WATER PRIVATISATION IN MOROCCO: FIRST LESSONS DRAWN FROM THE CASE OF LYONNAISE DES EAUX IN CASABLANCA

By Mehdi Lahlou

PRIVATE INTERESTS AND MOROCCO'S ECONOMY

Since the mid-1990s[1], Morocco's economic and political decision-makers have pushed for the liberalisation, privatisation and the lowering of the trade barriers agenda that has been prevalent in the country since 1983.[2] Most public companies were sold. Trade tariffs were lowered before Morocco signed numerous free trade agreements that were to bind it to several economic and financial zones. Exchange regulations were modified so that share dividends and revenues of foreign companies could be transferred abroad more freely.

Today, private interests are also increasingly present in the school and health sectors, because the state no longer has the means to cope with their financial needs. Citizens have been turned into clients through the introduction of the full-cost recovery principle, and they pay to contribute to the recovery of public expenses. The same management principles are quickly being implemented in the administration of basic public services like sanitation, roads, water and electricity distribution.

In the water sector in particular, the state justifies its new approach by the fact that water resources in the country are becoming scarce, which demands new management methods that supposedly cannot belong to the public non-profit sphere.

Water, a scarce resource and considered to be a mere economic product, is now like any other commodity. From the state's perspective, tackling water scarcity and assuring its production and distribution can only be achieved through market laws of supply and demand. Similarly, only these market laws can guarantee the necessary investments, as they are the only ones able to determine an exchange price for water, therefore covering access expenses and guaranteeing a profit for the private operator in charge. With this rationale, the state and public service ambitions are ignored, as are the social and economic legitimisation of their interventions – if not their very *raison d'être* – notably in a country in which development is limited.

In the water sector, the market rationale is:

- Economically speaking, water is a useful and even vital resource, but it is more and more scarce; and only "the market" can manage scarcity.
- In terms of their ideological and political foundations, the public authorities of poor and indebted countries are known for their inability to efficiently lead macro-economic approaches, not to mention the production and management of scarce resources.

Consequently, the options are very simple: either private interests replace the state so as to guarantee water resources and distribute them along market laws, or a human disaster occurs.

[1] Morocco has been a member of the World Trade Organisation since its creation in January 1995, after having hosted the final General Agreement on Trade and Tariffs conference in Marrakech in April 1994.
[2] First Structural Adjustment Programme in Morocco.

This rationale was spread through various economic and financial programmes that the international financial institutions (especially the World Bank and the IMF) have “advised" the Southern governments to implement since the 1980s, and it is the rationale that has been followed by the Moroccan authorities.

THE MANAGEMENT DELEGATION MODEL

The privatisation of water and electricity distribution services in Morocco was implemented using the “management delegation” model. In effect, two big French corporations have been put in charge of water and electricity distribution and sanitation services in Morocco’s three main urban centers: Casablanca, Rabat-Salé and Tetouan.

In 1997, Lyonnaise des Eaux took control of the public authority for water (Régie autonome de distribution, RAD) in Casablanca; the RAD then became Lydec. In 1998, the same occurred in Rabat with Spanish and Portuguese investors. However, they were soon replaced by Vivendi Environnement and its subsidiary, Vivendi Water[3], in 2002. The local public operator was replaced by Redal. In the same year, Vivendi Environnement took over the management of two water public authorities in Tangier and Tetouan that were to be merged under the name Amendis (*Amen* meaning water in amazigh language).

In the six years from 1997-2002, the water (and electricity) public service delegation represented 50% of the water volume distributed in big Moroccan cities through 17 operators (13 local public authorities and four private operators). For 2005, in Casablanca, Rabat-Salé and Tangier-Tetouan, the combined distribution turnover of the private companies was estimated to be around 8 billion dirhams (about €704 million[4]), between 2 and 2,5% of the country’s GDP.[5]

While alleviating the financial and “managerial” burden of the state in charge of urban water and electricity distribution, the management that was introduced with the above-mentioned economic, financial and ideological foundations, aimed to:

- improve the quality of services at every stage of the operator’s intervention
- facilitate and reduce the delays for the connection of “user/client”
- facilitate and diminish the recovery delays.

But the economic and “social” principles justifying the “management delegation” – in practice service privatisation – soon encountered the constraints of reality, in this case the poverty of the people (especially the urban poor):

- The principles of payment consent and ‘water pays for water’ (in other words, full cost recovery) were applied to all consumers. This was all the more painful for the people when the state raised its taxes on water, electricity and sanitation (especially in 2006[6]).

[3] Vivendi Water buys 100% of Redal, the concessionary company that manages the public services of drinking water distribution, sanitation and electricity in the Rabat-Salé area (two million inhabitants). The combined turnover for this contract, which has 26 years remaining, is about €4.5 billion.
[4] €1 = 11.38 dh (23/02/2008)
[5] Vivendi Environnement, through its subsidiaries (Vivendi Water, Vivendi Water systems, CGSP-Onyx) therefore becomes a major player in local authorities’ services with a turnover above €300 million. http://www.waternunc.com/fr
[6] This provoked strikes in more than 100 cities, notably in Tangier, Casablanca and Rabat.

- The Social Connection Operations (SCO) that were meant to give access to water to poorer people have not delivered the anticipated results. In Casablanca, for instance, 10 000 connections were to be made annually according to the contract but no more than 1 250 were actually done between 1997 and 2007.
- The connection costs (almost €800) are too high for people who earn on average €1 600 (per year). Furthermore, people are poorest in suburban areas where the connection needs are highest.

The inability of the private companies to get results in these fields are secondary to the results of a recent study by a team of independent consultants, though it is politically important in a precarious social and economic environment. The consultants' assessment of the water and electricity distribution and the sanitation services delivered by Lydec in Casablanca found numerous "failures" and "overspendings" among other "disrespects of contractual commitments".[7] And this is the private company that enjoyed the first management delegation contract in the biggest city of Morocco and one of the most populated cities in Africa. The results showed large financial and economic discrepancies between what the public authority (Moroccan administration) had initially planned and what the private (mostly French) company had actually done.

These can be summed up by the following, which show that what the private company originally considered to be a "balanced" contract has, in 10 years, turned into an efficient enrichment undertaking for the private company shareholders and some of its local partners.

According to a press release published in 1997[8],

- The management delegation contract offers the municipality a financing tool allowing massive investments without any impact on local finances
- The contract allows the public authority to choose the schedule for the implementation of the different investments with the guarantee that the deadlines, even when tight, will be met
- It also allows for the public authority not to have to provide necessary investments and to resort to the skills and financial resources of the private sector
- The contract offers to recruite the entire RAD workforce
- It gives access to important European funding to invest locally and benefit the local population
- It allows for the development of a positive image of Morocco with regard to local and foreign economic players
- It does not involve any recourse to state finance

In 2005, by a series of acknowledgments from Lydec, those initial predispositions were going to be diminished. The company realised that the contract contained important limits that are indicators that the contractual commitments were not going to be met, as was the case two years later. Among those limiting elements, the company especially highlighted[9] the following:

- The key starting variables differed from those when the contract was established (volumes, yields, average prices)

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[7] A study ordered by the Morroccan Interior Ministry whose first results were known in November 2007.

[8] Press release – Lyonnaise des Eaux – Moroccan liaison office, Casablanca, April 16 1997.

[9] During a management delegation seminar organised by Lydec, "energetical challenges for the XXIst century", January 27 2005

- The target investments at times differed from the contract's
- The nature of the contract was not clear (contract of means or of targets)
- The issue of retirements was not anticipated
- Pricing rates were no longer adapted
- The regulation of the contract was not sufficiently well defined
- Time limits and problem solving mechanisms were not defined
- Finally, the content of the contract and the duties of the company were not known to all stakeholders.

The content of this contract, negotiated by the former Ministry of the Interior[10] of the deceased King Hassan II, bypassed all the local rules and transparency normally related to this kind of act, and was only known to a few people in Morocco –probably the very same people that had to actually sign it, including the president of Casablanca urban community[11]. It is because of this lack of transparency and respect for the institutions – implying a lack of respect for the people – that requirements of the management delegation contract were not met, as the consultants discovered while examining Lydec's documents.

The enquiry led to the uncovering of various facts concerning:

- The removal of controls on capital. The controls on the capital brought by Lydec had to be removed by 2000, within three years of the contract being signed. They were completely removed in 2003, three years late.
- The investments Lydec was contractually obliged to do. The enquiry established that the gap between planned investments (3 815 billion dirhams*)* and what had actually been invested (between 1997 and 2006) amounted to 2 074 billion dirhams, i.e. 54%.
- The distribution of dividends by Lydec. The contract did not outline plans for the distribution of dividends until 2009, but Lydec distributed 560 million dirhams[12] between 2003 and 2006. For the public authority, there is a link between Lydec not respecting its contractual requirements and its premature distribution of dividends.
- The money transfers to Lydec shareholders and some of it foreign suppliers. The investigators concluded that the unjustified money transfers amounted to 678 million dirhams[13], 85% of the capital theoretically brought by Lydec.

In effect, the theoretical and legal motives for refusing market intervention to supposedly "manage water supply and demand" has been strikingly proven by the results of this investigation. Our starting point was that water and its characteristics (scarcity, absolute necessity, non-substituable) make it a unique human need, not comparable to any other good or service.

When a private company does not respect a broad range of important contractual commitments in the vital sector of water, in a developing country's capital city with more than four million inhabitants, it is more than a mere "commercial conflict".[14]

[10] Driss Basri, who was deprived of his functions in 1999 and died in exile (in France) in 2007.
[11] Who was prosecuted in 2000 and emprisoned for embezzlement, corruption and misappropriation of public funds.
[12] Of which 59.1 million dirhams to "non-founders Moroccan shareholders"
[13] Within a global money transfer of 1.119 billion dirhams between 1996 and 2003.
[14] As it was named by the Moroccan Minister of Interior in front of the Parliament at the beginning of January 2008.

PUBLIC WATER MANAGEMENT AND MORAL CHOICE

At a time when many voices in Northern countries like France are calling for the remunicipalisation of water management, we are reminded that the right to water should be guaranteed; that water, this vital resource, is the ultimate and essential public resource whose production, preservation, distribution and management cannot be handed over to the market, the mere laws of supply and demand. And thus profit, including its most illegal/fraudulent manifestations.

From this point of view, the case of Grenoble in France shows eloquently that the public management of water cannot only be more "moral" but also more attractive. Since 1995, when water went back into public hands in this French town, water prices and investments figures were reversed: water prices began to decrease, while investments increased.

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See ACME-Morocco website (in French): http://www.acme-eau.org/ACMEMaroc/index.php

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