

Water Privatization Myths: Broken Promises and Social Turmoil

Analysis of 7 cases

Buenos Aires, Argentina

Atlanta, Georgia, USA

Manila, Philippines

Cochabamba, Bolivia

Jakarta, Indonesia

Nelspruit, South Africa

United Kingdom

Overview of Private Sector Participation **(PSP) in Water and Sanitation**

- **Most water utilities are publicly owned and managed.**
-- Approximately 5-7 percent of water services are owned or managed by private companies (not including small out-sourcing contracts).
- **The private sector water industry is very concentrated.**
-- 3 large multinational corporations (Suez, Vivendi, RWE) capture 40% of existing market share.
- **Concentrated growth has happened very recently and rapidly.**
-- For example, in the last few years, the major U.S. private water companies, were bought by the 3 big European water multinationals.
- **Suez -- bought United Water**
- **Vivendi -- bought U.S. Filter**
- **RWE -- bought American Water Works**

Private Sector Participation (PSP) in Historical Perspective Concept of Water “Privatization” is New

- Over last 200 years most water and sanitation services have been publicly owned and managed.
- The history of riparian rights is predicated on the assumption that water has a distinct quality as a common good or public trust.
- Public ownership and management evolved due to the public health significance of access to water and sanitation services.
- Private sector was not involved primarily because there was not a perception that major profits were to be made.
- During the last decade, as part of the larger trend of neoliberal policies, some of the major G-7 governments, the international financial institutions (IMF, World Bank, regional development banks) and the major water multinationals, are promoting the concept of PSP in water.
- **THIS COUNTERS HISTORICAL SOCIAL NORMS**

Origins of PSP Promotion: Why are private companies eyeing water?

- **GROWING WATER SCARCITY AND ENVIRONMENTAL DEGRADATION**
 - Growing freshwater scarcity and water pollution has led major water companies to view water as a lucrative investment opportunity.
 - Over 31 countries are currently facing water shortages and another 17 are likely to be added to this list by 2025.
 - Major water multinationals are viewing water as the “oil” of the 21st century and making investments to position themselves to profit from the growing scarcity.
 - The WTO’s General Agreement on Trade in Services (GATS) is pushing hard to secure greater market access for the water multinationals.

Human Dimensions of the Problem

- In the Global South:

- More than 1 billion people lack access to clean and affordable water.
- 2.4 billion people lack access to sanitation services.
- Over 5 million people, mostly children, die annually from water-borne diseases.

- In Europe and N. America

- Universal access to water and sanitation has been achieved in most countries.
- It has been achieved because governments prioritized public investment.
- It has been achieved using the re-distributive power of taxes to subsidize services at affordable rates for everyone.

UNIVERSAL ACCESS HAS NOT BEEN ACHIEVED USING PSP.

- **Global Inequities**

- Inequalities in access to water reflect other power inequities between north & south.
- Agribusiness, urban and suburban areas, the wealthy have more access than small farmers, rural areas and the poor.
- PSP will exacerbate not mitigate these inequities.

- **World Bank & other PSP promoters have double standard**

- They push PSP when most countries that have achieved universal access to water and sanitation did not use PSP model.
- They push full cost recovery, yet most countries with universal access have public subsidy.
- They push cutbacks in social services and public infrastructure to address fiscal deficits and then call the public sector a failure

World Bank and IMF Policies Undermine Public Health

- Privatization policy measures were found in 51% of the approved loan monies for Water Supply and Sanitation Sector in 2001.
- Increased cost recovery measures were found in 80.9 % of the approved loan monies for Water Supply and Sanitation Sector.

World Bank Water Supply and Sanitation Loans					
Fiscal 2001					
Country	Total amt. of loans in millions of U.S.dollars	% of total budget	Cost Recovery Conditions	Privatization Conditions	Both Conditions
Burkina Faso	70	12.6	X	X	X
Comoros	11.4	2.1	X	X	X
Ecuador	32	5.8		X	
India	65.5	11.8	X	X	X
FYR Macedonia	29.3	5.3	X	X	X
Niger	48	8.7		X	
Russian Federation	122.5	22.1	X		
Senegal	125	22.6	X		
Ukraine	24.3	4.4	X		
Uruguay	6	1.1		X	
Yemen, Republic of	20	3.6		X	
Total	554	100	80.9	51.0	31.8

Water Privatization Failures: Recent Collapse of Three Showcase PSPs in Buenos Aires, Manila and Atlanta

- **1. Buenos Aires, Argentina**

Overview: In July 2002, Suez terminated the 30-year contract, signed in 1993. Suez pulled out after the Argentine government, due to the Asian financial crisis, withdrew approval to link water rates to peso fluctuation.

Access and Affordability: Rates rose more than 20% (1993-2000). Some service expansion was achieved, but costs were borne disproportionately by the poor. Non-payment rose to 30% of rate payer base, cut-offs rose dramatically. Women bore health and safety consequences.

Labor: Union resistance was crushed by giving workers 10% ownership in private company. 50% staff reduction implemented after privatization.

Environmental: Suez reneged on contractual obligation to build new sewage treatment plant. 95% of city's sewage dumped into Rio del Plata.

Regulation: ETOSS was weak, subordinate to government and corporate power. Permitted successive contract re-negotiation, especially on financing of expansion. On-going conflict over indexation of consumer rates to peso devaluation.

Water Privatization Failures: Recent Collapse of Three Showcase PSPs

- **2. Manila Philippines**

Overview: Suez announced pull-out in Dec. 2002. This was largest privatization when 25-year lease was signed in 1997. Terminated when government refused to continue covering foreign exchange losses.

Access and Affordability: The two companies claimed to have connected 2 million more users. MWSS disputes the figure. Continual rate hikes - from 6.58 pesos to 27 pesos (rejected by MWSS). On-going battles over extraordinary price adjustments (EPAs) and requests to cover peso devaluation. **Labor:** MWSS retired 2,000 workers before privatization and 750 more after. **Regulation:** MWSS, previous public water company, took over regulatory function. This is highly problematic regulatory structure. **Legal/Fiscal:** Maynilad Water seeking \$303 million in compensation from government.

Water Privatization Failures: Recent Collapse of Three Showcase PSPs

- **3. Atlanta, Georgia, USA**

Overview: In January 2003 Atlanta city officials terminated the contract with United Water (Suez). The 20-year \$428 million contract was the largest U.S. water privatization when it was signed in 1998.

Clean and Affordable Water? Rates rose, on average, 12% annually and there was an increase in boil water advisories.

Labor: Employees were cut from 700 to just over 300.

Fiscal: United Water was continually billing for additional amounts and trying to add additional dollars to the contract. Routine maintenance was billed as capital repairs and needed capital repairs were unaddressed. Eventually the city decided to spend \$1 million for an independent audit and subsequently terminated the contract.

Lessons of Recent Water Privatization Failures: Private Sector Financing is a Myth

- **Circular Thinking:** International Financial Institutions (IMF, World Bank, etc..) condition loans on privatization to make self-fulfilling the prophecy that the private sector brings financing. But, this is public financing and should not be used to privilege private investors or to subsidize profit.
- **Private Sector is Risk Adverse:** The preferred model is a lease or management contract, rather than full asset sale to enable the private sector actors to intersect with the revenue stream with few investment requirements. Recent losses from currency fluctuations and underbidding have led the major water multinationals to seek institutional reforms that will reduce risk and liability and ensure greater returns on investment.
- **More Public Sector Hand-outs is the Goal:** Recent report of Michel Camdessus (ex-IMF Managing Director) at the World Water Forum made clear that private sector actors are seeking greater access to Export Credit Agencies, political risk insurance and guarantees from the World Bank and other regional development banks, and new types of insurance from public agencies to protect against losses from currency fluctuations.

Lessons of Recent Water Privatization Failures: PSP will NOT help achieve the Millenium Development Goals

- Track record of major showcase privatizations do not show evidence of commitment to making investments needed to expand access to the poor or to ensure affordable rates.
- The public sector should have the incentive to work towards universal access to water and sanitation. Countries where large sectors of the population lack these services must use health resources and budgets to treat high rates of water-borne diseases -- and suffer high rates of infant and child mortality.
- Unfortunately governments and international agencies are better at posturing around the goals of universal access to water and sanitation than in actually fulfilling them.
 - 1981-1990 was International Drinking Water Decade and UNICEF led the effort for universal access
 - 1990 World Summit for Children called for universal access by 2000
 - 2000 brought new Millenium Development Goals to reduce by 1/2 those without water and sanitation by 2025.

Civil society organizations are skeptical of this posturing. Multinational water corporations and PSP won't bring universal access to clean and affordable water. Only an organized and mobilized civil society can hold our governments accountable to these goals.