



It doesn't have to be private

David Hall

Private sector participation in water supply may run into problems, including a reluctance to extend access to the poor, corruption and financial crises. David Hall argues that decision makers should always first consider public-sector management, which is still preferred in most of Europe and the USA.

It is fashionable for banks and development agencies to encourage developing countries to privatize water through some form of public-private partnership (PPP) or private sector participation (PSP). This obviously suits the multinational water companies, whose business has grown rapidly in the last decade.

But water and sanitation services do not have to be developed like this. The great majority of water systems worldwide have been developed by the public sector – and most developed countries operate public sector systems, whose efficiency and prices compare favourably with the private operators (see Table 1).¹ Moreover, water privatization tends to be very unpopular, and has been rejected in many cities and countries around the world. In places where it has been tried, the results have not been as good as promised.

The public sector option: efficiency

If the option of a public-sector water undertaking (PWU) is ignored, the

main competitor to any of the private companies is being excluded. Yet the public sector can successfully operate PWUs in developing countries, as in developed countries. Examples of good practice by PWUs can be found in cities in a diverse range of countries, including Porto Alegre and Sao Paulo, Brazil; Debrecen, Hungary; Lilongwe, Malawi; Tegucigalpa, Honduras; Tunis, Tunisia. The operations in Sao Paulo and Tegucigalpa, for example, achieved financial improvements and extensions

Most developed countries operate public-sector water systems

of the system that were at least as impressive as anything achieved by the 'flagship' privatization of water in Buenos Aires, Argentina.

PWUs score well on efficiency indicators, and have better public support than private water companies – a real advantage when it comes to getting agreement to a price rise, for example, or a cross-subsidy to finance an extension of the service. A PWU can take

various forms, ranging from a department to a corporatized body – it doesn't have to be part of a municipal or government department. The water company of Porto Alegre, Brazil, has demonstrated that transparency, accountability and defined managerial autonomy can be combined with a commitment to public service, business plans and pricing policies that can include a range of cross-subsidies.

The public sector option: finance and capacity

Raising finance for investment is a key issue for any water undertaking, and one of the reasons why multinational companies are often thought to be advantageous. But public sector operations can raise finance too, from the same sources used by the private sector – internally generated surpluses, government grants or loans, bank loans and bond financing, development banks and aid agencies. Normally lenders use defined criteria for making loans, and PWUs can get loans on terms as good as the private sector. In Brazil and in Poland, for example, municipal water operations have raised millions of dollars in loans themselves and so have had no need to privatize.

Where there is a need for managerial capacity building it can be done through 'public-public partnerships' (PUPs), without the need to hand control to the private sector. These are twinning arrangements that link established public sector providers with PWUs in need of restructuring. There are successful examples of PUPs in the Baltic states (Lithuania, Latvia), where municipal companies were restructured and developed with the help of public

Table 1. Comparison of performance indicators, water supply industry, five OECD countries¹

Country	Dominant mode of water supply	Water charge, major cities (ECU) ^a	Utility staff per 1000 connections	Unaccounted for water ^b
France	Delegated private	237	4.5 ^c	15 ^d
UK	Direct private	195	1.0 ^e	28
Netherlands	Public plc	172	1.3	5
Japan	Public	181	1.7	11
USA	Public	67	2.7	12

a. Average water charge for a family living in a house consuming 200 m³ per annum b. Water produced minus water legitimately consumed, as % of water produced c. Paris only d. Bordeaux only e. Best estimate – 1.86 for water and sewerage.



'Service users cannot pay for the level of investments required, not for social projects.'
Credit: Rod Shaw/WEDC Image Catalogue

water operators in the neighbouring countries of Sweden and Finland.

Performance problems with PSP

There have been problems with privatized management of water systems through all forms of PPPs, whether concessions, leases, management contracts, or build-operate-transfers (BOTs). These include: a lack of competition, the field being dominated by two globally dominant multinational companies (Suez and Vivendi); higher prices, often caused by privatizations being used to make debt reductions; difficulty in terminating unsatisfactory

Table 2. Convictions for bribery to obtain water contracts

Date of conviction	Country	Location and company	Parent
2001	USA	New Orleans (PSG)	Vivendi
2001	USA	Bridgport (PSG)	Vivendi
2001	Italy	Milan	Vivendi
1996	France	Grenoble	Suez
1996	France	Angouleme	Vivendi
1996	France	Réunion	Vivendi

Source: PSIRU database

concessions; poor results from private management; private sector reluctance to extend water and sanitation access to the poor; multinationals' use of water profits to subsidize other global

The multinationals believe that full cost recovery is impossible in developing countries

investments; difficulty in regulation, a lack of transparency, secrecy and cases of corruption (see Table 2).²

Moreover, PSP does not seem to provide extra protection against crises. For example, Suez' 'flagship' operations in Buenos Aires and Manila are both in serious trouble, unable to service their debts because of currency devaluations.³

Private sector needs subsidy

It is often assumed that the private sector will end the need for public subsidies, and charge full commercial prices for water. The multinationals, however, take quite a different view: they say that full cost recovery is impossible in developing countries, and that they will only invest if they are guaranteed subsidies from governments or the development banks.

In January 2002 the chief executive of SAUR International, the fourth largest water company in the world,

Multinationals may use water profits to subsidize other global investments

told the World Bank that developing countries needed huge investment in water, but 'the scale of the need far outreaches the financial and risk-taking capacities of the private sector'. He rejected the possibility of cost recovery from users: 'water pays for water is no longer realistic in developing countries: even Europe and the US subsidize services. . . . Service users can't pay for the level of investments required, not for social projects. . . . The solution, in his view, is for the public sector to subsidize the multinationals: 'substantial grants and soft loans are unavoidable to meet required investment levels. . . . If it does not happen the international water

companies will end up being forced to stay at home.'⁴

No profit from the poor

Another multinational, Vivendi, made a similar point when they told a conference in Kampala, Uganda, that they would limit their investments to 'big cities where the GDP/capita is not too low', because the prospect of profit depends either on 'sufficient and assured revenues from the users of the service' – which excludes the poor – or on government guarantees of payments for the service, in effect, subsidies.⁵

The other major multinational, Suez, claims it can and does extend services to the poor, and cites the case of Buenos Aires as an example of where it connected shanty town dwellers for the first time. But other accounts of the process in Buenos Aires show that this happened because of political initiatives that forced a private company to deliver a service despite the problem of its own profit-seeking approach. Suez' own approach was too expensive for the shanty-town dwellers – they had to introduce a special solidarity tax on all consumers to finance the connections. The contribution made by the company was limited to technical assistance and training – the community itself provided the labour and, through the municipalities, the materials.⁶

Corruption and water contracts

There have been a number of convictions for bribery to obtain water contracts, involving executives of subsidiaries of both Suez (formerly Lyonnaise des Eaux) and Vivendi (formerly Generale des Eaux). These convictions have happened in developed countries.

Other investigations and current prosecutions concern other subsidiaries of the same groups. In Lesotho, a major corruption trial concerning a water supply project involves prosecution of companies that were at the time subsidiaries of Lyonnaise des Eaux (now Suez), RWE and Bouygues. The energy subsidiary of Suez, Tractebel, is under investigation for alleged bribery in connection with electricity privatizations in Kazakhstan and Peru.⁷

privatization

Table 3. Opposition to the privatization of water: some worldwide examples

Year	Country	City	Event
2002	Brazil		Continuing campaign
2002	Ghana		Continuing campaign
2002	Indonesia		Continuing campaign
2002	S Africa		Continuing campaign
2002	Paraguay	All	Privatization proposals rejected
2002	Poland	Poznan	Privatization proposals rejected
2001	Argentina	BA Province	Termination of privatization
2001	France	Grenoble	Termination of privatization
2000	Bolivia	Cochabamba	Termination of privatization
2000	Germany	Potsdam	Termination of privatization
2000	Mauritius	all	Privatization proposals rejected
2000	USA	Birmingham	Termination of privatization
1999	Brazil	Rio	Privatization proposals rejected
1999	Canada	Montreal	Privatization proposals rejected
1999	Panama	all	Privatization proposals rejected
1999	Trinidad	all	Termination of privatization
1998	Germany	Munich	Privatization proposals rejected
1996	Argentina	Tucuman	Termination of privatization
1996	USA	Washington D.C.	Privatization proposals rejected
1995	Honduras	Honduras	Privatization proposals rejected
1995	Hungary	Debrecen	Privatization proposals rejected
1995	Sweden	Malmo	Privatization proposals rejected
1994	Poland	Lodz	Privatization proposals rejected

Source: PSIRU database

Opposition

A number of countries and cities have rejected privatization proposals, or terminated private concessions and reverted to public sector services. This happened for a range of reasons, including efficiency, environmental concerns, better financial possibilities in the public sector, and political concerns.

The opposition and criticism comes from all sections of society – environmentalists, consumer groups, trade unions, citizens' organizations and elected politicians frustrated by conditionalities. In Brazil, for example, the Frente Nacional pelo Saneamento Ambiental (National Front for Environmental Sanitation – FNSA) brings together unions, trade associations, managers, professional associations, NGOs involved in urban reform, consumer defence and social movements.

The reasons for the breadth of this opposition are easy to find in any cam-

paign – a belief that water supply is an essential service, which should be public, that companies should not be allowed into a position where they can profit from their monopoly over a vital resource. It also includes reaction against what is usually perceived as a foreign private capture of a vital national service, and resentment of the imposition of conditionalities by the World Bank and IMF.

Conclusion

Privatization of water supply and sanitation is not an inevitable 'force of nature'. The most widespread option is public-sector ownership and operation – as in most of Europe and the USA. Decision makers are advised to follow three rules.

- Always construct and consider a public sector option.
- Always evaluate any PPP proposal against a public-sector option, in a public process.

- Avoid secret agreements and secret contracts.

References

- 1 Blokland, M., O. Braadbaart and K. Schwartz (eds) (1999) *Private business, public owners – government shareholdings in water enterprises*, published for the Ministry of Housing, Spatial Planning and the Environment of the Netherlands.
- 2 See PSIRU (2001) 'Water in public hands – public sector water management, a necessary option' and other reports for many examples of this: www.psiru.org/reportsindex.asp
- 3 See PSIRU (2002) 'The water multinationals 2002 – financial and other problems' PSIRU, UK.
- 4 Talbot, J.F. (2002) 'Is the water business really a business?' World Bank Water and Sanitation Lecture Series, 13 February, <http://www.worldbank.org/wbi/B-SPAN/docs/SAUR.pdf>
- 5 Bourbigot, Marie-Marguerite and Yves Picaud (2001) Vivendi Water, 'Public-private partnership (PPP) for municipal water services' Regional Conference on the Reform of the Water Supply and Sanitation Sector in Africa, February, Kampala, Uganda.
- 6 See PSIRU (2002) 'The water multinationals 2002 – financial and other problems' PSIRU, UK.
- 7 See PSIRU database, www.psiru.org

About the author

David Hall is director of Public Services International Research Unit PSIRU, University of Greenwich, UK

10% discount for all orders received prior to May 03

The World Guide 2003/2004
An Alternative Reference to the Countries of our Planet
 Third World Institute, Uruguay

"A highly recommended reference book that gives readers a unique opportunity to see what the world looks like "from the South". The issues of peace and justice are embedded in the information."

WorldViews Resource Center, Michigan

1 85339 566 8 pb £29.95 January 2003 624pp
Special ITDG Publishing Edition

ITDG Publishing, 103–105 Southampton Row, London, WC1B 4HL, UK
 T: +44 (0)20 7436 9761 F: +44 (0)20 7436 2013
www.developmentbookshop.com