

INTRODUCTION

By David Hall

This introduction attempts to put the book in its historical context. This context is a specific set of experiences and responses with some outstanding features: failed privatisations, widespread campaigns, a critique of past public sector weaknesses and the emergence of new structures drawing on the strengths of earlier, northern, public-sector models and new, southern forms of participatory democracy.

PRIVATISATION HAS FAILED

The 1990s was the decade of water privatisation which has since proved to have failed. It was expected to bring greater efficiency and lower prices, attract greater volumes of investment, especially in developing countries, and extend water and sanitation to the unconnected poor. The actual experience has been different.

The expansion of the private water companies in the 1990s was supported by the World Bank and other international institutions as part of policies to transform developing and transition countries into more market-oriented economies. It entered the transition countries of eastern Europe with a wave of water concessions: in the Czech republic and Hungary; in Latin America, especially Argentina, where a series of major cities were privatised, including the “flagship” concession of Aguas Argentinas in Buenos Aires; in Asia, including the privatisation of two major cities, Manila and Jakarta; and in Africa, where concessions were obtained in former French colonies, notably

Cote d'Ivoire, as well as a few towns in South Africa. By the time of the World Water Forum at The Hague in 2000, senior World Bank officials were presenting water privatisation as historically inevitable, using the phrase "there is no alternative".

Privatisation of water supplies and sanitation has taken various forms but has the constant element of transferring control and management of operations to private companies, thus making them sources of profit for private capital. Complete sale of the water system to private companies has been introduced in the UK, but elsewhere the form of privatisation promoted has been based on privatisation through concessions, leases or management contracts (or special forms of concession for treatment plants or reservoirs, known as "build-operate-transfer" schemes (BOTs)). The precise form has been dictated by the private companies; in the early 1990s, concessions were the favoured form but, since 2000, companies have preferred the less risky options of leases or management contracts. Variations on these themes include joint ventures with public authorities, which have to be structured to provide the private partner with the necessary freedom to achieve returns, and so are invariably controlled by the private partner. Other phrases – including "public-private partnerships" (PPPs) and "private sector participation" (PSP) – avoid the word "privatisation", which has become an increasingly unpopular concept, but they still refer to the same kinds of contractual relationship with the private sector.

The unpopularity of the concept of privatisation has been caused largely by experience of the results, which have been different from what was promised. Companies have failed to invest as much as was hoped; private investments in infrastructure were falling by the end of the 1990s and investment by development banks was also decreasing. Prices have risen to reflect the returns on capital required by companies. When tar-

gets specified in contracts have not been met, contracts have been revised rather than enforced. Regulators have lacked the authority and competence to control companies' behaviour. The contradictions have been made more acute by currency movements and economic crises: the privatised water operations in Argentina are now bankrupt. Despite all the attention and support given to private water concessions in Latin America, they performed no better than public sector operators in terms of expanding services to the poor. Manila and Jakarta, two large Asian cities with private operators, have worse levels of water loss than the large majority of cities where water is publicly managed. Finally, there is strong and growing opposition to water privatisation in developing countries, from consumers, workers, environmentalists, other civil society groups and political parties.

Faced with poor returns, unexpected risks, and political opposition, water multinationals have decided to cut their losses. In January 2003, Suez, the largest multinational, announced it would withdraw from one third of its existing investments in developing countries, and Veolia and Thames Water are also withdrawing from contracts. All three are using political and legal action to recoup losses and claim anticipated profits.

The World Bank has acknowledged the failure of privatisation to deliver investments in extending water services. It has devised new instruments to provide stronger guarantees to private companies and is exploring other forms of business opportunities in the sector, such as franchising water vendors in peri-urban areas. But the World Bank, other development banks and donors remain reluctant to provide support to public sector water companies, even though these are responsible for over 90% of the world's water and sanitation services.

These responses by the companies and the World Bank address their own concerns but do little for people who need

affordable water supplies and sanitation. The development of new approaches has, instead, come from the same campaigners who opposed the privatisation.

THE RESPONSE FROM CAMPAIGNS

The campaigns against water privatisation are spread across the world. Privatisation has been a key issue in elections at municipal or national level in countries as diverse as Poland and Panama. Campaigns are typically broad-based and include many different groups – unions, environmentalists, consumers, business associations (in the Philippines, industrialists have threatened to disinvest because of price rises following privatisation), women’s organisations (who had spearheaded the opposition to water privatisation in the Crimean region of the Ukraine, for example), political parties, and religious bodies.

The campaigns have often united bodies normally in conflict with each other. In Poland, competing trade union organisations joined forces to campaign successfully against water privatisation in Lodz; in Northern Ireland, the parties representing Irish nationalists and British Unionists sit side by side in a campaign against water privatisation while refusing to work together in political executive bodies.

The reasons for this opposition are also multiple. One reason is the experience of sharp price rises following privatisation. Another is the fear of job losses and weakened trade unions. Another is to do with accountability and the difficulty of influencing or scrutinising a privately-owned company compared with a municipality. A third reason is the belief that water, both as an environmental good and a public service, belongs in the public domain. Finally, there is a belief that social and economic reasons for developing water supply services require the commitment of a public authority rather than

private entities which are focused on their own rate of return.

These campaigns have occurred in both developed and developing countries – even in the UK there was a strong campaign against water privatisation that persuaded Thatcher to postpone privatisation until after an election.

FAILURES OF UNDEMOCRATIC REGIMES

A common element of the campaigns has been the critique of privatisation itself, its economic and political problems and its failure to deliver extension of services to the poor. But the campaigns have also had to acknowledge the failures and limitations of the practices of public sector operators, especially in developing countries, in the preceding years. During the 1980s in particular, these structures had largely failed to deliver significant extensions to water services, even when development banks had made loans available, and these failures were used to justify the privatisation policies of the 1990s.

Blaming these failures on the fact that water was in public ownership is too crude an explanation, however. Many developing countries in this period were subject to dictatorships and corrupt regimes with contempt for human rights and democratic processes, let alone transparency. With no accountability, services to the poor suffered while the corrupt regimes themselves benefited from the loans intended for water. The beginnings of privatisation flourished in these same undemocratic regimes; Suez was active in South Africa under apartheid, the privatisation of Jakarta’s water was corruptly arranged by the Suharto dictatorship, the privatisation of Casablanca’s utilities was arranged by a decree of King Hassan, not by a competitive tender organised by the city council. The contracts they obtained were kept secret even from elected municipal councillors – especially ironic in cities like Gdansk (Poland) and

Budapest (Hungary) which were undergoing a transition from undemocratic communist rule to a supposedly more accountable democratic system.

The problem of the 1980s public sector failures can therefore be seen as a lack of democratic process in the public sector, rather than a problem with the public sector itself. The experience of Brazil after the ending of its military dictatorship supports this; the opportunities of the new democracy were seized in many ways, including the development of new approaches to extending water and sanitation supplies to new areas. These initiatives, rather than the privatisations endorsed by the dictatorships themselves, indicated the need for a new approach based on democracy and a level of public participation that guaranteed accountability.

The same analysis can be applied to the complaints by development banks and donors that governments do not give adequate priorities to water compared with other policies, as though the governments and people of developing countries cared less about water and sanitation than the enlightened bureaucrats of the international institutions. The problem, however, is not a lack of popular demand for water and sanitation services, but a failure of governments to respond to this demand. In Brazil in the early 1990s, there was a very broad-based campaign for a national sanitation policy which was abruptly rejected by Cardoso, the favoured candidate of the International Financial Institutions (IFIs), when he became president in 1995. Instead, he pursued a policy of encouraging piecemeal privatisation which fitted with the IMF's preference for restricting government borrowing. This led to much less investment in water (and other infrastructure such as electricity), as the IMF itself now acknowledges. In Latvia, there were public campaigns for wastewater treatment plants even under the Soviet Union. In peri-urban settlements where the govern-

ment fails to provide essential services, like Orangi in Pakistan, people have demonstrated a willingness to use their own labour and savings to create water and sanitation schemes.

The ineffectiveness of governments can thus be seen as evidence of failure of the political processes, often exacerbated by the policies of the IFIs themselves. The problem has been a lack of democratic process.

NORTHERN PAST AND SOUTHERN PRESENT

In developing alternative policies and structures, the campaigns have drawn on two main sources of inspiration. One has been the historical success of the public sector model in developed countries for much of the 19th and most of the 20th century - the "northern past". The other has been the emergence of new forms of democratic structures in the south, especially the initiatives in participatory democracy in Brazil and India - the "southern future".

The northern experience has been rediscovered behind the misleading attention given to privatisation. The scope and era of privatised water is very narrow, recent and very short. Before 1990, nowhere outside France, except a few cities in Spain and Italy and a few former French colonies, had experienced or seriously considered water privatisation for nearly a century. The common European and North American experience was to replace the private contractors of the mid-19th century with municipal water services, because the municipalities could deliver the necessary expansion of services more efficiently and effectively. Only in France did these 19th century contractors survive and consolidate into a private oligopoly, which is why the only large private water companies were French until the ideology-driven privatisation of water and other utilities by the Thatcher government in the UK.

Communist countries and post-colonial independent countries also developed water services through the public sector, either through municipal, regional, or national ownership. Historically, public sector utilities are a highly successful model for the extension of water and sanitation services to all urban and even rural populations. Over 80% of the populations of the EU and the US remain served by public operators, despite the advocacy for privatisation in recent years.

In the south, new democratic forms have emerged which emphasise participation and centralisation. India has a widespread system of elected village councils, “panchayats”, and in the state of Kerala the left front government initiated a deliberate programme of decentralisation and participation - nearly 40% of the state budget is devolved to panchayats, citizens have the right to see every document and budget priorities are set through a series of public meetings. In Brazil, the Partido dos Trabalhadores. (PT – Workers’ Party) has adopted policies of developing similar devolved and participatory systems in municipalities where it has power, through a system known as “participatory budgeting” (Orçamento Participativo).

CONCLUSION

The campaigns and experiences presented in this book are part of this historical context. They include a wide range of approaches to the organisation of water services, but the case studies are not a set of technical models. The various proposals and policies reflect the interaction between local economic and political circumstances, global forces and the development of new ways of understanding and developing water supply and sanitation as a public service.

These campaigns also interact with each other through various forms of active support. They thus form part of an inter-

national process which is dealing with local problems by engaging with the global dimension. The sharing of these experiences, through this book and other forms of information exchange, is a part of that process.

THE CASE STUDIES

This book is structured to reflect key aspects of the campaigns, their critiques of privatisation and alternatives.

The first section includes examples of the northern tradition, with accounts of water services in Germany and the US, overwhelmingly public sector in both cases, as well as an account of how the French city of Grenoble rid itself of corrupt private water concessions and re-established a municipal service. It also includes examples of the southern participatory models, with accounts of Porto Alegre in Brazil and a village in Kerala. Other studies give accounts of distinctive forms of public sector development in Malaysia (Penang), Bogota (Colombia), and the co-operative of Santa Cruz (Bolivia), as well as an account of how social movements in Argentina has responded to the privatisations of the 1990s and the subsequent economic crisis.

The second section is of “work in progress” and covers cases where new forms of water and sanitation services are still being developed or proposed. These include reforms of previously weak public sector operations - including Recife (Brazil) and Caracas (Venezuela) - as well as the process of reconstructing a public water regime in Cochabamba (Bolivia) which both replaces the disastrous privatisation and improves on the previous, inadequate, municipal service; and an account of an innovative participatory development in Savelugu (Ghana) in the context of a national water company threatened with fragmentation and privatisation. This section also includes a South

African experiment with “public-public partnership” in Harrismith.

The third section covers campaigns still in progress and in different stages of formulating a new policy. Three of the examples are of countries where private water companies have had little success but new policies are needed and demanded by campaigners: South Africa – where access to water supply is a constitutional right; Uruguay, where a recent referendum supported making water privatisation illegal under the constitution; and Mexico, where the problems of water services have not been solved by contracts with multinationals. It also features campaigns in former communist countries Slovakia and Ukraine against commercial initiatives by multinational companies and development banks; and the continuing battles against the failing water privatisations in Jakarta (Indonesia) and Manila (Philippines), where the process of opposition is simultaneously becoming a process of reformulating new public policies.

The final section summarises the general lessons which can be drawn from these cases.

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For documentation on failed water privatisation as well as achievements by public water utilities, see the PSIRU website: www.psiru.org/reportsindex.asp