Privatisation of water services is now virtually compulsory for developing countries: both the World Bank and the IMF impose it as a precondition for funding assistance. The privatised water sector world-wide is dominated by a handful of multinational companies. They are not interested in serving the poorest people, who are not seen as profitable customers. Water services are becoming the privilege of those who can pay high prices.
Water is the basis of life, and has always been one of humankind’s most precious resources. And it is a limited resource; a fact that is becoming increasingly apparent. Global freshwater consumption rose sixfold between 1900 and 1995 – at more than twice the rate of population growth – and the world is now beginning to feel the first pangs of a systematic water crisis. This crisis has several dimensions. One is geographical: some regions of the earth are arid while others have water in abundance. Likewise, tensions are rising in many parts of the world where countries share a finite water resource, such as a river basin. Another dimension is the type of usage: how to share a limited water resource between agriculture (irrigation is by far the biggest user of freshwater in the world), industry, and household consumption – water for drinking, cooking and sanitation. In this briefing, we focus on the household usage of water and, more precisely, on cities in the developing countries and different models for service delivery.

More than a billion people lack access to safe drinking water and unless massive investments are made, this number will rise to 2.5 billion, about one person in three, by the year 2025. The problem is most pressing in big cities in the developing world, where the water supply infrastructure is failing to cope with the population growth, partly caused by migration from the countryside. The majority lives in shanty towns encircling the cities, where there is limited or no access to basic services such as water and sanitation. Health conditions are dire – water related diseases are the single largest cause of human sickness and death in the world, and these disproportionately affect poor people. Most of the burden of water collection falls on women and girls, usually taking several hours each day.

However, if water were appropriately and equitably allocated among competing demands, water security for all is an achievable goal. The International Conference on Freshwater in Bonn, 2001, concluded that there is enough water for everybody in the world, but only if we change the way we manage it. The question is how?

Traditionally, water delivery services have been the domain of the public sector, at the national or local level. Since the mid-1980s, this model has been challenged by a increasingly strong push for the privatisation of water services, spearheaded by the World Bank and the International Monetary Fund (IMF).

Privatisation, in one form or another, is now virtually compulsory for developing countries: both the World Bank and the IMF impose it as a precondition for funding water and sanitation programmes.

Two contrasting views:

Water is a basic human right that every state should guarantee to its citizens

Water is an economic good – a commodity – that should be governed by market forces

The privatised water sector world-wide is dominated by a handful of multinational companies. The profit potential is enormous. ‘The liquid that everybody needs – and will need a lot more of in the future – is going private, creating one of the world’s great business opportunities. The dollars at stake are huge’, wrote Fortune, the premier US business magazine in May 2000. Given the vast resources and lobbying power of the water multinationals, their influence on policy-making is undeniable.

The dichotomy between public and private service delivery has its parallel in two differing views on water. On the one hand, there is the
view that access to water is a basic human right that ought not to be governed by the rules of profit, and that it is the responsibility of each state to guarantee this right to its citizens. On the other hand, there is the view that water is an economic resource – a commodity – and, as such, it should be managed by market forces.

These contrasting views apart, there has been in recent years a growing focus on the levels of decision-making and management in water services. Namely, that management and decision-making should, as far as possible, be in the hands of the user communities themselves, as opposed to the traditional top-down approach of both public providers and private companies. Putting the users at the centre of decision-making and moving the management down to women and men within local communities is particularly important with regard to poor people, whose needs tend to be ignored by governments because the poor lack political influence, and by private companies because the poor are not seen as profitable.

We will discuss these issues in the following pages.

Water services in cities and towns in the developing countries are by and large confined to the central areas, where the better-off inhabitants live. Governments and municipal authorities have more or less failed to expand the services to the surrounding poor areas, where the lack of clean piped water and drainage is the prime cause of high rates of diseases and child mortality.

One reason for this failure is that poor people in the developing countries, as a rule, lack political influence and while that situation remains, their needs tend to be ignored by the elites in power. In addition, the top-down approach to governance that characterises many developing countries creates too wide a distance between poor communities and decision makers, who are out of touch with the reality on the ground.

Another reason is lack of capacity. The debt crisis and the structural adjustment programmes imposed by the IMF in the past two decades have left many public services critically underfunded and institutionally weak. Together, the lack of political influence and the lack of funding make the poor segments of society an obvious target when it comes to downsizing public services.

At the same time, the IMF and the World Bank have pushed for privatisation in one form or another – whether it is called privatisation, public-private partnership (PPP) or private sector participation (PSP) – and increasingly used this as a condition for providing loans, grants and debt relief. Given this pressure, cash-strapped governments are giving up much of their previous responsibilities. Instead, public services are to be provided by the private sector.

The key argument behind the drive for privatisation is that open competition in free markets will lead to increased efficiency. Namely, that competition will ensure the survival of those firms which deliver their goods or services most efficiently, and that this efficiency will benefit consumers and society in general. Governments should limit their involvement to a necessary minimum, such as ensuring a level playing field, and keeping law and order; indeed, the more extreme versions of the neo-liberal argument see very little role at all for government.

The structural adjustment programmes have left public services critically underfunded and institutionally weak

Private Sector Participation (PSP), sometimes described as a Public Private Partnership (PPP), is the model usually promoted, being based on the ‘French’ model of long-term management concession, contract or lease. The so-called British model – full privatisation of assets – is uncommon.
There can be little doubt that leaving firms free to pursue their interests can be to the general good in a great many situations. However, there are well-recognised exceptions to this. Firstly, there is the case where a firm obtains a monopoly in a market and barriers prevent competitors from entering. Under monopoly, prices are higher and output lower than they would be under competition.

Secondly, there is the case of externalities, or external costs. An external cost arises, for example, when a producer pollutes the environment. Without regulation, this damage will not be reflected in the price of the product and the producer will not have an incentive to stop the pollution. This applies equally to the costs of not delivering a product or service: for example, lack of access to education will – from a purely economic point of view – make society worse off, given that a poorly educated workforce means lower productivity.

Both of the above conditions apply to water services in an urban environment. The provision of piped water is by its very nature a monopoly. Short of having a number of parallel pipes running to a household, the consumer cannot choose between providers and is therefore not enjoying the benefits of a competitive market.

Conversely, the interests of a profit motivated company will be well served, since prices can be kept higher than under competition. One way to address this problem is to subject the company to strict regulation of price and performance, in order to protect customers from monopolistic exploitation. The other option is the public provision of water, which in most countries has long been regarded as the best way to safeguard the interests of the users of basic services with monopolistic features. Equally, externalities do apply to water services. The costs of not providing water – loss of health and productivity – to people who do not meet the criteria of profitability, will not be counted in by a private company. The options for offsetting such externalities can either be to regulate the service, so as to prevent the company from focusing on the profitable segments of the market and ignoring others, or to make the service a public utility.

From this it would seem that the benefits of free competition in an open market – the cornerstone of the argument for privatisation – do not apply to water services. The disadvantages of monopoly and externalities would have to be offset by an intervention in the market by public authorities – the very antithesis of neo-liberalism.

Indeed, globally, privatised water services are very much the exception, public provision being the norm. Only 5 per cent of the world’s water services are currently privately owned or managed. Among the industrialised countries, the two exceptions are France, where most water services have been privately managed since the mid-19th century, and the UK, where water provision, not only management but also the ownership of assets and water sources, have been privatised for little more than a decade. It is worth noting that both countries have strong systems of public administration, capable of effective regulation of the private water companies. As for other industrialised countries, there are little signs of a change from a public sector provision of water. Given this, the push for privatisation has been directed at the developing countries where governments are susceptible to...
pressure. But is the privatisation of water services likely to benefit poor people in cities and towns in the developing world?

Both practice and theory show that to counteract the adverse effects of monopolies and externalities, a privatised water industry needs to be effectively regulated. Yet, institutional weakness and the lack of regulatory capacity are precisely what characterises most developing countries. This contradiction is recognised by the chief advocates of privatisation who, however, do not dwell on it. Still another condition for a successful privatisation is the existence of a well developed private sector, with the necessary range of technical and financial skills. Again, this is exactly what is lacking in most developing countries. As a result, in almost every instance, privatised water services in the developing countries have been contracted out to foreign companies.

It seems, on the whole, highly unlikely that profit-motivated companies, operating a monopolistic service in a poorly regulated environment will provide a solution to the water problems of poor people, many of whom cannot afford to meet the full cost recovery pricing insisted on by the World Bank. This problem is admitted by the proponents of privatisation, who propose to solve it by subsidies. To quote a report by the World Water Commission:

‘Private parties will not invest unless they can be assured of a reasonable return on their investment… this return has to come from those who benefit from the service… A reality in many developing countries is that many people are poor and cannot afford to pay the full costs… First,… it is a legitimate role of government to provide safety nets for poor people. Second, it is imperative that subsidies be provided to people, not to service providers.’

The costs of not providing water – loss of health and productivity – will not be counted in by a private company sufficiently poor to merit subsidies, and the opportunities for corruption and patronage that will arise when deciding who will get a subsidy, how much, and how it should be delivered.

In short, a little-tested and ill-defined privatisation scheme is being forced upon the developing countries lacking the economic and governance institutions necessary to make private provision effective and equitable. So what drives the push for privatisation? The two main forces appear to be ideology and the prospect of profit.

The neo-liberal wave that swept the world in the 1980s deemed government intervention and management unhelpful; markets were supposed to be better at making decisions. Getting towards a market economy meant deregulation, privatisation, foreign investment, and ‘getting the prices right’ – a set of prescriptions that came to be known as the ‘Washington Consensus’, whose standard-bearers were the World Bank and the IMF. Decision makers focused single-mindedly on control over inflation, abandoning consideration of incomes, employment and welfare. The deflationary macro-economic policies triggered a global recession.
accompanied by collapsing commodity prices and rising Third World debt. These were the heydays of US President Reagan and UK Prime Minister Margaret Thatcher, and just how much neo-liberalism was a political ideology is illustrated in the words of Davison Budhoo, who resigned as a senior manager at the IMF in 1989 after 12 years of service:

‘President Reagan effectively told us to go out and make the Third World a bastion of free-wheeling capitalism... Everything we did from 1983 onward was based on our new sense of mission to have the south “privatised” or die; towards this end we ignominiously created economic bedlam in Latin America and Africa in 1983-88.’

The neo-liberal wave has now partly receded, but at the World Bank and the IMF change is slow to filter through. The ideology at the core remains much the same and there is little room for dissent. This was for example shown when Joseph Stiglitz, chief economist and vice president of the World Bank 1997-2000, was forced to resign for criticising the policies of the World Bank and IMF. In a letter to the Financial Times, 31 August 2001, Dr Stiglitz wrote:

‘Bankers and businessmen in the developed world would love to see structural adjustment programmes foisted on the people of the developing world. Of course Wall Street believes in capital market liberalisation. But there is little evidence that this really contributes to economic growth... There is no sensible reason, i.e., one backed by solid research, to push these sorts of reforms...’

iii Dr Joseph Stiglitz won the Nobel Prize in economics in 2001.

The major spur to the international spread of privatisation, especially to the developing countries of Africa, Asia and Latin America, came with the World Bank’s Structural Adjustment Programmes (SAPs) and IMF stabilisation programmes, implemented in the 1980s and onwards. The SAPs, which aggressively pursued the key elements of the Washington Consensus, came under increasing criticism in the 1990s. A comprehensive four-year assessment programme, undertaken jointly by civil society organisations and the World Bank (even though the bank distanced itself from the process when the results were becoming clear) concluded in 2002:

- There is no evidence that the form of ownership determines the level of efficiency or that privatisation itself leads to greater efficiency.
- When an increase in the efficiency of public utilities did occur, in most cases it did not derive from improved operations. Instead, profitability rose as a result of price increases, facilitated by virtual monopoly situation and weak government regulatory mechanisms.
- Where fiscal benefits have accrued, the reason has in part been derived from eliminating subsidies that allowed the poor to access services.
- Foreign companies have tended to be the main beneficiaries of privatisation programmes.
- The laying off of employees has been a main aspect of privatisation. In particular, this has worsened the employment situation of women, who have lacked specialised skills.
- Utility-rate increases following privatisation have created further hardships for the poor and low-income segments of society, and contributed to increasing inequality.
Water promises to be to the 21st century what oil was to the 20th century,’ wrote the business magazine Fortune in a special edition in May 2000. ‘Supplying water to people and companies is a US$400 billion a year industry. That’s 40 per cent of the oil sector and one-third larger than global pharmaceuticals. And that’s just the beginning.’ In 1998, the World Bank predicted that the global trade in water would soon be a US$800 billion industry and by 2000 this projection had been raised to one trillion dollars. This phenomenal growth rate is being projected on the basis that only 5 per cent of the world’s population are currently receiving water from private companies. The main obstacle to growth is that in the industrialised countries (apart from France and the UK) public water provision is the norm and there are little signs of a change towards privatisation. The target for expansion is therefore the developing world.

A handful of giant, specialised companies dominate the global water industry. Two French companies, Vivendi and Suez, are the world’s biggest by far. Both companies learned their trade and grew powerful in their home market, where water services were, uniquely, privatised by imperial decree in the mid-19th century. Together they now control over 70 per cent of the world’s private water market. Vivendi operates in around 100 countries, Suez in over 130 countries. Of 30 water contracts awarded by big cities between the mid-1990s and 2000, 20 went to Suez.

As for the remaining 30 per cent of the world market, the main contenders are Thames Water, now part of RWE, the German construction and electronics giant, with a presence in 44 countries; SAUR, the water subsidiary of the French Bouygues group, present in 30 countries; and the partnership between Bechtel, the US-based engineering conglomerate, and United Utilities of the UK.

In general, the concentration is increasing in the water business through takeovers and mergers. For example, at the time of writing (June 2002), Vivendi was due to take over the UK company Southern Water. With this, about 40 per cent of the British water industry will have come under foreign control since privatisation in 1989.

Fortune magazine (May 2000) describes the typical modus operandi of the water companies as follows:

‘Here is how deals work in the developing world. A Buenos Aires or Manila grants Suez a “concession” to run its water system, usually for 30 years, after a bidding process in which it competes with the likes of Vivendi and Thames. Suez then forms a joint venture… an independent company that handles the entire service, from river to tap… To turn a profit, it must collect far more in water charges than it pays out in salaries, equipment and interest.

‘…Suez isn’t just running waterworks; its construction arm Degremont builds and repairs them. All its businesses work together… it’s a diversified utility that offers cities a full range of infrastructure services…

‘Foreign contracts are fraught with political and currency risks. Suez is expert at pricing deals to reflect that risk and at protecting its future profits.’

Globally, public provision of water is the norm. Only 5 per cent of the world’s water services are currently owned or managed privately.

The complexity of large-scale water projects and the political and financial risks involved means that legal, political and financial skills are crucial assets in the industry. Not only are the big water companies intimately connected with other institutions through joint ventures and
partnerships, but they all have directors with direct connections to governments and business around the world. Extensive interlinks exist between executives of the major water multinationals, government, banking and international finance institutions.⁴

Such connections give the water companies formidable influence, both with regard to lobbying at all levels for deregulation, and for securing contracts. Likewise, their legal and financial expertise puts them at an advantage when it comes to contract negotiations. Few governments in poor countries can begin to match the skills of the companies in this field; indeed, a government may well be unable to enforce a contract, or terminate it if dissatisfied with the company’s performance, because of the legal complexities.

Local companies in the developing countries are excluded effectively from competing for contracts, being unable to match the skills of the multinationals when it comes to formulating bids and conducting negotiations, as well as being unable to deliver the broad range of technical services involved. Privatisation of water services will therefore not develop the domestic private sector.

Lastly, financing criteria from international funding agencies such as the World Bank favour multi-utility service providers for large-scale development projects. Since only large companies have the capacity and resources to develop these projects, in practice these policies favour the involvement of such companies.⁵

Much of the financial success of the big water companies is supported by international agencies like the World Bank and its partners, the Regional Development Banks. This support allows the companies to incur less risk while reaping the profits of the projects. In one instance, Suez invested only US$30 million of the US$1,000 million needed for a project in Argentina, the rest came from the World Bank and Argentine banks.

All in all, the essence of the World Bank and IMF-driven privatisation schemes can be summed up as follows:

- Developing countries will not get access to the necessary funding of water services unless they privatisate.
- The selection criteria of the international funding institutions are biased towards the multinational companies that dominate the global water industry.
- The profit potential is huge and the companies are operating a monopolistic service in a poorly

A privatised water industry needs to be effectively regulated. But institutional weakness and the lack of regulatory capacity are precisely what characterises the developing countries

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⁴ To take Suez as an example: Its chief executive officer (CEO) G. Mestrallet has held positions with the French ministries of transport, economy and finance, and has been advisor on industrial affairs to the minister of finance. Suez director J. Monod was chief of staff to Jacques Chirac when he served as prime minister, while his co-director L. Douroux is the CEO of Caisse National de Crédit Agricole, a leading French financial institution. As for international organisations, R. Coulomb, former director of Suez, is vice-president of the World Water Council and an influential member of the steering committee of the Global Water Partnership, while director J. Monod is a member of the World Commission on Water.

⁵ This bias towards large multinational companies is set to increase with the World Bank’s new Private Sector Development Strategy (PSD). A central part of the PSD is to accelerate the privatisation of infrastructure and basic services (such as health, education and water) on a commercial basis. A main mechanism for this acceleration will be the increased use of output-base aid (OBA) schemes. The OBA schemes delegate basic service provision to the private sector under contracts that tie provision of financial support to the outputs – that is, after the products and services have been delivered. Such back-loaded finance will favour international companies with ‘deep pockets’ over domestic enterprises.
regulated environment where their resources give them every advantage over the government.

- If water is to be provided to the poor, governments are expected to step in with subsidies to ensure that the companies make a profit on the services.

The privatisation schemes are unlikely to serve the interests of poor people in the developing countries. The profit – an extra cost to the service – goes into the pockets of foreign companies. And if the governments have to pay subsidies to the poor anyway, why not let them run the service in the first place? However, in the developing countries, governments are notorious for neglecting poor people when it comes to basic services. The main problems are lack of funds, lack of institutional capacity, lack of political will to serve the poor, and government officials’ lack of understanding of conditions in the poor areas. Still, there are ways to address these problems.

The lack of funding is a direct result of the policies of the international financing institutions: public utilities are unable to access funds for the necessary investments. This can be addressed by forcing a change in the policies of the World Bank and the IMF; after all, their money is not printed in-house, it is the money of the citizens of all those countries that contribute to the funding of these institutions. In this context it is worth noting that the privatisation push was opposed by the International Conference on Freshwater in Bonn 2001, which concluded that private sector participation should not be imposed on developing countries as a condition for funding.

The lack of institutional capacity is, at least in part, a result of the deliberate shrinking of the state, brought about by the Structural Adjustment Programmes and the austerity measures imposed by the World Bank and the IMF, which has left the public sector crippled in the developing world. The remedy would be to provide financial and technical support for building the necessary capacity for the public sector to perform the tasks required, such as providing basic services to the citizens, in line with those that people in the developed countries enjoy.

The lack of will to serve poor people is caused by their political marginalisation and distance from the decision-making processes. The key is political influence – to build democratic and inclusive systems of governance. In a great many cases, this can most effectively be achieved by starting at the level of the local community, strengthening its organisational skills and training people in active and democratic ways of cooperation. This includes raising awareness of rights and entitlement to basic services, information about the government’s priorities and plans, and rights of redress. The process is broadened and advanced by building networks of local communities with elected representatives, and from there working up to sub-national and national networks, linking with and engaging with the corresponding levels of government, and putting pressure on them to become more responsive, open and accountable – more democratic.

The top-down approach to governance and service management that still characterises many developing countries means that decision-makers tend to have limited understanding of conditions in the poor areas, which in turn is reflected in unsuitable arrangements for service delivery. This can be addressed by moving the management down to the lowest appropriate
level, which in many cases can be the local government and local communities. An example of this can be the management of local water standpipes – usually a more realistic option in poor urban settlements than household connections; such water provision is more easily managed by people at the local level who will have a better understanding of the potential and limitation of the environment and are better able to maintain the standpipe and collect fees from the users.

In this context, it is vital to recognise the pivotal role of women as providers and users of water. In most developing countries it is women who carry the responsibility of collecting water, which may take hours every day. This task often falls on the girls in the household who, as result, miss out on schooling. This central role of women must be reflected in the management structure of water services, according to the principle of users’ management. In many places, specific support will be needed to empower women to take up leadership and managerial roles.

Local government, community-based organisations and the water utilities should be key players in local management and the provision of services, working together in strong and viable partnerships. This requires greater attention to be paid to building democratic governance capacity at the local level, as well as the appropriate legislation and financial mechanisms to empower local government and local communities.

However, there are many functions of water services that can only be managed at more central levels, such as the operation of municipal water plants or mains pipelines. Ultimately, the responsibility for such central services rests with the government and a democratic and accountable system of governance is a prerequisite for an equitable approach to water services. So is the reform and capacity building of the water utilities and, crucially, the sufficient financing of investment in water works. Public budgets are now, and should continue to be, the biggest source of investment in water. Where domestic capital markets exist, they can be developed further, for example through issuing local or central government bonds. However, the international financing institutions could provide the necessary funds at low cost – the same funds that are now diverted to the multinational water companies by making privatisation a condition for funding. While the privatisation conditions remain in place, access to water services will be the privilege of those that can afford to pay the costs set by the multinationals and the basic needs of poor women and men in the developing world will not be met.

Ultimately, the responsibility for water services rests with the government and a democratic and accountable system of governance is a prerequisite for an equitable approach to water services.
International resolutions and conferences

The Universal Declaration on Human Rights (1948) enshrined the right to survival as a human right. The International Covenant on Economic, Social and Cultural Rights (1966) articulated the right to the enjoyment of the highest standards of physical health. The Convention on the Rights of the Child (1989) obliges states to combat disease among children, through inter alia the provision of clean drinking water.

By contrast the International Conference on Water and the Environment in Dublin, 1992, stated that ‘water has an economic value in all its competing uses and should be recognised as an economic good’. This so-called ‘fourth Dublin principle’ was seized on by the advocates of privatisation.

The 2nd World Water Forum in the Hague, March 2000, was the scene for intense efforts by World Bank controlled organisations to promote a resolution for privatisation and full-cost pricing. However, opposition, not least from civil society groups, was strong. In the end, the Ministerial Conference session, with 120 ministers from around the world, would not accept the privatisation proposals. The Ministerial Declaration does not mention privatisation or private sector participation.

The International Conference on Freshwater in Bonn, December 2001 brought together government delegates and ministers from 118 countries, and representatives from a large number of international and civil society organisations. The Conference concluded that:
• the primary responsibility for ensuring equitable and sustainable water resources rests with governments
• public budgets are now, and will continue to be, the biggest source of investment in water
• water infrastructure and services should be pro-poor and gender-sensitive
• private sector participation should not be imposed on developing countries as a condition for funding.

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