

Quenching the world's thirst

By Herb Ladley

Can private enterprise be relied upon to deliver improvements to infrastructure in the developing world? Herb Ladley reports on attempts to give the poor access to clean water.

With more than a billion people in the world lacking access to safe water, many policymakers in the 1990s put their faith in private investment as a way to make up for the inadequacy of public utilities in the developing world. A boom in private water investment in the developing world has since given way to disillusionment, as many of the biggest contracts in Asia and Latin America have collapsed. Failures on both the public and private fronts have muddied the debate about what direction international aid should take in developing water infrastructure for the world's poorest people.

Officially the European Commission takes a neutral stance towards the ownership of any enterprise, but Oliver Hoedman, a researcher for the campaign group Corporate Europe Observatory, says that there has been a "strong pro-privatisation bias". Hoedman worries about Commission support for the Public-Private Infrastructure Advisory Facility (PPIAF) and other initiatives encouraging private involvement in public services. He says that water is "totally different" from other market sectors because it is a "natural monopoly".

The fact that it is a necessity of life means that customers will have to pay almost any price for it – but in the developing world customers are some of the poorest. The difficulty in recovering costs in the poorest markets in the world means that in a totally private market, either affordability or service will suffer. Hoedman claims that privatisation only works in countries such as the UK and France because of the strong regulatory climate. In weak states with little regulatory stability, customers can suffer from high prices and be cut off from the water supply and companies are kept from making confident investments and improving service.

At the height of the private-investment boom, in 1999 the World Bank set up the PPIAF, which offers small grants to governments in the

developing world, helping them take advantage of the flows of private infrastructure investment. The Commission upset some non-governmental organisations (NGOs) with a decision in 2005 to fund the PPIAF, long after the wave of enthusiasm for private investment had subsided.

Groups such as the World Development Movement highlight the recent decisions by Norway and Italy to stop funding PPIAF as evidence that support for private involvement in the developing world's water supply is losing momentum. Water infrastructure companies, too, have left big projects in the developing world for safer, more predictable markets in middle- and upper-income countries.

Hoedman sees the founding of a new lobbying group AquaFed, with an office in Brussels, as part of an effort by private water providers to defend their records, particularly in the third world. Instead of the public-private partnerships, several NGOs are pushing what they call 'public-public partnerships' of successful public utilities assisting less-successful ones in the developing world.

But Joyti Shukla, a project manager for PPIAF, points out that emphasis only shifted to the private sector because many countries were disenchanted with the failure of their public utilities. Private involvement merely makes problems more transparent, Shukla argues, but the problems were always there. PPIAF consultants usually recommend varying degrees of public and private involvement in utilities, tailored to the specific case.

Public-private partnerships in the water sector can range from a totally public model with marginal private consultation to a concession under which a private company controls the water supply and the means of distribution. The 'build-own-transfer' model puts a private company in charge of building water infrastructure and running it for several years until it is turned over to a public authority. Public-private partnerships often mean a private company is brought in to manage or operate a public asset under a fixed contract, typically promising an increase in efficiency over public management.

The experience of the 1990s has led to a "much more nuanced approach", according to Shukla, with a "much wider range of public-private partnerships". One direction currently being pursued is to embrace small-scale providers. According to Shukla, hysteria against privatisation neglects that in many places, most water is distributed by many small-scale private providers. Because they are small and local, such businesses are more engaged with the

local community and provide more effective services.

Aid institutions are also trying to find ways to assuage concerns that privatised water could be unaffordable for the very poor – especially now that most institutions no longer have 100% recovery of their costs as the goal of privatisation. A public-private water project in Senegal, funded through the EU water facility, is trying a new type of tariff that rises as consumption increases, the idea being that those who use more water are using it for non-essential purposes and can thus afford to pay the higher rate.

Aid agencies are also focusing on 'output-based' aid, through which foreign grants will subsidise infrastructure once it is put in place. For instance, customers in the developing world would take out a microfinance loan to pay for a water connection and an aid agency would write off half the cost of the loan once the connection is installed. For most aid donors, the failures of private water companies to solve the water crisis do not require a total repudiation of public-private partnerships. Rather, it is one-size-fits-all solutions that have fallen out of favour. For aid workers such as Shukla, solving the water crisis now involves evaluating each particular case and striking the right balance between public and private involvement.

From private suppliers to neighbourhood consortiums

The age of the European water market dominated by one public utility is long gone, with the private sector playing a greater role in a wide variety of arrangements. The diversity of European approaches to the water sector is highlighted by a series of case studies carried out for the European Commission by the Public Services International Research Unit at the University of Greenwich in the UK.

Since the late 1980s, the water supply sector has seen a general trend toward more private control and involvement. Many eastern European water utilities were caught up in a wave of privatisations after the fall of the Iron Curtain. Water privatisation in Poland contributed to a vast decline in consumption and improvements in environmental impact. The city of Danzig saw a 50% reduction in ten years after individual meters were installed and water assets were turned over to the French company Saur in 1993 in a 30-year contract. Bucharest's hopes for better service and quality were pinned on a contract awarded to a subsidiary of the French company Veolia in 2000, but those improvements are not yet realised, according to the report. While private sector participation is often undertaken for

improvements in service, in Germany private management companies have also been brought in as a way to balance the budgets of struggling municipalities.

But privatisation does not always involve bringing in a foreign company. In some cases in England and Wales, government agencies themselves were floated on the stock market, creating private monopolies with heavy regulatory influence.

At the opposite end of the spectrum from private, foreign control, the study examines the case of Córdoba, Spain, where the local water utility is controlled by a unique consortium of stakeholders including neighbourhood associations, labour unions and political party representatives – the only municipal company of its kind.

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