

## Democratic Governance in Aid Dependent Africa: The Politics of Urban Water Reform in Ghana

### Abstract

This article highlights the interaction between the domestic political system and the aid system in Ghana. Political reality in Ghana is characterized by the multiple interfaces of political interactions among the Ghanaian government, Ghanaian citizens, donors and international NGOs, as well as within these different categories, and the various alliances they form. This multiple interfaces of politics is illustrated using the example of urban water reform as a case study of the policymaking process. The article examines the government's plan for water privatization and the public debate and opposition that it generated. The politics of urban water reform is revealing about the politics of economic reform more generally. In concluding, it draws out some implications of the interactions between the aid system and the domestic political system for democratic governance.

The IMF and World Bank did not alter their structural adjustment programs following transitions to democracy on the African continent in the early 1990s. The Bretton Woods institutions were initially criticized for bolstering authoritarian regimes in Africa. With the advent of multiparty elections, these international institutions were then criticized for creating 'choiceless democracies', because the policymaking process was still externalized and because elected governments had little policy choice under structural adjustment (Mkandawire, 1999). The Bank and Fund did not reform their policy-based lending approach (i.e. conditionality) in order to adapt their lending operations to the new democratic dispensation. This reform came only at the turn of the century, and it came only partly in response to criticisms of undermining democracy in aid receiving countries. Even then the claim that the new Poverty Reduction Strategy Papers approach constitutes a real change from past practices is heavily disputed (Whitfield, 2005b).

Even if PRSPs do constitute a significant shift in World Bank and IMF operational procedures, has this change addressed the key problem of reconciling foreign aid modalities with representative democracy in recipient countries? The fact that democratic institutions in African countries do not function according to the broad tenants of representative democracy, or to Dahl's somewhat less demanding theory of polyarchy, does not mean that democracy in African countries should be dismissed as a sham, a façade for a political system which functions by other rules, such as neo-patrimonialism. African democracies are still young compared to the West's history with building democracy, and they are still works in progress. Democracy is arguably a process rather than an achieved form of government:

[Democracy is] a continuing battle to hold those in power accountable, to protect the liberties of citizens and residents, to secure effective political representation, and to give people a say over the ways they are governed and the decisions which affect their lives. It involves defining, defending and creating the institutions and the cultures which promote these goals and facilitate debates about public issues, including the nature and condition of democratic politics (Williams, 2003: 343).<sup>1</sup>

The nature of representative democracy in African countries and the performance of their democratic governments must be understood and evaluated within the context of the foreign aid regime. The aid system is not the only factor affecting the functioning of democracy in Africa, and arguably not the most important, but it is a significant factor that tends to be overlooked by scholars of democracy studies and by development practitioners. There is relatively little

research on and exposition of the broad political impact of aid on democracy in African countries. The focus has been too narrow, looking either at the impact of democracy assistance or at multiparty elections and human rights.

This article highlights the interaction between the domestic political system and the aid system in Ghana and the implications of this interaction for democratic governance. It captures the complexities of this interaction, which the 'choiceless democracy' thesis fails to do. The term 'aid system' refers to all aid organizations and their regular operations within a specific country, where aid organizations include both official bilateral and multilateral agencies as well as international NGOs.

Aid dependency in the context of representative democracy considerably shapes the contours of contemporary politics in Ghana. Official development assistance to Ghana ranged between 24 and 33 percent of government expenditure between 2002 and 2005.<sup>2</sup> It is difficult to get an accurate picture of aid dependency across Africa using aid flow statistics, as figures and comparisons can be misleading. Furthermore, aid dependency is much more than budget dependence or aid as a percentage of gross domestic product. Much aid does not even go through the government's budget or through the government at all. A broader sense of aid dependency emerges from the pervasiveness of aid organizations within the country and their effect on the perceptions and behaviour of Ghanaian actors, both state and non-state. Political reality in Ghana is more accurately captured by what we call the multiple interfaces of politics, rather than the state-(civil) society paradigm.<sup>3</sup> This term refers to the multiple interfaces of political interactions among the Ghanaian government, Ghanaian citizens, donors and international NGOs, as well as within these different categories, and the various alliances they form.<sup>4</sup>

The policymaking process is a good window through which to view this multiple interfaces of politics. In this article, we focus on the process of reforming the urban water sector and government's policy of private sector participation. The process of urban water sector reform provides an apposite perspective from which to observe the relations among these categories of actors. The policymaking process spans about a decade, beginning in 1995 and reaching closure in December 2004. Commencing not long after the return to multiparty constitutional rule in 1993, the process captures developments in the political system such as opening up policymaking beyond a small group in the executive, a change in ruling party after the 2000 elections, diminishing fear amongst citizens to criticize government policy and an increased use of media as a vehicle for public policy discussion. The National Coalition Against Privatization of Water and its criticism of the government's policy of private sector participation illustrate the substance and features of politics today. Finally, the reform process illuminates the pervasive role of donors in policymaking.

The story of urban water reform in Ghana will be told in the following way. We start by explaining the global context in which the debate over water privatization in Ghana must be understood. We then present the story in three episodes. The first episode outlines the process of reform from its initiation throughout the progress of the private sector participation (PSP) policy under the Rawlings governments (1993-1996, 1997-2000). Episode two begins with the inauguration of the Kufuor government (2001-2004) which continues to support the PSP policy and describes the rise of the National Coalition Against Privatization of Water as the main antagonist. Episode three highlights the effects of global events on the reform process in Ghana and the story's denouement. In concluding, we explain what this study of urban water reform tells us about contemporary policymaking and the politics surrounding it, as well as what this

politics means for democracy as process in Ghana. This is based on interviews and documents collected during research in Ghana from April through September 2003.

Before moving on, it is first necessary to clarify terminology regarding the forms of private sector involvement in water provision. While the textbook definition of privatization stresses the transfer of *ownership* of assets from the public sector to a private operator, privatization has been employed more broadly to mean the transfer of *control* over assets into private hands. We use the term 'water privatization' to mean the partial or total transfer of managerial control of a water undertaking from the public sector to a private operator, usually a transnational corporation (Lobina and Hall, 2003: 4). 'Privatization' has been replaced in the policy literature and in the discourse of donors and recipient governments with 'private sector participation' or 'public-private partnerships'. This substitution may indicate recognition of the narrow focus on ownership of privatization policies in the 1980s and early 1990s and also respond to controversies stemming from the concept of privatization and its implementation (Castro, 2002).<sup>5</sup> Privatization as defined here overlaps with the term private sector participation, which can assume a variety of forms (Finger and Allouche, 2002: 81-2). In a concession, private operators arrange the financing and construction or rehabilitation of a facility and operate it for the period of the concession. They receive compensation through user charges. Under a lease, private operators take over the operation and maintenance of the system and are compensated with an agreed portion of the revenues. The public sector retains responsibility for system expansion and replacement of major assets. With a management contract, a private firm is hired to operate the utility with its own management team. Compensation is costs plus an operating fee. The contracting public sector institution usually retains most of the operational and commercial risks of the utility.

## **I. The Global Push towards Water Privatization**

The global private market in water services expanded rapidly during the 1990s, largely due to the creation of new markets in developing countries. The push towards private provision of water emanated from disappointing returns on investments made in the water sector by development banks, in contrast to perceived success of French transnational water corporations in France and in former French colonies and of the privatized the water sector in the United Kingdom. Private sector participation is viewed by commercial and development banks as the means to simultaneously open up water business worldwide, rapidly develop water services in developing countries and reduce risks to project viability (Seppala and Hukka, 2004: 42-56). The 1992 United Nations Conference on Water and the Environment, which confirmed that 'water has an economic value in all its competing uses and should be recognized as an economic good', was crucial for the expansion of the global water market (quoted in Castro, 2002: 27). The implication being that water should be provided according to commercial principles. Private sector investment in water between 1990 and 1997 increased 7,300 per cent on 1974-1990 investment levels (Morgan, 2004).

The global water industry is characterized by a marked concentration, joint ventures and difficulty of entry (Finger and Allouche, 2002: chapter 4; Lobina and Hall, 2003). In 2002, ten transnational corporations dominated the private market. Two French transnationals, Vivendi and Suez, controlled over half of the market. Attempts by Azurix, a company of the former US energy magnate Enron, failed to break into the water market, partly because of its inability to compete with the bids of these leading corporations. In 2000, German conglomerate RWE had to

take over UK-based Thames Water in order to establish itself in the market. Many of these transnationals display collusive behaviour, uniting their market power through coordination in order to restrain the action of other competitors.

Private sector involvement in the provision of water services is advocated by all major international lending agencies and most bilateral donor agencies (Seppala and Hukka, 2004). Official development aid and private investment capital have become increasingly intermeshed through the worldwide promotion of public private partnerships in the water sector (Morgan, 2004). A global network of actors supporting water privatization emerged through initiatives linking multinational lending institutions and transnational water companies (Hall and de la Motte, 2004: 7-12). Multilateral donor agencies promote water privatization by combining pressure and persuasion through their ability to channel aid and investment finance to borrowing countries and through the creation of several advisory and promotion mechanisms (Castro, 2002; Lobina and Hall, 2003). The World Bank has fostered the growth of transnational water corporations in the global water sector through its water management policy which emphasizes private sector provision and its predominant role in financing infrastructure in developing countries (Finger and Allouche 2002: chapter 3 & 4).

Most privatized water services in Africa were located in former French colonies where water concessions had been granted to French transnational corporations. Expansion of the global water market led to a sharp rise in proposed and actual water privatizations in the late 1990s. There is limited published research on the impact of water privatization in African countries. The most accessible work is produced by the Public Services International Research Unit (PSIRU), but this research is confined to countries where privatization has been in place the longest—Cote d'Ivoire, Senegal, Gabon and Guinea. These studies conclude that privatization has had a limited impact on the performance of water utilities, with performance depending on their condition when privatized and the wider economic context (Bayliss, 2001; 2002). Privatization has generally failed to improve the financial status of the water sector, except for loans from donors received as a result of implementing private sector participation. In the case of Cote d'Ivoire, the private operator increased operational efficiency and technology, but it has not been able to overcome problems of access of the urban poor and investment needed to provide such access (Finger and Allouche, 2002: 154-8).

Water privatization is not just a policy advocated for developing countries, but part of a global vision affecting Eastern and Central European countries as well as municipalities in the United States (Hall, 2002). As water privatization transverses the globe, popular resistance to it has emerged, composed of diverse groups and characterized by a variety of forms of protest. The global campaign against water privatization is a fluid network, originating from a larger social movement which mainstream media calls the 'anti-globalization movement', but is more accurately described as protesting corporate globalization and as comprised of several different movements (Mertes, 2004). The global operations of transnational corporations create the nodes of this transnational movement, as disparate groups are linked by their similar relationships to corporations. Local groups opposing privatization and deregulation link their campaigns to groups at the national and international levels, situating their local issues within the international economic agenda being enforced by the current global economic governance structure. The failure of national political parties and electoral politics to affect policies concerning global economic governance has led these activists to engage directly with transnational institutions.

The World Water Forum, organized by the World Water Council, is the main forum at which proponents of water privatization push their agenda, so it has become the centre of attention for those opposing it. At the Third World Water Forum in 2003, the international coalition against water privatization circulated a statement emphasizing that the World Water Council is an unrepresentative and undemocratic body that derives its influence from an exclusive membership of international financial institutions, transnational water corporations, and non-governmental organizations tied to these interests.<sup>6</sup> It also claimed that water is a public trust rather than a commodity and that the management of water services must not only remain in public hands, but be enhanced to include community and worker participation in order to democratize decision-making processes and ensure transparency and accountability. As will be shown, these claims echo through the arguments of the Ghana National Coalition against the Privatization of Water.

## **II. Episode One: A Closed Discussion**

Although all actors acknowledged the problems plaguing the public water utility Ghana Water and Sewerage Corporation (GWSC) and the need for reforms in the water sector, multiple solutions were available and the process of selecting the path of reform was contested, if rather late in the process. At the centre of contention are questions about why the public company failed and whether the only solution is private sector participation. Proponents of private sector participation claim that past attempts to reform the utility failed. A review of these attempts and of the problems facing GWSC is necessary before continuing.<sup>7</sup> Economic decline during the late 1970s and early 1980s resulted in a severe deprivation of investment in the water sector and the loss of skilled manpower from GWSC leading to an unprecedented decline in operational efficiency and leaving a third of the systems inoperable. Currency devaluations as part of structural adjustment caused further deterioration in the water systems and a backlog of capital works. The government was subsidizing about half of GWSC's operating expenditure and had placed a ceiling on the tariff level. In 1986, these subsidies were withdrawn and GWSC was allowed to increase tariffs by 25 per cent annually. Since then its revenues have covered operating expenses but have not produced an annual positive income. Several reforms of GWSC were attempted with financial assistance from the World Bank. These projects focused mainly on rehabilitating and expanding the system in the capital city area, with projects in the 1980s and 1990s adding elements to address 'institutional development', such as seconding the services of five expatriate higher level staff for several years, a twinning arrangement with Thames Water (UK), and reforms using a foreign public administration consulting firm. Despite these reforms, GWSC continued to operate at a loss, with large percentages of unaccounted for water due to leakages and poor revenue collection. In short, financial recovery was hindered by the exodus of managers and professions in all sectors in Ghana, a lack of adequate financing, and a lack of commitment of GWSC staff and external parties engaged in the managerial reforms as well as by political interference and corruption.<sup>8</sup>

The decision to pursue private sector participation was taken in the context of this history of reform and the global push for water privatization. In 1994, an Action Plan for restructuring the water sector was agreed between the Ministry of Works and Housing and the World Bank (World Bank, 1994). The Plan began with contracting consultants to assess the feasibility of restructuring options, of which introducing private sector participation was stated for possible consideration. The Ministry commissioned Halcrow, a UK-based consultancy firm, with terms of reference stipulating that it examine five options: (1) converting GWSC into a public limited liability company with decentralization and private sector participation in selected key activities;

(2) joint venture between GWSC and external company(s) in a new operating company; (3) GWSC produces and sells bulk for private sector distribution; (4) lease arrangement(s) of self-contained systems from source to end user; and (5) make the capital city area and largest urban centres into self-sustaining commercial entities and commercialize the remaining regions in a down-sized GWSC. The Halcrow report recommended the lease arrangement, because it would introduce competition between operators and because it was among the options showing the best financial returns. International operators were claimed to bring efficiencies through the application of expertise and greater access to investment capital. Transnational water companies contacted by the consultants expressed very little interest, but the consultants believed that 'given appropriate returns and with suitable packaging and marketing, it should be possible to make the opportunity for private sector participation sufficiently attractive'.<sup>9</sup>

In 1995, the Halcrow report was discussed at a workshop attended by members from relevant Ministries, Parliament, relevant state commissions and institutes, GWSC, the committee established for the restructuring process, as well as donors, private water operators and maintenance contractors from Ghana, UK, France and South Africa, two international NGOs (Action Aid and World Vision), and Halcrow consultants.<sup>10</sup> Government representatives stressed the government's desire to attract capital from the private sector and to divest itself as much as possible from operations in the water sector. The workshop proceedings indicate that the majority of participants were not interested in restructuring within a public utility framework. They affirmed the report's recommendation, which was then adopted by the Rawlings government. The government's new policy of private sector participation included the following objectives: increasing access to water, making the water sector sustainable, achieving cost recovery from users, improving sector management and relieving the government of the financial burden of future capital expenditures.<sup>11</sup> An Advisory Committee was established to implement the lease arrangement, which subsequently created a Water Sector Restructuring Secretariat (Secretariat) to carry out the daily work.

Louis Berger, a foreign consulting firm, was commissioned to assist the Secretariat in developing the framework for implementing the lease arrangement. The Berger Report notes 'uncertainty regarding the exact meaning of "lease arrangement" amongst the various authorities in the Ghana water sector', particularly surrounding the source of capital expenditure for future investment.<sup>12</sup> Under typical lease arrangements, private operators are not responsible for investing their own capital. Since one of the main motivations of the private sector participation policy was to secure finance for the water system which the government could not provide, the Advisory Committee selected an 'enhanced lease contract', where both the government and the private operator would bring capital investment. It was also decided to divide the urban water systems into two units to be run by different operators. The private operators would receive an operator's fee and a guaranteed level of return on their investment to be determined through the bidding process (i.e. the lowest bid). The amount of investment required from the private operators would be stated in the bidding documents and confirmed in the contract with the selected bidder.

Water privatization was only pursued for urban water systems. A new policy for rural and small town water provision was adopted through a process running parallel to the one described here. GWSC was restructured by making the community water and sanitation division in 1998 and converting the remaining utility into a limited liability company, Ghana Water Company Limited (GWCL), in 1999. The new policy emphasized community management and private sector participation, but in this case the private sector meant small businesses and local NGOs. However, rural water reform is another story and outside the scope of this article.

Preparation of the bidding documents took a long time. During the pre-qualification phase between 1998 and 2000, all the main transnational water corporations submitted bids.<sup>13</sup> Just as the process was nearing completion in 1999, it was thrown off course by a scandal related to the government's mishandling of a bid by Azurix.<sup>14</sup> The World Bank threatened to withdraw its project financing because the government planned 'to award a major contract under this program in a non-transparent manner' (World Bank, 2000a: 31). Public protest over the deal led the government to withdraw the offer to Azurix, and the whole bidding process began again.

In 2000, the government held a donors conference to secure commitments for investment in urban water. A product of the conference was a plan to facilitate concessional financing to the sector, in which an estimated \$400 million would be mobilized for rehabilitation and expansion in the first five years of the lease contract.<sup>15</sup> Of this amount, the World Bank was to provide \$100 million for rehabilitation of infrastructure through an Urban Water Restructuring project loan. However, the World Bank would not finalize the loan until the government had concluded contract negotiations with the private operators.

Before turning to the second episode of the reform process, we address the question of conditionality. Persons involved in process stressed that the Rawlings government had of its own volition decided to invite private sector participation and selected the form of that participation.<sup>16</sup> They acknowledge that donors, led by the World Bank, demanded substantial restructuring in the sector before providing further funding, but claim that the Bank did not push a particular option. Nevertheless, one of the reasons for adopting the lease arrangement was to facilitate the continued flow of low-cost bilateral funding into the sector.<sup>17</sup> Furthermore, 'progress on divestiture of urban water services' was a condition in the World Bank's Country Assistance Strategy for Ghana 2000-2003 and in the Interim PRSP 2000-2002 (World Bank 2000a: Annex 7; Republic of Ghana 2000: 31). Several donors conditioned grants on progress with private sector participation and cost recovery policies.<sup>18</sup> Bank and Fund lending arrangements from 1999 to 2003 included achieving 'full cost recovery' and automatic tariff adjustments in the utilities, a requirement which also served as a HIPC completion point condition. Even though the Rawlings government (and later the Kufuor government) claims the private sector participation policy as their own, they face extreme difficulty in reversing that policy decision once it has been agreed and written in donor documents (which is the intended effect). The point of conditionality, as it is expressed by the World Bank in Ghana, is to hold the government to their word. But this is mainly a discussion between donors and the executive government. What happens when a new government is elected? What happens when citizens mobilize to make their opinion on this issue heard?

Consultancy reports and examples of other African countries implementing similar reforms played an important role in encouraging water privatization in Ghana. GWSC and Secretariat staff mentioned trips to other countries and highlighted the experiences of these countries as validating and informing the reform process in Ghana.<sup>19</sup> Problems experienced in these countries were not mentioned, except by the former head of the Secretariat who argued that failures of previous water privatization experiments can be avoided by more carefully designing the contract.<sup>20</sup>

A combination of pressure through conditionality and persuasion through technical expertise and 'neutral' advice appears to have underlined adoption of the lease arrangement. Having to consult the World Bank and other donors on important decisions and the presence of donors in everyday

meetings probably has a significant effect. This influential role of donors and foreign consultants in the policymaking process is the target of much criticism in the Coalition's campaign against water privatization.

### **III. Episode Two: Enter the Anti-Water Privatization Coalition**

Interrupted by the December 2000 national elections, the water privatization process was reignited by the new Kufuor government. The somewhat candid story told thus far now becomes obscured. This muddling of the picture is partly due to the emergence of the National Coalition Against Privatization of Water which politicized the process and put the World Bank and the government on the defensive, and partly due to the lack of information made public during the bidding process. Documented information on the sequence of events is scarce, and sources report contradictory facts or vacillating figures about the amount of investment foreign operators would provide. Interviews with several government personnel were obtained, but the water specialist in the World Bank Ghana office refused an interview. This author could only speak to the Bank's communications officer, who could provide limited information on the process.

To summarize what is certain, the amount of financing that transnational water corporations were willing to contribute substantially diminished over the course of the bidding process, so the bidding documents were constantly revised. There could not be private sector participation of the kind envisioned without the water corporations, as no Ghanaian company had enough experience or expertise to play this role. There was mention of creating an Operating Investment Fund, financed by the government from concessional lending provided by donors, from which the private operators would draw capital in the first three years at a very low interest rate.<sup>21</sup> The World Bank was 'willing to make available very large levels of near-grant resources and to mobilize similar resources from other donors to finance the capital costs of the system', so that the full commercial cost of developing and maintaining the urban water system was not passed on as unaffordable tariffs.<sup>22</sup> By 2003, it was clear that the private operator was to be responsible only for rehabilitation of the existing system, and the Ghana Water Company Limited (GWCL) would undertake expansion of the system and extension into underserved areas.<sup>23</sup> There was talk of the creation of a Social Connection Policy, where government would subsidize connections for the poor, and of a Low Income Group Working Unit, to deal with accessibility of the poor.<sup>24</sup> These ideas were presented in a consultancy report, but the details had not been agreed upon and the mechanisms had not been discussed publicly—except to say that the government would take care that the urban poor would not be denied access to water.<sup>25</sup>

Phase two of the reform process is characterized by the emergence of the National Coalition Against Privatization of Water, its critique of the plan for private sector participation (PSP policy), its efforts to stall the process, and the nature of the engagement between the government and the Coalition. Why did the Coalition appear when it did? The principal answer is the alteration in ruling party that transpired after the 2000 elections. The entrance of the Kufuor government (and the exit of Rawlings) created expectations of more space for policy debate and tolerance of criticism. The Coalition's appearance is also connected to the history of the Integrated Social Development Centre (ISODEC), a Ghanaian NGO, which organized a public forum in Accra in May 2001 to gain information about the new government's plans for the PSP policy. ISODEC's interest stemmed from its background as a volunteer organization providing support services to low income settlements in Accra, its experience in rural water provision and

community water management, and its focus on the micro-level impacts of macro-economic policies of Government and donors. It was informed about the PSP policy through a commissioned study it undertook for a donor on the perceptions of poor communities regarding the intended reform, but was not allowed to participate further in discussing its findings. The public forum organized by ISODEC consisted of two days of presentations giving voice to a variety of viewpoints on the reform process, including government representatives. Participants concerned about the proposal formulated a response, the Accra Declaration on the Right to Water, which they presented to the government. The Coalition was launched in August 2001 around this Declaration.

The Coalition was initially maintained by the efforts of a resilient few. In February 2002, the Trades Union Congress signed the Accra Declaration and its Secretary General took over as head of the Coalition's national committee. The Congress brought to the Coalition's membership a countrywide network of District Labour Councils, which each passed resolutions against the PSP policy. By this time, the Coalition's membership was clear. It consisted of the old opponents of structural adjustment policies—the labour movement, some professional organizations and student unions. It also consisted of a new class of policy advocacy organizations which found their footing in the 1990s. This new class is partly led by former members of the 'progressive' organizations from the 1970s which supported Rawlings' rise to power.<sup>26</sup> These political activists have turned their attention from advocating revolutionary change to working within the liberal democratic framework to lobby the government on substantive issues. The socialist ideology of old has been replaced with the rights-based approach to development.

The Coalition's efforts to overturn the lease arrangement employed several strategies. First, it aimed to engage the government directly by providing information and influencing strategic people who could then convince the government to change its position. Second, it tried to educate citizens and mobilize them into a critical mass that could exert popular pressure on the government. Third, it sought to lobby the international institutions which promote PSP policies and which make external finance conditional upon them. We address each of these strategies in turn, focusing on the issues raised by the Coalition, its success in mobilizing popular pressure and its international solidarity network.

The first strategy involved submitting petitions and memoranda to the government, sending copies of press releases to key government officials, inviting foreign delegations, and using the media to explain its position. What exactly was that position? In short, "The National CAP of Water seeks to promote public delivery, ownership and management through community participation to ensure equity and equal right to potable water and also advocate for constitutional reform to make water a right."<sup>27</sup> The following summary of the Coalition's arguments against the PSP policy does not capture all their nuances, but provides an overview of its position and the issues of contention.

The first set of issues concerned the presentation of reform options as a dichotomy between public and private sector and the supposed benefits of private sector participation. The Coalition repudiates World Bank dogma that to be private is to be efficient and to be public is to be inefficient. The Coalition highlighted that no public sector option was seriously investigated by the Rawlings government and rejects the assertion that the only option left is private sector participation. They argued that World Bank-financed rehabilitation projects only kept the system from collapsing. Uncertainty over exactly what previous reforms have been tried was an issue. Publicly accessible World Bank documents do not present a detailed picture. The Coalition asked

the Bank for details on Bank-supported reforms of GWSC and their impact, but received no reply. The Coalition contended that the inefficiency of GWSC has several sources, including a chronic lack of financial resources, of management incentives and of highly skilled personnel as well as the failure of urban planning, unaccountable top management and use of the company for political patronage. The Coalition did not reject the concept of private sector participation *per se*, but rather the involvement of transnational corporations whose corrupt practices and profit-maximizing operations have proven detrimental for the poor in other countries. It used the experience of other countries with water privatization to argue that these corporations are difficult to regulate and unlikely to operate with a social conscience. Foreign private sector participation is associated with a regression back to colonialism and perceived as an impediment to development: 'Development is about developing our own capacity to manage our enterprises'.<sup>28</sup> In sum, the Coalition questioned foreign private involvement as a panacea for Ghana's water supply problems.

The Coalition's campaign also emphasized the potential negative effect of the proposed private sector participation on the affordability of water. This issue was the subject of much debate between those for and against the PSP policy. Poor households form the majority of people currently not served by Ghana Water Company and who have to buy water from private (locally owned) water tankers at prices much higher than the rates charged by the Company. This fact led the government and those for the PSP policy to emphasize that in the current situation the poor pay more for water than the rich and spend a much greater proportion of their income on water. Whether or not the lease arrangement would benefit poor households depends on the private operators' responsibilities and performance criteria specified in the contract (the details of which would not be publicly available until the contract is signed). The Coalition pointed to experiences of other countries where transnational water corporations have found various ways to raise tariffs and even renegotiated the terms of their contract. They also argued that the poor will not initially benefit from the lease arrangement, pointing to a government/donor-funded consultancy report which recommended that the private operator should not be responsible for infrastructure expansion into 'low-income communities' in the 'early stages'.<sup>29</sup>

The third set of issues raised by the Coalition involved the lack of transparency, accountability and public participation in the process of reforming the urban water sector. The Coalition stated that the 1995 workshop to consider the Halcrow report did not represent public participation (contrary to claims made by the Secretariat), because it included a selected group of 'stakeholders'. The findings of the study were not reported publicly, precluding public discussion on restructuring options. Second, the consultancy studies that formed an integral part of the restructuring process and the selection of the lease arrangement were commissioned and funded by the World Bank, Japan and the UK. The six consultancy firms employed are foreign and known to be favourable to privatization, with some possessing a history of working with the transnational water corporations or for the World Bank on privatization projects. These firms constitute a homogenizing pro-privatization force and benefit from the global push towards water privatization. Third, the Water Secretariat is financed by a consortium of donors led by the World Bank. The Coalition views the Secretariat more as a tool of the donors than as a government body. Finally, the bid documents were not released to the public, and requests from the Coalition to see these documents were denied until the contracts were finalized and submitted for Parliamentary approval.<sup>30</sup> Since preparation of the bid documents appears to involve negotiating until an agreement among the Government, the World Bank and the companies is reached, by the time they are finalized it would be difficult to change them. Coalition members called for full disclosure of all information and a broad public debate, in which they were joined

by voices outside the Coalition demanding a public debate to clarify the issues. However, it is not clear what criteria define a 'broad public debate' and through what means it was to take place. The Coalition did suggest at one point that various options could be put to Parliament.

The Coalition wanted to present a public challenge large enough to overturn the government's policy. To achieve this goal, they tried to mobilize communities through the formation of local action committees and to build public knowledge to increase the quality of public debate. The Coalition's efforts tended to concentrate on social groups which are relatively organized, such as workers in trade unions and students on college campuses. The combination of poverty, unemployment and underemployment in the informal economy made it difficult to mobilize people who lack collectives in their occupation or participation in other organizational arenas. The Coalition's efforts were also constrained by limited funds, by having to compete with other factors consuming people's time, by difficulties translating policy documents into local languages, and by a widespread lack of confidence among citizens in public sector companies. As a result, popular mobilization against the government's policy was limited. The most active local action committees were located in Accra. For most of 2002, the Coalition's attention was focused on debating the government in public forums (radio and television) rather than building a broad-based movement around the issue. The Coalition's relative neglect of broad mobilization is explained by the transnational topography in which the Coalition had to situate itself, by decisions it made concerning tradeoffs in directing its energy, and by the urban orientation of its leaders.

The Coalition positioned itself simultaneously in national and international arenas in order to address the multiple layers of power relations behind public policymaking in Ghana. This dual position was facilitated through linkages with organizations in Western countries, which put pressure on Western governments and multilateral financial institutions to stop pushing water privatization in developing countries and increased public awareness in Western countries on this topic. The Coalition is also a member of the World Coalition against the commodification and privatization of water, acting as the coordinating organization for the African region. Links with campaigns in other countries provided solidarity. For example, activists, academics and labour movements from other countries were present in Ghana at the initial public forum in 2001 that launched the Coalition and at the African Conference on the Right to Water in May 2003. Transnational linkages are also an important source of information which may not be accessible in Ghana. PSIRU research on water privatization published on the internet has bolstered anti-water privatization campaigns in African countries.

Activities of the Coalition brought the planned urban water privatization into the public spotlight in late 2001. The Ministry of Works and Housing and the Water Secretariat initially responded with hostility to the growing public sentiment questioning the lease arrangement. Government officials perceived the Coalition's stance on the PSP policy as confrontational and partisan. The exchanges in the media that ensued between the two sides were often characterized by misrepresentation of information and political spin by government spokesmen as well as Coalition members. On the part of the Coalition, its members did not have access to up to date information and most of what they did have was leaked from government insiders. However, attempts to simplify this issues and lack of understanding of the policy outside the capital city may also have been responsible for misrepresentation of information in the media and in their activities. The government's response to the Coalition is difficult to succinctly portray. The following is a caricature of its response and of arguments made by proponents of the private sector participation policy.

The early response of government spokesmen and ruling party politicians was to deny the existence of the Coalition and to slander its lead organizations, ISODEC and Trades Union Congress, in an attempt to invalidate their arguments.<sup>31</sup> When they did address the substance of critiques, their answers emphasized that the government was not privatizing the Ghana Water Company, but rather soliciting private sector participation in which the public utility would retain ownership and control of the assets. Ghana Water Company, they said, lacked the necessary investment capital and that previous reforms had failed to improve the operational efficiency of the utility. They refuted the need for debate on reform options, citing consultancy studies of the alternatives and the 1995 workshop which selected the lease arrangement option.

The Coalition submitted Memoranda outlining their arguments to the Council of State (advisory board to the president) and directly to high ranking government officials were ignored. An International Fact Finding Mission was invited to Ghana by several well-respected Ghanaians to investigate the planned lease arrangement, although the Coalition was behind the organization of the Mission. The Mission's report supported the criticisms levelled by the Coalition against the lease arrangement, but the government rejected the report on the grounds that the group was biased in its assessment.<sup>32</sup> The Mission delegation was probably not neutral, given that the two people leading the Mission and several other delegation members were part of the Coalition's international solidarity network.

The government later altered its approach, based on the perception that the PSP policy had become controversial because of 'poor communication', i.e. explanation of the policy.<sup>33</sup> Under its 'education campaign', the government's arguments essentially remained the same. A central issue in the debate was whether or not the private operator was bringing foreign investment. As mentioned earlier, the original rationale for choosing the enhanced lease arrangement was the need for private investment to rehabilitate and expand the urban water systems because the state did not have the capital. However, the amount of private investment to be brought in through the lease arrangement substantially declined. PSP proponents then pointed to the subsidization of the tariff by donors over a transition period in order to ease the impact of increased tariffs, the creation of a policy to subsidize connections for the poor, and the responsibility of government (as opposed to the private partner) for extensions into unserved areas as examples of how the government was addressing the issues of affordability and effects on the poor.

The World Bank describes itself as outside domestic public debate and political processes, yet its actions firmly place it within these arenas. The Bank defended the PSP policy at the public forum in 2001, and the following month participated in a seminar aimed to move the PSP policy forward. The Bank's position and response to Coalition critiques of PSP can be summarized as follows.<sup>34</sup> Water is a commodity because it is produced through an industrial process. The role of the state is not to supply water, but to ensure that safe water is supplied at a cost the poor can afford. The Bank has provided substantial financial and technical support to raise the operational efficiency of GWSC, but efficiency under public sector management has not improved. Bank experience is that private sector operation under contract has led to major efficiency improvements, including reductions in tariffs and improved service. The Bank acknowledged mixed results in some countries, but lessons from such failures can be incorporated into Ghana's plans. The donor community in general has served more as a participant than a neutral bystander in the water sector restructuring process and the public discussion surrounding it. Several donor staff dismissed the Coalition's campaign as an expression of significant public voice on the grounds that its members represent a 'vocal minority'.<sup>35</sup>

Later in the debate, a common argument of PSP proponents was to challenge its critics to come up with an alternative. While space does not permit a satisfactory discussion of this issue, a few points must be made. Coalition members argued that increasing the accountability of the public utility managers was the way to increase its operational efficiency. They highlighted the link between effective and efficient public sector performance and democratic governance, pointing out that there was no public accountability in general, and of public companies in particular, under past military/authoritarian regimes. The Coalition advocated replacing the state utility monopoly and bureaucratic centralized system with a decentralized system that increases the accountability of the management to local residents. Its members argued that directors of public corporations must stop using these corporations for their private gain. The Coalition proposed rough sketches of a public sector option: regional public systems combining urban and rural subsidiaries would be able to adopt a proper mix of public distribution; community management and private sector procurement; and municipal/district water companies working in partnership with beneficiary communities. Coalition members cited the municipal water company in Porto Alegre, Brazil as a success story of community-public partnerships in water services. PSIRU produced research showing that public sector water undertakings have been successful in several transition and developing countries.<sup>36</sup> The Coalition's suggestions were dismissed by government as too vague. Coalition members responded that it is not its responsibility, nor does it have the resources, to produce a cogent, detailed alternative. They further argued that the government should have taken a public sector option seriously and devoted resources similar to those spent on PSP consultancies.

#### **IV. Episode Three: Shifting Terrains but Tenacious Policies**

The diminished interest of transnational water corporations in the enhanced lease arrangement in Ghana can be explained by events in the global economy since 2000 (including crises in East Asian economies, crash of the information technologies markets, macroeconomic collapse of Russia and Argentina, and the bankruptcy of Enron and Worldcom), which led several corporations to reverse their expansionist policies (Bayliss, 2002: 15-6; Hall, 2003: 5-6). In 2001 and 2002, respectively, Vivendi and Saur stated that they will only participate in investments where consumers can pay enough to generate a 'fair' profit or where governments guarantee this level of profit. In January 2003, Suez announced no new investment in developing countries and its aims to reduce existing investments by one third. This reassessment of corporate strategies also came in the wake of the collapse of water privatizations in Manila, Philippines, and Buenos Aires, Argentina, as well as problems in other countries which resulted in the cancellation of contracts. It became clear that the transnationals wanted guarantees for their investments and were unlikely to invest much of their own capital in developing countries.

Proponents of private sector participation in water services expected transnational water corporations to deliver better quality services at lower costs to the benefit of all consumers in developing countries (Castro, 2002). Growing empirical evidence shows that the benefits claimed of water privatization have not materialized and that private sector participation in practice has often produced negative consequences.<sup>37</sup> Despite evidence of the limits of these corporations in rehabilitating and expanding water systems in developing countries, the World Bank, some donor countries and global water institutions have responded by arguing for the provision of stronger investment guarantees for transnational corporations.<sup>38</sup> The World Bank began to advocate milder forms of privatization that involved combining public ownership and

private management through management contracts. It claimed that what matters is that utilities be run in a business-like manner and that the public sector cannot efficiently manage both service provision and regulation.<sup>39</sup>

The third episode of reform process in Ghana parallels these global events. The World Bank met with the pre-qualified bidders for the lease contract during December 2002, at which time these corporations expressed that they would not bring investment under a lease, would provide no more than \$1 million per year in working capital, and requested the government to provide risk guarantees through the Bank.<sup>40</sup> Several bidders indicated interest in a less risky management contract before going into a lease. The Bank acknowledged that these corporations will only bid under ideal conditions and that there is no guarantee that they will honour their contracts if they begin to lose money. In these circumstances, the Bank proposed a management contract and presented the following options to the Kufuor government. If the government pursues a management contract, the Bank will provide \$100 million and leverage other resources providing a total of \$130 million. If no form of private sector participation is pursued, the Bank will provide a maximum of \$30 million.<sup>41</sup> Acting as interlocutor for the corporations, the Bank told the government that the enhanced lease was no longer an option.

The Kufuor government opted for the management contract and the World Bank Urban Water Project loan. The water situation had steadily worsened since 1995. The Ghana Water Company was starved of investment from government during the long preparation of the lease contract, and most donor loans and grants to the water sector were tied to the PSP process and delayed until its completion. Preparation for rehabilitation and expansion with the assistance of donor money only began in 2003, when the lease arrangement looked dead. Given this dire situation, the government was probably enticed by the larger amount of money attached to the management contract. Additionally, several actors involved in the PSP process believed that a management contract could be made to work if the contract included provisions to build up the skills of Ghanaian staff and eventually phase out foreign management.

The World Bank's financial contribution to the Urban Water Project, approved in July 2004, is an IDA credit of \$103 million. The total project cost is \$120 million, of which the remainder is being financed by the government (\$12 million) and the Nordic Development Fund (\$5 million). The Project includes four components: rehabilitation and expansion of the water systems (\$98.1 million), payment of the management contract operator (\$6.5 million), technical assistance and training for GWCL staff under a training plan proposed by the private operator (\$7.7 million) and severance pay for retrenched workers which constitute 40 percent of the workforce (\$11 million).<sup>42</sup> The Private Sector Participation Framework states that the government intends to eventually enter into a long term arrangement with a private operator for the urban water sector, and that the government reserves the right to enter into an *affermage* contract before the five year management contract has expired.<sup>43</sup> To ensure the financial stability of GWCL, the private operator will continue to benefit from the present partial government subsidy on electricity. The Project Implementation Unit will be staffed with a Bank-financed Project Director. A Low Income Customer and Safeguard Officer financed by DFID may be appointed when the Project is effective.

Another exchange took place between the Coalition and government spokesmen over the planned management contract between August and October 2004.<sup>44</sup> Arguing against the management contract, the Coalition highlighted the less than desirable results of past management contracts with Ghana Telecom and Ghana Airways. Coalition members emphasized

the huge costs of employing a private operator to manage the utility and a private company to facilitate the retrenchment program. They also pointed out that the draft Management Services Contract had been prepared by the World Bank and contained clauses which provided for tariff increases. Alternatively, the Coalition supported a performance contract with the present management. It argued that if the present management was provided with adequate investment in the water system, adequate logistics and a fraction of the monetary incentive package planned for the foreign management team, the Ghanaian management could also improve the services and financial standing of the utility. If the problem with Ghana Water Company is corruption and inefficiency, then the solution is to institute proper supervisory systems to ensure transparency and accountability, rather than handing over management to foreign corporate interests. The Coalition called for a debate on alternative financing. It suggested that the government should consult local expertise on devising alternatives and should reprioritize the budget in favour of the water sector, but admitted that these suggestions were only feasible with World Bank acquiescence. The Water Secretariat's response was to reproduce the dichotomous argument of private versus public; to promise that the price of water would increase only along with inflation; to say that after the five year management contract the people could decide whether to continue PSP or revert to public management; to stress the expected outcomes of system expansion, increase in the hours water available, and a decrease in unaccounted for water; and to insist that efforts have been undertaken to consult 'civil society' about the project.

In December 2004, the World Bank converted the Urban Water Project loan into a grant.<sup>45</sup> Under the loan, the government was to borrow money from the World Bank to pay the private operator's fee, an amount decided through the bidding process and stated in the Management Contract. Now the Bank is giving the government money free of charge to pay a foreign firm to operate Ghana's urban water systems. From this light (and from the Bank personnel statement in the press release), the Bank seems desperate to implement private sector participation and to minimize its 'reputational risks'.

In July 2005, Saur, Veolia and Vitens/Rand Water submitted bids for the management contract.<sup>46</sup> Biwater, a British water corporation, pulled out of the bidding process following a targeted campaign against the bidding process by the World Development Movement, a British international advocacy NGO. Vitens/Rand Water won the bid. The Coalition commented publicly that it finds it ironic that while the Dutch government passed a law in 2004 making it illegal for water privatization (in any form) in the Netherlands, Vitens has come to Ghana to engage in privatization of Ghana's water.<sup>47</sup> While Ghana pushed ahead with its management contract, in May 2005 the Tanzanian government cancelled its ten year lease contract in Dar es Salam with City Water, a joint venture of Biwater, Germany's Gauff Ingenieure and a local investor. The Tanzanian government stated that City Water did not invest the amount required in the first two years and that city residents persistently complained over the incompetence of the firm.<sup>48</sup>

## **V. The Politics of Reform**

Many observers of the public debate over water privatization in Ghana commented disdainfully on the slide towards ideological arguments. Several factors which explain this ideological tone are revealing about the broader politics of economic reform. We briefly discuss these factors before concluding. In general, the history of structural adjustment is a prerequisite for understanding the motivations and (re)actions of those engaged in the debate.

As mentioned earlier, many Coalition members, including its leadership, had been members of urban political movements which supported Rawlings' rise to power and his 'democratic revolution' in 1981. In particular, leaders in ISODEC and in the Trades Union Congress were involved in the progressive organizations of the 1970s. They backed Rawlings' call for a more genuine democracy and development in the name of the people. After Rawlings turned to the Bretton Woods institutions for financial backing, he broke with this branch of his political support base. This personal history of Coalition leaders partly explains their reasons for forming the Coalition. ISODEC and other members of the Coalition are long standing critics of structural adjustment in Ghana. For them, the general thrust of the structural adjustment was ill-founded. More recently, they argue that the economic situation has not improved enough under the tutelage of the Bretton Woods sponsored reforms and these donors partly insulate the government from the demands of citizens. It was this history of its leaders combined with the Coalition's connections with unions and leftist organizations in other African and Latin American countries that led the Kufuor government to brand ISODEC a leftist organization opposed to private sector participation on ideological grounds.

Regardless of the degree of disagreement over the content of structural adjustment policies and regardless of arguments about whether such economic reforms are necessary to improve the economy and general well-being of Ghanaians, many Ghanaians view the process of structural adjustment which involved the externalization of policymaking as illegitimate. Therefore, a key issue inspiring participation of some in the pro-democratic movement in the 1990s was to end structural adjustment. Taking back control of the policy agenda was and is seen as quintessential to enhancing democratic governance and thus it remains a central motivation among many political activists such as those behind the Coalition.

Privatization was a pillar of structural adjustment policies and a key target of critics. However it has a longer history in Ghana. The legacy of privatization goes back to the IMF's entrance into Ghana after the fall of Nkrumah. The National Liberation Council, the military regime set up after the 1966 coup d'état, followed IMF advice of economic liberalization, which hinged on selling off the numerous inefficient state-owned enterprises that Nkrumah had established too hastily (see Hutchful, 1987). The public responded bitterly to several privatizations and the military regime had to rescind (see Esseks, 1975: 46; Pinkney, 1972: 44). The role of foreign capital and management was a matter of contention between several earlier regimes and the Bretton Woods institutions. Both the National Liberation Council and the Supreme Military Council (1975-78) used the discourse of private *participation* and *partnership* to describe their policies, which reveals the intensity of public disapproval of losing control over the economy to foreign interests. Given this history, privatization policies are to a significant degree linked in popular imagination to the Bretton Woods institutions. The degree of similarity between the arguments concerning foreign investment and the behaviour of transnational corporations in the 1960s/70s and today is striking. As is the lingering anti-privatization sentiment, which is fuelled by perceptions that privatizations in the past have not born the promised fruit:

We have been witness to instances in this country where foreign interests after taking over prized national assets do very little, and in some cases, nothing to add to existing structures. Water, we contend, is too sensitive a national asset to be made to go the way other strategic national assets have gone in the past (*The Independent*, 04/09/2001, p.2).

The debate over water privatization often saw Coalition members pitting private-public partnership model against their public-community partnership model. The latter emphasizes that the provision of public services in an equitable way is a social responsibility of the government and that this provision should be decentralized in a way that increases the power of communities within in central-local governance relationship. This clash of models must be understood within the history of structural adjustment and Ghana's experience with privatization, as well as the contemporary global movements for and against water privatization which have produced these rival models.

The World Bank's policy position equally contributed to the ideological tone of the debate. The Bank argued publicly that water is a commodity, that the private sector is the bearer of efficiency and that the only way to improve the efficiency of the Ghana water utility is through increasing private sector involvement. Its insistence that the private sector is more efficient in the case of water provision seems to be based more on theory than empirical and historical evidence. Once embroiled in the debate, the World Bank had 'reputational' reasons for seeing the PSP process through. The water privatization debate should also be seen in the context of the huge intellectual investment the Bank has made in promoting its vision of economic reform in Ghana—one of its earlier 'star pupils'.

Policy formulation in Ghana has historically been the preserve of technocrats, ministers and government appointees. The long period of authoritarian and centralized bureaucratic governments in Ghana dissipated public policy debate from political culture. Both the Rawlings and Kufuor governments have generally perceived criticism of government policy as a partisan threat, or a threat to their power. These are the legacies that democratization has to confront. A major impact of the Coalition was enhancing public awareness of the government's water privatization plan and encouraging debate on it. The Coalition was successful in forcing the government to answer questions about the PSP process and pressuring the government to scrutinize the PSP documents more closely. However, public debate was stymied partly by the intolerance exhibited by the government, partly by the meagre information available publicly, and partly by the spin tactics employed by both sides in the debate.

The debate initiated by ISODEC in 2001 should have started in 1995, but the political climate then was completely different and the landscape of actors willing and able to undertake such an endeavour was relatively void. The return of individuals since the inauguration of the Fourth Republic in 1993, the development of advocacy organizations (partly the result of an influx of funding from international NGOs and donors), new connections to the media, among other factors, have changed the landscape of the Ghanaian public sphere. The attempt by this re-emerging network of progressive leaders to demand a new debate on options for urban water reform was thwarted because donors and the government felt it past time to complete the process.

Notably, the debate on water privatization did not focus relatively much attention on corruption in the Ghana Water Company. A committee was established in 2000 to probe allegations of malfeasance against top officials of the Water Company. Its report was not made public but it was leaked to some private newspapers which ran articles on its findings in late 2002. Following this publicity, ten officials were fired in 2003 for causing financial loss to the state. However, they were re-instated in 2005 after the Attorney-General exonerated them on the grounds that there was not sufficient evidence for their prosecution. Ghana Water Company is a classic example of how partisan boards run down public corporations. They are accountable only to the

president who gave them the job and are normally ruling party members who did not get a nice ministerial or ambassadorial appointment. They then set up companies which will be offered all the contracts for supplies to the public corporations, over-invoicing and under-cutting the public corporation.

The Coalition used the press reports to buttress its call to make the management of Ghana Water Company more accountable to consumers. However, the Coalition could have pursued the corruption agenda more fiercely, especially since the need for greater transparency and accountability in public management were themes in the Coalition's argument for a workable public sector option:

It is a notorious fact that public sector inefficiency and corruption has been part of the general problem of governance in this country and is not limited to the water sector... This is partly due to the long period of unaccountable rule perpetuated by military governments. Should we privatize these institutions because they are perceived to be corrupt and inefficient? We think the solution will lie in deepening democracy and finding appropriate models on which to restructure them.<sup>49</sup>

In contrast, the Coalition seemed to put more weight in its campaign on the role of donors.

In concluding, let us return to our starting point: the relationship between the domestic political system and the foreign aid system. This specific story of urban water reform paints a rather negative image of the aid system, and the World Bank in particular. But this story is just one among hundreds that could be told about the politics of aid in Ghana. If we had presented a broader picture of how the aid system operates in Ghana and how it interacts with the domestic political system, the reader would get a more balanced view of how foreign aid both supports and undermines the functioning of representative democracy in Ghana through its impact on liberal democratic institutions, policymaking processes and state-society relations (see Whitfield, 2005a; 2005b; 2006). However, this particular story does illustrate two important aspects of this broader picture.

First, political interactions among the Ghanaian government, Ghanaian citizens, donors and international NGOs, as well as within these different categories of actors, are increasingly complex as the aid system becomes more embedded within Ghana. There are two aspects to this embeddedness. On one level, donors are embedded within the state.<sup>50</sup> This position results not only from their financial contributions to the budgeting process. Donors have also routinized and semi-institutionalized the ways in which they interact with state institutions, and in which they participate in the design, implementation and monitoring of government programs and policies. Traditional conditionality has become less necessary as donors become more closely involved with state institutions. The conditioning of funding on effective implementation of policy prescriptions has been superseded by the allocation of funding as an incentive to carry out reforms which are closely monitored. Although conditionality still exists and is still the site of negotiation, the politics of conditionality have become both more interventionist and less starkly coercive. On another level, the aid system is embedded through its impact on the governance processes in a recipient country. In this situation, donors and international NGOs influence the organizational landscape of the recipient society and the political and economic behaviour of citizens, through their funding of 'civil society' and their assistance to the 'private sector'.

An embedded aid system does not mean that donors ultimately control governments, that they can always get their policy preferences implemented, nor that they are the most powerful actors involved in governance processes. It simply means that they are important and seemingly permanent players within the state, within policymaking, and within the political landscape. In this example of urban water reform, we see that some donors come together to lobby the Ghanaian government to implement that donor group's policy preference. A group of Ghanaians then emerges to lobby the government to pursue a different policy. Because donors have greater influence over the government due to their greater financial and technical resources, the Ghanaian group turns to a transnational solidarity network in order to increase its leverage in this competition. Donors constitute another group in the politics of reform.

Second, as influential actors within the political landscape, donors necessarily affect the political process of bargaining between the state and citizens. This bargaining process is 'the key to finding a balance between state effectiveness and accountability, and to identifying common interests around which arrangements can become institutionalized' (Moore et al, 2005: 45). The presence of donors as a third force shapes the political perceptions and actions of Ghanaian citizens. In this story of water privatization, Ghanaian citizens are bargaining for greater accountability of public management and transparency in government. Donors, through the nature of their involvement in policymaking processes and public debate, obstructed those bargaining efforts. Furthermore, donors were the target of the Coalition's campaign because of the immense influence they are perceived to wield over government. As a result, some (or a lot) political energy is diverted away from holding government accountable. Other stories in the politics of aid in Ghana show how citizens use donors as intermediaries to get their government to act in a certain way or to justify its actions or policy position.

Citizens demanding accountability from government leaders and those leaders seeing these demands as important for political survival are key features of democratic government. Donors acting as proxies for government or as intermediaries between state and citizens can negatively affect the bargaining process and the development of institutionalized accountability mechanisms between state and society. Given that the development of such accountability mechanisms has been so difficult in post-independence African countries, this is a serious charge against the embedded aid system.

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<sup>1</sup> For an elaboration, see Whitfield (2005a).

<sup>2</sup> These figures are calculated from Government of Ghana statements for financial years 2004, 2005 and 2006 and from CEPA (2002, 2003).

<sup>3</sup> For a literature review on the use of the state-(civil) society paradigm in African studies, see Whitfield (2003). For a general critique of the state-society paradigm, see Migdal (2001).

<sup>4</sup> Official aid agencies with operations in Ghana in 2003 include the IMF, World Bank, African Development Bank, European Union, organizations of the United Nations agencies (UNDP, UNICEF, FAO, WHO), Canada (CIDA), Denmark (DANIDA), France (AFD), Germany (GTZ), Japan (JICA), Netherlands (SNV), United Kingdom (DFID) and United States (USAID). Throughout the article, we use the term 'donors' as shorthand for these official aid agencies.

<sup>5</sup> For examples of literature critical of the theoretical claims by, and privatization policies of, the World Bank, IMF and other donors, see Cook and Kirkpatrick (1988, 1995) and Mkandawire (1994).

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- <sup>6</sup> The statement was titled ‘Water is Life: A Civil Society World Water Vision for Action’. On the international coalition, see [www.blueplanetproject.net](http://www.blueplanetproject.net) and [www.citizen.org](http://www.citizen.org).
- <sup>7</sup> (World Bank 1989a, 1994a); ‘Consultancy Services for the Restructuring of the Water Sector, Final Report’, March 1995, Sir William Halcrow & Partners Ltd, Ministry of Works and Housing, Republic of Ghana, p.41, 67-69 (Halcrow Report).
- <sup>8</sup> On corruption, *The Chronicle* published a series of articles in 2002 on the findings of the Justice Adade Probe into financial malfeasance by senior officials of Ghana Water Company Limited.
- <sup>9</sup> Halcrow Report, p.93.
- <sup>10</sup> Ghana Water Sector Restructuring Workshop Proceedings, 6-8 February 1995 (part of Halcrow report).
- <sup>11</sup> ‘Ghana-Increased Private Sector Participation-Urban Water Sector-Business Framework Report,’ 1998, Louis Berger S.A (Berger Report).
- <sup>12</sup> Berger Report, p. 1-5.
- <sup>13</sup> The exact list of firms is not clear. A presentation made by the Secretariat indicated that Suez, Bechtel, Vivendi and Saur pre-qualified in 1998 for both contracts. In a second round of pre-qualification held in 2000 for one of the contracts Biwater, Halliburton, Saur, Bechtel and Suez participated.
- <sup>14</sup> It is probable that Azurix was attempting to break into the global water market by offering a deceptively attractive contract and by bribing the Minister. There is no public documentation on the Azurix deal, but evidence of bribery was contained in the *Financial Times*, 12 February 2002, and mentioned in interviews and in several documents collected during research.
- <sup>15</sup> Presentation by the Secretariat, ‘PSP in the Urban Water Sector’, made at the Public Forum on Water Privatization, 16-17 May 2001, Accra, available at [www.isodec.org.gh](http://www.isodec.org.gh). Donors present at the conference included the World Bank, UK, France, Denmark, EU, and Japan.
- <sup>16</sup> Interviews with Bagbin, Nkrumah, Darkwa, and Sarpong Manu.
- <sup>17</sup> Letter from Peter Harold, World Bank country director for Ghana, to the Coalition, 9 March 2002.
- <sup>18</sup> The exact price required to cover all costs is debatable (interview with Sarpong Manu), but as a policy, cost recovery means that consumers must pay the full cost of the operation and maintenance of the water utility.
- <sup>19</sup> Interviews with Bagbin, Darkwa and Nkrumah. Also stated in ‘Water Sector Restructuring in Ghana’, p.12.
- <sup>20</sup> Experience shows that companies have renegotiated the contract in their favour after the contract is underway (Lobina and Hall 2003).
- <sup>21</sup> ‘PSP in the Urban Water Sector’.
- <sup>22</sup> Letter from Peter Harold to the Coalition.
- <sup>23</sup> ‘Water Sector Restructuring in Ghana: the decision, the framework, the issues’, Water Sector Restructuring Secretariat, undated.
- <sup>24</sup> ‘Ghana-Urban Water PSP Process: promoting the development of arrangements for the provision of services to the urban poor,’ final report, prepared for Ministry of Works and Housing/DfID, by MIME Consult Ltd., Accra, August 2002.
- <sup>25</sup> ‘Ghana-urban water PSP process: short term consulting services for promoting the development of arrangements for the provision of services for the poor’, Final Report, prepared by MIME Consult Ltd (Accra) for the Ministry of Works & Housing and DFID (UK), August 2002.
- <sup>26</sup> For more on these progressive organizations, see Ray (1986) and Hansen (1991).
- <sup>27</sup> Statement at the bottom of Coalition letterhead.
- <sup>28</sup> Uniiq radio station, Accra, 13 June 2002, Ghana Today program, Rudolf Amenga-Etego, Coalition leader.
- <sup>29</sup> ‘How Country-Owned is Ghana’s Water Privatisation Process?’, Rudolf Amenga-Etego, ISODEC website.
- <sup>30</sup> Confidentiality of the bid documents in Ghana is not unique (see Lobina and Hall 2003).
- <sup>31</sup> For an example, see ‘Ghanaians should ignore ISODEC’, advertiser’s announcement by the Ministry and Secretariat, published in several newspapers around 5 October 2001.
- <sup>32</sup> The content of the Mission’s report cannot be discussed here for lack of space. See [www.isodec.org.gh/campaigns/water/index.htm](http://www.isodec.org.gh/campaigns/water/index.htm) for access to the report.
- <sup>33</sup> Interviews with Bagbin, Nkrumah, Sarpong Manu, Darkwa and Kofi Tsikata.
- <sup>34</sup> Peter Harold speaking at the public forum, recorded in the ‘The Water Dialogue,’ ISODEC productions, 2001; and Letter from Peter Harold to the Coalition.
- <sup>35</sup> Cusack interview; internal World Bank document.
- <sup>36</sup> ‘Water in Public Hands: public sector water management—a necessary option,’ by David Hall, PSIRU.
- <sup>37</sup> In addition to PSIRU research, a research project at PRINWASS, School of Geography and the Environment, University of Oxford funded by the European Commission illustrates this gap between expectations and performance.

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<sup>38</sup> *Financing Water for All—Report of the World Panel on Financing Water Infrastructure*, [www.worldwatercouncil.org/download/Camdessus\\_Report.pdf](http://www.worldwatercouncil.org/download/Camdessus_Report.pdf).

<sup>39</sup> See ‘The World Bank Wonders About Utility Privatisations,’ M. Phillips, *Wall Street Journal*, 21 July 2003; World Bank’s 2004 *World Development Report*, ‘Making Services Work for Poor People’.

<sup>40</sup> Internal World Bank document on the water restructuring in Ghana, February 2003. Information on the position of transnational companies and Bank support for the management contract comes from this document. Much of this information can also be found in ‘PSP in Water Ebbed’, *The Statesman* (Ghana), 2 May 2003.

<sup>41</sup> Tsikata interview.

<sup>42</sup> World Bank Project Appraisal Document on proposed credit \$103 million to the Republic of Ghana for an Urban Water Project, 01/07/04; and ‘World Bank funds Ghana urban water project,’ World Bank press release, 28/07/04.

<sup>43</sup> Project Appraisal Document, p.71. The Project Information Document also mentions this *affermage*, and states that the management contract should establish a foundation for a more complex Public Private Partnership in the future that will bring private investment. *Affermage* is a French model which roughly corresponds to a lease arrangement that does not require major private capital investment.

<sup>44</sup> Most of the Coalition’s arguments were contained in *Public Agenda*, a newspaper which is a subsidiary organization of ISODEC. The state-owned *Daily Graphic* largely, but not solely, contained pro-management contract articles.

<sup>45</sup> ‘Ghana: World Bank turns US\$103 million Ghana Urban Water credit to grant’, World Bank press release, 06 January 2005.

<sup>46</sup> Vitens, a Dutch firm, is partnering with South African Rand Water. A financial crisis in late 2002 forced Vivendi to sell shares in its utilities unit, Vivendi Environment. By December 2004, it owned only 5 per cent in the new Veolia Environment, which remains the world’s largest water company. See ‘Veolia Environment: A Corporate Profile’, Public Citizen’s Water For All program, February 2005, [www.wateractivist.org](http://www.wateractivist.org).

<sup>47</sup> ‘Consortium walks out of water meeting’, [www.ghanaweb.com](http://www.ghanaweb.com), general news of 10/04/06, sourced from *Public Agenda*. The information on the Dutch law came from a PSIRU research report.

<sup>48</sup> World Development Movement, press release 18/05/05, ‘Biwater kicked out of Tanzania’, [www.wdm.org.uk](http://www.wdm.org.uk).

<sup>49</sup> Public statement issued by the National Coalition against Privatization of Water.

<sup>50</sup> See similar arguments made by Harrison (2001, 2004) based on studies of Tanzania, Uganda and Mozambique.