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Moving the goalposts: reconfiguring the role of the private sector in the provision of water

by

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1 Introduction

Since the late 1980s, the provisioning of water has been reconceptualised in many parts of the world from a public service to a commodity to be bought and sold. For the past three decades, then, policy makers have introduced measures to create a system for providing water which is more market-like and often with an increasingly active role for the private sector, although the nature of engagement with the private sector varies across locations and has evolved over time.

This chapter adopts a broad understanding of Public-Private Partnerships (PPPs) (Romero and van Waeyenberge, 2020) to consider the evolving ways in which the private sector has displaced the public in the provision of water. The chapter traces the changing nature of private sector involvement in the sector, from long-term concession type contracts through Build-Operate-Transfer (BOT) type projects, and most recently into more innovative financing interventions. But these are necessarily broad generalisations and PPP trends have evolved differently across regions and countries.

The chapter shows that despite extensive efforts to promote PPPs in water, the uptake has not been extensive, especially in low- and middle- income countries (LMICs). Privatisation of water has been resisted in some locations and there is some indication of a counter trend towards remunicipalisation of water. This has been prominent in western Europe and USA, although the reasons behind this are diverse, discussed below. The locations of PPPs have shifted over time. The market has contracted in Latin America while there is evidence of some recent expansion in China. Notwithstanding the challenges, donors and governments continue to heavily promote private investment in LMICs, including in water. Increasingly there is pressure for the sector to be structured in order to provide opportunities for global private capital, particularly under the rubric of infrastructure as an asset class (Romero and Van Waeyenberge 2020). Such developments raise major concerns for environmental and social justice. The chapter concludes with some alternative approaches to addressing the challenges of water sector investment.

2 Conceptualising water privatisation

There are diverse contractual arrangements which are packaged under the heading of PPPs in water (Romero and Van Waeyenberge, 2020). Typologies are typically organised according to a spectrum of investor risk. At one end is a management contract which has low financial

risk for the private sector and at the other end of the scale is divestiture. Concession and lease contracts lie in between these. Another form of PPP comes in variations on the theme of Design – Finance - Build – Operate – Transfer (DFBOT) where the private sector is contracted to build a specific infrastructure, such as a water treatment or desalination plant.

More recently attention has shifted to raising finance from the private sector using public funds in a process known as 'blending' discussed in more detail below. While, strictly, this is distinct from privatisation because blended finance is available to the public as well as the private sector, the shift to private financing of water is part of the long term trajectory of private sector involvement in water provision. In practice, the boundaries between different types of privatisation are blurred.

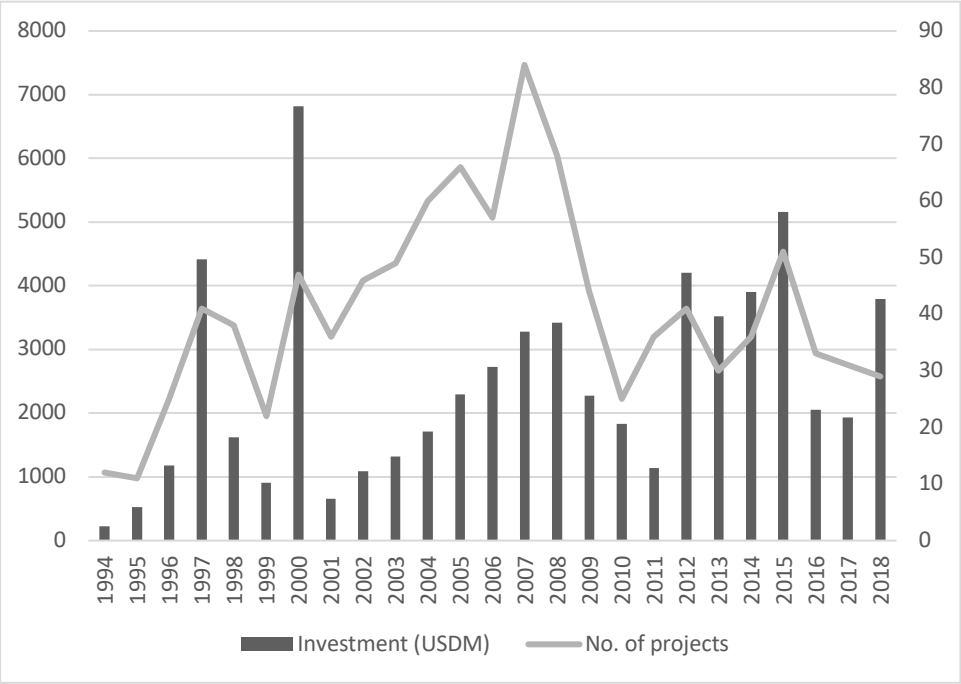
Traditional typologies focus on the mechanics of contractual arrangements. But the processes of embedding PPPs in the system of provision for water is reflective of a profound transition in the relations between producers, consumers, and the state, with implications for relations between society and natural resources as water becomes commodified. The transition is associated with shifting narratives and understandings in water policy, for example with sector developments often seen in terms of how (potential) investors might be affected. There has been a shift in terminology from privatisation to public private *partnership*s to suggest that contracts with the private sector are cooperative, mutually beneficial relationships. In practice, however, the engagement with the private sector is typically contested with consumers, producers and the state pursuing contrasting agendas and outcomes embedded in prevailing power relations. Definitions tend to fail to capture the way that privatisation is associated with organisational and ideological transformation of the public sector (Alston, 2018), converting a public infrastructure into a commercial asset (Romero and Van Waeyenberge, 2020).

The term privatisation is taken in its broadest sense in this chapter to encompass diverse developments in privatisation and financialisation (see Fine, 2020) and the wide scope of ways in which private capital is engaged in water provisioning from outsourcing to financing and in the implications of this. A challenge, however, is to capture global trends while acknowledging that outcomes are highly case specific. This chapter attempts to mediate a path between these two extremes, drawing generalisable findings while highlighting specificity as far as possible.

3 Phases of water PPPs

The role of the private sector in the provision of water reflects the trends in neoliberalism outlined by Romero and Van Waeyenberge (2020). Initial enthusiasm in the 1990s was followed by a more circumspect approach in the 2000s in light of disappointing results. The World Bank maintains a database of 'private participation in infrastructure' (PPI) contracts awarded in 139 LMICs. Figure 5.1 shows an expansion of projects to 2008 followed by a tail off of investment from 2008 until 2012 but these have both picked up since 2012.

Figure 5.1: Investment in Water and Sanitation (1990-2018)



Source: World Bank PPI database[1]

There is some indication that the decline in water PPPs since the late 2000s is reflective of a trend towards the remunicipalisation of water (Kishimoto et al., 2015). Others however suggest that this is a 'strategic retreat' of private companies and should be seen as an intensification of neoliberalism rather than a symptom of its demise (Bakker 2013, p. 253). Pierce (2015, p.119) suggests that an era of strategic retreat has come to an end, and we are entering a third era of 'shallow expansion', with privatisation retreating in some areas and expanding in others and shifting agents and practices. This chapter considers developments according to these broad temporal categories and adds a fourth stage to the evolution of water privatisation which is financialisation.

3.1 Initial expansion

At the beginning of the 1980s, private management of water supply systems was rare (Bakker 2013), outside France (Spronk and Sing. 2019) although some private companies existed elsewhere such as Aguas de Barcelona in Spain (March et al., 2019). Water was largely provided by public local municipal, regional or national public bodies (McDonald, 2018). The first systematic wave of privatisation of urban water took place in the 1990s. In England and Wales (EW), water privatisation took the extreme form of divestiture with companies listed on the stock exchange (Bayliss, 2014a). In Chile also water utilities were transferred to private shareholders (Baer 2014). Concession and lease contracts were adopted in Spain, Portugal, Germany and other European countries (Gonzalez-Gomez et al., 2009; Teles, 2015; Powell and Yurchenko, 2020).

[1] The PPI database tracks projects in 139 low and middle-income countries in energy, transport, telecoms and water and sewerage.

Privatisation of water also became a core development policy and was taken up by the World Bank and other donors via structural adjustment programmes. A study of 276 World Bank loans for water supply from 1990 to 2002 showed that privatisation was a requirement for 30 per cent of these. Hopes for privatisation were so high that donor spending on infrastructure fell in the expectation that the private sector would take up the slack (report cited in Molina and Chowla, 2008).

The expansion in the global South provided markets for private water companies emerging from privatisation in the North. Water privatisation across Latin America and in countries of sub-Saharan Africa (SSA) and Asia allowed French, British, Spanish and Portuguese water companies to diversify internationally (Bakker, 2013). Newly privatised English water companies expanded globally. French aid promoted water privatisation in Francophone countries, providing markets for French private water companies. In Africa, the private sector was more involved in West African francophone countries (Guinea, Niger and Senegal) than the rest of the region. Gabon and Mali had private concession contracts for combined power and water utilities (Bannerjee and Morella, 2011). Cote d'Ivoire was something of an anomaly with a concession with French company Saur from 1960 (Bayliss and Fine, 2008).

Aguas de Portugal which was state-owned, branched out into Cape Verde with a 50-year concession contract for the state-owned water and electricity utility, ELECTRA in 1999 (ADB, 2014) and Mozambique, Angola, Guinea-Bissau and São Tomé and Principe. By 2002 privatisation of water was carried out to some degree in at least 14 countries in SSA (Bayliss, 2003). Spanish firms were dominant players in Latin America's water privatisations (Lobina and Hall, 2007).

Overall, privatisation was driven by a combination of frustration with poor state performance as well as a more general shift towards neoliberal policy paradigms. Privatisation was intended to generate efficiency, to raise finance and in some cases bring specific technical capacity. Privatisation in developing countries became a panacea for all sorts of economic ills and became overloaded with objectives, some of which were contradictory. For example, the private sector was expected to promote efficiency, raise finance, promote local participation, and turn around bankrupt utilities. Long-term developmental goals were confused with short term fiscal fixes (Bayliss and Cramer, 2003; Baer, 2014). But privatisation was also associated with more profound neoliberal transitions. Support was boosted by the shifting geo-political landscape with the collapse of the Soviet Union depicted as the prime moment to advance pro-market reforms. The policy was pushed forward because 'no-one knew how long the reform window would stay open' and in this context, privatising without the appropriate prerequisites in place (such as regulation and competition) 'seemed a reasonable gamble' (Stiglitz, 1998, p.20). Even if not privatised, utilities were encouraged to adopt market-like measures such as cost-recovery pricing. The potential risks of privatising a monopoly providing an essential service were supposedly overcome by competitive tendering such that the absence of competition *in* the market was compensated for by competition *for* the market.

3.2 Disappointing outcomes

Despite strong support, results were disappointing. Contracts were difficult to achieve and to sustain. Some countries struggled to get privatisation off the ground. In Cameroon, for example, only a single bid was received for contracts tendered but privatisation had to take

place at speed to meet requirements of donor conditionality (Bayliss, 2003). Once signed, contracts were often quickly renegotiated. Guasch found that 76 per cent of contracts in the water sector were renegotiated shortly after being awarded (within 1.6 years) (Guasch and Straub, 2009), suggesting opportunistic behaviour on the part of investors, strategically underbidding and seeking better terms once they had secured the contract (Guasch et al., 2008).

There were high rates of contract cancellations. This was much higher in Africa than in other developing regions where 29 per cent of contracts were prematurely terminated. Just a handful of contracts remained active in the region by the end of the 2000s (Banerjee and Morella, 2011). Many concession contracts awarded in Latin America in the 1990s were terminated early with some widespread protests and cancellations such as the Guerra del Agua in Cochabamba (Bakker, 2013; Castro, 2004), Tucuman and Buenos Aires in Argentina (Castro, 2004). Shorter-term management contracts, for example, in Uganda and South Africa, were not renewed.

Empirically there was little clear-cut evidence of efficiency gains from water privatisation (e.g. Estache and Rossi, 2002; Kirkpatrick et al., 2006; Tan, 2012; Bel and Warner, 2008). Privatisation failed to transform poorly performing utilities but proved profitable where utilities were already running well (Bayliss, 2003). Some privatisations went badly wrong. Following the collapse of the contract for management of the water utility in Dar es Salaam with UK firm, Biwater, a review by the World Bank concluded: '*The primary assumption on the part of almost all involved, certainly from the donor side, was that it would be very hard if not impossible for the private operator to perform worse than DAWASA. But that is what happened'* (Christen et al., 2005, p.28).

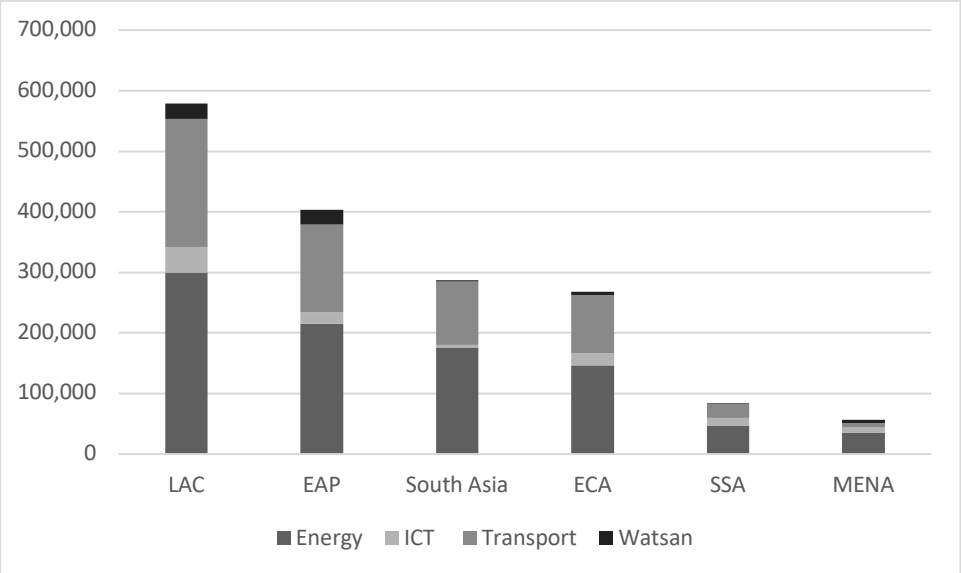
There was some success from short-term management contracts in areas such as revenue collection and service continuity but not much impact was had on the intractable issues such as reducing unaccounted for water and expanding access (Banerjee and Morella, 2011). Marin (2009) following a study of more than 65 large water PPPs notes that private operators brought about improvements in bill collection because they had a direct financial incentive where their remuneration was based on revenue collected. PPPs were also considered successful in labour productivity because staff were laid off. The study found that layoffs ranged from 20 per cent to 65 per cent of the initial labour force. PPPs proved to be ineffective in addressing weak state capacity. Rather, a strong state was a requirement for successful privatisation as in the case of Chile which had close to 100 per cent coverage and efficient management before privatising the water sector in 1999 (Baer, 2014).

Significantly, PPPs failed to raise finance and much less investment took place than had been anticipated (Marin, 2009). By 2005 it came clear that the significant reduction in aid funding was not being replaced by investments from private companies, and expectations were overoptimistic (Bakker, 2013, citing Briceno-Garmendia, Estache and Shafik 2004).The investment that was raised failed to reach rural areas and poor countries, where it was most needed. Privatisation typically failed to increase access. Where connections did expand, this was usually with public funds. One study which found that privatisation in Buenos Aires was associated with a fall in child mortality fails to account for the source of finance which seems to be from donor and government funds (Bayliss, 2011). State subsidies for water consumption can make sure that investments are profitable. In Chile, a government-funded

subsidy programme helps poor households pay their water bills. This allowed water companies to ensure that tariffs could be high enough to finance investment (Baer, 2014).

Figure 5.2 shows that water has attracted the least amount of investment in LMIC infrastructure and very little of it has gone to SSA where it is most needed. Water is risky for investors because there is a long payback period from capital-intensive long-lived assets with no alternative use. In lower income countries, poorer households cannot pay a cost recovery tariff and there is a clear political risk in light of some high-profile failures (Bakker ,2013).

Figure 5.2: Infrastructure investment by region (1990-2018) (USDm)



Source: World Bank PPI database

Public support for privatisation declined and protests were widespread in some locations, particularly in Latin America when the policy failed to deliver on promises of improved water access (Baer, 2014). Conflicts and protests were often due to high price increases from private contractors (Gonzalez-Gomez et al., 2019). In Spain, in Alhaurın de la Torre, after a series of incidents and mutual accusations, in 2004 the local government seized the bank accounts of the private water managers and a public company was created in 2005 to manage the water service (Gonzalez-Gomez et al., 2009). Deekshit (2019) provides a comprehensive review of reasons for failures of water PPPs. The wave of contract failures was a deterrent to investors. Global water operators began to retreat from developing countries (Castro, 2004, p.51).

4 New directions?

4.1 Remunicipalisation and the human right to water

The drive for privatisation, was resisted in many quarters. In India there was staunch opposition, and efforts to implement PPPs stagnated (Deekshit, 2019). In the USA numerous small scale PPPs have long existed but in Washington, the home of the World Bank, water privatisation was specifically rejected in favour of measures to improve the performance of

the public utility (Gutierrez, 2003). Privatisation and market-oriented provisioning of water triggered significant protests and civil society was effective in changing the narrative around water provisioning. A landmark victory was achieved in 2010 when the United Nations General Assembly adopted a resolution to explicitly recognise the human right to water and sanitation as essential for the enjoyment of life and all other human rights (see Baer (2014) on campaigns linking privatisation protests to the UN Right to Water).

In a number of locations, privatised water has reverted to public control. Kishimoto and Petitjean (2017) document 267 remunicipalisations in the water sector, 106 of which are in France, including in Paris, and 63 are in the USA. Water was taken into public hands in cities such as Barcelona (Planas 2017; Gonzalez-Gomez et al 2017) and Berlin (Powell and Yurchenko, 2020). These remunicipalisations of water services are in some cases part of a movement across other areas of public services (Kishimoto and Petitjean, 2017). The causes and effects of remunicipalisation are diverse. McDonald (2018) provides a typology. In some cases, for example in western Europe and Latin America the drivers are socio-democratic, driven by explicit anti-capitalist and social justice sentiments (see Blauel (2015), on Paris, for example). Some have taken legal steps to prevent future privatisation of water, for example, the Netherlands and Uruguay (Gonzalez-Gomez et al., 2009) and the city of Baltimore in the USA (Biron, 2018).

However, remunicipalisation has not always been the result of progressive politics. In Tanzania, for example, the disastrous contract collapsed and was replaced by a form of state capitalism where market-oriented policies dominate. In Hungary and Malaysia, remunicipalisation is associated with a kind of autocratic state capitalism (McDonald, 2018). In some cases remunicipalisation has failed due to the lack of collective memory of public water and sanitation provision (Spronk and Sing, 2019).

The public provision of services is also in some cases due to lack of investor interest. Inability to attract investors led to some water projects being taken back in-house (for example, in Hamilton, Canada) (McDonald, 2018) and lack of profitability for investors led to a withdrawal of investors from Latin America (Lobina and Hall 2007). Hence as Bakker (2013, p.256) states, ‘the apparent retreat of the private sector is thus better understood as a mutation of neoliberalisation in which spatial variegation is an expression of the refinement of profit-seeking opportunities’. Thus, while undoubtedly there is resistance to water privatisation on a scale not seen previously, this scaling back of private sector involvement in some locations is not always and everywhere symptomatic of a movement to promote environmental and social justice.

4.2 Privatisation rebooted

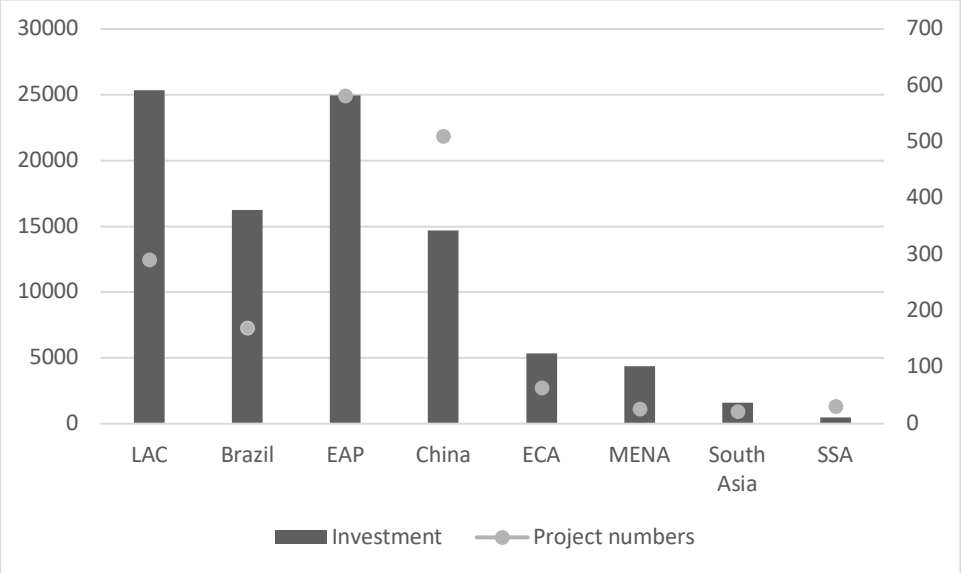
While remunicipalisation has gained traction in some locations, privatisation remains firmly on the policy agenda. For Pierce (2015 p. 119): ‘The impending demise of urban water privatisation has been greatly exaggerated’. According to Alston (2018, p.8): ‘any sense that privatisation is now generally on the defensive is belied by the statistics and the programmes of the key international actors’, and later ‘There is a real risk that the waves of privatisation experienced to date will soon be followed by a veritable tsunami’. The global financial crisis provided a boost to privatisation as the sovereign debt crisis in the EU mandated the privatisation of urban water utilities in Greece and Portugal (Pierce, 2015; Teles, 2014). And Spain privatised utilities in several of its largest cities (Pierce, 2015). In India in 2012 the

central government's national plan for the first time explicitly promoted PPPs for urban water infrastructure to address service deficiencies.

The World Bank is certainly upbeat, reporting that water sector investments doubled in 2018, with Ecuador and Bangladesh seeing their first ever water sector PPI projects (World Bank, 2018). However, the pressures and the formats of privatisation are shifting, with the emergence of new geographies and new agents.

Figure 5.3 shows that Latin America and East Asia and Pacific have dominated water privatisation and this was accounted for mainly by developments in Brazil and China. Water privatisation has now largely stagnated in Latin America but re-emerged in urban South East Asia and South East Europe. China has witnessed particularly rapid PPP expansion and accounts for just over 50 per cent of all water PPP projects since 1990 and around 24 per cent of total investment. From 2008 to 2018, there were 267 PPP projects in the water sector in China, accounting for nearly two thirds of total projects globally (Qian et al., 2019).

Figure 5.3: Water and sanitation investment (1990-2018) (USDm and number of projects)



Source: World Bank PPI database

China opened the urban water sector to private investors on a pilot basis in 1992 and formally allowed private entry into the sector in 2002. By the mid-2000s it had become the largest PPP water market in the world and by 2007, 22percent of urban water utilities had majority private ownership either through share transfers or joint ventures. The influx of non-state investors has been led by global companies such as Veolia and Suez, entering into joint ventures with municipal governments in some cases (Wu et al., 2016). Domestic companies are playing a growing role in Chinese water PPPs with state-owned enterprises, owned by local governments representing the private sector in some PPP projects (Qian et al., 2019; Wu et al., 2016). Privatisation is also reported to be emerging in Russia and the Gulf states (Pierce, 2015; Powell and Yurchenko, 2020).

New companies are emerging as a result of these shifting geographies. In 2017, a major water PPP contract in Rwanda was awarded to a Gulf company, Metito (see below). Chinese

domestic state-backed firms, such as Beijing Capital Company (BCC) and Beijing Enterprises Water Limited (BEWG), have witnessed spectacular growth in their revenues and assets under management (Powell and Yurchenko, 2020). BEWG now has concession contracts in Portugal (as Be Water), Malaysia and Singapore.[2]

In the wake of the disappointing results from concession contracts, the focus has shifted to lower-risk contracts for the private sector. Contracts are smaller in value and less complex. Stand-alone projects such as water treatment or desalination plants under BOT contracts provide predictable incomes for investors and are effectively under the radar so they do not attract the criticism that might be associated with transferring household water to private providers (Pierce, 2015), although these are not without problems (see below and Hall and Lobina, 2006; Hall et al., 2010). Public financial support has also been important for sustaining some water PPPs, for example in India (Kacker et al., 2014).

Thus, notwithstanding some high profile shifts to municipal provision as an explicit rejection of private sector involvement in the water provisioning system, pressure for privatisation is alive and well. However, as the challenges of framing the water supply in terms of a profitable private investment have become more apparent, the modes of engagement have mutated, shaped to fit the needs of private capital.

5 Financialisation

More recently the role of the private sector in water provision has taken a turn towards finance, in common with infrastructure provisioning more generally. Development policy has become centred on raising finance and using public funds not for direct spending but to 'lever' private funds, for example through 'blended' finance mechanisms (Romero and Van Waeyenberge, 2020). Deficiencies in the sector have become framed in terms of a 'financing gap' such that complicating issues and specificities are stripped away and replaced with the need for money. Hutton and Varughese (2016), for example, calculate that the capital investment required to achieve the water supply, sanitation and hygiene SDGs amount to about three times the current investment levels.

The rationale for the blended finance approach is that only a small proportion of global financial assets would solve development problems including in water (Goksu et al., 2017, p.8; OECD/WCC, 2015). The 2015 Report of the UN High Level Panel on water infrastructure finance states: 'there are practically limitless funds potentially available for infrastructure held by IIs [institutional investors] (especially pension funds and insurance companies) and SWFs [sovereign wealth funds]' (OECD/WCC, 2015). This approach requires directing donor and government funds towards creating an attractive climate for investors in order to attract commercial finance (GLAAS, 2017, p. 44; Goksu et al., 2017). Raising finance is however, considered to be constrained by weak capacity in utilities with low levels of cost recovery and a lack of audit history, as well as low and unpredictable investment returns which are likely to deter investors (GLAAS, 2017).

[2] http://www.bewg.net/en/business/OverseasBusiness/

The 2015 UN High Level Panel on water infrastructure financing called for water utilities to be made 'fit for finance' (OECD/WWC, 2015, p. x) meaning that technical and financial performance had to improve, not to improve service delivery but to attract commercial funds (Goksu et al 2017; OECD/WCC, 2015; UN, 2019).

There are high expectations from raising private finance in water, which is increasingly depicted as an essential element of global water systems. For example, Goksu et al. (2017, p.8): '*Only* through attracting new sources of finance including commercial finance will governments be able to achieve their WSS goals' (emphasis added). New initiatives are emerging such as the Water Finance Facility, supported by the Dutch government and finance company Cardano, which aims to leverage private investment from domestic institutional investors by issuing local currency bonds. Risk is lowered by pooling loans from several creditworthy water and sanitation companies. Risk is also lowered by 'de-risking' instruments such as guarantees. The first national-level water finance facility was set up in Kenya and was to issue its first bond in 2019.[3]

Private finance is associated with additional far-reaching objectives, as was the case with the unrealistic and unrealised goals of earlier phases of privatisation. Using public finance is supposedly a way to correct market failure because it gives an initial demonstration effect to signal commercial viability to lenders. Commercial finance is also expected to improve standards of provision because financiers 'hold the service providers to a high standard keeping them on the track toward continuous improvement and better performance' (Goksu et al 2017, p.21). Others contend that commercial finance in water and sanitation will result in 'improved technical, operational and management efficiencies, which increases credit worthiness and therefore access to commercial finance, producing a virtuous cycle' (GLAAS 2017, p.44).

The turn towards private finance is reflective of trends in financialisation more generally (see Fine, 2020), which is seeing an increased role for financial investors in water. In some cases, initial privatisations to utility companies or individual shareholders have been displaced by private equity investors and sovereign wealth funds (SWFs), for example in EW and in Francophone Africa (Bayliss, 2014a, 2014b).

Another dimension to financialisation is a growth of microfinance in water in low-income countries where small loans are offered to communities and households unable to obtain credit from other sources. Loans are provided for contextually relevant elements of water and sanitation infrastructure at a small scale level, such as toilet construction or water supply connection cost. One organisation, WaterCredit, boasts that it has disbursed over one million loans. The charity celebrates the fact that that over 90 per cent of borrowers are women and 74 per cent live in rural areas and the fund has raised US$15.7m in philanthropic subsidies (GLAAS, 2017). This approach promotes the neoliberal agenda of individualism and displaces public provision. While there is not yet evidence of the impact of these projects, there is a risk of considerable downsides from increased indebtedness of poor households, which been the result of microfinance more generally (e.g. Bateman and Chang, 2012).

There is clearly, then, a ramping up of support for water privatisation with a stronger role for the private sector via finance which represents a departure from earlier attempts at water

[3] https://waterfinancefacility.com

privatisation. This has a number of implications. First, this latest financialised phase presents a significant shift in that it calls for public funds including donor finance and tax revenue to be explicitly used to attract private finance. This takes different forms such as so-called 'viability gap funding' where the state provides finance to make a project profitable. On one level this is a radical revision of water policy with scarce funds diverted to creating profitable investments. However, this is a new twist in a trend which has developed over the past three decades of moulding the water sector to suit investors. This stage however is a significant deepening of the re-shaping of the state in the interests of private capital.

Second, the turn to finance attracts different types of investors. The past decade has seen an expansion of specific financing vehicles established to facilitate private investment in infrastructure including in water (such as the Africa50 Fund, African Infrastructure Investment Managers etc). 'Infrastructure' then has emerged as a generic asset class into which water has been subsumed. Financial investors have developed water-oriented investment products such as Exchange Traded Funds, some of which have stakes in water utilities and which are in part owned by the world's richest (Bayliss, 2014b). With private investment in water channelled via specialist funds managed by financial agents such as JP Morgan, the links between asset owners (and beneficiaries from dividend pay-outs) and the consumers of the water supply are ever more opaque. Investors are more removed from the operation of the water system than in earlier privatisations where contracts were awarded to more traditional infrastructure companies such as Suez and Veolia.

Third, these are new modes of engagement. Whereas traditional PPPs are project-based and define the contractual relationship between the parties involved, 'blended finance' refers to the sources of finance (Alston, 2018). Potentially now public as well as private utilities are able to access global financial markets in ways that they were not previously (Pierce, 2015). Private finance allows global capital to remain below the radar. In the context of resistance to privatisation of water, blended finance allows for a more subtle, quieter entry point for global capital.

In practice privatisations are melding the different generations of approaches. One celebrated example is the 2017, 27-year Kigali bulk water supply BOT project which was awarded to Metito, a company based in UAE which lists Mitsubishi and IFC among its major shareholders. The project will supply treated ground water to the Rwandan water utility at a fixed price. In a classic 'blended' financing structure, loans from development agencies will finance 66 per cent of the investment. This is provided by the Emerging Africa Infrastructure Fund (which is owned by the Private Infrastructure Development Group which is owned by donors including the World Bank) and the African Development Bank. Metito provides equity finance for the remaining 33 per cent. The project financing package is denominated in US dollars (UNCDF, 2018). Since 2017 the financing has won five prestigious awards from project finance and infrastructure media groups.[4] However there are concerns that this will be at high cost for end users (Tabaro, 2015). In addition, the project should not be considered in isolation from the broader context within which it is situated. From 2011, the World Bank's Public Private Infrastructure Advisory Facility (PPIAF) advised the Government of Rwanda on how to restructure the utility in order to bring in private investment to bulk water (PPIAF, 2015). The restructuring included laying off hundreds of workers, which led to legal action

[4] https://www.esi-africa.com/industry-sectors/water/construction-on-track-for-kigali-bulk-water-supply-project/

from the trade union seeking compensation for those that lost their jobs. This was still ongoing in 2019 (Karuhanga, 2019). This project provides a classic example of the latest manifestation of water privatisation with private finance working with donors to construct the water supply in a format that prioritises the demands of global capital. While this is presented as a major financing success, the adverse social impacts, including for labour, are glossed over.

6 Issues arising

There are a number of concerns with this approach to infrastructure financing in general and specifically in relation to water. First this comes at high cost. Public and private finance are not substitutes. There is an opportunity cost to using scarce fiscal resources to attract private finance. And ultimately commercial private finance is paid for by taxpayers or consumers. Private finance is more expensive than public borrowing and creates dollar-denominated liabilities. Risk transfer is seen from an investor perspective but PPPs raise risks for governments including contributing to debt distress. As Alston (2018 p.7) states: 'In other words, corporations take the profits but Governments will bear much of the losses if they are significant'.

Second, PPPs can create fragmentation and impose rigidities on sector policy in the long term. The private sector has a history of cherry-picking. As shown above, private finance is attracted to low-risk/high-return investments. This will leave the most challenging aspects of service provision to the state at the same time as increasing fiscal pressure. Efforts to create 'bankable' projects (i.e. profitable for investors) have led governments to separate potential segments which can be ring-fenced to ensure secure returns for investors. In Kenya, for example, the National Treasury lists a pipeline of projects to attract the attention of the local and international investment community. Among these are listed bulk water supply for Nairobi and damn construction along with PPPs in housing, transport and energy (RoK, undated). There is a risk that separating these elements and structuring in terms of long-term commitments to investors (as in the case of Kigali, above) will restrict capacity for integrated sector policy. Long-term commitments to PPPs in the UK under the PFI programme meant that in some cases government authorities were committed to paying for facilities even when they were no longer used.[5] In the context of climate change, coordination of water resources is required and this is less likely to be achieved with water in private hands with a focus on profit maximisation.

Third, as with the early years of PPPs, there is an inherent contradiction in the latest drive for privatisation in water. The conditions under which a government is in a suitable position to attract private finance (creditworthy utilities, efficient management, etc) are such that there will not be a need for private finance. Baer (2014) points to the inherent contradiction with weak state capacity cited as both an incentive for privatisation and an explanatory factor for privatisation failure.

Fourth, there continues to be little evidence of success from PPPs. A report for Oxfam indicates that donors make assumptions that partnerships with the private sector are

[5] See for example https://www.liverpoolecho.co.uk/news/liverpool-news/taxpayers-spend-4m-year-ghost-15891931

inherently good and that market-based solutions to development challenges are effective, efficient provide value for money, and can achieve long-term sustainability but this is without the necessary evidence (Jeune, 2018, p.6).

Fifth, the predatory nature of the private sector is overlooked in the narratives promoting blended finance and privatisation. Bayliss (2014b) reviews the financial press to find that the rationale for investing in water is largely on account of its potential impending scarcity which will increase value. There is little concern for achieving the SDGs. There is ample evidence of water companies being manipulated in favour of the short-term interests of shareholders and the costs of meeting investors' needs can be high. In EW, firms boosted shareholder returns using financial engineering in ways that pushed up financing costs for consumers (Bayliss, 2014a). In Portugal, some contracts guaranteed compensation to the private provider if there was a drop in water use or number of consumers (EPSU, 2014) and in one case assumed a minimum monthly consumption level that was double the actual level and so the cost of water effectively doubled (Teles, 2015). In Sao Paulo critics pointed to the amounts paid to shareholders in dividends rather than investing in infrastructure as a contributor to the water shortages in 2015 (e.g. Brasilwire, 2015). Yet mostly the literature promoting water privatisation ignores the predatory nature of capital and presents private investment as a benign force looking for partnerships with states.

Finally, this approach puts pressure on existing inequality. With private financiers investing in water sectors at a profit, their remuneration is from households and taxpayers. In LMICs these are the world's poorest and they are funding the returns on shares and pensions in the richest nations. Using private finance for water investment will perpetuate and exacerbate pervading inequality, boosting returns for investors from low-income households meeting their basic needs.

This wealth of critique highlights the ideological stance underpinning water privatisation. The drive for profits does not sit comfortably with social and environmental objectives. The supporters of PPPs see that harnessing this drive for efficiency can bring benefits for all, but the evidence shows that the drive for profits works against the social interest. Continuing to promote and intensify the role of private capital in the provision of water is indicative of the bias towards the interests of finance. According to Alston (2018, p. 10): 'The voluminous materials promoting this entirely one-sided solution to development financing make no mention of the human rights implications of the resulting public/private division of labour, and the implications for those living in poverty are given short shrift'.

7 Conclusion

Despite extensive efforts to privatise water, the results have been fairly dismal, even for supporters of the policy. The literature indicates that water is the least attractive of all infrastructure sectors, raising little finance and with far from overwhelming evidence of efficiency gains. Some long-standing concession contracts remain, for example, in Senegal, Cote d'Ivoire, and Manila but mostly this model of privatisation is no longer applied. For many reasons, water does not easily fit into global private investment portfolios. Yet neoliberal approaches continue to contort the policy landscape trying to make water into an attractive asset, including using scarce public resources to try to attract global private capital.

The private finance that is forthcoming will eventually be repaid from taxes and households via equity dividends or loan repayments. Continuing to push for a greater role for the private sector risks weakening rather than strengthening the capacity for state providers to deal with impending environmental and social threats. Rather than constantly changing the tools and technicalities to shoehorn private capital into water, attention could be far better focused on strengthening public provision. Governments continue to be responsible for the vast majority of water produced and consumed in the world and there is unlikely to be much change here, despite the best efforts of governments and IFIs.

Numerous examples exist of successful public financing of water including the Dutch water bank Nederlandse Waterschapsbank (NWB), established in 1954 owned by Dutch water boards and provinces. NWB is helping to establish similar water banks in developing countries such as the Kenya Pooled Water Fund.[6] The Clean Water State Revolving Fund in the USA uses federal and state funds to provide low cost loans to municipalities and other agencies for water infrastructure investment.[7] Public water companies reinvest operating surplus to finance investment as was the case with the remunicipalised Paris water utility. In EW, in contrast, private companies have become greatly indebted in part due to the scale of dividends paid to shareholders. Debts would be considerably lower if dividends had been reinvested in the utilities (Yearwood 2018).

Globally, despite the policy rhetoric, the private sector has played a minimal role in expanding water access. The majority of investment in water and sanitation in high-income countries was carried out by the public sector. Hall and Lobina (2012) highlight that in the twenty years to 2012, over 1.2 billion people received water connections. They say (p.16) in response to concerns regarding the financing gap that 'infrastructure is being built – by national governments using public finance. And they point out that very little investment in water and sanitation has ever been financed by private capital in search of an attractive return. A greater emphasis on building the state's role as water provider would be a more effective and realistic policy approach.

[6] https://www.dutchwatersector.com/news/stockholm-world-water-week-use-water-banks-to-unleash-investors-money-into-the-wash-sector

[7] https://www.epa.gov/cwsrf/learn-about-clean-water-state-revolving-fund-cwsrf

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