

4.18 Experience with the privatisation of water sectors in England and Bolivia with remarks about other countries

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SUMMARY: *Advocates of a privatisation of the water supply claim that it will result in a higher efficiency and lead to a solution of the dramatic water and sanitary situation in poor countries of the world. The outcome of privatisation in several countries so far provides no evidence that private companies can operate water supply and sanitary systems more efficiently and cheaper than public, municipal operators, or that they can make a major contribution to solving the water problems of the poor people of the world. Here the effects of the privatisation of water supply in England and Wales as well as in Cochabamba (Bolivia) are analysed and an overview of the privatisation debate in several other countries is given.*

The central question in this chapter is if convincing examples can be found so far to prove that privatisation of the water sector ensures achieving the UN Millennium Goals to halve the number of people without a safe water supply. At the same time it is generally accepted that structural reforms of water and sanitation sectors are necessary and this is true especially for countries with water stress. Because of Margaret Thatcher's uncompromising water sector privatisation policy in the UK, the world has sound information on the results of private profit-oriented activities in the areas of water supply and sanitation.

In this chapter we present important insights of the privatisation of water sectors. We explain and discuss these issues based on many examples – England (Europe), Bolivia (developing country) and other countries.

Europe

England

The water sector in England and Wales was privatised in 1989 during the period of office of Margaret Thatcher. The government justified this step by the presumed higher efficiency of the private sector, the hope that private companies would raise the substantial funds necessary for investments in infrastructure and that privatisation would create competition. Before privatisation was enacted, a restructuring process had taken place over a period of several years of the water sector that had originally consisted of many small utility companies. In this process ten regional water suppliers had been created. Due to the resistance of various actors the privatisation of these ten suppliers was delayed until 1989. The entire water supply and sanitation infrastructure was transferred to private companies. They received concessions for 25 years. The period of notice for termination of the contracts is nearly as long as the contracts themselves, with the result that the concessions are indefinite in practice.

The government under Margaret Thatcher wanted a privatisation of the water sector to become success under all circumstances. Regional monopolies were created and

there was no competition at all. Before privatisation the government took the responsibility for the repayment of more than 8 billion pounds of debts of the water utilities and in addition provided 2.6 billion pounds working capital. Furthermore the share price was fixed far below the actual market price. This policy to support the water industry with exceptionally high incentives was financed from tax income.

Due to the monopolies of the companies to supply water for a certain area a regulatory agency was put in charge of examining the water tariffs and safeguarding that the companies worked efficiently. The target of profitability of the companies was only reached at the expense of the consumers. In the first nine years after privatisation alone the average annual water price for a household in England and Wales went up from 120 to 240 pounds (the inflation rate over this period was 40%). The result was that the profits as well as the share prices of the ten companies went up by 150% between 1990/91 and 1997/98. An analysis of the profits of British water company's show that they are higher than average profits in all economical sectors. They are even higher than the profits of the big private water companies in France (LOBINA & HALL 2001).

It has become clear in the meantime that the very high profits were made rather easily. In addition to the enormous increase of the water price and the reduction of the number of persons employed (see below) another factor was of great importance. The companies had to provide the regulatory agency with a calculation of expected costs and investments before the beginning of each year. On this basis the regulatory agency agreed to price increases. But for several years there was no or insufficient control if the companies actually carried out the investments they had forecast. The companies were in a position to reduce their expenses substantially by not carrying out investments or by reducing investments. At the same time they benefited from higher water tariffs that were based on the assumption that the investments would be carried out (LOBINA & HALL 2001, p.7–8). For example, Yorkshire Water had announced in 1989 to rehabilitate 380 km of sewers, 82 km of it »imme-

diately«. By 1995, only 17 kms were completed and by 1999 only 65 kms.

In 1994 the »Daily Mail« published an article on the consequences of privatisation. In the article one could read: »*The Great Water Robbery ... the directors and shareholders of Britain's top ten water companies have been able to use their positions as monopoly suppliers to pull off the greatest act of licensed robbery in our history*«. (DAILY MAIL LONDON, 11 July 1994). Despite all protests little has changed since because the companies have contracts for a period of 25 years.

The situation did not even change substantially after a committee of the British Parliament came to a devastating judgement of the effects of the privatisation of the water sector in 2000. It was stated that an increasing number of installations were in a bad condition and that the present level of investments was not sufficient to safeguard the essential water supply of customers in the future. It was particularly noted that the condition of the underground system was deteriorating faster than investments for the renewal of the system were made (LOBINA & HALL 2001).

The severe under-investment in maintenance and repairs of the mains during the first years after privatisation takes its toll now. Here are a few examples from four of the ten water companies:

- **Welsh Water:** The situation of the biggest water supplier in Wales was especially devastating. According to a BBC report of July 6th 2000 several courts fined the company various times because of faults of the sewage system. For example, Welsh Water had to pay a fine of 5,000 pounds because of pollution with untreated sewage of a river next to a kinder garden. Before the pollution happened the regional environmental authority had requested the company several times to repair a pump. In 2000 alone Welsh Water was fined ten times for environmental offences, yet the total fine was only 29,000 pounds (BBC report, 28/09/2001).

- **Anglian Water:** In September 2001 a court penalty to the company amounted to nearly 30,000 pounds for delivering water that was not fit for human consumption to 14,000 households in Bedfordshire. This incident was obviously due to the poor training of the staff at a pumping station. The company promised to provide additional training for the staff (BBC report, 05/09/2001). Another problem was that repair of the leakages of the water system and maintenance of the sewage system were so much neglected that health risks were increasing (LOBINA & HALL 2001).

- **Severn Trent:** In September 2001 inhabitants of five houses in a Nottinghamshire town complained about the bad quality of their tap water. It was soon found out that the main that led to the houses was damaged. In a BBC report about the case on 08/10/2001 it was disclosed that the

inhabitants had not had clean water for three weeks already. They had to either boil the tap water or buy bottled water.

- **Thames Water:** This is the biggest of the ten water companies in England and Wales. Thames Water provides drinking water to about 13 million inhabitants in Greater London. In the dry year of 1995 the company received 5,500 complaints within 24 hours due to water scarcity and an interruption of the water supply (London Evening Standard, 31.10.1995; Reuters News Service, 1.10.2001). In 1999 and 2000 Thames Water had to pay the highest fines for environmental offences of all British companies. In 1999 the company had to pay fines of 450,000 pounds, in the following year the fines amounted to 288,000 pounds (Public Citizen (USA): Corporate profile: RWE/Thames Water, 14.3.2003, p. 3; The Guardian, 29.9.2001). In addition about 30% of the water is lost through leakages (The Guardian, 24.3.2003; BBC News, 8.4.2003). In 2003 the regulatory agency was no longer willing to accept the high leakage rate of Thames Water. The company reacted by threatening to simultaneously dig up streets and pavements in 3,000 locations in London in order to fulfil the agency's request to reduce water losses by 10 per cent every year.

In addition to price hikes, deterioration of water quality and insufficient maintenance of the infrastructure, the privatised water companies in England and Wales reduced the workforce substantially. According to STADLER & HOERING (2003), staff was reduced from 48,000 to 37,000 from the time of privatisation to 1997.

For low-income families increasing water tariffs are a severe financial problem. That did not bother the water companies. They cut the supply whenever the water bills were not paid. According to STADLER & HOERING (2003) the companies cut 23,670 water connections in 1991. According to LOBINA & HALL (2000) the supply was cut for 18,636 households in 1994. This action of the water companies caused strong protest, mainly because of the health and social implications of such measures. The Labour government substantially reduced the possibilities to cut the water supply of people who could not pay the water bills. As a result the water companies have changed their approach since the middle of the 1990's. They install pre-paid-meters for customers who have not paid their water bills. These households have to pay the supply of water directly and have to pay for the new meters as well.

For several years now the controls of the regulatory agency have been stricter. Water tariffs and in effect the profits of the water companies were reduced substantially. In 1999 and 2000 alone, water tariffs were reduced by an average of 12% by the regulatory agency. Since then prices have increased modestly (OFWAT Press Release, 23.4.2003; Financial Times Deutschland, 28.9.2000).

Other European countries

• **France:** France is the home of three leading global water companies: Veolia (formerly Vivendi), Ondeo (part of the Suez consortium) and S.A.U.R. They run about 70% of water supply and sanitation systems in France. Municipalities continue to own waterworks, mains and sewage plants in accordance with French law. Private companies get long-term concessions to operate the systems, the most profitable part of the water business. The difference from other countries is that generally in France the water companies do not take over control of the infrastructure.

The French concession system – due to the long terms of several decades – has the reputation of lacking transparency, innovation and competition. For several decades there wasn't a single case of a change of company when contracts expired and had to be renewed. Several times the French audit office (Cour des Comptes) has criticised the lack of transparency of the private management.

The French water industry is not a positive example either when it comes to the operation of water and sewage systems. It neglects the protection of wells as sources of drinking water. The companies prefer instead to use high-tech methods for the treatment of polluted water. Suez-Lyonnaise des Eaux (Ondeo) went through all stages of appeal to get a court decision in 2000 that the company has no direct responsibility for a preventive protection of its water sources. Ondeo is only urged to install acceptable («reasonable») water treatment plants.

There is not even a price advantage for customers of private water companies. On the contrary: A comparison of public and private operators shows that the water tariffs of private operators is higher in all cases (Table 4.18-1).

• **Netherlands:** After several years of intense hearings and discussions, the Dutch government decided in 2002 to enact a law prohibiting the privatisation of the water and sewage systems. Beyond ideological differences all parties are advocating the concept that the supply of water should remain the responsibility of public enterprises as the best way to safeguard public interests. All models were rejected that transfer the tasks in the water sector to private companies by concessions or management contracts.

Dutch laws guarantee each water supplier the exclusive right to extract and distribute water in the catchment area. The control over the supplier cannot be transferred to non-public forms of ownership. In cases where municipal utilities were sold in the past to non-public companies the responsibility for the water sector will have to be returned to the municipality.

In order to safeguard the most modern water supply in the future, the government introduced a binding benchmarking for the water sector in the Netherlands. In addition competition will soon be introduced to supply industrial customers – but water suppliers will not be allowed to raise water prices for households in order to offer cheap water for industry.

• **Switzerland and Austria:** Similar ideas are considered in at least two Swiss cantons. Basel and Jura are considering a prohibition of privatisations in the water sector. In Austria serious objections exist against the control by international companies of the plentiful water resources and the properly functioning local water supply systems.

• **Czech Republic and Romania:** In the 1990s British and French water companies invested a substantial part of their profits in acquisitions in Eastern Europe. Their interest was focused on big cities with already existing water and sewage systems. High profits seemed possible there without investing substantial amounts of capital. One major reason was that the necessary money for building sewage plants would be provided by the European Community for new EC members and by the European Bank for Reconstruction and Development (EBRD). The global player No. 1 in water business, Veolia (formerly Vivendi), today controls the water supply of Prague, Pilsen, Olomouc and other cities in the Czech Republic. After taking over the water supply of Bucharest and Ploiesti the French company plays also an important role on the Romanian water market. The French competitor Suez has concentrated its expansion efforts on Hungary and the Czech Republic.

• **Poland:** Despite a lot of external pressure, most municipalities (Gdansk being an exception) have decided to keep the water companies under public control. Whereas international Development Banks originally preferred pri-

Table 4.18-1: Water prices of public provision, concessions and public-private joint ventures, 1994–1999. The average price for drinking water and sewage is based on an annual water consumption of 120 cubic metres (in F-Francis).

Management		1994	1995	1996	1997	1998	1999
Public	<i>Operated by the municipality</i>	1.489	1.621	1.716	1.803	1.848	1.841
Private	<i>Concessions of private company</i>	1.784	1.908	1.993	2.050	2.100	2.100
PPP	<i>Public-private joint venture</i>	1.734	1.812	1.963	2.014	2.076	2.101
Average		1.689	1.799	1.910	1.974	2.015	2.049

Source: DGCCRF (Direction générale de la consommation, de la concurrence et de la répression des fraudes); published in »La Réforme de la politique de l'eau« Conseil Economique et Social ; Journal officiel de la République Française 2000 No. 14 ; November 2000.

vate partners it is now also possible for municipalities to receive international money. The European Investment Bank (EIB) last year provided long-term loans for public utilities in Lodz, Szczecin and Torun. The public water company in Krakow received assistance from EBRD to renew the drinking water mains. Recently however the pressure by German water companies, EIB and World Bank for the privatisation of water utilities in Poland has increased.

• **Latvia and Lithuania:** After a serious assessment of the alternatives many cities decided against a partnership with international companies. The Latvian capital Riga and the Lithuanian city of Kaunas work closely together with Stockholm's public water utility Stockholm Vatten, a model that is supported by ERBD with loans. Similar co-operations with Danish, Swedish and Finish water utilities have been successful in Kaliningrad and St. Petersburg. The Lithuanian capital Vilnius could convince two commercial banks that its rehabilitation concept was creditworthy and was advantageous compare to a sale to ONDEO.

• **Hungary and Bulgaria:** When one compares the performance of public utilities and international water companies the latter often get poor marks. For example, the public utility in the Hungarian city of Debrecen was able to complete the expansion of its water mains at a price 60% lower than the German-French company Eurawasser had projected. Furthermore it has turned out that the profit expectations of private companies are often not compatible with an affordable water tariff. The Bulgarian capital Sofia gave the concession to an Ibero-American consortium, which had guaranteed to keep the water tariff stable for three years. But already three months after the contract was signed the investors tried to increase the water price by 25%.

Developing countries

Whereas privatisations of water utilities in Europe are mainly driven by financial difficulties of municipalities, the problems in developing countries are different. World Bank and International Monetary Fund promote the privatisation process. One aim of privatisation is the improvement of the provision of water in order to achieve the UN Millenniums Goals to halve the number of people who have no access to clean water and sanitation by 2015. Privatisation is considered to be necessary to fight against corruption and to change the structure of the water sector in order to improve efficiency and to enable an expansion of the supply networks.

Bolivia

As a result of negotiations between World Bank and the government of Bolivia the water and sanitation system of

Cochabamba, Bolivia's third biggest city with 600,000 inhabitants, was privatised. The World Bank had declared that this privatisation would be a condition for a debt relief for Bolivia. When tenders were called for, the only offer was made by Aguas del Tunari, a consortium consisting of Bechtel Enterprise Holding, USA (represented by International Water Limited), United Utilities, Great Britain, and Bolivian partners. The concession was granted for 40 years with a guaranteed profit rate of 15%. Only a few months later Aguas del Tunari decided to increase water tariffs by 30 to 100% though there was no discernible improvement of the water supply. In addition the consortium intended to introduce a fee for customers who used rain water or water from wells (STADLER & HOERING 2003). The price hikes resulted in a substantial increase of expenses for water, especially for poor families. Therefore resistance was organised and people did not pay water bills. A coalition of trade unions, environmental and youth organisations demanded that the water supply be returned to a public utility: »Water is holy, is a right and is nothing that can be sold«

Protests escalated. When negotiations had failed a general strike was declared for four days. The Bolivian government sent troops and declared a state of emergency. The balance of the conflict: six people were killed, hundreds were wounded and many were imprisoned. But the resistance continued. In the middle of April 2002 the Bolivian government cancelled the contract with the private operators in Cochabamba and the foreign companies left the country.

A lawsuit is still pending after these events between Bechtel and the government of Bolivia. The public is excluded while the International Centre for the Settlement of Investment Disputes (ICSID) is holding proceedings. ICSID is an institution of the World Bank Group. Bechtel is a global building company. This giant US group with a turnover of 14.3 billion dollars in 2000 (several times the state budget of Bolivia) is demanding 25 million dollars in compensation for its investments and for profits that could not be realised (STADLER & HOERING 2003). In January 2006 Bechtel agreed to abandon the case after a lot of international pressure on the company.

Other developing countries

In Argentina (Tucumán) the French water company Vivendi retreated from its involvement in the water sector after consumers had organised a strike and refused to pay water bills. This was a reaction to the fact that the private operator increased water tariffs substantially even though the water quality had deteriorated. In a lawsuit at ICSID, Vivendi (now Veolia) is demanding a compensation of 100 million dollars.

Not only in Bolivia and Argentina but also in countries like Ghana and South Africa the privatisation of the water sector is met by increasing public resistance.

Closing remarks

Privately run water companies may be cost conscious when they plan, build and operate. And they are in many cases more flexible and competent as a result of their independent operation. They may be more willing to invest money. Despite these advantages disadvantages prevail like the reduction of the staff of utilities and increases of water price.

Ten years after the privatisation of the water sector in England and Wales the public outrage was so strong, that it seemed unavoidable to return the water companies to public ownership. Nevertheless the Labour government cannot make up its mind to re-municipalise the companies, possibly because of the expected high cost.

The limitations profit-oriented enterprises face in the improvement of water supply systems in developing countries can be seen in Manila, where the privatisation has failed.

Internationally active water companies concentrate their activities on the big metropolises where they serve a population with a rather high income and an existing mains system. In sub-urban areas and rural areas, where the majority of people with low incomes live, activities of water companies are very limited or near to zero. Therefore the state is forced to take over the responsibility for these areas. Since the number of people without access to drinking water and sanitation is very high in these areas achievement

of the Millennium goals can hardly be expected through privatisation. Where no profit can be expected, no investments are made by private water suppliers.

Another lesson of privatisation in various countries is that private companies show little willingness to invest in maintenance. Profit-oriented companies calculate that it is cheaper to lose for example 30% of the piped water by leakages than to repair the mains. Leaking drainage mains can be a threat to groundwater. In the long run neglecting the infrastructure results in higher water demand and potentially in the breakdown of water supply during dry periods.

Corruption cannot be totally eliminated through privatisation. There have been several cases of bribery in order to obtain approval for increases of water tariffs. Water companies providing data that are difficult to verify often make the work of regulatory agencies difficult. There are also cases where the regulatory agency authority has effectively been ignored. Where transparency is lacking, private operators can hardly be made accountable. Especially before elections governments can be blackmailed. Companies can threaten to declare bankruptcy (with the result of a breakdown of the water supply) or increase water prices resulting in a frustration of voters and less votes for ruling parties.

In light of the dubious results of commercially operated water supply systems in Great Britain, France and now in Middle and Eastern Europe as well as in developing countries the public scepticism about privatisation concepts of water companies is increasing ♦