Commercializing Water:

Can Politics Be Separated From Water Management In Developing Countries?

Taking Part in a Global Dialogue

Praxisprojekt – seco/DEZA

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Abstract

It has been estimated that by 2025 1.8 billion people will inhabit regions suffering from water scarcity, and will not have enough clean water for consumption and food production. This, however, is not necessarily a consequence of a physical lack of water. It has been highlighted repeatedly, that the real cause of water scarcity is an economic lack of it, meaning that water scarcity occurs through mismanagement. Faulty water management structures can often be traced back to the political forces that are responsible for them, such as incompetent or corrupt governments. There have been repeated attempts to solve the persistent problems of a lack in efficiency and equality in water access by commercializing the utility and privatizing it. Both public and private management structures have their advantages and drawbacks, but when considering how a depoliticized water supply system could be established, privatization is the only option. The possible ways in which privatization can take place and how political forces can be kept to a minimum are examined here. The conclusion the evidence leads to is that political influences are inextricably present, and that this need not necessarily be undesirable. The success of water supply systems is not so much dependent upon whether the structure is public or private, political or depoliticized, but rather on the nature of the governance of it.

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1. Introduction: Facts on water scarcity and (mis)management

Water is fundamental for life and development. According to 2006 estimates by the WHO and the UNICEF, by the year 2004 more than 1 billion people were not using safe drinking water services and more than 2.5 billion were not using appropriate sanitation services in developing countries (WHO / UNICEF 2006). As Krause points out, “every day, around 6,000 people, mostly children under five, die from diarrheal diseases caused by inappropriate water and sanitation (WS) services (UN-HABITAT 2003: 59)”.[1] Krause further argues that access to water and sanitation is an essential criteria in reaching the Millennium Development Goals (MDGs), which include the following objectives: “To halve, by the year 2015, the proportion of people who are unable to reach, or to afford, safe drinking water (...) To stop the unsustainable exploitation of water resources, by developing water management strategies at the regional, national and local levels, which promote both equitable access and adequate supply.”[2]

Overall, about 1.3 billion people in the developing world lack access to clean and plentiful water. The consequences of this include, among others, 4.6 million deaths from diarrheal diseases. As of today, the average worldwide is 6600 cube meters of usable water per person and per year. By 2025, if current trends continue, only one third of that quantity will be available. Also, the use of water in unequal at the worldwide scale, as the average quantity of water consumed by person and per day in industrialized countries is around 400 liters, while it drops to 20 liters in developing countries. Moreover, the International Water Management Institute estimates that 26 countries, including 11 in Africa, can be described as water scarce.

In other words, as Richards quotes, based on figures from the World Health Organization, “a conservative recent estimate projects that 1.8 billion people will live in regions or countries with ‘absolute water scarcity’ by 2025: that is, they will

[1] Krause 2004, pp. 15

[2] Krause 2004, pp 15, footnote 1

not have enough water to maintain their current level of per capita food production and also meet burgeoning urban demands, even at high levels of irrigation efficiency (Seckler, et. al., 1999)."[3] The situation is even worse for those living with 'extreme water scarcity', where guaranteeing reasonable access to water by 2025 would imply, according to the same author "massive water development projects, at enormous cost and possibly severe environmental damage."[4]

It is not always clear, however, where water scarcity comes from. Whereas water is *physically* dramatically scarce in some parts of the world, in many countries it is mostly *economically* scarce. According to the 2006 'Insights from the Comprehensive Assessment of Water Management in Agriculture', "economic scarcity occurs when there is a lack of investments in water or a lack of human capacity to keep up with growing water demand. Much of the scarcity for people is due to the way **institutions** function, favoring one group over another, not hearing the voices of various groups,[etc]"[5] (emphasis added). Overwhelmingly, then, water has been considered better dealt with by governments and their institutions, as opposed to the private sector. Indeed, water management in the world is almost entirely public (90 to 97%).[6]

Insistence on public management is partly due to the fact that the very emotional question of water (and of access to it) has often been considered a human right. Thus, populations and grassroots movements have often frowned upon private suppliers, those that want to sell water for profit.[7] For many who point out that, the 'human right to water' is indispensable for leading a healthy life in human dignity, access to water should be publicly managed, and ideally free of charge, as it is a pre-requisite to the realization of all other human rights.

Supplying water, however, is a complex task, which often is badly managed by

[3] Richards 2001, pp. 3

[4] Richards 2001, pp. 5

[5] International Water Management Institute 2006, pp. 7

[6] As quoted by Mr. Xavier Maitrerobert, CEO of Aquafed, in interview.

[7] See, for example, the Alliance Sud "Zugang zu Wasser – Ein Menschenrecht" conference of April 2007. Chairperson of the Council of Canadians Maude Barlow is interviewed, saying "Many governments have ceded control over their water resources to the private sector, and what we are seeing is the creation of a global water cartel." (pp. 10)

developing countries' governments, particularly in the case of so-called 'failed states'. As Bell and Roberts point out, water supply "reflects both the structural demand of the national and international economy and local interactions between rural communities and their national environment."[8] Most importantly, it requires a complex infrastructure, very costly to install, and to manage and repair. The private sector, as a result, might often be best placed to effectively and efficiently manage water supply. Indeed, starting in the late 90's, the World Bank and other multilateral and bilateral institutions have pushed for "privatization" of public services in general and water in particular, which in turn arose the issue of pricing for water.

Thus, many countries have turned to the private sector and multinational companies in order to solve the problems of water supply, using different forms of commercialization, from selling entire water supply and treatment systems to private firms to management or service contracts. Powerful multinational corporations, such as Vivendi, Suez, or United Water, compete for contracts in different regions of the world. However, these initial projects have brought opposition by anti-privatization activists all over the world, accusing giant corporations of looting the natural resources of the world. Barlow, for example, claims that a global water cartel is being created, bringing the world into an even worse water crisis.[9]

Overall, formal water markets for water are extremely difficult to set up and control due to the unique characteristics of water. As stated, water as an essential natural resource is a very emotional topic, tightly linked to human rights issues. In that context, the issue of *"politicization"* versus *"privatization"* of water supply is an extremely heated debate. The term "*politicization*", is understood in this paper to refer the different ways in which politics in a broad sense can interfere with water-supply, be it by publicly managing of the whole water supply system, by engaging in Public-Private Partnerships (PPPs) such as those that will be discussed below, or by interfering in and/or limiting the private sector's management, as two case studies will later demonstrate.

[8] Bell & Roberts 1991, pp. 301

[9] Barlow, in *Zugang zu Wasser – Ein Menschenrecht,* Alliance Sud 2007, pp. 10-12

What makes the commercialization of water supply such a unique case is that it is a natural monopoly and as a business activity requires an enormous investment in terms of infrastructure. In general, water is therefore considered a "specific asset (Williamson,1994), for which a contractual, long-term approach should be developed (Camdessus and Winmpenny, 2003)."[10] This complicates governance-related issues, be they public or private, especially in developing countries. In such countries, question such as the problem of the acceptability of tradable water rights or the issue of water pricing and how it affects the poor are even more emotional and thus delicate.

Overall, academic discussion on water has focused on the following set of questions: how to protect ecosystems, share resources, evaluate and manage risks, determine water pricing and manage water supply more efficiently/effectively. As we will see, the efficiency of water supply services is affected by decisions made at many levels, each of which susceptible of less than satisfactory governance, be it within the public or the private sector. We will focus here on problems around privatization of water supply services in developing countries, such as efficiency and equality, with evidence from Manila and Jakarta in particular. We will analyze both the technical feasibility and the social desirability of keeping politics out of water management in developing countries, and eventually argued that politics and water supply are intrinsically linked.

[10] Bied-Charreton et al 2006, pp. 54

2. Key problems in the current system: Efficiency and Equality

One of the main questions regarding the commercialization of water supply is whether it enhances the efficiency of projects. The second one concerns unequal access to water within countries or regions: does the commercialization trend improve the situation for the poor who most of all lack access to clean water at affordable prices? These two key problems of efficiency and equality in the water supply management will be addressed in connection with the strengths and weaknesses of public and private management systems to reach tentative conclusions on the usefulness of commercialization.

2.1 Efficiency

Our first question is about benefits or shortcomings of commercialization of water supply in terms of efficiency. Different indicators may be looked at to assess the effects of commercialization. The Millennium Goals state that by 2015 the proportion of people without sustainable access to safe drinking water should be reduced by half and use the proportion of population (urban and rural) with sustainable access to an improved water source as main indicator for progress towards this goal. Other indicators can be taken into account when measuring the efficiency of water projects, such as sustainability, cost recovery, and price levels.

We can now have a closer look at the arguments relative to efficiency. In order to better understand the theoretical debate, in the next few paragraphs, characteristics of purely private firms will be compared to those of purely public firms. We will later see that commercialization can engage different levels of privatization, and that public-private partnerships combine characteristics of both private and public firms.

From the theoretical point of view, the idea that private firms tend to operate more efficiently has been frequently brought up in the discussion. Private firms have stronger incentives to monitor the management because the expectations of the

stakeholders have to be fulfilled. Returns on capital and the shareholder value are of critical importance for private firms.

Market responsiveness can be ameliorated compared to that of a public monopoly if competition is present on the market. Market economy, driven by demand, is supposed to better identify and satisfy the customer's needs. However, needs of the poorest customers may be neglected if the segment is considered unprofitable by private operators.

Public firms, on the contrary, have weaker incentives to monitor their management and to improve their efficiency, since the bankruptcy threat and the pressure from capital markets and shareholders are non-existent or very low. In addition to that, an excessive vertical centralization may hinder the efficiency of public firms if the top decision-makers are too distant from those operating locally and from the customers.[11] This problem may be aggravated by a strong horizontal fragmentation often present in the sector: coexistence of agencies and service units with very different characteristics creates conflicts of interest, suboptimal use of resources and unequal coverage of served territories. Both problems arise more often for public firms than for private ones. Also, some legal conditions specific to public firms reduce the flexibility of the work force by defining pay schemes and dismissal procedures.

Moreover, public firms may be pursuing other goals than economic efficiency, such as maximisation of employment or construction activities. Tariffs set below operating costs and special treatment of certain neighbourhoods can also follow the logic of politics and not of the market.

However, the arguments set forward above, if not analyzed critically, may result in an excessive faith in the benefits of privatization. In real life, they are questionable. Competition is often seen as a driving force for the efficient functioning of private firms. One should not forget that water supply is a natural monopoly and that in the water sector competition among piped water systems is almost impossible due to the immense infrastructure required. Moreover, corruption and lobbying are as well present in the private sector, as shown by the numerous corruption scandals of

[11] Segerfeldt 2005, pp. 22

1990s[12]. In this situation and in this particular sector, the argument of shareholder value is of smaller importance, especially for small and medium size firms.

Public firms may be more efficient than private ones in a situation of market failure. Real markets do not necessarily function perfectly, and the government may be the only one to supply water if the supply is greatly inferior to demand, for example, when private firms are reluctant to enter a market considered as unprofitable. Private sector investment targets the regions with the best potential to make the most profit, rather than regions where it is most needed. Private companies, driven by profit motives, may tend to avoid rural areas where about 40 per cent of those needing connections live. Sub-Saharan Africa and South Asia have been the focus of less than 1 per cent of total private sector investment promises, while relatively profitable Latin America has received a disproportionate amount of investment.[13]

Public firms, rather than private ones, can also take into account externalities such as sanitation problems and health effects, social and cultural consequences of the projects, waste management and adverse impacts on ground water environment. Private firms do not necessarily bring new sources or levels of finance, except equity finance from shareholders. Many sources of financing are available to both public and private operators: possible surplus revenue from the water operation; money from national or donor governments; loans from development banks; commercial loans and bonds. In practice, many large increases in new connections, such as in Senegal after 1999, only came after new injections of public finance, including through a World Bank loan.

The empirical research on the subject of superior efficiency of public firms does not come to a clear conclusion.[14] Some studies conclude that private firms have a superior performance rate, while others come to an opposite result.

[12] For example, Saur, a subsidiary of Bouygues, has been alleged to have made the largest of 12 bribes that are the subject of various investigations into corruption in the World Bank-funded Lesotho Highlands Water Project ("Falling for AES's Plan?" Multinational Monitor, June 1999).

[13] Briceño et al 2004

[14] Krause, 2007

2.2 Equality

Equality is another important criterion in the evaluation of water projects. We have seen from the introduction that access to water is highly unequal across the world; significant differences also persist within the countries. Unequal access to clean water in emerging countries often falls along income class divisions. Since supplying water requires an important infrastructure, it is usually most costly to provide to impoverished districts in developing countries that typically lack any kind of infrastructure. As a result, water in developing countries is largely supplied through informal markets composed of intermediary vendors off the back of a truck.[15] Distinct formal and informal sectors are thus created; the poor who lack access to a formal network most often pay higher prices for the water they buy from private vendors. These informal markets are based on social relationships, and other social factors rather than market prices. The urban poor across Asia may pay 20 to 40 times more per liter than connected users. In Manila, the poor pay $15 a month for non-connected water while connected users pay only $5 per month[16]. For the same reason, poor users of the informal sector use unsafe water sources.

Moreover, class division enhanced by unequal access to water is often the source of conflicts. In China for example, unequal access to water resources, regardless of aggregate availability is proven to "cause water scarcity for certain portions of the population thereby exacerbating interclass or interstate tension, and create[ing] new tensions where previously there were none."[17]

The question of water pricing is in direct relation to the equality problem. Ideally, water revenues should generate funds for necessary infrastructure development and expansion, ensuring at the same time that water services can be affordable for all citizens. However, in developing countries, expenses needed to improve infrastructure are huge and the proportion of poor in the population is very large,

[15] Watkins: *Human Development Report 2006,* 2006, pp. 52

[16] Asian Development Bank *Water briefs*, 2006

[17] Cannon 2006, pp. 315

too. As a result, private companies may not be willing to serve the poorest areas at affordable prices. One of the solutions is cross-subsidizing of the poor areas by richer households, installing a multi-tiered tariff system. However, this solution may not be efficient in cases where the majority of the population are poor. Private companies have to care about cost recovery, aiming for either full cost recovery or partial cost recovery, which means that the tariff is set to cover either all the costs, including investment, or operational costs only. In some cases, full cost recovery is incompatible with affordable prices for customers, thus, public subsidizing of the infrastructure is necessary[18]. Hence, as will be elaborated on later, the removal of politics and public sector decisions in the process of water supply seems highly questionable.

Gender equality is another key point when considering the problems of water supply, it being not only important from moral point of view, but also critical for the efficient implementation of projects. Women are often those who use, bring and manage water in rural areas and take care of household hygiene. They are the most concerned by lack of adequate water sources near the households and suffer greatly from the lack of sanitation facilities. Insufficient understanding of gender issues is recognized to be one of the elements explaining the failure of the Macina Wells project in Mali, where gender roles were not understood and incorporated in project planning. The facilities were impractical for women who were primarily responsible for collecting water from the well. Consequently, they returned to their old methods of water collection.[19] The Philippines Communal Irrigation Project is seen as a more positive example where women's participation has been ensured. Women were involved at all levels through recruitment of female community organizers, ensuring women as well as men participated in water user associations and supporting women in taking up leadership roles.[20]

To avoid confusion and better understand the debate, equality and equity should

[18] An example of this can be found in Madagascar: the size of the village is a crucial variable in determining cost recovery of investment in the construction of a well, and in small villages full cost recovery is impossible without subsidies. (Minten et al 2002)

[19] Sever 2005, pp. 3

[20] World Bank, 2002

be distinguished from fairness. Equality is often used for equal access to water. Equity requires that equals be treated equally. In tariff fixation, this usually means that users pay amounts, which are proportionate to the costs they impose on the utility. Equity is therefore a quantifiable notion that can be defined and verified.

Fairness is a wholly subjective concept that can have very different meaning for different actors. Fairness is often included in the debate between actors and invoked by populations for the purpose of protests, provoking contradictory reactions and evaluations from different actors. Questions of equity and fairness arise as to types and levels of tariffs set. A high price for industrial water use may be considered fair or not, as well as charging all customers the same price (this is not necessarily equitable because of differences in costs of service). Subsidies to some customers are not necessarily equitable but may be seen as fair, while a marginal cost-based tariff is expected to be equitable, but not necessarily fair. In many countries, pricing tends to shift from fixed charges towards volumetric charging: the more you use, the more you pay. There is also a trend in some developed countries, moving from decreasing-block tariffs and towards increasing-block ones. In other words, the charge increases with each additional unit of water used or wastewater treated, rather than providing discounts to high-volume users. Such practices also bring in equity and fairness issues.

3. Privatization as a solution

As has been demonstrated, the problems facing water supply are complex, and the questions surrounding its management hotly debated. Commercialization through privatization has been proposed as a means for solving the gravest problems of equality and efficiency, and weighing the benefits of private versus public management of water supply highlights that both have their advantages and drawbacks. Since it is the aim to evaluate to what extent water management systems can (and should) be depoliticized, it is worth taking a closer look at the various forms of privatization. The term 'depoliticization', is defined for our purpose as the removal of any political character from water supply, by removing it from the public realm of politics, and minimizing to the greatest extent possible influences and interferences from (oftentimes untrustworthy) governments, politicians and political parties. Logically, if political whims are to be kept out water management for the sake of increasing efficiency and ensuring equality, then water supply needs to be moved out of the public sphere and into the private sector.

Various categorizations exist, of the different structures through which privatization can be achieved. These structures are classified differently by various organizations. The World Bank Public-Private Infrastructure Advisory Board for one describes five possible structures for the privatization of water supply[21], whereas the Swiss State Secretariat for Economic Affairs (in partnership with the Swiss Agency for Development and Coordination and Swiss Reinsurance Company) outlines five slightly different categories.[22] Generally, the frameworks can be summarized along the following lines:

Firstly there are service contracts where the government outsources specific tasks such as billing and metering to a private operator for a short period of a couple of years. Little risk or responsibility is transferred and thus incentives to improve

[21] Outlined in their manual *Approaches to Private Participation in Water Services – A Toolkit*, 2006, pp. 7-11

[22] Outlined in their jointly published manual *Private Public Partnerships in Water Supply: Implementation Guidelines*, 2005, pp. 45-47

efficiency and equality are limited, and remain largely with the government.

A second model involves management contracts, where the government hires private contractors and transfers the responsibility of managing the water supply for a short time period of three to five years. Incentives to increase efficiency can come in the form of benchmark targets and bonuses for successfully reaching them. Nevertheless, room for greater more effective improvements is limited as power still rests largely with the government. The incentives for risk taking and new investments on the part of the private operator are few since their remuneration is not dependent on customer payments. Government imposed tariffs and subsidies also lie beyond the control of the private operator.

Thirdly there are affermages and leases, where the private operator is responsible for management and maintenance of the supply system, but is not required to make investments. In this model the incentive to improve operations comes from the fact that the private operator profits from the revenues collected from the customer (to a varying degree, depending on if it is an affermage or lease). The government is responsible for investment costs and retains the ownership of the infrastructure.

Lastly there are concessionary agreements and divestitures under which not only the management responsibility but also financing for maintenance and investment is transferred to the private operator. The financing for this often comes from equity loans from development banks and international debt.[23] In concessions the ownership of the asset legally still remains with the government, nevertheless the rights are transferred for the duration of the agreement, which generally is set from 25 to 30 years. At the end of this term the rights, as well as any additions the operator made, are returned to the state. In divestitures even the legal ownership of the assets is transferred to the private operator. There have been disastrous and successful examples of these models, such as in Cochabamba or Manila (the latter will be presented further in this paper as a case study).

[23] Swiss Agency for Development and Cooperation: *Private Public Partnerships in Water Supply Implementaion Guidlienes*, 2005, pp. 46

Hence, it is clear that the commercialization rhetoric cannot be reduced to a simple choice between public ownership and management and privatization, as varying combinations exist. Depending on their nature, private-public partnerships allow for more subtle distribution of tasks and responsibilities between public and private firms, which can improve investment capacity and efficient realization of projects, accelerate decision/making process and stimulate economic development. More balanced public-private partnerships have found many advocates especially regarding possible solutions to situations in developing countries. For one, the Swiss Agency for Development and Cooperation promotes the public-private partnership approach in the projects it is involved in, where the need for cooperation from all stakeholders in the water supply chain is emphasized. These parties involve national and municipal government, investors, regulators, donors, trade unions, consumer NGO's community groups, beneficiaries and households.[24]

Other approaches to the privatization process of water supply are promoted by entities such as international networks that have established themselves to help connect private water suppliers to the public market and thus facilitate the business. One such an example is that of Aquafed, an international federation of private water providers. According to its mission statement, it "exists to connect private water operators, public institutions, and civil society organizations".[25] Based in Paris and Brussels, it regroups 200 members from 38 countries, among others Veolia and Suez environment. Key to note is that is stands for the multiplication of Public-Private Partnerships (PPPs), and "not" for a depoliticization of the water-supply system.

This leads to the heart of the issue at hand. It becomes evident, that privatization does not and often cannot mean inherent depoliticization. Only the structures divestitures, and concessions, would appear to allow for reduced political interference, since all other models demand government involvement in policy

[24] As described in the manual *Private Public Partnerships in Water Supply: Policy Principles – Framework for Sustainable Partnerships*, 2005, pp. 6

[25] Aquafed 2006, pp. 1

setting. It is important to note here, however, that, even in concessions and divestitures political pressures can interfere. As will be demonstrated, they frequently do. Thus, despite considering various forms of privatization, the feasibility of complete depoliticization of the water supply remains seriously questionable. In order to understand why this is, and how politics can continue to influence the private sphere, it is useful to examine the exact nature of the different political pressures, and the direct consequences of their involvement in water supply management.

4. Political Influences

4.1 Entities exerting pressure

Political pressures exist and exert their influence on a variety of levels. For one, the distinction can be made between international (Millennium Goals, World Water Council, World Bank, IMF) domestic institutions and policies that influence the water-supply market. Further, one should differentiate between large organizations and smaller NGOs when considering actors who exert pressure on water management, as these often exert opposing forces.

Overall, the international community has accorded greater attention to water management issues over the past decades. There has been the creation of the World Water Forum, under the authority of the UNESCO and of the World Bank. Now organized every three years, it has the main objectives of promoting research on water issues, placing water issues on political agendas and encouraging political engagement. It groups 140 countries and more than 13000 members. In 2003, the Kyoto World Water Forum was the occasion for the publication of and debate on the Camdessus Report, which focused on financing access to water. In 2006 the Fourth World Water Forum in Mexico adopted the motto ‘local actions for a global challenge’, recognizing thereby the central role of the (local) political sphere as the key player in water management.

Internationally, there are many organizations involved in water-related aid programs, including, in addition to the World Bank, the Asian, American and African regional development banks, the European Union, and different UN agencies. The largest proportion of the funding support comes through grants and loans. In addition, there are many bilateral arrangements between developed and developing world countries. These institutions provide grant aid or loans for development projects but also foster transfers of knowledge and technology. As an example, we will later develop how privatization of water services started with recommendations from international institutions, the most vocal of which was the

World Bank.

Generally, the IMF and the World Bank have played an important role in privatization of water supply in developing countries. The World Bank is responsible for "structural" issues such as privatization of public companies, adding to the IMF loans financial and managerial loan conditions and implementing water projects. Those often include recommendations to increase consumer fees for water and sanitation, and to force privatization of water utilities, such as in the Ghanaian case ($110 million structural adjustment loan)[26]. Many loans accorded by these organizations have been conditioned by an effort to attain operational or full cost recovery as prerequisite to privatization. During 2000 for example, IMF loan agreements with 12 borrowing countries included conditions imposing water privatization or cost recovery requirements[27]. In contrast, in many developed countries water supply and sanitation are largely subsidized by the government, such as through the federal Clean Water Act and the Safe Drinking Water Act in the US. As to developing countries, the argument goes that full cost recovery attained by private actors should allow the countries where public debt is large and public resources are scarce to expand access to clean water and sanitation. The problem is, as in the case of Ghana, that such policies may bring a price increase too large for the customers that are unable to afford buying water. As a result the role of the IMF and the World Bank in water supply management has been largely criticized. One of the reproaches frequently made is that citizens and communities are not involved in the decision-making process. These organizations have also been accused of pursuing the interests of multinational water companies rather than of the citizens of developing countries. Thus, two contradictory political pressures exist at the international level: one from the IFIs (International Financial Organizations) and another from their different opponents such as NGOs and politicians.

Pressures from national and international NGOs usually push for increased public control, responsibility and accountability, while promoting action at the local, rather

[26] Bied-Charreton et al 2006

[27] Grusky 2001

than at the national or even regional level, as the local level is considered the most efficient geographic unit to deal with water issues. As far as water management is concerned, the idea of governance refers to regulations defining the responsibilities of diverse institutions involved in water supply: enterprises and multinational corporations, countries and communities, associations and NGOs, international aid to developing countries. It refers to water as both a private international good and, as long as it recognizes the role of states, to water as a public good.

Sometimes, political pressure also comes from populations of countries and regions where water supply systems have been privatized. In 1999, a 40-year consortium contract, Aguas de Tunari, led by International Water Limited (England) and U.S. multinational Bechtel, was established in Cochabamba, Bolivia. Six months later, following huge riots in Bolivian streets, the company was chased out of the country. Thus, civil society, represented by citizens, but also NGOs and associations, does exercise political influence when commercialization of water supply is at stake. Since water is a very sensible issue, it would be difficult, especially in a democratic society, to remove politics out of water management, on the local level as well as on the global one.

Another main and seemingly unavoidable political pressure on water supply is the issue of transnational water supply situations, especially in times of conflict. Water is often used as a tool for political leverage in international conflict situations, such as in Israel and Palestine, India or North Africa. Water supply systems have proven to be vulnerable to the effects of conflict, such as the destruction of water supply infrastructure, deliberate cut-off of water supply facilities, disruption of operation and maintenance, poor sanitation when large numbers of people are displaced as a result of war. In such cases, it is unconceivable for the private sector to manage water supply without being under the strict scrutiny of the relevant political bodies.

4.2 Practical consequences of political interference

On the practical level, political interference from government and officials has its

concrete ramifications in the management of water supply systems. For one, it is arguably in a politician's nature to want to please constituents and election supporters (such as the industries), who are usually not the ones who suffer from water system mismanagement: "researchers have shown that corruption is common in large public water projects, and in the Third World the interests of water producers are often put before those of the urban poor."[28] In India, for instance, a very fragmented water management authority allows bureaucrats to have important individual decision power over water-related issues in their respective region, thus increasing the corruption phenomenon.[29] Also, middle classes or pressure groups, such as farmers who depend on subsidies for their irrigation water, are instead also often at the forefront of political concerns, and thus "it can even happen that politicians deliberately retain systems that are economically inefficient but politically useful, because of the power that politicians and bureaucrats derive from them."[30] Concretely, this translates into the practice of engineering low water prices to drive up demand, or imposing quotas and heavily subsidizing water intensive crops. Another example of how politicians cater to certain groups, are the proven instances when construction and infrastructure projects have been carried out due to political pressures instead of economic necessity (such as in Peru, Sri Lanka and Bolivia).[31]

If the example set by the leaders of public water supply systems is one of untrustworthiness and corruption, the practices and standards (or lack thereof) will most likely trickle down the hierarchy and staff at the bottom end can also be expected to engage in corrupt practices. Thus Segerfeldt notes, "corruption also occurs on a lesser scale in the form of employees selling water on the side (e.g. by charging customers to turn a blind eye to illegal mains connections), tampering with users' bills, or allowing people to cut in line for mains water supply."[32] An essential point to remember in these examples is that they are problems that can

[28] Segerfeldt 2005, pp. 25

[29] Bied-Charreton et al 2006, pp.45-48

[30] Segerfeldt 2005, pp. 25

[31] Segerfeldt 2005, pp. 24

[32] Segerfeldt 2005, pp. 25

be present in both public as well as in private systems.

This is because ultimately it is within the government's control how the privatization process is carried through, thus there are plenty of opportunities for it to interfere. Indeed, the process of privatization will greatly influence if the enterprise will profit or fail. For one, if a government does not handle the process in a responsible transparent manner, chances of success are severely reduced. Segerfeldt notes, for example that limited information, usually due to incomplete records, is a grave problem and will lead to suboptimal bids, such as in the case of Buenos Aires's privatization endeavor (supposedly there were even instances of trade union workers destroying the records in order to hinder privatization).[33]

Political bias can also lead to unfair competition and therefore contracts with providers who are not necessarily the best. Alternatively, a government can continue to impose its policies by setting tariffs and ensuring specific conditions to favor certain groups through the conditions of the concession agreements it chooses to draw up.

These various influences and ramifications of political involvement shall be exemplified through two case studies, which will call into question the ability to depoliticize water supply systems.

[33] Segerfeldt 2005, pp. 107

5. Case Study

In order to understand the potential successes and downfalls of privatization and the feasibility of depoliticization of water management systems, it is useful to consider the following two examples of the process of privatization of the water systems in the cities of Manila and Jakarta.

5.1 Manila

In the early 1990s, water supply in the capital of the Philippines was owned and managed by the state water company Manila Water and Sanitation Systems (MWSS). Some parts of its system dated back to 1878 and leakage was almost two thirds of the water produced. A disproportionate amount of the poor population lacked access to the network, or received low-pressure water intermittently. Only 5% of the population was connected to sewage.[34] A Harvard Business School case study further describes the situation thus: "MWSS was heavily indebted, owing US $380 million to various creditors. Servicing the MWSS debt load prohibited government spending on critical public goods and services, including improvements to the water and sewerage system. With 8000 employees, MWSS was also known to be overstaffed and inefficient."[35]

As a condition for further IMF and World Bank loans the government was forced to privatize the MWSS, and in June 1995 the "Water Crisis Act" was passed to allow for this. The clear objectives of this move were to "renew and expand water and wastewater services coverage; improve deliver of services; and increase the operating efficiency."[36] For this to be achieved in the most effective manner two services zones were established in the east and west of the city and concessionaries were opened separately for them. The aim of this division to

[34] Rangan et al 2007

[35] Rangan et al 2007, pp. 2

[36] Rangan et al 2007, pp. 3

ensure greater competition in bidding, allow for more leverage in negotiations, balance power and obligations between the eventual concessioners and the regulating authority, allow for benchmarking of performance throughout operation, and finally act as a safety valve if one concessionaire failed.[37] The bidding terms explicitly prioritized lowest water rates, greatest network coverage and efficiency (with the aim of network expansion in poor areas). In the Concession Agreement clear targets were set for the privatization, such as for the east sector, where water connections were to be raised to 94.6% and sewer connections to 55 %. If these performance targets were not met, there were to be consequences in the form of financial penalties.[38] A Regulatory Office was established to oversee the implementation of the contracts, evaluate performance and take responsibility for tariff adjustments (three regulatory mechanisms – inflation, extraordinary price adjustment (EPA) and rate-rebasing - were introduced through which tariff setting would be determined[39]).

The east side concession was granted to Manila Water Company, while the western concession went to Maynilad Water Services. Only 5 years after the respective private corporations took over the situation looked remarkably different in the two city areas: while Manila Water Company was thriving, Maynilad Water was forced to file for early termination of the concession in December 2002. Given the start contrast in the two outcomes, it is worth examining what structures were applied in both places, and what politics were in play that might have influenced either situation.

Manila Water Company was co-owned by the established Philippine conglomerate Ayala Corporation, other international companies such as Bechtel, United Utilities, and Mitsubishi, to name a few. A small part was also publicly held after an IPO offering in March 2005. It was this previously held know-how of the parent companies in the areas of administration of services as well as of privatized public utilities (United Utilities was the largest U.K. operator of water and watershed

[37] Wu & Malaluan 2008, pp. 213

[38] Wu & Malaluan 2008, pp. 215

[39] Rangan et al 2007, pp. 4

systems) that allowed Manila Water to implement an effective management system in their zone. The results speak for themselves: by 2006, 1877 km of new pipes were laid (one third of their network coverage), the number of households served increased from 325'000 to 909'000 and the volume of billed water doubled to 992 million liters per day.[40] 24-hour access increased from 26 % to 98 % and the water loss from the system decreased from 63% to 30%.[41]

It has been pointed out by Wu and Malaluan, that factors such as corporate governance, financial management and operations management were central in the success of this privatization process.[42] Indeed, Manila Water invested heavily not only in the infrastructure but also in employee training and engaged in individual target setting, to increase overall efficiency and productivity. They fostered a positive customer service oriented corporate culture and retained most of the MWSS staff workers. By 2006 even most of the foreign engineers had been replaced by locals. Furthermore, to facilitate the efficient management of the area, seven business areas were created, each of which was subdivided into demand monitory zones, which were further divided into district meeting areas. A structured team responsible for each area ensured rapid response, efficiency and a better understanding for the needs of the customers. This decentralized management structure also allowed each employee to acquire a sense of personal responsibility and initiative to achieve targets and reap the benefits. Lastly, the successful implementation of the Water for the Community program focused on making water available for the low-income families in the poor areas of town by providing one connection for a community, and no longer requiring land ownership for water connection.

Maynilad Water was a joint venture of Benpres Holding (owned by the Lopez family) and Suez. A key difference between the two concessions was the settlement of the multimillion-dollar debt, which MWSS still owed foreign investors and which was discharged on the private concessionaires. The debt had been

[40] Rangan et al 2007, pp. 6

[41] Rangan et al 2007, pp. 6

[42] Wu & Malaluan 2008, pp. 221

divided unevenly, with 90% settled on Maynilad and a 10% on Manila Water Company. According to the Manila Times MWSS, sources said the reason for this was to make investments into the East Zone more attractive, as the east part of the city was less densely populated and had a lower coverage. This meant it would require more capital investments, as opposed to the West side, which had a higher population density and an extensive network, and thus needed less investment.[43] Be that as it may, the Asian financial crisis devalued the Peso, causing a debt that was inherited at 1$ to 26 Pesos, to balloon when 1$ equaled 50 Pesos.

Nevertheless, the failure of Maynilad cannot be blamed solely on this occurrence. As Wu and Malaluan describe, the management of Maynilad was markedly different to that of Manila Water. Maynilad relied heavily on services and consultancies from its parent companies Suez and Benpres, and did not value the MWSS workers they kept on staff. Furthermore, as an example, "Maynilad spent, per employee, 80 per cent more on computers […and had] comparatively higher operating costs […] on almost all categories. […] It is especially curious that Maynilad's operating costs, especially non-personnel operating costs, actually increased dramatically while its financial woes were worsening; one would expect to see exactly the opposite in a financially distressed company."[44] From 1997 to 2002 they had requested (and been granted) six rate-increase moves, all of which were unable to alleviate their financial distress.

As can be seen, privatization holds great potential for the improvement of water supply system, or it can present as many problems as inefficient or corrupt public systems. Remarkable in the literature on the privatization of the Manila metropolitan water system is the absence of blame or mention of (negative) political influence from the government in the process. There seems to have been excessive concern with making the bidding process and the concession terms transparent and unbiased, with an emphasis on keeping competition alive.[45] Indeed, Manila Water Company had submitted the best offer for both zones, but in

[43] *The Manila Times*, March 26, 2003, as quoted in Rangan et al 2007, pp. 4

[44] Wu & Malaluan 2008, pp. 214

[45] Dumol 2000, pp. 71

the desire to maintain open competition, the government was 'forced' only to grant them one, and Maynilad the other.[46] Yet, as this example clearly demonstrates, it was not necessarily the lack of public politics, but the high quality of it, that helped the transition to privatization to occur.

A further consideration is that a lack of negative external political influences does not guarantee a successful internal management. Indeed, questionable internal management practices such as that of awarding contracts to subsidiaries of parent companies can often seriously affect both the efficiency and the transparency of privately run companies. Thus, just as in public structures political influences can hinder efficiency, so can internal politics and questions of governance affect a company's success. In the case of Maynilad, "related-party transactions were partly responsible for internal conflicts reported between the two partners, but also led to higher costs for start-up and enhancement operations. Manila Water's trajectory, involving few dealings with related parties, avoided such problems."[47]

5.2 Jakarta

Jakarta, the capital of Indonesia, is a city with the largest population in the country, located in the most populated island, Java. In 1994, only 42,6% percent of the capital city of Jakarta's residents had access to piped water and half of the city's population lived in slums. The existing water system was in a very bad condition and was unable to cope with a growing population that had exploded to approximately 10 million in 1997. Before privatization, piped water was not of potable quality and the large majority of residents still used groundwater supplies at little or no cost. Many purchased water from *tukang pikul* - vendors selling water in jerry cans. The provision of water supplies in Indonesia used to be the responsibility of public utilities owned by municipalities, PAM Jaya in case of Jakarta. In 1997, PAM Jaya had 428,764 water connections, serving, as mentioned above, around 43 percent of Jakarta's population, but 57 percent of the water it

[46] Rangan et al 2007, pp. 4

[47] Wu & Malaluan 2008, pp. 225

controlled was considered non-revenue, that is, lost to leaks or stolen.

The story of the privatization of Jakarta's water began in early 1990s, when the World Bank was encouraging Indonesia to privatize its utilities. Since the end of 1960s, International Financial Institutions have been playing significant roles in water resources in Indonesia: the World Bank's first loan was disbursed in 1968, and 29 water supply projects in Indonesian cities were funded by the Bank in 28 years. The Bank interfered in all areas of Indonesia's water management. In 1991, the Bank agreed to lend PAM Jaya $92 million for infrastructure improvements. The aim was to make PAM Jaya more attractive and viable for privatization. This loan was matched by one from the Japan-based Overseas Economic Cooperation Fund, to build a water purification plant in Pulogadung, East Jakarta.

Several years later, the Suharto government decided to privatize local facilities. The two companies chosen by the government were Suez and Thames Water Overseas Ltd. There was no open and transparent bidding process. At the time, most multinational companies cooperated with the Suharto cronies, and corruption was present in almost every business, in electricity, oil, or water.

Thames first came to Indonesia in 1993, forming an local company with Suharto's son Sigit Harjojudanto which received a 20 percent interest. The Suharto's crony had no experience in the water business. Suez cooperated with Anthony Salim, a Suharto crony and head of the Salim Group, one of Indonesia's largest companies. The two 25-year concession contracts were finally signed on June 6, 1997. The two private operators were responsible for the management, operation, and maintenance of the city's water supply system, as well as provision of capital investment, collection and billing. The two companies immediately moved to new modern offices in Jakarta's business area.

Thames and Suez were supposed to modernize and expand the system. The goals set by the contract were the following: in the first 5 years to expand the pipeline, increase connections to 757,129, invest $318 million, add 1.5 million customers, service 70 percent of the population and reduce leakages and the amount non-revenue water. PAM Jaya agreed to force businesses and private households to stop using private wells and buy their water from the private firms. Government negotiator Lanti recalled that during the negotiation of the contracts, Suharto

intervened via intermediaries in favor of the private operators.

However, it was unclear what authority PAM Jaya or other government agencies had to monitor the private firms, and what sanction should follow if they failed to meet the targets. PAM Jaya had no right of access to the private operators' financial reports.

In 1998, few weeks after the contracts were signed, the Asian financial crisis hit the country, and the downfall of Suharto changed the political situation. Following the pressures by street demonstrations in Jakarta opposing to the deal, the government of Indonesia tried to revoke the contract but had to renounce because of the threats of lawsuits coming from Thames and Suez. Major company executives from Suez and Thames fled to Singapore. Lobbying and intervention by French and British diplomatic officials helped the private firms to come back to the Indonesian market after a renegotiation of the contract. Since former president's family and cronies were targets of public anger, Thames and Suez bought out shares of local business operations. Both held 95% stake in the two new companies, PT Thames PAM Jaya and PT PAM Lyonnaise Jaya (PALYJA).

The salaries paid by private operators to the foreign executives who lived in the wealthy neighborhoods were much higher than those paid to PAM Jaya officials, causing social problems among the employees. About 80% percent of the employees were seconded from PAM Jaya, receiving no more than $25,000 but the salaries of some top foreign executives were between $150,000 and $200,000 annually[48]. This policy resulted in strike actions in April 1999, with water workers demanding equal pay for all water workers. A newly organized trade union, SP PAM Jaya, opposed to the privatization and urged city residents to support them by refusing to pay charges. Thus, a lack of regulation and the lack of negotiation power of the public company executives resulted in social tensions and hindered the efficiency of the project.

The prices continued to increase - by 15 percent in February 1998, by 35 percent in April 2001, and by 40 percent in April 2003 - but the service did not significantly

[48] Guerin, 2003

improve. The total increase by October 2005 was of 220 percent[49]. The consent of Jakarta's parliament members and governor were not needed to increase the tariff. Even when Indonesia was hit by the economic crisis, the charges continued to rise. PAM Jaya's debt, already important before the privatization process began, was increasing, since the public firm was to pay management and operational fee (called water charge) to the two firms, using money collected from water tariff. Suez had increased connections for the relatively poor neighborhoods in its districts by 255%, and TPJ by 55%.[50] A multi-tiered tariff grid supposed some cross subsidizing, with significant differences in tariffs between different groups of customers. Still, the majority of new customers belonged to the richer and industrial areas of the city. Most poor communities remained underserved due to unaffordable connection charges and lack of incentives for the companies to service these areas.

Investment and expansion targets were never met: investment was about $200 million short of the target, and the total increase in number of connections was of 52% for the whole Jakarta[51]. Moreover, new connections do not necessarily mean that new customers got access to piped water: it can mean that existing supply has been metered, or that customers got access to a standpipe or tanker. The investment of about 850 billion rupiah by 2001 was only worth only $100 million because of the currency depreciation, compared to the promised $318 million.[52] Water leakage on March 2006 (compared to 45% in 1997, when water service was still managed by PAM Jaya) was of 53% for PALYJA and 55% for Thames.[53] The quality of water was largely complained of as very bad; customers had to and still have to boil drinking water to ensure its safety.

As a conclusion, the case of Jakarta shows no real evidence that privatization or even private sector participation improves water supply. Some of the significant problems were lack of formal regulatory or oversight mechanism, the ambiguity of

[49] World Development Movement, 2005

[50] Mangahas, 2002

[51] Anwar, 2003

[52] The International Consortium of Investigative Journalists, 2003

[53] Hasibuan, 2007

the contract and weak enforcement. The Jakarta Water Supply Regulatory Body, established only in 2001, is inefficient and accused of lack of independence. Corruption, lobbying and poor competition policy resulted in lack of incentives and accountability for the private firms. High operating costs and poor quality of service show that private firms are not necessarily operating in a very efficient way, and social problems show the importance of regulation and of externalities that are not taken into account by private operators.

It can be seen from these two strikingly different examples how the process of water privatization plays a crucial role in determining the outcome and the success of the endeavor. The process of privatization is inherently a political one, which signifies that even if the aim of privatization is to minimize political influences, it is evident, that politics continue to have an impact.

6. Keeping Politics Out

6.1 Essential Components

It is clear from these examples as well as the literature on the privatization of water that certain non-negotiable characteristics emerge as being essential to ensuring that interfering political powers are kept to a minimum in water management in the private sector. Segerfeldt addresses some of these components in his book on water privatization, and several of them are supported in the material on Integrated Water Resource Management. Many of them are not specific to the private industry, but are equally applicable to public management systems. They are, however, especially important when trying to establish as depoliticized an administration as possible.

For one, transparency and neutrality in the opening of tenders are essential. Full, honest and unbiased information must be available for the bidders to make use of. This will allow for equality in competition and increase the likelihood of success. Furthermore, as Segerfeldt points out, transparency will decrease the possibility of bribery and other corruption manifesting itself through individuals seeking influence and gain, thereby inspiring confidence among both the public and businesses involved.[54] In the process of privatizing water in the Philippines, Dumol highlights how transparency was one of the most important components in a transaction, and that it was an explicit focus of the process.[55] The government made it their priority to deal with bidders in a fair manner, with equal access to information, thus making cheating virtually impossible.[56]

Neutrality and open competition are not only important for the initial bidding process, but also for the later administration of the water system. The evident lack

[54] Segerfeldt 2005, pp. 106-107

[55] Dumol 2000, pp. 17

[56] Dumol 2000, pp. 71

of neutrality and open competition within Maynilad, who outsourced much of the consultancy work to subsidiaries of its French parent company Suez, lead to unnecessarily high costs and inefficiency.[57]

Next it is important that the composition of terms of the concession agreement be as simple and clear as possible. The relationship between the distributor, the government and the stakeholders must be clearly determined and legally based, so that responsibility and accountability for risks incurred are stipulated. [58] The case of Jakarta, discussed above, shows that clear definition of responsibilities of each side and defining sanctions in case of non-compliance are highly important, and that such defects in contracts can come from lobbying, corruption and unfair negotiation processes. Furthermore, there needs to be a formal transfer of water rights allocations, as was the case in Manila, where it was clearly stipulated, that facilities were to be turned over to the companies who were responsible for carrying out improvements, all of which would eventually pass back into the ownership of the government after the 25 year agreement expired.

As with the concession agreement in the Manila case, priorities need to be outlined clearly in the agreement, benchmarking strategies must be set and legal consequences for non-compliance must be included. Furthermore, it is strongly advisable that a government, when analyzing the bids received judge the suitability of the companies to reach these targets according to strict business principles. Regarding the Manila example, Wu and Malaluan find that "government officials guiding the bidding process would be wise to pay careful attention to each bidder's corporate governance practices, as these could be an indicator of how that bidder might perform if awarded the contract. Government can also include good corporate governance practices in concession agreements."[59] This precisely was a downfall in Jakarta where bad corporate governance policy led to the strikes of 1999.

[57] Wu & Malaluan 2008, pp. 218

[58] Segerfeldt 2005, pp. 108. This condition is also supported by the Integrated Water Management Resource principles.

[59] Wu & Malaluan 2008, pp. 219

Despite this need for regulation, there must also be room for ingenuity on the part of the supplier, as with Manila Water Company, who decided land titles were no longer a requirement for a water main connection. Instead they allowed for households to have access to connections by establishing above-ground pipes linked to a central meter run by a residents association or non-government agency. Not only did this reduce costs and by spreading access equality, but it also increased efficiency by reducing illegal connections.[60]

It is essential, that the array of terms and conditions mentioned above be realistic and attainable, in order to be effective. Moreover, however, the evaluation of private results must also be fair and realistic. Often critics of the privatization of water attack their opponents by highlighting how private enterprises have fallen short of their targets, and tout this as reason enough to discredit privatization. Yet credit must be given to the positive advances that in many cases have nonetheless been made. Clearly comparing the ideal vision of public administration to the reality of private providers (or vice versa) is counterproductive.

Open communication is another key component in the process of depoliticized water privatization, not just between the government and the bidders, but also with the public. This is especially important when selling privatized water to the poor, who need to understand what it is they are paying for. This is because the poor are often very willing to pay for reliable water supply, be it in the agricultural sector (where the poor often have to pump groundwater directly) or for human consumption (as Rogers et al. point out[61]). Empirical evidence suggests that the poor, once informed about water-supply issues and pricing potions are overwhelmingly willing to pay for privatization, and that higher prices in the water sector as a whole are meant to increase equity and efficiency. Indeed, referring to the Manila case study, Wu and Malaluan find that, “perhaps the most important benefit [of openly available information] was that the information available through benchmark competition helped to dissipate the public’s anxiety in dealing with tariff

[60] Watkins *Human Development Report 2006,* 2006, pp. 98

[61] Rogers et al 2002, pp 14-15

increases."[62] Thus, keeping the public informed ensured their willingness to pay for a service that they also ended up receiving (access to reliable water supply).

Appropriate adaptation and consideration of the local situations is a further element essential in successful water administration. Doubtlessly, conditions vary between neighborhoods, cities or regions, which is why a decentralized approach guided by cooperation between different sections seems the most successful structure (such as Manila Water Company implemented). Through coordinated, locally adapted administration systems, efficiency and equality can be improved (as the Mexico World Water Forum recognized).

Lastly, the Human Development Report of 2006 notes that "perhaps the most important, is that political leadership matters."[63] This may seem like an obvious component, or even a contradictory one, if one attempts to depoliticize water supply systems. As the two case studies have shown, however, political leadership is a very real variable that cannot be discarded, despite the fact that it can be difficult to control. The importance of a political figure who is capable and unbiased is of essence, since in the end, water supply is a responsibility that rests with the government, even if they decide to privatize and outsource the responsibility. In the case of privatization in Manila it has been argued by Dumol that President Ramos who was a exceptional leader, the Secretary Vigilar who had experience in seeing through large transactions, and Administrator Lazaro who was "honest and competent and had no desire to hold on to his position"[64] all contributed to the open transparent process.

Not all situations, however, have reliable or responsible figures in leading positions in the process of privatization, as the Jakarta example clearly demonstrates. Therefore, because of the difficult nature of determining who the political players are in a government, the importance of independent regulating bodies cannot be over emphasized: "regulation is necessary to ensure the consistent delivery of

[62] Wu & Malaluan 2008, pp. 219

[63] Watkins *Summary – Human Development Report 2006*, 2006 pp. 22

[64] Dumol 2000, pp. 119

service obligations, to determine “efficient” pricing, to conserve water, to extract professionalism from managerial staff, and to ensure the financial viability of the utility (especially when public subsidies are involved).”[65] It should thus be noted that the conditions of successful commercialization of water supply listed above in many cases are extremely difficult to implement. In a country without a democratic government and where corruption is omnipresent, as in Jakarta in times of Suharto for example, the freedom of actions of non-government actors such as regulatory bodies is reduced, and private actors often choose to follow the existing “rules of the game”, realizing that doing business successfully is impossible otherwise. Ultimately, as the Human Development Report of 2006 notes, “under the right institutional conditions the private sector can provide the technologies, skills and resources to enhance access to water. But creating these conditions through effective regulatory institutions is a complex affair that goes beyond passing laws and adopting models.”[66] What this allows one to conclude, then, is that keeping politics out of water privatization is incredibly complex and its feasibility is highly questionable.

6.2 Should politics be kept out of water management?

What the evidence then points to, is that depoliticizing water management structures is a near, if not an actual impossibility. This consequently begs the question: is it really desirable that politics be kept out of water management?

International regulations certainly are an important component in attempting to bring about greater access to water for the poor people of the world. The pressure created by the Millennium Development Goals, for example should not be discredited, and the pressure exerted is evidently a political one. Nonetheless, such global policies only have limited power. It cannot be forgotten, that ultimately, the responsibility of providing water to the people rests with national governments,

[65] Montemayor 2005, pp. 221

[66] Watkins *Human Development Report 2006*, 2006, pp. 89

regardless if it is a developing or developed country. Furthermore, water supply situations vary greatly across developing countries, in terms of natural endowment in soft water and in terms of political systems. Thus issues of inequality and inefficiency must be judged and solved on a case-by-case basis, through solutions that are locally determined, be they public or private.

There certainly are examples to be found, where participatory politics have indeed lead to more efficient and consumer-oriented policies by demanding transparency and checks, on both private and public management of water. In Porto Alegre, for example, trade unions, city mayors, Deputy Chamber, NGOs, corporations, community organizations, the Church and other instances of the civil society successfully resisted a legislation proposal, which would have permitted that state and municipally owned companies could be privately acquired. Water and sewerage services in the city are therefore operated through the city council's *Departamento Municipal de Água e Esgoto* (DMAE – Municipal Department of Water and Sanitary Sewage), yet are evaluated as being particularly efficient and equal, since the city water system is currently able to serve 99.5% of the population, at a one of the lowest prices in the country. The DMAE's Deliberative Council is also submitted to some form of democratic control, as the members of the Council and their substitutes are appointed by the mayor from a list of three nominations for each of the 13 organizations represented in the council[67]. Naturally, the Porto Alegre situation is specific and should not be used as an argument to discredit private water management in favor of public utopia. Nevertheless, it demonstrates how it would be naïve to claim that political interference in water supply is generally undesirable.

Furthermore, it is necessary that politics be involved in enforcing legal provisions allowing for water-privatization. An example of a lack of political enforcement is Chile, where the Water Code of 1981 is considered by the World Bank as a text-book example of legislation dealing with privatizing water-management. In Chile, water is privatized independently of the land, so that 'water rights' can be traded like any other economic goods between large water consumers. Yet, this trade is

[67] Hall et al 2002

not yet developed, as the tradition remains against selling water, a symbolic resource.[68] The political sphere did not enforce its privatization mechanisms. Based on the Chile example, we can argue that there is a role for politics in accompanying even a complete privatization of the water management system

Another argument in favor or maintaining some centralized governmental control over water management is the concern of time-sensitive response to natural catastrophes with respect to the populations' access to water: in such cases, there must be a political body that can take immediate decisions to protect their citizens and the greater good, something that the private sector, no matter how well-governed, is not in a position to do itself.

For reasons that have become apparent through the case studies, and aspects highlighted here, it is evident, that good governance and transparency are more important in regulating water management than whether it is public or privately run. Even if a water supply is privatized to the greatest degree possible, the political level still remains in charge of formulating the strategy. Therefore, should be argued that politics should not be kept out of water management in developing countries. Be it public or private, what matters is the quality of governance applied to the water sector. According to Bied-Charreton et al, governance means thinking outside of the dichotomy between the market and the state, both being alternative modes of resource allocation and management.[69] Goal setting and social issues such as poverty and inequality reduction have to stay priorities of a government, since market alone, as shown above, does not resolve all the problems of water supply. Commercialization thus means leaving efficient management to private companies, but not taking politics out of water. This so-called “network definition” of governance (between states, private markets and “civil society”) describes most accurately the water sector, where actors are particularly diverse and the economic characteristics (essential good, natural monopoly in water-supply) so specific.

[68] Bied-Charreton et al 2006 pp. 48-49

[69] Bied-Charreton et al 2006 pp. 41-42

7. Conclusion: A Question of Governance

In conclusion then, the determining question is not whether water should be commercialized and depoliticized, but how it is governed. For this, there evidently are a wide range of possible structures along the privet-public spectrum, for each of which can be found an example to support success or failure, making it hard to generalize about the ideal management structure.

The overwhelming majority of the world's water supply systems are public, but privatization in water supply has increased over the past few decades. Indeed, privatization has been vigorously promoted in the international policy arena and has been implemented in several countries in the southern hemisphere throughout the 1990s. Arguably, however, it has not achieved the scale or the benefits anticipated by international financial institutions such as the World Bank or the IMF, that have been advocating the process. Nonetheless, as Budds and McGranaham point out, this is not necessarily due to some an inherent contradiction between private for-profits and the public good, but rather this is a result of the specificity of water supply in the most destitute areas. According to the same authors, it might be, that "neither publicly nor privately operated utilities are well suited to serving the majority of low-income households with inadequate water and sanitation,"[70] the challenge is simply too big.

According to Bied-Charreton et al, what then determines the success or the failure of water-management in general is in fact "a complex set of factors, especially institutional factors, whose contextualization is a necessary condition if one is to understand them".[71] Cultural norms and social institutions influence markets, meaning that the efficiency of the private sector is therefore, *de facto*, not as great at what the economic theory would imply. Because water is both an international private good and a public good essential to life and development, scarce in many regions and demanding a large infrastructure, its governance is complex: should a

[70] Budds & McGranaham 2003, pp. 87

[71] Bied-Charreton et al 2006, pp. 54

country decide to privatize its water resources, we argue that politics cannot, and more importantly, should not be kept out.

Possibly as a result of the very different results of privatization, public-private partnerships have received growing attention and support. Combining political strategy to guide water supply policy and legitimize the undertaking, with private operational mechanisms that supply know-how and increase efficiency is arguably the best medium between the two extremes, and the best equipped to solve local problems. Such partnerships also facilitate international support in that technical and financial assistance can be delivered to the supply systems in developing countries without encroaching on a country's sovereignty, or depriving it of its legal right and responsibility.[72] Such partnerships also allow for considerations of sustainable development and use responsible use of the natural resource to be included in policies, since multi-stakeholders are allowed input in the process. This is not to say that private companies cannot also act responsibly[73], however, it is easier for such environmental and social concerns to be taken into consideration when the public are allowed active input and government policies are structured and enforced accordingly.

[72] This is the approach that the Swiss Agency for Development and Cooperation and the Swiss Secretariat for Economic Cooperation have adopted, for which they have developed detailed policy guidelines and implementation tools to help with the implementation of PPP projects in developing countries. See 'Partnerships for Water,' http://www.partnershipsforwater.net/.

[73] The case of Manila Water clearly demonstrates this, as the company decided to treat and recycle its waste rather than dumping it, and engaging in other sustainable and socially conscious practices. See Rangan et al 2007.

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