



CORPORATE ACCOUNTABILITY INTERNATIONAL

CHALLENGING ABUSE, PROTECTING PEOPLE

CHALLENGE CORPORATE CONTROL OF WATER

The Making of a World Water Crisis

Clean drinking water is the basis for life, and is essential to the fulfillment of human rights and poverty alleviation. Yet, nearly one in six people lack access to adequate clean drinking water.¹ Shortage of water is already a source of conflict within and across nations; conflict that will only escalate in the near future.² The World Bank claims the best way to tackle the water crisis is to turn over the distribution of water in low-income countries to for-profit corporations. But evidence shows that corporate control of water exacerbates the crisis by blocking access, threatening public health and undermining government management of a critical public resource.

EXPANSION OF CORPORATE CONTROL

Global water corporations have seized on the scarcity of water as an opportunity to enrich their shareholders. Dominated by French corporations Suez and Veolia, the industry has enlisted allies led by the World Bank to open the “water market,” acquire water rights and service contracts, influence policy and convince financiers to expand their investments. Now, private suppliers provide water to more than 10 percent of the world’s population, generating close to \$1 billion in annual revenues. The scale of potential profits is staggering. If this trend is not reversed, expanding private water delivery will lead to a pay-to-play regime undermining water rights, democratic governance and, ultimately, human security.

“The World Bank Group is the largest external source of financing for water management in developing countries.”

– WORLD BANK GROUP PRESIDENT
ROBERT ZOELLICK³



Indian women collecting water from a water truck, their only source of clean water. These women are among millions facing today's global water crisis.

PRIVATIZATION UNDERMINES THE HUMAN RIGHT TO WATER AND HUMAN DEVELOPMENT

From Armenia to Ghana to the Philippines, water privatization has restricted access for low-income communities, increased fees, reduced jobs and skirted accountability and transparency.⁴ People often have no choice but to buy from private water monopolies even if that means foregoing food, gas or other necessities. The original rationale for partnering with the private sector – to attract the sustained financing that many governments lack – has failed to materialize. Instead, water corporations continue to rely on public and donor support for infrastructure without advancing access to clean water. Even the World Bank concedes that private corporations will not provide the capital needed to build and maintain infrastructure. And, private water sector contracts have the highest contract failure rate across World Bank funded industries due to cancellations or early termination.⁵ From 1997 to 2009, contracts covering 64 million people were terminated before completion due to disappointing results.⁶ For example, in 2005, amidst steep rate hikes, Tanzania cancelled its contract with British-based Biwater just two years into its contract after the corporation failed to meet contractual obligations to invest in infrastructure upgrades.

THE WORLD BANK FACILITATES WATER PRIVATIZATION

Global water corporations depend heavily on government-funded infrastructure assets and donor support to make a profit from water. With its political, economic and intellectual clout, the World Bank serves as a powerful ally for the corporate water sector. The Bank justifies this transfer from the public to the private sector by claiming that corporate control will increase the so-called operational efficiency of water and sanitation services (typically code for price hikes, labor downsizing and increased enforcement of penalties for nonpayment). However, overall increases in access and improved water quality are rare.⁷

The World Bank's preferential support for private sector water management is not only misguided, it is at odds with the Bank's very mission of development and poverty alleviation.



Marusya Manukian, a 73-year-old Armenian woman is forced to collect her daily water during scheduled times, then boil it due to contaminated pipes - a result of mismanaged privatized water contracts associated with a World Bank loan.

World Bank Conflicts of Interest Undermine Human Right to Water

THE WORLD BANK'S INFLUENCE ON GLOBAL WATER GOVERNANCE

The World Bank currently uses its enormous influence on global water governance to promote water privatization. The Bank exerts this influence through financial support, technical assistance, research and marketing and its relationships with governments, inter-governmental organizations and the private sector. Further, the World Bank serves as an intellectual hub for global water policy, using its credibility, reputation and substantial resources to set the standard for development practices. When the Bank recommends privatization, other lenders, aid organizations and developing countries follow its lead.⁸



SUPPORT FOR CORPORATIONS IS CENTRAL TO THE WORLD BANK'S STRATEGY

The World Bank lends hundreds of millions of dollars to governments for water and sanitation each year, much of it already earmarked for transnational corporations. To access World Bank development funding, governments are pushed by the Bank to contract with corporations for water and sanitation services, or run public utilities as for-profit enterprises – laying the groundwork for future corporate takeovers.⁹

A quarter of the World Bank Group's financial support goes directly to the private sector, bypassing the public sector altogether

Additionally, the International Finance Corporation (IFC), the private finance arm of the World Bank Group, invests directly in corporate water projects, advising and often coordinating between governments and the private sector. Contrary to common perception, around one quarter of the World Bank Group's financial support goes directly to the private sector, bypassing the public sector altogether.¹⁰

In addition, the **IFC owns equity shares in many corporations**, including subsidiaries of Veolia – the world's largest global water corporation.¹¹

By aligning its own economic interests with the profitability of water privatization through corporate investment, the IFC exposes itself to conflicts of interest counter to the World Bank's mission. The IFC also operates with advisory capacity and provides technical assistance to governments. This private sector bias undermines government management of public water systems threatening water security and exacerbating the crisis of access.

Democratic Governance of Water as an Ecological Trust

The water crisis is not an insurmountable natural phenomenon. Rather, we are facing a **crisis of political will**¹² to prioritize democratic water governance over corporate influence.

We can ensure that there is enough water for every person's needs if we prioritize equitable, sustainable use and entrust water governance to democratically accountable public institutions.

While private water corporations prioritize maximizing shareholder returns, many public utilities have successfully demonstrated delivering safe, affordable water. Advantages of public control of water include:¹³

- **Access and affordability:** successful public utilities have stronger track records of expanding access than their corporate counterparts. Virtually every privatization scheme includes rate hikes and “cost-recovery” policies, whereas public agencies are positioned to use progressive rate structures or targeted subsidies for low-income access
- **Infrastructure investment:** the key to expanding access is to invest in infrastructure rather than shareholder dividend and private-sector executive salaries
- **Transparency and responsiveness:** as a capital-intensive natural monopoly, water policies are vulnerable to corruption and favoritism. While democratic governance is imperfect, public control allows for accountability mechanisms that do not exist in the private sector



Contaminated water in Manila, Philippines. Adequate water infrastructure has yet to materialize despite privatized contracts that stipulated upgrades. Instead, residents received a 600 percent hike in their water rates.

The Human Toll of Water Privatization in the Philippines

Burdened with growing debt owed to the World Bank and other financial institutions, the Philippines turned over the distribution of Manila's water supply to two private concessions in 1997. Maynilad and Manila Water took over the western and eastern parts of the city, respectively. Both are now subsidiaries of the French water corporation Suez.

Since privatization, water prices have soared more than 600 percent for residents. The IFC, among others, loaned \$110 million to Manila Water, and acquired \$15 million in equity. Both concessions raised rates and cracked down on unbilled water, but neither made adequate infrastructure investment to maintain, much less expand, water access. Despite these failures, Manila Water was given a contract extension in January, 2010 with no competitive bidding, extending the current arrangement through 2037.

Climate-related drought in the summer of 2010 pushed the exhausted infrastructure beyond capacity, causing severe water shortages for the citizens of Manila. School and office closures and insufficient hygiene severely disrupted quality of life in the city. A broad cross-section of civil society, from rice farmers and community groups to church and elected officials have protested current conditions. This situation remains unpredictable and the citizens of Manila are still wondering when they can count on their water again. The crisis is a prime example of the detrimental effects of privatization spurred by World Bank loans.¹⁴

For more information go to:
www.StopCorporateAbuse.org/privatization.

- **Labor benefits:** where privatization often means downsizing and anti-union austerity measures, public utilities have historically been a stable source of local, skilled jobs
- **Cheaper financing:** public utilities can raise funds at lower interest rates and access government resources more readily
- **Capacity:** governments are better positioned to manage this collective resource as an ecological trust over broad territories and the long-term.



Water belongs in the public trust, as evidenced by the above public water system.

Water as a Human Right

Corporate Accountability International is part of a growing movement to ensure that water is governed democratically as a public trust, rather than a mere commodity.

People around the world are taking action to affirm the human right to water and resist water privatization at every level. The movement is gaining momentum. Within the last year cities including Paris, Berlin, Rome and Naples have united in joining the worldwide effort to take back municipal control of water. In 2010 the United Nations General Assembly and Human Rights Council both passed resolutions recognizing the fundamental human right to water as “essential for the full enjoyment of life and all human rights.”¹⁵

FOSTERING SOLUTIONS

Through the campaign to Challenge Corporate Control of Water, Corporate Accountability International advocates for the democratic governance of water by collaborating with economists, academics, development professionals and impacted communities to compel the World Bank to support strong, accountable, democratic water governance.

The organization calls on the World Bank and United Nations to foster equitable global development by supporting democratic control of water and advancing opportunities to fulfill the

human right to water. These institutions must also safeguard against the tremendous influence of transnational corporations by avoiding partnerships that put corporate profit at the center, and instead embrace transparency and democratic processes as the solution to the world’s water crisis.

YOU CAN JOIN THIS MOVEMENT

Work with Corporate Accountability International to:

- Secure the human right to water, and people’s access to water;
- Prevent corporate control of water;
- Preserve and protect water resources and systems for the public good; and,
- Preserve water resources as an ecological trust

FOR MORE INFORMATION PLEASE CONTACT:

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Corporate Accountability International (formerly Infact) is a membership organization that has, for the last 33 years, successfully advanced winning campaigns to stop life-threatening abuses of global corporations and increase corporate accountability to people around the world.



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Endnotes

¹ http://www.unwater.org/statistics_san.html

² Former World Bank Vice President Ismail Serageldin quoted in 1995: “if the wars of this century were fought over oil, the wars of the next will be fought over water.” See <http://www.serageldin.com/SWF/109/play.htm>

³ Robert Zoellick remarks on World Water Day 2011 - World Bank Press release: <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:22865762~pagePK:34370~piPK:34424~theSitePK:4607,00.html>

⁴ Manthan Adhyayan Kendra, *Public Private Partnerships in Water Sector: Partnerships or Privatisation?* Badwani, January, 2010. Available at: http://www.manthan-india.org/IMG/pdf/PPPs_In_Water_Sector_Final_Book.pdf

⁵ The World Bank’s Private Participation in Infrastructure (PPI) database indicates that 34% of contracts were either cancelled or in distress in 2009: http://ppi.worldbank.org/explore/ppi_exploresector.aspx?sectorID=4

⁶ Pinsent Masons Water Yearbook, 12th Ed., 2010-2011. xv. Available online: www.pinsentmasons.com

⁷ There is a range of literature on this subject. For Example: Mildred E. Warner, “Water Privatization Does Not Yield Cost Savings,” published online March 2011 as a contribution chapter to *Reclaiming Public Water – Achievements, Struggles and Visions from Around the World*. Available at <http://www.tni.org/tnibook/reclaiming-public-water-2> And Public Services International Research Unit (PSIRU) “Paying for water and sanitation: the essential role of public finance,” David Hall and Emanuele Lobina, March 2009. Available at: <http://www.psiru.org/publicationsindex.asp>

⁸ Public Services International Research Unit (PSIRU) “Thinking Inside the Box: Why the World Bank is not Learning,” Emanuele Lobina and Dave Hall, 10 March, 2009. Available at <http://www.psiru.org/publicationsindex.asp> And Manthan Adhyayan Kendra, “World Bank as Knowledge Creator,”

<http://www.manthan-india.org/spip.php?article29>

⁹ Mounting evidence that corporatization lays the groundwork for privatization is accumulating, and even the World Bank’s own definitions support this assertion: <http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTLAWJUSTICE/EXTINFRAANDLAW/0,,contentMDK:21759247~menuPK:5099915~pagePK:4710368~piPK:64860384~theSitePK:4817374,00.html>

¹⁰ FY10 22% private, FY09 27% private (average: 24.4%). Calculated as: Gross Disbursements per IBRD/IDA Financial Statements p. 2, versus IFC loan disbursements and investments (FY10 FS p. 41) plus MIGA guarantees issued (FY10 FS, p. 66.)

¹¹ Most recently, the IFC acquired a 9.5% stake in Veolia Voda, the Eastern European subsidiary of the world’s largest water corporation. Press release: <http://www.stopcorporateabuse.org/press-release-ifc-finalizes-%E2%82%AC100-million-deal-push-water-privatization> Coverage: http://www.alternet.org/water/148700/watch_out:_the_world_bank_is_quietly_funding_a_massive_corporate_water_grab

¹² Hon. Nobel Laureate Wangari Maathai, “Water in the Community: Why integrity matters,” Foreword to 2008 Transparency International *Global Corruption Report 2008: Corruption in the Water Sector*. (New York, Cambridge University Press, 2008), xix-xx.

¹³ There is a range of literature on this subject. For example: The Transnational Institute’s *Reclaiming Public Water – Achievements, Struggles and Visions from Around the World*. <http://www.tni.org/tnibook/reclaiming-public-water-2>

¹⁴ For a more detailed case study with citations, see www.stopcorporateabuse.org/privatization

¹⁵ United Nations General Assembly announcement: <http://www.un.org/News/Press/docs/2010/ga10967.doc.htm> Resolution text: http://www.unesco.org/water/wwap/news/archives/UNDecWaterHR_EN.pdf