Privatising the water sector

Development aid for transnational water corporations as a solution to the global water crisis?

Summary

The extent of the "water crisis" and the limited success that earlier solution strategies such as the UN Water Decade in the eighties have had has necessitated the identification of new, comprehensive and sustainable concepts. Coping with the global water crisis is going to play an important role at the "World Summit on Sustainable Development" in Johannesburg in 2002.

Since the early nineties, many governments as well as multi- and bilateral development co-operation have increasingly set their sights on the involvement of private industry in the water sector in the countries of the South. At the same time, transnational service corporations are asserting themselves in this promising new market. German Development Co-operation has also stepped up its efforts to promote privatisation, offering the "German Model" as an alternative to the predominant role the French and British firms have assumed.

However, the privatisation of the water sector is a highly controversial issue. Its advocates justify the strategy by claiming that this is the only way to improve safe water supplies to poorer areas and groups of the population. In contrast, critics fear that the supply of a vital resource would be subordinated to the greed for profit, having a negative impact on securing livelihoods and ensuring health and environmental standards.

The WEED Working Paper examines the degree to which privatisation euphoria and, hence, support for the utility companies via development co-operation is justified. In doing so, it is contributing to the debate on solutions to the water crisis regarding a focal issue, that of "partnership" between development co-operation and private industry.

The crisis

Water is getting scarce. This vital resource is increasingly becoming a good in short supply owing to environmental destruction, pollution and excessive consumption. Just 0.016 percent of water supplies is available as drinking water. With 70 percent, irrigated agriculture is the largest consumer, followed by industry with around 20 percent and the private consumers. A total of 1.1 billion people are without sufficient drinking water supply, and 2.4 billion have no or only insufficient access to sanitary facilities because the development of infrastructure has not kept pace with growth in demand, especially in the cities. In many cases, governments, municipalities and local communities, who contribute two thirds to the 70 to 80 billion US dollars raised annually for the water sector, cannot fulfil their task of providing essential facilities, with the reasons for this state of affairs ranging from excessive debts to corruption and from wrong solution concepts to political interference.

The market

In the course of the crisis, the water sector, the "last frontier" of privatisation in the area of infrastructure, is increasingly becoming a focal point of attraction for the transnational utility corporations. World Bank estimates indicate that expenditure would have to be doubled to achieve water supply and wastewater disposal for all. Together with the speculation and trade options resulting from a scarce commodity, the "crude oil of the 21st century" is creating promising business prospects for the Transnational Corporations (TNCs).

Aspirations

The interest the TNCs have taken in the water market coincides with the quest of governments and multi- or bilateral development organisations for problem solutions. They are expecting "partnership" with private investors to provide a substantial contribution in this respect: investment, better management and more efficiency. Government budgets burdened with excessive debts are to be relieved of subsidies and investments. Access to safe and affordable drinking water and wastewater disposal for previously deprived groups of the population is to be improved, and a sustainable use of limited water resources is to be ensured.

Privatisation

As a precondition for private industry's involvement in water supply, which has so far usually been provided by governments, municipalities and local communities, governments and development co-operation have to carry out far-reaching structural reforms. Government is to restrict its activities mainly to creating the appropriate framework, such as conditions for investing and regulating the water economy. The monopoly position that the private utilities hold and the important role that the water sector plays in economic development, health and environmental protection make controlling and regulating the companies involved a special challenge. In this context, powerful

corporations operating on a global scale are usually facing weak government institutions. Addressing this contrast is going to be crucial to whether the involvement of private industry will contribute to sustainable development.

Experience

Experience gained so far with the reality of this "partnership" in the cities of the South is at the centre of this Working Paper. The surveys, case studies and additional research activities indicate that:

- The argument that private industry is providing a substantial volume of additional investment is untenable. Governments and multi- or bilateral development banks and organisations are still raising the lion's share of funds. So it is not the company involved that bears the financial risk but governments and municipalities in the developing countries. New loans that have to be taken up for the water sector are threatening to result in new debts in the long run. There can hardly be mention of the state budget being relieved of financial burdens.
- Supply has been developed in a number of cities, and the collection of fees, water quality and customer service have been improved. However, these are largely the "low hanging fruits" that do not require major investment. The transnational corporations are showing little interest in large-scale investing into areas that do not yield immediate profits, such as the development of poorer urban districts or long-term resource protection.
- Meagre success in developing infrastructure in poorer areas is all the more dramatic since this is where the greatest demand is going to be in future owing to rapid urban growth.
- The balancing act of harmonising socially acceptable prices with cost recovery as required by development co-operation is not working. Either prices have to be raised substantially, which would burden poorer groups of the population in particular, or supply has to continue to rely on heavy subsidising.
- Only slow progress is being made in establishing regulating bodies, and they continue to be too weak to control and regulate the TNCs effectively. Where regulating does work, it usually affects pricing.

Winners and losers

It is above all the TNCs that have benefited from economic liberalisation and privatisation. They now have access to a promising, highly profitable market of the future that goes way beyond water supply and wastewater disposal as such and offers the prospect of encompassing the entire municipal and communal service sector.

In the short term, governments, municipalities and local communities can take the strain off their budgets by privatising utilities and commitments. In the long term, they will be facing higher debts. Moreover, they have forfeited control of an important element in securing livelihoods as well as a fundamental resource in the provision of food, in economic development and in health.

The balance is similarly ambivalent when looking at water supply and sanitary facilities at prices that are affordable for the population. Here, the private utilities see to it that they get hold of the profitable areas that are either directly or indirectly subsidised by government and development co-operation. It is left up to governments, municipalities and self-help organisations to work out how they are going to supply the other areas, which are not profitable.

Balance

Thus the survey shows that the involvement of private industry in the water sector results in a discrepancy between the efforts made by development politics and the forthcoming yields. Whereas development co-operation and governments are undertaking far-reaching structural changes and going to considerable lengths to make involvement lucrative for the global players, the results tend to be meagre in central areas that are important to development politics, such as access for poorer groups of the population and the protection of natural resources. Moreover, disparities in distribution, and hence conflicts regarding distribution, may grow, for water is going to flow to where the money is.

The "German Model"

The Working Paper contains a detailed analysis of the "German Model" of privatisation of the water sector. With an annual effort of 600 to 800 million Deutschmarks a year, Germany is the second largest bilateral donor in the water sector next to Japan. Since the mid-nineties, development politics has been seeking a "development partnership" with private industry aimed not only at promoting development policy goals such as poverty alleviation and environmental protection but also at supporting the further establishment of German corporations in the world market. With the aid of substantial subsidies and development co-operation measures, it has succeeded in implementing a number of Public-Private-Partnership-Projects in the water sector in collaboration with German global players such as AquaMundo and Berlinwasser International. Since these ventures have only been running for a short time, little experience has been gathered so far. However, the approach hardly differs from conventional practice in this field, so that a better balance is unlikely.

Alternatives

Since the private sector has still failed to come up with any convincing social solutions to water supply for the poor in urban and rural areas, the public sector must assume a considerable responsibility for these tasks. In many cases, the public sector is better than its reputation, but nevertheless, reform is required in order to remedy the shortcomings that have so far impeded the work of many public utilities and to put its potential to use in creating a comprehensive solution to the water crisis (better overall management, more cost-effective solutions, control by the public and elected representatives).

Second, grassroots-oriented, straightforward and appropriate solutions are required involving the population and user groups such as women's groups. As a rule, they are more cost-effective and sustainable than the solution concepts of private as well as public utilities.

The cuckoo's egg

However, since the same money cannot be spent twice, there is a lack of funding options for these alternative approaches:

- The public finances and loans flowing into the funding and subsidising of projects involving private companies are not available to the public utilities or to the governments to deal with unproductive tasks such as establishing regulating bodies. The public sector only has very restricted, if any, access to the private capital market.
- Moreover, handing over the profitable parts of the water sector to the private sector ruins the prospects for the public utilities of using income from these areas and cross-subsidising to finance the remaining "subsidy areas". They have the choice of either the plague or cholera, of higher prices that would burden the poorer parts of the population in particular or a further neglect of these areas.
- And once areas have been privatised, it is only very difficult to get them back into public ownership if privatisation proves a failure or results in unfavourable developments.

This means that with the strategy of privatisation, development co-operation is ruining its own options for a comprehensive, socially balanced and sustainable solution to the water crisis. Stuffed with development aid money, the TNCs are pushing other players and alternatives out of the nest. Ultimately, with corporations that are only interested in taking the pick of the bunch and public utilities that lack funds, a large share of solving the water crisis will be up to the grassroots-oriented initiative of non-governmental organisations or self-help approaches, which boils down to the poor themselves.

Recommendations for a reform of the water sector

A comprehensive reform of the water sector in the developing countries is necessary to overcome the water crisis, use the resources in a sustainable way and secure the right to water on a lasting basis.

The **overarching goal** in this context ought to be the right to clean drinking water as part of the human right to food. A purely economic definition of water as "economic goods" bears the danger of annulling this fundamental right.

A sufficient supply of water has to be recognised as a basic prerequisite for humane development, and exceptional provisions must be permitted at national level to protect water and regulate the water sector.

This reform includes a restructuring of the public sector in order to realise its potential (overall management, cost-effective solutions, transparency and public control).

Given the multi-faceted character of the problems in the water sector, the options for regulation at various levels need to be reinforced in order to achieve a comprehensive reform of the water sector that is oriented on the requirements of the users and the environment. Both government and independent institutions as well as groups and organisations in society have to be integrated in this process.

The reform of the legal, institutional and organisational framework conditions should not be oriented predominantly on the goal of involving the private sector, as has been the case so far. Instead, governments and bi- and multilateral development co-operation should create the conditions for a comprehensive reform of the public sector as well as scope for grassroots-oriented solutions. Only when effective regulating mechanisms are in place should a decision be taken on what role the private sector, and in particular the international corporations, can take up or complement.

Grassroots-oriented, self-determined solutions involving the users are required. Without them, a lasting solution to the water crisis is not possible. Sufficient finance has to be ensured for such solution concepts.

Demands on bi- and multilateral development co-operation

Bi- and multilateral development co-operation has to give up its focusing on the private sector, which in reality boils down to economic support for transnational corporations. Instead, it ought to make use of its scope to assist governments and users in developing their own, appropriate solutions to the water crisis, which set out from existing institutions, organisations and traditions.

Cornerstones of a reform

- Comprehensive, independent stock-taking of experience made with privatisation in the water sector so far as well as an analysis of feasible alternatives in the public and local government area and among grassroots initiatives is urgently required.
- Given negative experience gathered with the involvement of private companies, the liberalisation of the water sector should not be a conditionality for development aid in the water sector.
- If the right to water is to be secured for everyone, development policy has to abandon the illusion that the water sector of the developing countries will be able to manage without subsidies in the foreseeable future. Instead of supporting the transnational corporations, as has been the case so far, subsidies ought to be provided for independent, appropriate and participatory solutions to supply the urban and rural poor with water and sanitation.
- Preference must be given to cost-effective, appropriate and innovative solutions that will not increase dependence on foreign money, know-how or markets.
- Sanitary facilities are the most important area among those that ought to be given greater priority. For otherwise, the goal of providing clean drinking water for everyone cannot be achieved. Here too, preference ought to be given to appropriate, cost-effective solutions.
- Since the water price can only have a very restricted and socially dubious effect as a regulatory instrument for demand and consumption, other solutions have to be found. Just like in the energy sector, preference has to be given to demand side management, i.e. solutions that enhance efficiency and lower consumption wherever possible.
- Water supply cannot be reorganised efficiently without transparency and an informed, organised public. This also means that the terms of existing contracts with the private sector that determine the situation and scope for action in many countries on a long-term basis have to be made public.
- Local rights, opportunities to participate and organising have to be recognised since they are the precondition for working alternatives.

If development policy wants its pledge to achieve sustainable development to remain credible, it has to campaign for a fundamentally different water policy. In particular, providing clean drinking water for the urban and rural poor and the protection of the environment have to be at the centre of its strategies and financial support.

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