

4.16 Privatisation: Key to the solution of the global water crises?

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SUMMARY: *Water is fundamental to human living. Nobody can survive without access to drinking water. Therefore, in most societies, drinking water supply is under public control. In the context of the global water crisis, however, there has been a change in paradigm towards liberalisation of the public sector water supply. The arguments for privatisation or private capital participation are: more efficiency, reduction of costs to the benefit of the consumers, and mobilisation of urgently needed additional capital for the rehabilitation and maintenance of the water supply and sanitation systems. The advocates of these arguments get support by the international financial institutions and the international trade policy. The critics of liberalisation refer to many examples all over the world, where liberalisation did not improve but even deteriorate the water supply for the consumers. The article argues that an economically, ecologically and socially sustainable water supply needs a strong public interest in and public control of the determination of water prices, quality standards, access and supply, environmental standards, liability, utilisation and property of the plants and of control and intervention. Water supply is a public task and has to remain under public control. The global drinking water crisis is mainly a crisis of the public sector which has to be reformed instead of pouring it with the bath.*

Water is life, source of culture, the first element, blue gold: there are countless ways of expressing the central significance of water as the most fundamental and vital element for human and economic development. Without drinking water, no one can survive. This is why water service delivery is among the most crucial functions of provision of the basic needs by a state. Water is publicly managed almost everywhere in the world. This refers not only to the management of the delivery system and ensuring that everyone has secure access to water. It also includes ensuring a critical quantity of water, in which for example water collection areas sources of groundwater, rivers and lakes are protected and over use with regard to sustainability is reduced.

Water services in crisis

Many states, particularly developing countries, are not coping well with these challenges. They are failing to deliver basic water services and still less, sufficient sanitation for all residents. At the moment, 18% of the world's population do not have access to clean (safe) water, over 40% of the population of the world have no sanitary facilities, and, according to UN calculations, this percentage is increasing. Every year, about 2.2 million people die from disease due to contaminated drinking water, a lack of sanitation and poor hygienic conditions. The majority of those dying are children. A large percentage of people who live in developing countries suffer from illnesses caused by drinking contaminated water.

Access to essential water resources is not equally distributed regionally and socially. Most countries in the North are rich in water and provide at least an adequate basic service for the population. Water shortage is above all a problem faced by the countries in the South. The

internal difference in distribution is unequal and unfair in many developing countries: while the well-to-do are literally »swimming in water« in their swimming pools, the needs of the poorest members of society are barely covered – with the grave results described above.

While the drinking water crisis in developing countries and countries in transition has resulted in a serious, sometimes life-threatening emergency situation, as the basic services are not provided, this appears if anything as a crisis of public finance in the North. For decades, states neglected to set up the necessary reserves. The impact, in the worst case, is difficulties in financing the rehabilitation of the distribution network – which, however, does not endanger basic services for the population.

In 2000, for the first time, world governments formulated a clear quantitative target in the United Nations Millennium Declaration, outlining how water supply has to be improved until 2015. The action plan of the World Summit for Sustainable Development in Johannesburg in 2002 strengthened this aim and widened the brief to include sanitation: to halve the proportion of people without access to clean water and safe sanitation. What is still missing is clear strategies as to how these aims could be realised.

Paradigm change in the provision of basic services

This is the context in which the current debates are taking place, relating to the question of the roles that states, multi-lateral development and financial organisations and particularly, the private sector, could and should be playing in the delivery of water and sanitation services.

The arguments of those who are pro-privatisation¹ focus mainly on economic and technical aspects, while

considerations of democracy and sustainability get less attention. Key terms used are »increase in efficiency« and »price reduction« to reduce stress on the users. Included is the assumption that the missing investment for the construction and expansion and/or renovation of the delivery system can be mobilised from the private sector.

The World Bank identifies several positive trends of this increased private sector participation in their analyses of the last ten years:²

- The entry of private sector operators has challenged the idea of permanent, unregulated, public monopolies and stimulated better performance among all operators.
- More transparent and impartial regulation has improved access to and disclosure of information.
- Marked improvement in performance over extended periods has been achieved by creating incentives to meet specific targets.

The paradigm change towards the liberalisation and privatisation of public services has been promoted by the multilateral trade and financial institutions since the 1970s. In the last couple of decades, the international finance institutions such as the International Monetary Fund (IMF) and the World Bank in particular have pushed for the privatisation of public services. Within the framework of the Structural Adjustment Programmes, the IMF has demanded that highly indebted countries drastically limit their state sector and hand some responsibilities over to the private sector, as a condition for further credit. In many countries this has included the water sector. The World Bank accompanied this policy within the water and sanitation sector by initially providing credit exclusively to the private sector to ease the burden of taking over water services. Only recently has this policy changed, following an internal evaluation,³ so that bodies other than private sector organisations can access these funds for water and sanitation services, including municipal or co-operative models.

The rules and regulations set by international trade policy also promote the liberalisation and thereby denationalisation of public services. For example, WTO negotiations on the General Agreement on Trade in Services (GATS) include the water sector. The EU has demanded that 72 countries liberalise their water sector within the GATS framework. This policy can also be seen in other free trade association agreements, as can be seen in the EU Mercosur Agreement. Their interest in a liberalisation policy in this sensitive area results from the fact that the large-scale international water companies are from Europe: Suez Lyonnaise and Vivendi from France, RWE-Thames Water from Germany and England.

This policy is also supported by the EU Water Fund, which holds • 1 billion. On World Water Day in March

2004, this body identified an initial sum of • 500 million for countries in Africa, the Caribbean and the Pacific, planned, amongst other things, for the development of public/private partnerships.⁴

Criticism of privatisation

Those voices critical of liberalisation of the water sector fear that privatisation will lead to a reduction in quality. They see the reasons for this in the price wars and in the questionable sustainability of the involvement of the private sector. They cite several examples and demonstrate trends where private sector participation has shown no improvement, or has shown on the contrary negative impacts for the users. Well-known examples are Cochabamba in Bolivia⁵ and Atlanta in the USA.⁶ In these cities, the privatisation process had to be reversed due to public protests after massive price increases. The experience of water services in England, privatised under the neoliberal economic policies of Primer Minister Thatcher's government, also demonstrates negative trends. In the last twenty years, insufficient investment in the maintenance of the delivery system has led to water scarcity and adverse affects on the quality of the water.⁷ The attempts to privatise water services, even where they function well, as the EU has attempted through demands for liberalisation within the framework of the GATS negotiations in Porto Alegre in Brazil and in Santa Cruz in Bolivia, therefore become even less understandable. Even the partial privatisation of communal water services in Germany has met with considerable criticism.

There is no silver bullet

There is a basic assumption by supporters of privatisation that poor and marginalised population groups will gain sufficient access to water, when water is seen as purely an economic good. But precisely these population groups in countries in the South, particularly in slums or rural areas, often pay considerable amounts of money to private providers in order to gain access to drinking water. International financial institutions and development organisations therefore assume that the appropriate consumer prices will act as incentives for the investors to lay the pipes necessary to bring water to those areas where the people have until now received their water either from water tankers or from unsafe water sources. However, experience does not support this claim. Private capital has to make profit. If the risk or the investment appears to be too great to generate sufficient profit, the investment will not be made. The investment in a delivery system in the poorer urban areas appears too risky, because the collection of water bills may be problematic due to the precarious financial situation of the residents. Rural areas often have too few users to make

costly investments in supply systems pay off in the foreseeable future. Therefore the private sector concentrates almost exclusively on the economically strong urban target groups, the most profitable section of the water market.

In the case of private sector participation or take-over, the drawing up of the contracts makes high demands on both contractual partners. In practice, big water companies are generally better prepared and have specialised knowledge, while on the side of the state there is a **lack of competence** amongst those who are responsible. Politicians, officials or local dignitaries decide what the modernisation or privatisation of public services providers will look like. They cannot always rely on specialised technical or legal support. Often those responsible are partisan, or are ideologically or personally influenced (for example through nepotism). They have no time to fully understand the issues and are dependent on the preparatory work of their officials and the support of particular interest groups. There is generally a lack of current and neutral information, leading to a distorted evaluation of the situation, leading in turn to bad decisions. In many developing countries, these problems frequently occur, providing poor basic conditions for ensuring improved water services and therefore realisation of the Millennium Development Goals.

Criteria for successful water services

It is therefore important that governments and political decision makers do not give up their right to act and to structure policies designed by themselves. Parts of the water delivery could be managed better by private companies than by public companies, such as water treatment or the maintenance and rehabilitation of the water system. This has to be decided case by case, dependent on local conditions. It must however be guaranteed that the **design of the policy** relating to public services remains in public hands. This is particularly relevant in the following areas:

Price setting

The liberalisation and privatisation of drinking water services is often mistakenly equated with creating a competitive market for drinking water. A piped delivery system means that a company will automatically hold a monopoly, as is the case with a public service provider. As a result prices and conditions can be dictated, rather than relying on the market to settle a price. Therefore price setting is a necessary instrument to guarantee basic provision to the population and to control excessive water use. Various models can be considered. The poorer parts of the population could receive subsidies, or free basic service provision could be provided to all users at very low prices,

with prices increasing according to increased use. Industrial or agricultural production could be encouraged through cheaper prices for higher use, as is the case in Germany.

Quality control

Regulation of user standards, in other words the guaranteed level of water quality – whether one as high as presently in Germany or lower – is a state decision. Such a decision should not be dependent on profit-led decisions of private companies.

Access and supply

Who should be connected to the water network should also not be left to private companies. In Germany, with almost 100% connection of water and sewage services this is no longer a relevant issue, but in many countries in the South, this is a pertinent question. If the state complies with requirements to supply basic needs, it must regulate, either by delivering the services itself or by forcing companies to extend the delivery network within a certain timeframe.

Setting of environmental standards

Here the most crucial aspects are wasting of water, as is common in England following privatisation due to a badly maintained network, environmentally sound treatment of water and the treatment of wastewater.

Liability and risk

Where contracts with private companies exist, it must be clear who carries the risk for reduction in quality, profit or even deficit and who is liable for these discrepancies. If the risk lies only with the users, will the state take responsibility for this? What responsibility does the private company take on? What is the situation with the polluter-pays principle with third party involvement (water pollution through toxic waste)?

Plant use and ownership

Furthermore, it must be clarified what happens to the water works when the contracts with the private sector terminated. Who owns the plants, and in what conditions should they be given back to the state?

Options for monitoring and intervention

Finally, it is within the scope of state policy to decide what options for monitoring and intervention remain within the public sector in order to control undesired development.

Water services: A public responsibility

Ensuring the delivery of basic services for the entire population, including access to clean drinking water and adequate sanitation, is one of the key responsibilities of a democratic state. The United Nations has recognised access to water as a human right,⁸ wherein it is up to the state to decide whether access to this »predominantly public good« is managed publicly or privately. For the user, many negative examples show that the privatisation of water and sanitation services can not be seen as a silver bullet.

Private sector businesses need to make profit. They have to be as effective as possible with regards to the economic factors, as they stand in competition with other businesses which would otherwise challenge their market share. Their aim is capital accumulation and risk assessment, to which other values such as basic needs, environmental sustainability, social policy are subordinate. It is therefore the role of democratic governments as representatives of the whole population, to ensure the values which are important to the society and set an adequate framework legislation and engage actively.

The management of water – collection, treatment, distribution and removal – is a service and must be managed economically. As water is an environmental good, it must be protected from excessive use through, for example, adequate pricing. Price setting is not exclusively according to market rules, it must be differentiated socially and thus be regulated by the state.

Whether private companies, particularly in urban centres, can contribute to a more efficient water service, improvement of distribution systems assume modern technologies and better controls, must be carefully considered in each case.

The responsibility for the design of efficient drinking water and sanitation services and a possible private sector participation lies, with those responsible for policy and

management as well as with the public who controls them. The crisis in the water sector is primarily a crisis of the public sector. Therefore solutions must come from a reform of the public sector: the baby should not be thrown out with the bathwater ♦

This article appeared first in German language in the book: Warnsignal Klima: **Genug Wasser für alle?** 2005 • 400 pages • www.rrz.uni-hamburg.de/Warnsignale

¹ A wide range of private sector participation options (PSP) by companies or through financing is understood by »privatisation«. This ranges from the recognition of individual tasks or functions, from local water vending by small scale providers, to the construction of the water delivery system, to involvement by multinational companies.

² The World Bank Group's Program for Water Supply and Sanitation, January 2004, p.14

³ World Bank OED Efficient Service for All? An OED Review of the World Bank's assistance to water supply and sanitation, World Bank, 1 September 2003 and Virginia Roaf: After Privatisation: What next? An assessment of recent World Bank strategies for urban water and sanitation services, Heinrich Böll Stiftung Global Issue Paper No 28, March 2006

⁴ EU press statement of 22.3.2004 IP/04/375

⁵ The Cochabamba example has been extensively documented, for example in Maude Barlow, Tony Clarke: Blue Gold: The Battle Against Corporate Theft of the World's Water, Toronto 2002 and Elizabeth Peredo Beltrán: Mujeres del Valle de Cochabamba: Agua, privatización y conflicto, Heinrich-Böll-Stiftung Global Issue Papers No 4, Sep. 2003

⁶ Various sources including US-Organisation Public Citizen (www.citizen.org) and Public Services International Research Unit (PSIRU), University of Greenwich/England (www.psiru.org)

⁷ Various sources including Public Services International Research Unit

⁸ See the related article in this book.