

**“Barriers to and conditions for the involvement of private capital and enterprise in water supply and sanitation in Latin America and Africa: seeking economic, social, and environmental sustainability”.**



## **An Interdisciplinary Research Project**

### **2004 OPEN WORKSHOP**

**“Main trends and prospects characterizing private sector participation in water and sanitation: a discussion of project findings”**

#### **Venue**

**Library Wing Seminar Room  
Queen Elizabeth House  
International Development Centre  
University of Oxford**

#### **Oxford**

**30 June – 1 July 2004**

## SUMMARY OF WORKSHOP CONCLUSIONS<sup>1</sup>

The most interesting highlights from the 2004 PRINWASS Open Workshop are as follows:

- (1) The policy of promoting private sector involvement in urban water and sanitation (WSS) projects examined by PRINWASS was pitched on the **premise that the public sector is inefficient and under-resourced** and that private sector participation brings higher efficiency through competition and fresh resources, and helps to extend coverage of these services to the poor. The case material does not support this claim.
- (2) The PRINWASS team recognises that municipal and other public sector providers have a mixed record regarding the quality of service provision, which in developing countries underpins the existing inequalities of access to safe water and sanitation. However, the research shows that there is a clear pattern of non-compliance with contractual obligations (e.g. regarding investment targets or quality standards set in the concessions contracts at the start) by many private sector providers, sometimes with catastrophic consequences.
- (3) Another important pattern emerging from the evidence is that often public sector failures in the provision of WSS have been worsened when not directly provoked by public policy decisions. Thus, policies promoted or implemented by the **International Monetary Fund, the World Bank and other donors have often strangled public authorities** and utilities by denying them sources of funding for renewal and extension of infrastructure investment to up-grade their service (normally by reducing or even cancelling the borrowing capacity of public utilities). These and other mechanisms have often created the conditions for the claim that private capital and management were required. Indeed, the study gathered evidence that under these policies often public authorities have only been granted credit (public debt) on condition that they privatise services, often against the explicit will of the government or relevant authority.
- (4) Conversely, the pattern identified shows that **private capital is almost a negligible** component of the funding structure of privately owned/managed WSS. The investments that did take place came out of collected fees or aid projects, because risk associated with the long-term nature of fixed capital in WSS was considered too high. Indeed, the representatives of two major European water utilities (RWE-Thames Water and Suez) that participated in the workshop, who have accompanied the research and interacted particularly since the 2003 World Water Forum with the team, confirmed that they saw their companies as service providers and operators, not investors.
- (5) As for competition, **water utilities tend to be natural monopolies**. While there is competition to acquire a market, once a licence is granted or some other form of management contract obtained for a long duration (30 years is a frequent time horizon), competition is excluded, except for types of investments which are governed by public procurement rules under WTO (which is not [yet] generally the case).
- (6) As for **performance** of the private sector against contract targets, the evidence suggests that hardly any contract is being respected fully and that there is **systematic renegotiation after signature** in conditions, for which municipal or provincial authorities are often ill-prepared. Moreover, mistakes are often made in the original tender dossiers or contractual arrangements (out of ignorance, incompetence, or in pursuit of a specific agenda, e.g. as a

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<sup>1</sup> This summary was prepared in consultation with Dr Cornelia Nauen, INCO-DEV Scientific Officer.

results of bribes) so that many such contracts started on very poor footing and have often provoked hefty public controversy. The most emblematic case is Cochabamba, where a public protest movement led to rescinding of the concession after a record short time, but not so dissimilar situations have been found elsewhere (e.g. Tucumán in Argentina, among the PRINWASS case studies).

- (7) Private utilities tended to fare as poorly in water losses and unaccounted for water as public ones and have often poor records on sanitation, which continues to be the poor relative of supply, not least because of lack of investment and innovation in less costly alternatives to conventional treatment plants. In some cases it was found, after around one decade of private sector involvement, that the best performing WSS utilities are public (e.g. Brazil and Mexico).
- (8) It is striking to see that well established knowledge derived from **basic experiences with WSS in both developed and developing countries** dating back more than a century **have been totally ignored, which has been translated into very costly mistakes** and erosion of public trust. This has been particularly the case with the attempt to transfer one-fit-all technological or organisational models of private sector participation in WSS in replacement of historically grown systems of social and economic organisation, which has spectacularly failed. Incidentally, the private water utilities are trying to learn the lessons by increasingly engaging with civil society groups, NGOs and researchers in many places to understand the context before deciding whether or not to move into a situation or defuse numerous existing conflicts.
- (9) Aggregated figures on capital flow show a decline **of private investments since 1997** (they now represent only around **3%**) and that the flows are highly selective in favour of middle to high-income situations leaving Sub-Saharan Africa and poor regions in other parts of the world largely uncovered. These inequalities in the investment flows have also been identified at the regional and national levels of the developing countries examined. The figures certainly do not suggest that the Millennium Development Goals (MDGs) are being acted upon on a broader decisive front, and in most of the cases studied there is little evidence that the goals are receiving priority attention.
- (10) In the developing countries studied, the specific problems found in the management of WSS utilities takes place in a broader context of ensuing **increase in inequality** that characterised the 1990s. For instance, in Latin America – the most unequal region in the world according to the Inter American Development Bank and the World Bank – the growing inequality gap during the 1990s –coupled with the process of climate change– has been reflected into rising incidents of water-related diseases (e.g. cholera and dengue fever) that had been eradicated in the region in the early twentieth century. This has to be examined in the light of the fact that, according to recent surveys in the region (e.g. the Latinobarometer regular survey of public opinion), there is a worrying disenchantment of citizens with the process of democratisation that has taken place since the 1980s. In particular, the evidence shows a growing discontent with the policies of liberalisation and privatisation implemented in Latin America through the 1990s. Key findings of the project’s socio-political and cultural analytical dimension provide rigorous evidence of how these trends find expression in particular countries and regions.
- (11) Another consistent trend emerging from the research is the very weak or complete **absence of regulatory capacity** (or even of regulatory frameworks) characterising most cases of private sector participation in developing countries (but this trend also affects public WSS utilities, which have historically been run on the basis of technocratic models that have also excluded citizen involvement and participation). This is highly problematic given the documented pattern of non-compliance with contractual obligations by private operators.

- (12) A crucial component in this context is the **shortage of information available to regulators, local authorities and citizens** about the performance of private operators, which, in practice, impedes monitoring and control. One of the key conclusions to be derived in relation to this aspect is the **need to enhance the capacity of local authorities** to exercise control and regulate private WSS. Guaranteeing that crucial information related to private sector involvement in WSS (e.g. about contractual investment commitments, rates of return, etc.) is made available in the public domain is crucial to increase transparency and allow citizen control and scrutiny. Building local authority capacities must be mirrored by enhancement of civil society actors, in particular the most disadvantaged, to have a meaningful participation in the governance of water resources and WSS. The research suggests excellent examples of meaningful citizen involvement exist that already bear fruits and are worth exploring (e.g. in Brazil).
- (13) The vast majority of **water utilities around the world are municipal** and display a staggering variety of historically grown and site specific arrangements (until the 1970s this was true even in England and Wales, where over one thousand municipal companies were amalgamated in 1974 into 10 large public water authorities, which in turn were privatised in 1989). These tend to mix different property regimes (public, private, communal – and in extreme cases of societal break-down ‘open access’), management and pricing/cost-recovery arrangements, which have served well, sometimes for hundreds of years. However, these are little studied because of the frenzy about the particular forms of private sector involvement promoted by the international financial institutions and OECD governments since the 1980s and the perceived need to cover the long-term risk that private operators are unwilling and incapable of taking. If efficiency increases and better coverage of service, also for financially vulnerable parts of the population, are the objective, **research efforts should be directed at understanding and supporting municipal utilities**. This was also strongly endorsed by the private operators participating in the meeting.
- (14) Workshop participants acknowledged that the underlying issues of WSS were primarily **political and economic** in nature. Because they touch all citizens and often deep-rooted beliefs and cultural values, though in different ways for different groups, continuing **investigation** and deepening and broadening **dialogue** offers greatest chances for creating the conditions for overcoming prevailing mistrust and mobilising the combined energies of citizen movements, public and private sector actors towards equitable WSS coverage. Recognising that technologies and organisational models are embedded in a socio-economic context could spur the curiosity and interest necessary to adapt to different situations. Iterative decision-making and monitoring of effects may be basic principles of good management, but have been amazingly often disregarded. There is a need to resist the pervasive trend towards analysis and decision making processes based on ideological or speculative assumptions. In particular, there is a need to supersede the prevailing dichotomisation between the “public” and the “private” and search for analytical frameworks that may contribute to the study of how the two have been and continue to be intertwined in the management of water resources and WSS.