The private sector and water supply in developing countries: partnership or profiteering?

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An article published in the previous issue of this journal (Lewis and Miller 1987) argues the case for wider private sector participation in the provision of water supply in Africa. A glance at their bibliography shows that practically all the developing country information cited is taken from unpublished documents prepared for USAID, the World Bank and kindred agencies. Lewis and Miller are to be congratulated for bringing the arguments into the open, thus allowing some healthy fresh air into a debate which has been largely confined to the corridors of the aid agencies and their consultants. However, the sweeping nature of some of their generalizations and extrapolations from American (and Latin American) experience casts some doubt on the degree to which the discussion so far has been well informed and fully thought out.

Many readers, for example, would be startled by their assertion that in Africa 'socialist regimes spread rapidly in the late 1960s and 1970s'. Besides, when Mozambique, with one of the few self-avowed Marxist–Leninist governments on the continent, is struggling to set up profit-making water companies in the major cities, while most of its neighbours inherited state-run public utility authorities from their capitalist colonial masters, state management of water supplies seems less socialist than they would have us believe. But the arguments are no less ideological for that.

The paper in question may be one of the first public manifestations of yet another aid agency fad, born of the bureaucrat's search for simple and general solutions, fed by domestic experiences and concerns, and clothed in supporting evidence by the ever-ready army of consultants. These transient obsessions often contain much plausible good sense – indeed, the pragmatic governments of many developing countries may have been practising them for years – but when agency officials, often unaware of country-specific factors which limit their relevance, demand the practical implementation of the latest intellectual gimmicks as a condition for the disbursement of further aid, the results can be disastrous.

In order to look more closely at the privatization arguments, it is necessary to draw two important distinctions, neither of which is clearly stated by Lewis and Miller. The first is between cost recovery and privatization. If users pay the full cost of the water they consume, it does of course make it easier to persuade private companies to manage the supply. However, management by the private sector does not necessarily guarantee full cost recovery. In the debate on privatization of the water industry in Britain, a question which has been raised, but not satisfactorily answered, concerns the consequences of bankruptcy of a private water company. No government would allow the water supply of a major city to be simply abandoned in such a case. A company operating the supply could therefore use the threat of bankruptcy, abandonment or sale to an asset-stripper to extract a subsidy from the government or municipality, particularly in a small, underdeveloped economy where there are few competitors able to take over the running of a large system at short notice.

The second distinction is between urban and rural communities. With regard to urban water supplies, there is widespread support for the idea that the cost of their construction and operation should be recovered from the users. Rich and poor alike are willing to pay for this service. Indeed, the poor in many cities already pay to water vendors much more than it would cost to provide them with an adequate standpipe supply, and often as much as 5 per cent of their income – though private enterprises have rarely seized this opportunity. Moreover, there is ample room for cross-subsidy of the relatively poor standpipe users from the higher rates which can be paid reasonably easily by the larger consumers with house connections. The latter

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often use several times more than domestic consumers in industrialized countries, particularly for such purposes as the watering of gardens and lawns, and the washing of cars.

The poorest are often driven to rely on water vendors by the lack of convenient standpipes. This lack is not always due to a lack of entrepreneurial initiative on the part of the water supply agency, but is often a consequence of government policy not to provide infrastructure in 'illegal' unplanned squatter areas. In such cases, a private water company cannot necessarily be certain of obtaining the necessary wayleaves from the 'legal' owners of the land to lay its pipes.

In rural areas, cost recovery is a more controversial issue. The World Bank, an ardent proponent of cost recovery for most of the services it finances, has admitted that 'capital contributions from outside the area, as from the government, for example, can seldom be recovered fully' (World Bank 1980). Their own investment in the sector has, by the admission of the Director of their Water and Urban Development Division, been 'small and sporadic'. Nevertheless, they and other agencies have come to the conclusion of late that a higher rate of investment in rural water supplies is unlikely to be forthcoming, whether from governments or from international agencies, so that if a significant fraction of the rural population is to be served in the foreseeable future, a greater part of the cost must be paid by the consumer.

It is hard to disagree with this conclusion. Rural water supplies, at a typical capital cost of some $50 per person served, are expensive in comparison with other components of primary health care. Nevertheless, many villagers in the Third World would be prepared to pay this price in water rates over a period of years. Where they are not, it may be worth considering cheaper alternatives such as open hand-dug wells, or whether other needs are more pressing. Difficulties in cost recovery can often arise from a difference in objectives as seen by the planners and the users. The chief benefits of rural water supply to the users come from the saving in time spent carrying water, and from the increase in water used for hygiene when a new source is provided closer to the home; both of these are greatest when the old source is far away. The provision of high quality water sources which are not significantly closer than the old ones is less easy to justify, and can lead to non-use by the beneficiaries and disillusionment for providers.

Part of the difficulty in obtaining payment from rural users is the weakness of local institutions to collect and manage the funds involved. The management of local infrastructure is the function of local government, which took hundreds of years to establish in Western countries; so it is hardly surprising if it takes some time for developing countries to put these institutions on a firm footing in their rural areas. Meanwhile, there will be many disputes, power struggles and cases of embezzlement, and many villagers will refuse to pay their water bills as a result. It is particularly difficult to collect water rates from the users of a public source such as a hand pump or standpipe, as there are few sanctions which can be taken against those who do not pay. A house connection, on the other hand, can be shut off if its owner defaults. This, plus the greater health benefit and willingness to pay for house connections, makes this level of service well worth considering where it is feasible.

In spite of these difficulties, there is much to be said for the idea of making credit – from public or private sources – available to rural communities who wish to invest in water supplies (or other communal infrastructure) and who may wish to hire private firms for the purpose. Credit institutions are likely to be careful to establish the details of answerability for cost recovery before they make loans, by demanding security, articles of association, and so on. This will impart some rigour to rural institution-building, which has often been missing when the job has been left to the local water engineer.

To return to the arguments for private management of the sector, it has not been fully established that private enterprise will necessarily be more efficient in this role than public bodies. The countries in which it has been claimed that private enterprise has provided greater efficiency, such as Ivory Coast, Botswana and Kenya, are heavily dependent on expatriate manpower. This may not always be

desirable or even possible in countries facing severe foreign exchange constraints. Moreover, that dependence is one aspect of a general relationship to Western governments and aid agencies which may not be replicable elsewhere. If private enterprise is really so much more efficient, one wonders why so few industrialized countries have seen fit to privatize their water services. Their reluctance can hardly be ascribed to 'socialism' when the USA itself is among them.

It has been suggested that private enterprises are relatively free from bureaucratic and political control, and thus better able to set prices adequate to recover their costs, but there are several reasons why they may not always do so. Reference has already been made to the possibility of their extracting subsidies from government, especially when they have monopoly control of an essential public service. Whether or not this is probable, governments do not limit their control of prices to public sector goods, and it would be hard to persuade them to do so; President Tolbert of Liberia met his untimely end through a *coup d'état* after riots about the price of rice, marketed by private traders under government price controls. Water price riots are not unknown in Africa.

On the other hand, it is not at all certain that any gains in efficiency will be passed on to the consumer, as this requires firm government control. If there are limits to the British Government's power to control the recently privatized telephone service, the task is much more daunting in the highly stratified societies of the Third World, where the owners of private companies have far more political influence than a mass of over-charged water consumers. Perhaps a closer parallel is nineteenth century London, where it took 50 years for the private water companies to fulfil the simple obligation of the Waterworks Clauses Act 1847, that they should provide a 24-hour supply, seven days a week. The threat of government intervention means little to the prominent political figures who control Nairobi's hugely profitable privately-operated water kiosks, when they in turn can control the government.

Of course there is room for greater cost recovery in the water sector, and private enterprise could certainly play a wider role than hitherto. But perhaps the best way to encourage both is to start from each country's problems and achievements, and experiment with ways to create further openings for new participants in the sector, be they government departments, public corporations, private firms or cooperatives, and to mobilize additional sources of finance. The emphasis should be on opening options rather than on closing them, and on local experimentation. A local experiment, which can be replicated if successful, does far less damage if it fails than a wholesale national restructuring of a sector's institutions, inspired by the untested theories of the think tanks, and implemented at the insistence of doctrinaire donor agencies.

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