head of Infrastructure and Urban Development, John Hodges, presented his work “promoting private sector investment in infrastructure projects” to the World Bank in 2002. Hodges identified institutional, financial and risk constraints on private sector investment in developing countries, and proposed multilateral institutions such as PPIAF and EAIF as the key instruments to solve these problems. DevCo and GuarantCo are further such mechanisms, and Hodges saw PIDG as the overall framework for funding and supporting these agencies.

2.4.2.7. PPIAF - Private Public Infrastructure Advisory Facility

The Public-Private Infrastructure Advisory Facility (PPIAF) is a multi-donor technical assistance facility designed to “tackle the enabling environment for PPP in infrastructure”. Launched in July 1999, PPIAF was developed at the joint initiative of the governments of Japan and the United Kingdom, working closely with the World Bank. According to a senior DFID official, “DFID was central to the design and establishment of the PPIAF”. PPIAF pursues its mission through channelling technical assistance to governments in developing countries on strategies and measures to tap the full potential of private involvement in infrastructure and identifying, disseminating, and promoting best practices on matters related to private involvement in infrastructure.

PPIAF provides funding for a wide range of activities related to the reform of water and sewerage and the development of public-private partnerships in the sector. These include support for innovative transaction design for contracts, leases, and concessions; regulatory strengthening and training; sectoral policy related to increasing or deepening the role of the private sector; pro-poor tariff design; and consensus building among consumers, investors, policy makers, and other key stakeholders. PPIAF has been instrumental in the development of the Output-Based Aid model for water supply services funding the conceptual design of OBA pilots and has funded the latest Water Reform Toolkit. From the time of PPIAF’s inception through fiscal year 2003, water and sanitation activities have represented 23% of PPIAF’s portfolio in value terms (although many multi-sectoral projects include water and sanitation components). PPIAF has also selectively supported the design of policy and public-private contractual mechanisms for improving municipal solid waste services in metropolitan areas of more than 500,000 inhabitants.

PPIAF funds activities in the energy sector related to private participation in electricity generation, transmission and distribution as well as natural gas transmission and distribution. As with other sectoral activities, PPIAF’s funds have been used for support in market structure policy formation and regulatory strengthening, utility reform, legal and regulatory development, tariff design, pro-poor contract design, and consensus building among key stakeholders. Between 1999 and 2003, energy sector activities represented 18% of PPIAF’s portfolio in value terms.

Table 5. Restrictive programmes in case study countries

<table>
<thead>
<tr>
<th></th>
<th>ESMAP</th>
<th>PPIAF</th>
<th>GPOBA</th>
<th>BPD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>x</td>
<td></td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>El Salvador</td>
<td></td>
<td></td>
<td>x</td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mozambique</td>
<td>x</td>
<td>x</td>
<td></td>
<td>x</td>
</tr>
<tr>
<td>South Africa</td>
<td>x</td>
<td>x</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sri Lanka</td>
<td></td>
<td>x</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.5. Trade promotion and GATS requests

The influence of trade interests can be seen both at national level, and, through GATS mechanisms, at global level. The trade interests of UK businesses, for example, are represented by the Department of Trade and by the Foreign Office, in the case of the UK, for whom UK interests are defined as promoting business opportunities for British firms abroad. From this perspective, more private sector participation simply increases the opportunities, for financial advisors as well as for contractors, which is sufficient reason for promoting PPPs and liberalisation overseas, according to trade minister Mike O’Brien:

"The worldwide interest in Public Private Partnerships presents major opportunities for UK financial and legal expertise. UK Trade and Investment can draw upon commercial teams in over 200 Embassies and Consulates throughout the world to promote the UK’s financial, legal and PPP expertise and lobby overseas decision makers on liberalisation issues. I am grateful to the Corporation of London, the Law Society, the Bar Council and DCA for the training provided to overseas staff, helping them understand your needs and to raise the City’s profile across the globe".  

In November 2003, in a good illustration of this kind of service, the UK ambassador to Indonesia asked the country’s president to put pressure on Jakarta city council to allow Thames Water to increase water prices by 20%, or else they would leave the country.  

The GATS mechanisms are also being used to put pressure on countries for liberalisation in these sectors, specifically through the European Commission’s requests to 109 countries in February 2003. As shown in the table, these requests were sent to all six case study countries, requesting all of them to open their environmental services (including water), and four of them to open their energy sectors.

<table>
<thead>
<tr>
<th>Table 6. EC requests under GATS in case study countries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td>Colombia</td>
</tr>
<tr>
<td>El Salvador</td>
</tr>
<tr>
<td>Indonesia</td>
</tr>
<tr>
<td>Mozambique</td>
</tr>
<tr>
<td>South Africa</td>
</tr>
<tr>
<td>Sri Lanka</td>
</tr>
</tbody>
</table>

Source: WDM http://www.wdm.org.uk/cambriefs/

3. The role of DFID

3.1. DFID in an international context

Evaluating the extent to which DFID is promoting privatisation in water, energy and healthcare involves looking at its support for policy conditionalities and the development of international instruments to promote and sustain the private sector in these sectors, as well as projects. DFID has untied UK aid from April 2001, and plays a key role in promoting and supporting multilateral efforts, via the OECD’s DAC, for the untying of aid, so there is little remaining sign of traditional aid conditionalities linked to the use of a UK firm.

The importance of international cooperation is visible in DFID policies and aid programmes: as Table 7 shows, between 40% and 50% of UK aid goes to international programmes (compared with just 26% of the USA’s aid).  

Table 7. DFID spending by category 2002/3

<table>
<thead>
<tr>
<th>Category</th>
<th>2002/03 (est), £m</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country/Regional Programmes</td>
<td>1335.6</td>
<td>of which Africa: 654.7</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of which Asia: 443.3</td>
</tr>
<tr>
<td>Policy Programmes</td>
<td>289.3</td>
<td></td>
</tr>
<tr>
<td>International Programmes</td>
<td>1555.1</td>
<td>of which EU: 928.3</td>
</tr>
<tr>
<td></td>
<td></td>
<td>of which IFI: 351.3</td>
</tr>
<tr>
<td>Other Programmes</td>
<td>120.9</td>
<td>of which Private Sector Initiative/CDC, evaluation *: 27.1</td>
</tr>
<tr>
<td>TOTAL—All Programmes</td>
<td>3300.8</td>
<td></td>
</tr>
</tbody>
</table>

*Includes a number of Funds and projects designed to promote Private Sector participation in development.


3.2. Reinforcing policy conditionality

Fifteen percent of DFID’s country aid programme is now in the form of “budget support”. The trend away from specific projects towards this more general “budget support” increases conditionalities which relate to the broad power of donors to influence or even control recipient governments’ policies. A DFID-funded study analysed this as a bargaining relationship which trades money for policy influence: “In supporting the budget, donors are lending their loyalty to the government’s entire policy programme. In exchange for loyalty, donors are granted a formal ‘voice’ in policy dialogue, debate and influence, donors needed a more thorough assessment of the political economy, of the systems of governance, of donor co-ordination and of the ability to influence government policy.”

This approach is being applied in Mozambique, where DFID states that: “Policy conditionality is non-specific, requiring Government to implement its own poverty reduction programme” – i.e. all aid is subject to the global conditions of the PRSP. DFID is one of the largest donors in Mozambique, and a member of the G11 group of donors. Through the G11, and its commitment to the conditions of the PRSP (or PARPA), Mozambique’s national development and poverty reduction strategy, DFID’s aid shares the same conditionalities, including promoting the continuation of privatised water. Additionally, DFID’s aid is covered by the G11 agreement to use the same assessment criteria as the WB, which currently include partial privatisation of the electricity system (see section 4.4).

Outside the six case study countries, the impact of DFID’s policy conditionalities can be clearly seen in DFID’s £342m programme in the Indian state of Andhra Pradesh, where privatisation of electricity has been a central policy, financed under WB conditionalities from 1997. DFID’s 2001 review concluded that

“DFID will continue to work closely with the World Bank’s Economic Reform and Power Sector Restructuring programmes to support the government refocus its spending priorities and to divest functions and services where this is more appropriate. Specifically we will support efforts to strengthen the government of AP’s capacity to manage the privatisation programme effectively and responsibly; strengthen revenue administration and increase the tax take through the successful introduction of Value Added Tax; and improve quality and access to power supply through the successful privatisation and regulation of the sector.”

The review does not mention that there has been bitter opposition to the privatisation programme, including a demonstration in August 2000 in which three people were killed.

3.3. Instruments for privatisation

One way in which DFID has actively been advancing the cause of privatisation has been through initiating and supporting a series of international initiatives aimed at advancing private sector participation in public services. Many of these are organised through the World Bank. The design of these instruments often means that they are only available to support private sector developments, and so in effect have built-in conditionalities. The range of these initiatives is shown in the table below, and in more detail in section 2.4.
DFID has not merely participated in, but has been a key initiator, funder, or partner, of many of these initiatives, and is duly acknowledged for this. DFID is playing a far more central role than other donors in the creation of these privatisation support mechanisms.

### Table 8. DFID role in multi-lateral instruments supporting privatisation

<table>
<thead>
<tr>
<th>Initiative</th>
<th>Acronym</th>
<th>Start Date</th>
<th>DFID funded</th>
<th>DFID initiative or lead</th>
<th>Case study countries involved</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public/Private Partnerships for the Urban Environment</td>
<td>PPPUE</td>
<td>1996</td>
<td>Y</td>
<td>Y</td>
<td>None</td>
</tr>
<tr>
<td>Business/building Partners for Development</td>
<td>BPD</td>
<td>1998</td>
<td>Y</td>
<td>Y</td>
<td>South Africa, Colombia, Indonesia</td>
</tr>
<tr>
<td>Private Public Infrastructure Advisory Facility</td>
<td>PPIAF</td>
<td>1999</td>
<td>Y</td>
<td>Y</td>
<td>Colombia, El Salvador, Indonesia, Mozambique, South Africa, Sri Lanka</td>
</tr>
<tr>
<td>Emerging Africa Infrastructure Fund: EAIF</td>
<td>EAIF</td>
<td>2002</td>
<td>Y</td>
<td>Y</td>
<td>no data</td>
</tr>
<tr>
<td>Global Partnership on Output-Based Aid</td>
<td>GPOBA</td>
<td>2003</td>
<td>Y</td>
<td>Y</td>
<td>Mozambique</td>
</tr>
<tr>
<td>Private Infrastructure Donors Group (DevCo/GuarantCo –)</td>
<td>PIDG</td>
<td>2003</td>
<td>Y</td>
<td>Y</td>
<td>no data</td>
</tr>
<tr>
<td>Energy Sector Management Assistance Programme</td>
<td>ESMAP</td>
<td>1983</td>
<td>Y</td>
<td></td>
<td>Colombia, Mozambique, South Africa, Sri Lanka</td>
</tr>
<tr>
<td>Bank-Netherlands Water Partnership</td>
<td>BNWP</td>
<td>2000</td>
<td></td>
<td></td>
<td>no data</td>
</tr>
<tr>
<td>Norwegian Trust Fund for Private Sector and Infrastructure</td>
<td>NTF-PSI</td>
<td>2002</td>
<td></td>
<td></td>
<td>no data</td>
</tr>
</tbody>
</table>

### 3.4. DFID project funding in the six case study countries

Current DFID aid to the six case study countries through country programmes is limited. DFID no longer has country programmes anywhere in Latin America, and no current country programmes for Indonesia or Sri Lanka – although some regional programmes will impinge on these countries – and so the only aid identified under the heading of country assistance is for Mozambique and South Africa.

The AiDA database of development activities shows DFID’s activities to have been significant in some sectors in these countries over the last 15 years or more, but gives no information on any conditionality attached. DFID has in the past spent large sums of money in Indonesia, much of it, in the 1980s and early 1990s, for the electricity sector, during a period when a number of British companies started private electricity projects under agreements with the late President Suharto.

DFID aid in Mozambique is all subject to the PRSP conditionalities described above. In addition, a DFID water project in Niassa province required the use of private firms to develop its water supply. The province however was so poor that there was no viable private sector: just 15 struggling construction contractors and one state-owned works company, while the water policy prohibited the direct employment by donors of local labour. The result was poor quality work, lack of input and control by communities, with supply points built near water sources for the convenience of contractors rather than near villages for the convenience of communities.

### Table 9. DFID expenditure by country: 2002-2003, and mid-1980s to 2003

<table>
<thead>
<tr>
<th>DFID country budget 2002-3 (est), £m</th>
<th>DFID bilateral spending under key headings, mid-1980s to 2003. £m (no of projects)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Water</td>
</tr>
<tr>
<td>Colombia</td>
<td>0</td>
</tr>
<tr>
<td>El Salvador</td>
<td>0</td>
</tr>
<tr>
<td>Indonesia</td>
<td>0</td>
</tr>
<tr>
<td>Mozambique</td>
<td>28.0</td>
</tr>
<tr>
<td>South Africa</td>
<td>39.7</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>0</td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>67.7</strong></td>
</tr>
</tbody>
</table>

*Source: AiDA database, [www.developmentgateway.org](http://www.developmentgateway.org)*
4. Case studies in six Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>GDP/capita (US$)</th>
<th>Population (millions)</th>
<th>Life expectancy (years)</th>
<th>Infant mortality (deaths per 1000 live births)</th>
<th>Access to an improved water source</th>
<th>Electricity use per capita (kWh)</th>
<th>Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>1830</td>
<td>43.7</td>
<td>71.8</td>
<td>19.0</td>
<td>91%</td>
<td>845.1</td>
<td>South America</td>
</tr>
<tr>
<td>El Salvador</td>
<td>2080</td>
<td>6.5</td>
<td>70.1</td>
<td>33.0</td>
<td>77%</td>
<td>559.4</td>
<td>Central America</td>
</tr>
<tr>
<td>Indonesia</td>
<td>710</td>
<td>211.7</td>
<td>66.7</td>
<td>33.0</td>
<td>78%</td>
<td>324.9</td>
<td>South East Asia</td>
</tr>
<tr>
<td>Mozambique</td>
<td>200</td>
<td>18.4</td>
<td>41.0</td>
<td>126</td>
<td>57%</td>
<td>54.1</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>South Africa</td>
<td>2600</td>
<td>43.6</td>
<td>46.0</td>
<td>65.0</td>
<td>86%</td>
<td>3831.9</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>840</td>
<td>19.0</td>
<td>73.8</td>
<td>17.0</td>
<td>70%</td>
<td>255.0</td>
<td>South Asia</td>
</tr>
</tbody>
</table>

Source: World Bank database; figures most recent available – usually 2002

4.1. Colombia

Colombia’s ongoing public sector reform programme dates back to around 1989-1990. Since then, there has been substantial privatisation of the electricity sector, substantial private involvement in water supply, and a restructuring of the health system on an insurance basis. All of these reforms have had significant involvement in their design and financing by the World Bank and Inter-American Development Bank (IDB) in particular, and in the case of water the World Bank has used an unofficial conditionality (not laid out in the relevant project documents) to demand (and get) privatisation in the city of Cartagena. International Financial Institutions have also provided broad financial support in the form of adjustment loans, as well as much encouragement, technical assistance and intellectual support. This includes general financial and technical assistance support for implementing reforms,81 with aims such as

“promot[ing] private participation and competition by addressing specific issues and removing constraints. The privatisation component will identify and develop projects for potential private participation, structure deals, design model bidding documents and implement demonstration projects in priority sectors; develop models to make bidding procedures efficient and transparent; help develop institutional capacity within sector agencies to structure projects suitable for private participation...”

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In the World Bank’s latest Country Assistance Strategy for Colombia (2003), the section on infrastructure is headed “Infrastructure - Making Private Participation Work for All”, in view of which the declaration that “the policy challenge is how to make private infrastructure investment more appealing in the context of the conflict” is hardly surprising.

The water sector has perhaps felt the greatest external impact, with the World Bank pivotal in the Cartagena privatisation case (see illustration below), encouraging private sector involvement in Bogotá,83 and funding a recent project to involve the private sector in water in a number of coastal Colombian cities.84 In particular, the World Bank used the prospect of more Bank funds for water infrastructure to force private sector involvement in a project85 which originally had no terms of reference for doing so:

“...the project team pushed hard for the creation of ACUACAR, a mixed capital enterprise, during the latter half of the previous Bank project, by leveraging the prospect of additional Bank financing for Cartagena's WSS sector ... Institutional reforms have therefore been front-loaded, i.e. the reform was a pre-condition for this project, which supports a major environmental infrastructure investment.”

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The Bank writes of this case, contradictorily, that “borrower commitment is high as evidenced by the privatisation reform process initiated by the District of Cartagena”, even though it has just described the leading, even “pivotal”, role of the Bank itself! Moreover, the Bank even notes that “in part, the District
moved on PSP because it was convinced that it was the key to continued donor involvement in Cartagena’s WSS sector,” which was necessary because “the Bank’s involvement would provide much needed long term financing which is not easily available in local capital markets…”

The power sector has also undergone a major transformation - from almost 100% public ownership in 1990 to around 60% private participation in electricity generation (measured in megawatts installed) and over 43% participation in supply to final consumers. The World Bank describes Colombia as “a pioneer in introducing structural and regulatory reforms in the [power] sector”, with the reforms using a wholesale electricity market based on the British model (supported by a $250m World Bank project). The whole process was supported by a World Bank project which designed and implemented the necessary regulatory and legal reforms, and began the privatisation process, supplemented by $350m of IDB financial support with the same aim. ISAGEN, the major generator still in state hands, as well as 20 smaller distribution companies together serving 45% of users, are in the process of being privatised. There have been delays due to legal issues and attacks on infrastructure by rebel groups; the IMF has “encouraged [the authorities] to press ahead with the privatisation program despite recent delays…”

The 1993 health sector reforms separated provision from funding, with people paying for health insurance according to their means, and the poor subsidised by government and a portion of the premium from the non-poor. The reforms were supported by a $38m loan in 1995 from the IDB. (In 1999 the IDB’s Multilateral Investment Fund’s (MIF) also provided a $0.63m technical assistance project specifically “to encourage private enterprise to become involved in managing health care delivery under the subsidised health plans.”) According to the WHO, there has been a substantial improvement in coverage, and the reforms are assessed positively. However, the WHO’s methodology has been criticised, and the sector is in a financial crisis partly caused by the reforms. The number of private insurers has exploded (with attendant inefficiencies and high administrative costs), and the state ISS been burdened with the poorer and sicker patients, and with the more expensive health services that private insurers do not cover. Insurers and municipalities have also run up payment arrears with providers, resulting in hospitals becoming indebted, endangering service provision to low-income groups, as well as immunisation programmes. In 2003 the ISS, in the process of being restructured, was in such financial difficulties that it had to obtain a $400m loan from the IDB.

4.1.1. Colombia: Cartagena’s water

Washington knows best

In the early 1990s, Cartagena’s water utility, the municipal-owned Empresa de Servicios Públicos Distritales de Cartagena (EPD), was in some difficulties. It failed even to cover its operating costs, and was subject to political interference in its investment decisions. A proposal by Aguas de Barcelona (Agbar) led to negotiations with then-Mayor Gabriel Garcia Romero. Agbar was the only bidder, and the contract was signed on 30 December 1994 – the day the Mayor left office. The incoming Mayor, Guillermo Paniza, had actively campaigned against the privatisation and intended to annul the contract and maintain municipal ownership and control.

It was at this point that the World Bank stepped in, “leveraging the prospect of additional Bank financing for Cartagena’s WSS sector” to make Cartagena’s democratically-elected Mayor an offer he couldn’t refuse: “… during a four-hour discussion in Washington, Menahem Libhaber, the World Bank project manager, made it clear to Paniza that PSP involvement was a pre-condition for future Bank funding for the water and sanitation sector in Cartagena.” The result was that Paniza returned to Cartagena and renegotiated the terms of the contract with Agbar. As the World Bank succinctly put it in the project documentation for the new $85m loan it subsequently provided: “Institutional reforms have therefore been front-loaded, i.e., the reform was a pre-condition for this project, which supports a major environmental infrastructure investment.” There was more to it than that, though. The Bank’s assessment of its own role notes: “The Bank’s role in the process of privatisation of the water and sewerage services in Cartagena and in the creation of ACUACAR has been pivotal. The Bank has helped attract private sector participation in Cartagena and played a crucial role in ensuring the success of the privatisation by promoting ideas, providing a framework for considering different PSP options, extending technical assistance, convincing the political decision makers to support worthwhile institutional changes, acting as an important catalyst to accelerate process
implementation and serving as a mediator in the negotiations. The Bank provided and continues to provide stability to the ACUACAR contract, which still operates in a volatile environment, by protecting it from political risks at the local and national levels.”

The Bank writes of this case, contradictorily, that “borrower commitment is high as evidenced by the privatisation reform process initiated by the District of Cartagena”, even though it has just described the leading, even “pivotal” role of the Bank itself! Moreover, the Bank even notes that “in part, the District moved on PSP because it was convinced that it was the key to continued donor involvement in Cartagena's WSS sector,” which was necessary because “the Bank's involvement would provide much needed long term financing which is not easily available in local capital markets…”

For the World Bank, the outcome was positive, as the privatisation in Cartagena was the first case of private sector participation in a water company in Colombia, which “paved the way to the following cases”. By September 2001, as the World Bank’s $40m Water Sector Reform Assistance Project was being launched, 50 utilities (14 of them covering 30,000 inhabitants or more) had adopted PSP in Colombia. The 2001 project expected to support PSP in a further 35 municipalities.

Acuacar

Back in Cartagena, Paniza’s early 1995 renegotiation had raised the municipality’s holding from 10% to 50% in an attempt to maintain municipal control; but Cartagena’s inexperience with PPPs, especially compared to Agbar (founded 1868), still showed in the contract finally concluded. "Under the terms of its 1995 contract with ACUACAR, AGBAR is only responsible for the management of the system. However, in 1998 it was awarded a separate contract by the municipality to manage a major investment programme that is mainly financed by the World Bank and Inter-American Development Bank [providing $85m and $24m loans respectively]. Consequently, under this complex arrangement the private sector partner will carry out the functions normally found in a French-style concession contract, but with protection from the financial risks inherent in such an arrangement.”

Most pertinently, this meant that Aguas de Barcelona was remunerated both through the dividends paid to shareholders and through the management fees, calculated as a percentage of Acuacar's gross income. This arrangement has allowed Aguas de Barcelona to extract increasing revenues from its Cartagena operations, with management fees rising from 2.94% of gross income in 1995 to 4.25% in 1999. In 1999 Acuacar declared profits of $1.96m, whilst Agbar took home $2.1m through dividends and fees, aided by the fact that the contract stipulates that 50% of net income will be declared as dividend to shareholders. The contract also saw the municipality take responsibility for $8m a year of pension obligations to retired water utility staff. Unsurprisingly, Agbar’s involvement saw the number of employees drop dramatically, from 510 in 1995 to 262 in 2000. Around 140 took voluntary retirement (presumably adding to the municipality’s pension burden); for the rest, Agbar took a more confrontational approach: “On the day that the contract was signed with ACUACAR (25 June 1995) all EPD staff were made redundant and invited to reapply for their former jobs. All EPD worksites were occupied by police and military forces. Employees working on the road with company vehicles were stopped and ordered to surrender their vehicles and equipment. Three people were arrested and workers were beaten by the police. Such was the level of violence that the incoming management team of ACUACAR needed military protection in order to enter their new offices.”

Following protests, around 270 employees were rehired, although it is reported that the company discriminated against known trade union activists. According to Acuacar’s own figures, its subsequent performance is impressive, with water coverage increasing from 73% in 1995 to over 90% in 1999, and sanitation from 55% to 75%. Yet in 1999, according to the World Bank, “Nearly one-third of the population, mostly in poor neighborhoods, is without running water and basic sanitation services”. Nickson (2001) explains that “… the improvements in coverage publicised by ACUACAR are based on a gross underestimation of the target population because they ignore those citizens who reside outside the legally-defined ‘urbanised’ area of the municipality. And most of these do not currently have access to water and sanitation.”

Naturally, this restricted definition of what constitutes the urban population has a major effect on coverage targets, and exaggerates the significance of the network extension that has taken place. Finally, it must be
pointed out that, given the scale of external investment ($157.7m\textsuperscript{113}), it would be truly shocking if no improvements had been delivered in Cartagena.

4.2. El Salvador

The World Bank imposed electricity privatisation as a conditionality in the 1997 El Salvador Country Assistance Strategy (CAS). This CAS included (under the heading “Increase efficiency and service quality through privatisation of infrastructure”) the benchmark:

“Approve legal framework for privatisation, develop and adopt regulatory frameworks for telecoms and power, restructure power and telecoms companies for privatisation, and privatise.” \textsuperscript{114}

The 2001 CAS lists the legal framework for privatisation as delivered in Financial Year 1997, and notes that “Progress indicators of compliance with the previous CAS benchmarks are mostly satisfactory…”\textsuperscript{115} Prior to the 1997 conditionality, the World Bank had paved the way by funding two related projects: a 1995 Energy Sector Modernisation Project, which included a component that supported legal and regulatory reform specifically aimed at “displacement of the state in business that can be provided by the private sector”\textsuperscript{116} and a 1996 Public Sector Modernisation Technical Assistance Project, funded with $24m from the World Bank and $19.7m from the IDB. This project had as one of its three principal aims:

“Privatisation and Private Sector Participation in the Provision of Public Services: The project will assist the government in establishing new rules and institutional arrangements for the provision of public services, through privatisation and the development of new forms of private sector participation in the delivery of public services, especially in the areas of telecommunications, power distribution, water and sewerage, and reform of the country’s social security system.”\textsuperscript{117}

The IFC provided financial support for the reforms: “To support improvement of the legal, institutional and regulatory framework and promote private investment in the power sector, the IFC approved a US$120 million investment in the Salvadoran distribution networks.”\textsuperscript{118} Meanwhile, the IMF provided general encouragement to electricity privatisation in 1998: “[The IMF’s] Directors welcomed the resumption of privatisation of public utilities … [including] the sale of the electricity distribution companies…”\textsuperscript{119}, encouragement that was repeated in 2003: “Directors encouraged the authorities to press ahead with their reform plans aimed at increasing private sector participation in the economy, including full privatisation of the electricity company and the sale of concessions in the transportation sector.”\textsuperscript{120}

In 1998 the IDB provided a $43.7m loan to El Salvador to support a “Reform Program for the Water Sector and the Potable Water and Sanitation Subsector”.\textsuperscript{121} The project included “promotion of … private sector participation (PSP) using specialised consultants to give support and financial advice to the government towards the effective organisation of PSP schemes.” One of the conditions of the loan (in addition to the setting up of the regulatory authority) was the publication of tenders for private sector involvement in water.\textsuperscript{122} As of January 2004, this has yet to happen, although there are indications that the process is ongoing.\textsuperscript{123}

This planned water sector reform follows on from a $70m 1997 loan the IDB had provided in support of a “Public Sector Modernisation Program”\textsuperscript{124}. The sector reform component of the programme included

“support for the government’s efforts to implement sector reforms (in electric power, telecommunications and transportation) for greater participation by the private sector in the delivery of public services. The specific measures will be designed to (i) put into effect the regulatory framework for the electric power sector, privatise the electricity distributors, and restructure the Comisión Ejecutiva Hidroeléctrica del Río Lempa [Executive Committee of the Lempa River Hydroelectric Company] (CEL) into independent generation and transmission units to enable the electric power sector to operate competitively…”
See also the IDB’s involvement in the health sector in El Salvador below. The World Bank’s IFC arm has been supportive of that process: “IFC will support health initiatives from the private sector through direct investments and technical assistance… IFC recently completed a regional technical assistance project to evaluate the climate for health sector investments and to identify potential projects with the private sector.”

4.2.1. El Salvador: Inter-Americas Development Bank tries to force healthcare privatisation

In 1998 the Inter-Americas Development Bank (IDB) agreed a $20.7m loan for a “Project To Support Modernisation Of The Ministry Of Public Health And Social Assistance”.  

The project had two elements. The first introduced private contracting and commercial disciplines into public hospitals: “The project finances the provision of a package of basic health services for the poor, unserved and underserved population in San Miguel and Santa Ana by contracting providers from both the public and private sectors on results-oriented contracts. In addition, two public hospitals will be transformed into model facilities that are governed semi-autonomously and employ modern management tools.”

The second element concerns the reorganisation of the entire health system, including “reorganisation and decentralisation of national health programs and the financial management system… and implementation of monitoring and evaluation capacity.” The implications are unclear, but the project description notes that “this project lays the foundation for future sectoral reform.” The project was set in the framework of the IDB’s country strategy, which includes specific privatisation aims: “…. (c) enabling private investment and promoting key activities; and (d) modernizing the State, including privatisation and private investment in infrastructure.” Given this, along with the IDB’s involvement in health privatisation in Colombia, the project is easily interpreted as intending to lay the groundwork for a similar privatisation.

The IDB states that one of the ‘risks’ to the project is that the Government or people of El Salvador may prove unsympathetic to the IDB’s policy: “The March 1999 elections may result in changes in the Government’s project team that could delay project implementation … Election campaigning has already begun and this may lead to greater volatility in policy-making and implementation which could result in the introduction of policies that conflict with or contradict project activities.” The proposals for dealing with this include an IDB public propaganda campaign: “…an external strategy for the general population to consolidate support for project objectives.” No doubt this thinking is behind the IDB making funds for medical equipment conditional on the restructuring taking place: “Investments in medical equipment for hospitals financed during the execution of the project will be tied to the prior implementation of management reforms and improvements in financial, administrative and clinical systems.”

The project was bitterly opposed in El Salvador. Health workers led a campaign against it, and journalists denounced the bill that was put in front of the Salvadorian Congress, saying that it would restrict access to information on the proposed new health care system. The bill was rejected by the National Assembly (parliament), which then passed a decree prohibiting the privatisation of healthcare. This was vetoed by the president, provoking a massive strike and demonstration in October 2002.

In June 2003 the president finally reached an agreement with the unions which ended the strikes, reinstating the workers and withdrawing the privatisation plans. According to PSI, the IDB had already decided to withdraw the loan proposal altogether: “An IDB official told PSI that "political problems" led the Bank to retreat from the privatisation measure.” Without the privatisation reforms no money would be lent for healthcare. The project is no longer listed as current by the IDB.

Similar IDB privatisation projects in energy and water in El Salvador have been abandoned or delayed. A 1994 project on telecoms and energy was intended: “…to create a favorable climate for private investment in these sectors. It will also establish regulatory commissions for these sectors and promote private sector participation in investment programs for these sectors.” The project was cancelled at some unknown date. In 1998, at the same time as the health project was set up, a water project was approved to “provide support for the establishment of the regulatory framework governing provision of water and sanitation services and
aid in the restructuring process, promoting private sector participation”. According to the IDB, it has not yet been implemented.135

A left opposition party won many votes at the March 2003 congressional elections, and is now expected to win the presidential elections in March 2004, partly because of the popularity of its opposition to the health privatisation plans.136 There is no comment from the IDB on this, but the USA views the prospect as a failure: “it is his [opposition FMLN presidential candidate Shafik Handal’s] plans for change that have caused worry here and in Washington - to reverse many of the free-market initiatives the ruling conservative ARENA party put in place, to reconsider the privatisations of public companies.”137 The USA trade representative was quoted as saying, “sound policies have produced results,” but admitting that “many Salvadorans still struggle to overcome poverty.”138

The IDB’s ‘risk’ scenario is now taking place, with democratic politics preventing their policy from being implemented. For the people of El Salvador, the political process of deciding a policy on health care reform has involved partly an indirect dialogue with an institution which treats political resistance as a reason for either engaging in propaganda or withdrawing its loan altogether.

4.3. Indonesia

Major donors + UK: aid for Indonesian water/electricity sector, 1980-1999 (% of aid received by the sector in Indonesia)

<table>
<thead>
<tr>
<th></th>
<th>World Bank</th>
<th>ADB</th>
<th>Japan</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electricity</td>
<td>$3,415m (40%)</td>
<td>$1,723m (20%)</td>
<td>$2,465m (29%)</td>
<td>$51m (0.5%)</td>
</tr>
<tr>
<td>Water</td>
<td>$2,313m (34%)</td>
<td>$1,789m (20%)</td>
<td>$2,130m (28%)</td>
<td>(unknown) (&lt;2%)</td>
</tr>
</tbody>
</table>

Source: ADB139

General PSP

In 1997 the Indonesian government, needing IMF credit due to the Asian Crisis, promised the IMF that “Steps will … be taken to promote competition by accelerating privatisation and expanding the role of the private sector in the provision of infrastructure.”140 Specifically, this included moving the overseeing of public enterprises to the Ministry of Finance from line ministries, and the establishment of a Privatisation Board and a framework for evaluating all government enterprises for closure, restructuring or privatisation. (It also included the removal of the 49 percent limit on foreign investment in companies listed on the stock exchange.) In January 1998 a government decree “…designed to facilitate private participation in the provision of public infrastructure…” made clear that the privatisation programme was not limited to strategic industries. The Government noted that “details of the procedures are being clarified with the World Bank. Needed changes to the decree and implementing regulations will be established by June 1998.”141 At the time, the Government was still under the control of the dictator Suharto – but the IMF and World Bank had no qualms about imposing a wide range of structural conditions that had little direct bearing on the issue at hand – currency stabilisation. The World Bank’s part in the bailout of Indonesia (two Policy Reform Support Loans of $1bn and $500m) also involved conditionalities, namely to privatised or prepare for privatisation 17 state-owned enterprises; and to develop a master plan for state-owned enterprise reform. A November 2003 evaluation of these loans by the World Bank concluded that “actual privatisation has been quite slow, however, because of widespread opposition and depressed market conditions”142.

This involvement by the IMF and World Bank during the Asian Crisis, however, had been preceded by other efforts, laying the groundwork. This included two Technical Assistance Projects for Public and Private Provision of Infrastructure, worth $30m and $28m respectively. The second, running from 1995 to 2001, had as one of its four objectives “develop[ing] an updated strategy for public-private partnerships and suitable frameworks for private participation in provision of infrastructure services…”143 It was followed up in 2003 with a Private Provision of Infrastructure Technical Assistance Loan, worth $17.1m.144 The project documentation sees the need for “building public acceptance of private infrastructure”, among other things because “The public's perception of private infrastructure delivery has been colored by vigorous--but often
poorly-informed--debate on the failings of the power, toll-road, water supply, and telecoms deals concluded during the Suharto era.”

Naturally, the World Bank’s vision, laid out in its 2001 Indonesia Private Sector Development Strategy, favours PSP:

“In infrastructure, the Bank will continue to promote privatisation and private participation through its ongoing sector projects in telecommunications, power and transport. IFC is looking for opportunities to invest in the transport and water sectors. The Bank will seek means of promoting the private provision of social services in health and education through its sector projects and AAA advisory activities.”

As the Bank complains, however, it was only with the leverage provided by the 1997 crisis that it was able to get the Indonesian government to do its bidding:

“During the mid-1990s, the Bank proposed the adoption of a cross-sectoral framework for private participation in infrastructure to help reduce risks and costs and continued to highlight the need for wide-ranging legal and regulatory reform. Advice was provided on the drafting of a cross-sectoral framework, but Government commitment was lacking and the envisaged regulation (Presidential Decree 7 of 1998) was only issued after the crisis had struck.”

Even then, there are pesky political issues that make it difficult for the government to fulfil the World Bank’s wishes:

“…the case for moving ahead with privatisation is compelling. But what is the best way forward - especially given opposition in Parliament? … privatizing such firms is never simple - they tend to have legal or contractual impediments, occupy a position of natural monopoly, or have substantial political support for keeping them in the public sector.”

Electricity
By 1999, Indonesia was promising the IMF that, with technical assistance funding from the World Bank and Asian Development Bank (ADB), it intended to “restructure the power sector to improve efficiency and reduce the fiscal burden.” This programme included establishing a legal and regulatory framework for a competitive electricity market, and preparing for the privatisation of the state electricity company, PLN. The relevant Electricity Law was finally passed in September 2002, aiming to “encourage competition and private investment in the sector… lead to the establishment of a regulatory body within a year to monitor the market and enforce the market rules… [and establish] a competitive market for generation … within 5 years.” In support of these policies, the Bank and ADB agreed to focus on complementary areas of restructuring activities. ADB provided the Government with a programme loan of US$380 million and a technical assistance loan of US$20 million (with co-financing from Japan’s JBIC of US$400 million). The World Bank worked closely with ADB in “providing feedback on the initial drafts of the Electricity Law”, and helped PLN to prepare the detailed design of its restructuring implementation plan. The latest (2003) CAS introduces an explicit conditionality: in order to reach the ‘high case’ with the largest amount of money, Indonesia will have to “increase private investment in power (by progress in establishing independent regulator in the electricity market, and continued tariff reforms).”

Water
In water, the World Bank in 1999 provided a $300m Water Resources Sector Adjustment Loan (WATSAL). Along with supporting water resources management reform, there is the specific aim of “amending water resources legislation to provide for regional autonomy and private sector involvement in water resources development.”(p4). One of the loan conditions was the passing of legislation to implement the new framework. After public opposition in autumn 2003 endangered the relevant legislation, the Bank threatened to withhold the final $150m tranche - hardly indicative of ownership, nor are the Bank’s comments in the latest (2003) CAS on its use of selectivity:
“The failure to reform the 300 water utilities led the Bank to withdraw support for the sector for the past eight years, and limit support to technical assistance to “rescue” utilities post-crisis. Now a spirit of competition is emerging, and many local governments are recognizing the need to apply sound governance procedures to the water utilities they own.”

The loan also provides a broader illustration of the difficulties the World Bank has with the concept of ownership. Under the heading “Lessons Learned from Past Operations in the Sector”, the Bank notes that “Piecemeal reforms as part of loan conditionality are ineffective. Accordingly, [Government of Indonesia] ownership has been sought for an overall reform planned by all affected ministries and agencies with appropriate inputs from civil society derived by public consultation.” (p6) The word “sought” here is rather problematic – meaningful country ownership of a reform surely cannot be brought about by external agencies such as the World Bank seeking “appropriate inputs” from the locals.

Health

The World Bank has complained that “the Government has focused far less on creating an enabling environment in which all comers may flourish, than establishing and expanding in direct competition with private insurers, its own comprehensive system of health insurance.” To try to counter this, “the Bank will seek means of promoting the private provision of social services in health … through its sector projects and AAA advisory activities.” More specifically,

“Through its sectoral projects … the Bank will focus on creating an adequate regulatory environment and a level playing field for private provision of … health services. The aims will be to improve coverage and quality and reduce crowding out of the private sector by often inefficient subsidised state activities. Health [is a relatively new area] for IFC, where the Corporation is learning the best ways to support private sector efforts.”

4.3.1. Indonesia: shocking behaviour in the electricity sector

Until the 1997 crisis gave the International Financial Institutions the leverage they needed, private involvement in Indonesia’s electricity sector was limited to IPPs (Independent Power Producers). These had contracts with the state electricity company, PLN, guaranteeing that PLN take all their output, at prices 30% higher than the international market, and often dollar-denominated. According to the former PLN president, Djiteng Marsudi, “most of the private power plants rely on their connections with Suharto’s family and cronies,” saying, “only one of the 27 private power plant projects won a contract through a competitive bid.” A combination of inflated prices and (partly deliberate) over-investment, driven more by cronyism than rational planning, undermined PLN’s financial position, and with the 1997 currency crisis drove it to the edge of bankruptcy. This set the scene for the IFIs to demand privatisation in exchange for loans vital in the crisis – though not before some of the misguided IPPs got their money back with the aid of the World Bank. Most infamously, after Suharto’s overthrow, Enron apparently “insist[ed] that the Indonesian people [had] to honor the guarantees that Enron negotiated with the overthrown dictator.” And in March 2001, Enron received $15 million from the World Bank’s Multilateral Investment Guarantee Agency (MIGA), a sum of money that came out of the pocket of the Indonesian government, for the cancellation of a power project. Apparently “MIGA officials made it clear that the government was correct to cancel the contracts given the subsequent economic downturn, but because of international law, Enron had to be compensated.”

The 1997 crisis was the chance for the IFIs (the World Bank and ADB in particular) to get their way, which previously they had struggled to do, as a result of which the ADB had “wisely refrained from further lending to PLN after 1995.” The World Bank continued to press for a decentralisation and PSP regulation component in its 1996 Power Transmission and Distribution Project, worth $373m. Moreover, as the ADB helpfully explains, “Both the World Bank and ADB had helped fund studies during 1996 and 1997 to examine strategic options for the power sector, and the recommendations of those studies—calling for a shift to a competitive market approach—led to the emergence of the multiple buyer-multiple seller market structure proposed for Java-Bali in the Government’s policy paper of 1998.” A later Bank document clarified the “emergence” of this policy:
“In Indonesia, Bank staff were actively involved in drafting the power restructuring policy that was adopted by the post-Suharto government and that later paved the way for ADB’s program loan and formed the basis for the new electric power policy. The reform process, however, lost momentum with the departure of the Minister of Energy who had championed the restructuring policy, and with the political instability that characterised the Wahid presidency. The Bank’s influence in Indonesia’s power sector reforms soon diminished.”

Nonetheless, the various implicit and explicit conditionalities imposed by IMF, World Bank and AsDB, starting with a general privatisation programme in the midst of the crisis and then moving on to utilities (including electricity, water and gas), did have an effect. By 1999, Indonesia was promising the IMF that, with technical assistance funding from the World Bank and ADB, it intended to “restructure the power sector to improve efficiency and reduce the fiscal burden.” This programme included establishing a legal and regulatory framework for a competitive electricity market, and preparing for the privatisation of the state electricity company, PLN. The relevant Electricity Law was finally passed in September 2002, aiming to “encourage competition and private investment in the sector… lead to the establishment of a regulatory body within a year to monitor the market and enforce the market rules… [and establish] a competitive market for generation … within 5 years.” In support of these policies, the Bank and ADB agreed to focus on complementary areas of restructuring activities. ADB provided the Government with a programme loan of US$380 million and a technical assistance loan of US$20 million (with co-financing from Japan’s JBIC of US$400 million). The World Bank worked closely with ADB in “providing feedback on the initial drafts of the Electricity Law”, and helped PLN to prepare the detailed design of its restructuring implementation plan. Finally, the latest (2003) CAS introduces an explicit conditionality: in order to reach the ‘high case’ with the largest amount of money, Indonesia will have to “increase private investment in power (by progress in establishing independent regulator in the electricity market, and continued tariff reforms).”

The fact that the IFIs’ conditionality was effective was due in no small part to the financial crisis at PLN, which in turn arose largely out of the IPPs. Despite this, PLN was basically sound – one of the largest integrated power utilities in the world, even after the onset of the 1997 crisis it continued to connect new consumers at the rate of over 1 million annually.

Even the IFIs involved later concluded that the whole eager process of taking advantage of Indonesia’s plight was perhaps not conducive to good policy, and that the liberalisation and privatisation programme wasn’t necessarily appropriate in the Indonesian context in any case. An internal ADB evaluation of its lending to Indonesia’s power sector concluded, comprehensively:

“the Government’s Power Sector Restructuring Policy Paper of 1998 overlooked the absence in Indonesia of several of the enabling ingredients for the operation of sophisticated market mechanisms such as those foreseen in the policy paper. These features included an inadequate legal jurisdiction, weaknesses in the banking sector and in corporate governance practices, a lack of financial strength in the power sector, a lack of interest on the part of private investors to invest in Indonesia at the present time, and, so far, inadequate transparency and predictability in the power sector reform process. Sophisticated market structures introducing competition in the supply of bulk electricity are developed in other countries with very different circumstances from Indonesia and remain largely untested in the developing world. Since Indonesia undertook power sector reform against the backdrop of the Asian financial crisis and the Government was in urgent need of quick-disbursing assistance, it was very likely that many important issues in terms of the technical, institutional, and human resource capabilities in Indonesia could not be adequately addressed during the design of the program loan.”

4.4. Mozambique

Since the ending of the 15-year civil war in 1992, and subsequent multi-party elections in 1994, Mozambique has received considerable amounts of external assistance, including HIPC debt relief. In 1995 the Government published a National Water Policy which foresaw decentralisation, and a likely medium-term withdrawal of government from the direct provision of water services. Two subsequent World Bank projects (National Water Development Projects I and II, worth $36m and $75m respectively, with the latter also attracting $30m from the African Development Bank, AfDB) included support for the development of
the relevant legal and regulatory framework, including provision for PSP. The first project included the evaluation of bids for the private sector management of five cities as a key performance indicator, as did the World Bank’s 1997 CAS\textsuperscript{175}; and a similar commitment was made under the IMF’s ESAF\textsuperscript{176}. The Bank also noted that whilst other donors had been involved in the water sector in Mozambique for many years, the Bank was providing “added value” by focusing its first intervention on PSP support.\textsuperscript{177} The framework was implemented in December 1998, and a private sector operator took over in September 1999.

Another commitment Mozambique made to the IMF as part of its 1998 ESAF was the implementation of supporting regulations for the 1997 Electricity Law, which set a framework for possible competition in generation and distribution. Under the World Bank’s 2000 CAS, triggers for high-case lending included: “Significant progress toward demonopolisation of the energy, transport, and telecommunications sectors”, and a key performance indicator was “design and implement framework for expansion of electricity access including regionally differentiated tariffs and separation of generation, transmission, and distribution tariffs”. The World Bank provided technical assistance under a $40.3m Energy Reform project\textsuperscript{178}, and in addition it was noted that “IFC [will provide] Financing for private providers [and] Advisory assistance on privatisation”. Under the 2003 CAS, an intermediate indicator for electricity supply efficiency improvement was “Private partner brought into [state electricity company] EdM”, and for water “Urban water tariff raised to permit cost recovery and network extension”.\textsuperscript{179} For both water and energy, “other donors” listed in the 2000 CAS includes USAID and AfDB, but not the UK.\textsuperscript{180}

In the context of public sector reform, the Bank remarks that “Since much of the PRSC [Poverty Reduction Support Credit, a Bank loan program] agenda grows out of Bank analytical work, the Bank is better positioned to support this agenda than other donors.”\textsuperscript{181} In the context of upcoming elections (November 2003 and late 2004), the Bank identifies the risk that “the new Government … will initiate an inappropriate shift in policy direction…” The Bank will however:


try to mitigate [the risks] by actively engaging the key political parties prior to elections on the main development challenges facing Mozambique; preparing a CAS Progress Report (late FY05) that will be discussed with the Government (and the Board); and preparing a CEM [Country Economic Memorandum] in FY06 on the challenge of sustainable broad-based growth.\textsuperscript{182}

These are not the Bank’s only problems, as sometimes there are delays in the Government doing what the Bank wants: “Preparation of the Public Sector Reform and Decentralised Planning projects was delayed to allow sufficient time to build Government ownership of the proposed reforms…”\textsuperscript{183}

In health, the World Bank’s 2000 CAS comments that “…IFC will support the expansion of private medical services…”, and that IFC already has “investments in private medical services”.

\subsection{Mozambique: IMF conditions in water sector}

Mozambique is very poor, and in 1999 became the third country in the world to obtain debt relief under the HIPC initiative. Expanding and improving water supply and sanitation has been an important policy issue. As part of a long programme of restructuring, the government adopted a water policy in 1995 which stated that the “government [is] likely to withdraw from direct implementation of services”, and rely on the private sector.\textsuperscript{184}

But it remained subject to continuing and repeated conditionalities by the IFIs and donors. Reform of the water laws was a requirement of the World Bank’s country assistance strategy (CAS) in 2000; in 2001 the country’s PRSP\textsuperscript{185} stated that “key measures include: …encouraging the participation of the private sector in the provision of these services; updat[ing] the legislative framework and strengthen[ing] the strategy for involving the private sector in the management of water supply and sanitation in urban areas.”\textsuperscript{186} and extensive privatisation was required as a condition for the WB/IMF US$3.7 billion debt relief under the Heavily Indebted Poor Countries (HIPC) initiative.\textsuperscript{187} Water and privatisation also feature in the DFID and the EC aid programme, with DFID cooperating with the EC and other donors, operating in a co-ordinated fashion: in DFID’s words: “the donors remain a powerful group in Mozambique”. DFID treats privatisation
in general as a measure of success: “Mozambique has made some progress in some areas of Public Service Reform, for example through the privatisation process…” 188

Following this policy in the cities, in order to “improve the quality, reliability and sustainability of urban water services” (CAS, para 45), the government awarded a private concession contract in 1999 covering the major cities of Mozambique. The consortium, Aguas de Mocambique, was led by Saur International [a French multinational] with 38.5 per cent of the capital, IPE-Aguas do Portugal with 31.5 per cent of the capital, and Mazi-Mozambique with 30 per cent. Mazi-Mozambique consists of a Mozambican NGO and three other private Mozambican companies. The concession agreement was for five years in the cities of Beira, Dondo, Quelimane, Nampula and Pemba, and for 15 years’ management of water services in Maputo and Matola.189

But the company failed to achieve its profit targets. Saur, which held 38.5 per cent of the shares, wanted to declare Aguas de Mocambique bankrupt at the end of 2001, which would have had the effect of reducing the liabilities of the multinational parent company. In effect, Saur was unwilling for its shareholders to carry any of the extra liability that Mozambique’s water services had to face after the floods. The other shareholders - Aguas de Portugal and the Mozambican companies – bought the shares from Saur, and renegotiating the contract and agreeing a new investment programme.190

One of the performance indicators in the CAS is increasing access to safe water in major cities from 44% in 1998 to 50% by 2004. The 2003 WB appraisal on public expenditure policy in Mozambique,191 however, notes that “it is uncertain whether the PARPA [Mozambique’s PRSP] targets of increasing direct access to urban water supply from the 2001 level of 44 to 50 percent… can be met by 2005”,192 despite the fact that the water supply in all the cities was privatised in 1999 in accordance with recommendations. It explains this by gentle reference to problems with the contract: “Since then, with the setback of the floods of 2000, difficulties were experienced with the contract, necessitating a change of operators, explaining why little progress has been made to date.”193

However, no suggestion is made that the policy of privatisation should be reviewed: instead, there is an enthusiastic discussion of the feasibility of full cost recovery from users in the cities, concluding that even an increase of 131% seems to be possible, even though this would cost on average over 5.5% of the minimum wage; because 59% of people are already paying more than 4% of two minimum wages for water, and so this must be “socially acceptable”.194

The policy of private sector participation in water also had a damaging effect on rural water development schemes. Under a DFID project, Niassa province was required to use private firms to develop its water supply, but the province was so poor that there was no viable private sector: just 15 struggling construction contractors and one state-owned works company, while the water policy prohibited the direct employment by donors of local labour. The result was poor quality work, lack of input and control by communities, with supply points built near water sources for the convenience of contractors rather than near villages for the convenience of communities.195

The CAS explains that the WB “will support several large high-risk developments, because they havea demonstrative effect (such as the second National Water Development project, which supports private-sector urban water supply and will receive a $15 million supplement)”, which is needed to pay the “costs incurred by the need to rebid the concessions following the withdrawal of the original operator.”196

4.5. South Africa

DFID notes South Africa’s public sector achievements: “Government has … made substantial improvements in the delivery of basic services to previously disadvantaged areas. Between 1994 and 2001, some 7 million people were provided with access to water services, [and] 3.5 million new electricity grid connections were made…”197
Electricity

The South African electricity utility Eskom is a state-owned company serving the whole country. It is the most powerful electricity company in Africa, and profitable. Eskom has been pursuing an expansionary policy and is active in other African countries, including Congo, Kenya, Mozambique, Uganda, the Gambia and Nigeria, via its wholly owned subsidiary, Eskom Enterprises. As apartheid ended, Eskom played a key role in implementing a massive programme of rural electrification, following clear developmental objectives:

“At the end of 1999, Eskom had made 2,135,661 new connections since the start of the electrification programme in 1991. This target has been achieved a year ahead of schedule and a further three year target of 600,000 has been set. Prior to 1994, only 12% of our rural population had access to electricity compared to current levels of 42% as at end 1999. To date, 1,500 schools have been electrified with photovoltaic systems.”

Eskom’s role in this programme was driven by a clear set of social and development objectives, that extended even beyond the challenge of rural electrification itself to include development of its own workforce, public health programmes, and local enterprise development.

However the government of South Africa has passed legislation which provides for the unbundling and possible future privatisation of parts of Eskom. This has been met with strong opposition from many groups, including the trade unions. In August 2000, Public Enterprises Minister, Jeff Radebe, announced plans to divide Eskom into corporate units comprising transmission, generation and distribution, while its power units will be broken up into a number of separate units. Initially, different generating companies will be formed to promote internal competition, followed by the introduction of private sector participation via a strategic equity partner or a listing. Longer-term, the Government plans to liberalise generation, but Eskom at present is producing a surplus of power.

Water

Research from South Africa is critical of privatised operations, stating that companies like Water and Sanitation South Africa (WSSA, a Lyonnaise des Eaux/Group Five joint venture) promised to "render an affordable, cost effective and optimised service, implement effective consumer management" and ensure that customers are "willing and able to pay for services, while maximising revenue collection." Yet in practice, in the Stutterheim pilot, water services were instead characterised by WSSA's failure to serve any of the 80 of the region's township residents (classic cherry-picking), mass cut-offs of water by the municipalities of township residents who could not afford payments, and the cooption of the main civic leader into WSSA's employ, thus effectively rendering silent any community protest.

The WSSA concession in Queenstown has also been criticised for extracting too great a profit from the operation. According to SAMWU, “WSSA, the local subsidiary of French water multinational, Suez-Lyonnaise, is allegedly paid over R1 million per month by council to supply the town's water. Yet municipal workers involved in meter reading say the company is grossly overcharging for its services. Municipal workers are reading the meters and collecting payments from the community to the value of about R250,000 per month. It seems that the R750,000 extra is simply a fee being used to boost the profits of WSSA.”

In Nelspruit, South Africa, the private concessionaire, Biwater/Nuon, is being given a water treatment plant which was funded by state aid from Portugal, and built and operated by the South African government.

The city of Johannesburg has provided another example of restructuring services through privatisation without public debate or consultation. A major city restructuring plan, known as “Igoli 2002”, was drawn up by council managers and leaders in collaboration with international consultancy firms, with proposals for the commercialisation and privatisation of many services, including water and energy, without any advance public consultation or debate. The plan is now the subject of dispute and controversy.

4.5.1. South Africa: USAID inserts a water privatisation filter

The South African government has been ambivalent about the question of water privatisation since the mid-1990s. There has been strong pressure from within South Africa for the Government to retain a commitment
to public sector provision of water and sanitation, but it has also been attracted by the possibility of investment through private sector involvement.

Advice and support for the private sector option in municipal services is provided through the Municipal Infrastructure Investment Unit (MIIU), which is wholly owned by the government of South Africa. The MIIU’s mission statement makes its role clear: “To encourage and optimise private sector investment in local authority services, on a basis that is sustainable for both local authorities and at a national level; to assist the development of an established market containing informed local authority clients, private sector advisers, and private sector investors and service providers.” 205

The MIIU provides an important role as a gateway to the funds of the state-owned Development Bank of Southern Africa (DBSA).

MIIU has come to operate as a representative of private interests. The 2002 report shows MIIU pressurising the South African government to alter legislation to favour the interests of the private sector: “The Unit continues to work on statutory impediments to accessing private sector finance for water and sanitation concessions in the Water Services Act and the Municipal Systems Act. Both acts still contain provisions allowing ministers to regulate MSP arrangements in ways that are sometimes perceived as threats to project financial viability by private service providers and financiers. The Systems Act provision continues to authorise the Minister of Provincial and Local Government to limit municipal tariff increases, which would affect any concession (or municipal loan) relying on tariff revenues.”

The MIIU was effectively created by, and is still supported by, USAID, in order to promote privatisation of water, by offering “long- and short-term technical assistance to the MIIU to support the creation of a sustainable framework for private infrastructure investment in the Republic of South Africa”206. USAID helped to capitalise the Unit’s project grant fund when it was established in 1998,207 and has provided consultancy staff ever since. The consultants – Padco and RTI – describe how they “created the MIIU as a non-profit company, with its own CEO and Board of Directors, and began laying a foundation for a mature financial market that will facilitate the flow of private capital into municipal infrastructure projects.”208

USAID funded overseas trips to help convince municipal officials of the virtues of privatisation, through a study tour organised by Padco “for 12 South African officials to observe the workings of public-private partnerships — primarily in water utilities — in South America and Australia.” 209 USAID also provided funding for counter-propaganda attacking critics of privatisation, because MIIU found that municipalities were using these critiques as reasons for not embracing water privatisation.210

The MIIU 2003 report acknowledges continuing support from USAID: “USAID continues to provide valuable financial support, extended until 2005, to enable MIIU to benefit from the expertise of its expatriate advisors.”211 It received further assistance from USAID in 2003 to help overcome municipalities’ reluctance to embrace water privatisation, which MIIU refers to as ‘far from acceptable’: “MIIU has seen a distinct tailing off of interest in the water sector for long-term public-private partnerships…Unfortunately, this has had the simultaneous impact of dampening long-term interest in the water sector. While this is understandable, it is far from acceptable if we wish to ensure the growth of service delivery in the water sector in the near term. In February 2003, the Board approved a pilot project, in terms of which MIIU will, in conjunction with USAID, investigate and if possible pilot a credit enhancement scheme for long-term finance for municipalities in the water sector.”212

All the USAID funding for MIIU has been dedicated to promoting a single policy option of privatisation – it has not been available for any other purpose. The funding has been specifically targeted at South African municipalities who are reluctant to embrace privatisation. Although the central government of South Africa may have been content for the MIIU to operate in this way, it has continually had USAID personnel and funding available for promoting internally controversial policies.
4.6. Sri Lanka

Government policy since 1992 has included policies supporting private sector participation in infrastructure. The initial policy initiative was “strongly supported” by a $10m technical assistance programme from USAID. In 1996 the World Bank funded a $77m Private Sector Infrastructure Development Project, not least because at the time, “despite the shift in government policy in favor of private participation, translation into real transactions has been a difficult and contentious process.” The Bank remarks that:

“a major objective of the World Bank Group is to influence and accelerate the transitional process from public dominated infrastructure to private operation and ownership. The Bank Group’s proactive role in Sri Lanka is seen as an innovative one for the promotion of private sector opportunities, given the main emphasis on public sector lending for infrastructure by the other major donors – [Japan’s] Overseas Economic Cooperation Fund (OECD) and ADB.”

This objective was supported by conditionalities contained in the 1996 and 2003 Country Assistance Strategies. The 1996 CAS required “continued privatisation… [including] progress on BOO/BOT schemes” for the base-case scenario to be met, with the 2003 CAS’s ‘CAS Completion Report’ noting some BOO private power schemes and the passing (in 2002) of the Electricity Law which foresees unbundling of the CEB. The 2003 CAS builds on this by requiring for the high-case scenario “accelerated implementation of the economic reform program, especially with regards to: [item 1 of 3] … Securing private participation in infrastructure…” In case there is any doubt, the Bank helpfully makes clear what is going on:

“In the base case, IDA would not finance infrastructure. The two largest external providers of financing—the Japan Bank for International Cooperation (JBIC) and ADB—are willing to continue to finance the key programs in roads, energy and water supply. In the spirit of selectivity, IDA will participate only with respect to supporting key reforms and potentially private participation in infrastructure. If the Government does proceed with advanced reforms in areas such as urban water, railways, roads financing and ports, and succeeds in attracting private participation, in a high case scenario—in which these reforms are explicit triggers—IDA would consider participating through lending and/or guarantees.”

Additionally, the IFC will support PSP in infrastructure, “especially in power, ports, water, and telecommunications.” So far in Sri Lanka it has invested in a private power generation project, and a private hospital project. The World Bank’s 2003 CAS also notes that the “IFC has already invested in a private hospital in Colombo and would continue to look for opportunities to support the private provision of health services.” The DFID-owned CDC, which fulfils a similar role to the IFC, has investments in power in Sri Lanka, including minority stakes in two 50MW IPPs (Ace Power, Asia Power), acquired in 2001.

The World Bank’s $15m Economic Reform Technical Assistance Project in 2002 listed among its performance indicators:

“the un-bundling of Ceylon Electricity Board (CEB) with the establishment of separate generation, distribution, transmission and bulk power companies with a transparent framework for procuring future power generation capacity from the private sector, … [and] the signing of lease agreements for private sector participation in urban water supply and sanitation in selected secondary towns and significant progress towards concessioning greater Colombo water and sewerage services.”

The project included technical assistance for two pilot PSPs in water, and for “preparatory work” on a possible PSP in Greater Colombo. A previous project which included a BOT wastewater component failed “owing to lack of private sector interest,” in part because of uncertainties over security and environmental regulation. The World Bank’s 1996 Private Sector Infrastructure Project had already studied the potential for PSP in the two pilot areas, and in 2002 the Bank and the Government agreed a timetable for privatisation there.
The ADB follows the same agenda. It has consistently supported privatisation since the mid-1980s, both in Sri Lanka and elsewhere, in particular through the use of Technical Assistant advisory studies attached to loans, which “helped increase awareness of the potential for privatisation.” An internal 2001 ADB evaluation found that:

“Ownership of ADTAs [advisory technical assistance projects] was found to be limited or intermittent in most cases…In Sri Lanka, the Ceylon Electricity Board does not own the implementation process since the ADTAs are seen largely as donor-driven initiatives…[with] a few counterpart staff [describing] ADTAs as a ‘small price to pay’ for the project loans.”

Curiously, the evaluation saw one of the four key issues as the need to “generate ownership of the reform process and ADTAs.” Once again, the fundamental question arises, as it has elsewhere, of whether ownership for an objective predetermined by an external actor can simply be “generated”, or whether the meaning of ‘ownership’ would encompass the setting of those objectives themselves.

In the power sector, it is the ADB that has been the lead donor in driving and supporting restructuring – the IMF notes that “the PRGF does not include any conditionality on the restructuring of the state-owned Ceylon Electricity Board (CEB), given that the AsDB is taking the lead in this area.” The ADB has provided technical assistance for the unbundling of the CEB and the necessary regulatory framework, and in 2002 a $60m Power Sector Development Program Loan to support the restructuring. It has also been active in the water sector, in 2002 providing technical assistance for regulatory reform and PSP design, and in 2003 a $60.3m Secondary Towns and Rural Community-Based Water Supply and Sanitation Project Loan. This had as one of its three goals “to continue supporting the sector reforms identified in previous interventions, including achievement of full cost recovery, independent regulation of the water sector, and increase in the participation of the private sector.”

Commenting on these various reforms, the IMF in 2003 noted approvingly that “the main tenet of the PRSP is to ‘regain Sri Lanka’ by accelerating growth and reducing poverty through private-sector led development. This marks a clear departure from the previous unsustainable policies of ‘redistribution and transfers’ to alleviate poverty.” The odd phrase ‘regain Sri Lanka’ seems to imply the private sector ‘taking back’ the country from the public sector as if from a colonial power.

5. Conclusions: why it matters

An increasing proportion of aid, certainly in water and energy, is only available in support of options involving the private sector. Much of this is channelled through coordinated policy initiatives, with common policy conditionalities, with the Poverty Reduction SP and CAS playing a central role. Is there any reason for concern with this? Those involved would argue that coordination is much better than many disparate donor decisions, and that the support for the private sector reflects the importance of massive injections of Foreign Direct Investment to achieve the UN Millennium Development Goals. The process is thus developmentally beneficial, as well as more efficient.

There are three key reasons for being very concerned with these developments, however.

5.1. Empirical issues, not faith

The first is that the consequences of using the private sector in this way are not always beneficial. There are now many well-known cases in which the private sector’s presence has proved both expensive and unreliable. Sometimes, it works badly. The limitations of the private sector in water and energy are now recognised even by the World Bank, 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.”
This means that in any given case an assessment should always be made as to whether the use of the private sector, especially the international private sector, is the best option, or whether development through public sector mechanisms, as in most historical precedents, is the best way forward. Any aid mechanism which presumes, or requires, that the decision must come down in favour of the private sector, is distorting that choice with potentially damaging effects.

5.2. Democratic decisions and independent states

The second reason is that governments, even of the poorest countries, should be enabled to decide their own policies, and the organisation of public services is a central issue for the decision-making of an independent state. If an increasing proportion of aid to these sectors depends on a certain form of provision, then it increasingly pre-empts the ability of countries to make their own decisions.

Again, this is the more important because the policies are highly contentious, as is acknowledged by many observers. At the World Bank’s energy week in February 2003 a speaker from the global consulting firm Deloittes noted: “Growing political opposition to privatisation 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 non-payers; 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.”

Countries, either through their governments or civil society, do not necessarily accept the conditionalities quietly – the lengthy and broad-based campaign on health in El Salvador is a good example of this. Another example is the collective response of developing country governments, as seen in the WTO discussions in Cancun, for example. These responses are encouraging indications of democratic political activity, though the political relations are globalised as well – internal processes responding to global policies. The structure of policy-linked, globalised aid is in danger of becoming a global political programme.

5.3. Accountability and transparency

The third reason is one of transparency and accountability of donor organisations. An increasing proportion of aid, and decision-making on its allocation, is being channelled through agencies which are not themselves directly accountable through parliamentary or other democratic, public mechanisms. There is little discussion or appreciation of the significant activity of DFID in support of restrictive mechanisms promoting privatisation in these sectors. In the UK at least this reflects national government policies favouring privatisation in public services – although this remains the subject of a domestic political debate – but in other countries the support for pro-private conditionalities is more bizarre: for example, the USA, Norway, Sweden and the Netherlands all retain water within their own public sector, yet are supporting programmes promoting privatisation of other people’s water. It is not clear that these conditional aid policies would have public support in the donor countries either.

5.4. Some questions

The workings of these conditionalities should be the subject of public reviews in both donor and recipient countries. There is a series of questions to be addressed:

- Should the structure of public services in general ever be subject to conditionalities, direct or indirect? Should this area of public policy always be decided entirely by national democratic mechanisms?
- Should the structure of any particular service, such as water or energy, ever be subject to universal policy guidelines rather than be subject to a national level evaluation of all options?
- Are the BWIs or donors in danger of using collective programmes as a more remote and less accountable forum in which to develop controversial policies that do not command public support either in donor countries or recipient countries?
In effect, these questions are already being addressed by political opposition movements in developing countries. The question is whether donors and development banks are capable of being subjected to a public review on these issues.

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1 See country sections and annex for details
2 EC or DFID projects
3 See Table 4 for details
4 Includes World Bank, regional development banks, donors
5 GATS requests; demands by UK embassies on behalf of private water companies
6 This includes the fact that to obtain financing from IBRD or IDA, the country must join the IMF. "Under the Articles of Agreement of IBRD, to become a member of the Bank a country must first join the International Monetary Fund (IMF), Membership in IDA, IFC and MIGA are conditional on membership in IBRD."
11 See Annex 1
14 “There has been a significant amount of intellectual effort in IMF documents to argue that the two go ‘hand-in-hand,’ much of it striking an outside observer as displaying some extraordinary mental and verbal gymnastics.”
17 In a study of relationships between an African country and its aid donors (Helleiner et al, 1995) representatives of donor agencies were asked about their understanding of "ownership" issues. This elicited some remarkable responses, including: "Ownership exists when they do what we want them to do but they do so voluntarily." and "I routinely instruct my staff to draft terms of reference for technical cooperation projects and then spend half an hour with a local government official on it."
Indeed, since the mid-1970s, many banks have provided in their loan contracts that the loss of this approval, eg through the premature termination of a standby arrangement, would constitute a default.

Bernal, R (1982), “Transnational Banks, the International Monetary Fund, and External Debt of Developing Countries”, 31:4 Social and Economic Studies 71

In principle, PRSP’s are supposed to be country-driven. In practice, the participation involved leaves much to be desired in most cases, and policies continued to be driven by IFI priorities – which accounts for the remarkable consistency of PRSPs across diverse countries, and the continuity with previous IFI policies. As one finance minister has said of his country’s Poverty Reduction Strategy: “We do not want to second guess the Fund. We prefer to pre-empt them by giving them what they want before they start lecturing us about this and that. By doing so, we send a clear message that we know what we are doing – i.e. we believe in structural adjustment.” (cited in “Policies to Roll Back the State and Privatise? Poverty Reduction Strategy Papers investigated”, WDM, April 2001, www.wdm.org.uk/cambriefs/debt/rollback.pdf). In any case, even with PRSPs the IMF continues to only provide financing "if those policies that are essential to the purposes of the Fund continue to be implemented." (ibid, p11)

Whilst in principle creditor nations could negotiate conditions directly with debtors, doing so through a supposedly universal institution (actually controlled by the same group of developed lending nations) provides an air of legitimacy for the required restrictions of sovereignty – as well as deflecting criticisms of the conditionalities involved towards the Fund. Pahuja, Sundhya (2000), “Technologies of Empire: IMF Conditionality and the Reinscription of the North/South Divide”, Leiden Journal of International Law 13, 749-813


See OECD2003: Harmonising Donor Practices for Effective Aid Delivery Good Practice Papers A DAC Reference Document http://www.oecd.org/document/60/0,2340,en_2649_33721_15731196_1_1_1_1,00.html

http://www1.worldbank.org/harmonisation/
31 EUWI Finance paper 2.2.2, table 2.3 and figure 2.3

http://europa.eu.int/com directed/index_en.html

DFID: Financing the EU Water Initiative November 2002

DFID (2003), Departmental Report 2003, Box 2J, p.34


IFC Articles of Agreement, Article III: Operations, Section 9, http://www.ifc.org/ifcext/about.nsf/Content/ArticlesOfAgreement


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59 See ‘Description of NTF Windows of Funding and Potential Activities or Programs’ http://wbln0018.worldbank.org/infrastructure/ntfpsi.nsf/pages/Description+of+NTF+Windows?

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63 John Hodges (DFID) Leveraging Private Sector Funds for Infrastructure (May 22, 2002)

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64 John Hodges, DFID. www.worldbank.org/watsan/lecture/hodges.ppt

65 Presentation by Peter Davies, DFID, 25/2/03.


66 Trade Liberalisation And Economic Reform Have Real Effects – Mike O’Brien speaking at International Financial Services London members forum. 29/01/04

http://www.fco.gov.uk/servlet/Front?pagename=OpenMarket/Xcelerate/ShowPage&c=Page&cid=1007029391647&a=K&Article&aid=1075811867554 . Thanks to Clare Joy of WDM for drawing attention to this speech


http://www.thejakartapost.com/detailheadlines.asp?fileid=20031104.@03&irec=2 . This pressure involved a loose definition of UK interests: although originally a UK private firm, created by the Thatcher water privatisations, Thames is now 100% owned by a German group, RWE.

68 For details of the requests and a critique of their impact see: Whose development agenda? An analysis of the European Union’s GATS requests of developing countries (pdf)


69 UK aid has been ‘untied’ (not limited to buying goods and services from the UK but ensuring purchase from the most suitable global source) since April 2001. DFID Departmental Report 2003, p42

70 www.dfid.gov.uk/Pubs/files/DFID%20Bilateral.pdf


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72 DFID (2003), Departmental Report 2003, Box 2,j, p.34

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75 On the edge of lunacy - British foreign aid is now targeted at countries willing to sell off their assets to big business . George Monbiot, Guardian, January 6, 2004 http://www.guardian.co.uk/comment/story/0,3604,1116854,00.html

76 DFID India: Andhra Pradesh strategy paper April 2001 para D.21

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77 For a comprehensive review of power reforms in Andhra Pradesh and other states in India see: India Power Sector Reforms – PRAyas and C S Venkata Ratnam. PSI, India, 2003. Newsletters by PRAyas monitoring reforms in AP and other states are available at http://www.psiru.org/india/index.htm

78 Development Gateway’s AiDa, www.developmentgateway.org


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80 Includes a number of projects were no figure for amount spent is available.
81 including the Public Sector Reform Loan Project, 1990-1994, $304m
82 Regulatory Reform Technical Assistance Project, 1997, $12.5m
83 Santa Fe I Water Supply and Sewerage Rehabilitation Project 1995
84 Water Sector Reform Assistance Project, 2001-2007, $40m
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112 Nickson, Andrew (2001), Establishing and Implementing a Joint Venture for Water and Sanitation Services in Cartagena, Colombia, GHK Working Paper 442 03, January 2001, p31
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121 http://www.iadb.org/exr/doc98/apr/es1102e.pdf
122 One of the conditions for the disbursement of the third component of the loan is “As previously agreed with the Bank, evidence that the tender calls for water and sanitation services under the private sector participation (PSP) modality have been published and a plan submitted for independent and decentralized operation of such services based on the commercial restructuring study”. http://www.iadb.org/exr/doc98/apr/es1102e.pdf, p7
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