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Water Provision in Malaysia
Privatise or nationalise?

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Introduction

By Wan Saiful Wan Jan

This collection of essays was originally released by us in conjunction with the World Water Week 2009, to look at what we can learn from global successes and failures of water provision and management services. We are now releasing a slightly updated version to coincide with the Water Conference 2017, organised by the Federation of Malaysian Manufacturers (FMM). It is important to note, however, that the three essays subsequent to this Introduction remain as they were originally written and it may be worthwhile revisiting the situation today to obtain a more updated picture.

Our aim with this publication is to make clear that the priority for any public policy, including the management and provision of water, must be the general public good. Policymakers need to put in place the policy that is best for the public, not the one that best suits their personal, political or ideological agenda. Especially when it comes to critical resources like water, the ultimate goal must be to find who can best deliver an effective water supply at the best value for money for consumers.

In recent decades, there has been increasing debate over how to manage the world's natural resources and how to guarantee more equitable access. At the heart of the debate is water. Water scarcity – whether natural or artificially caused by poverty and poor infrastructure – continues to affect more than one billion people on Earth. There has been widespread condemnation of unequal access to water, as well as mismanagement and waste of the precious resource. Many of those involved in the water debate can agree on one thing – the status quo cannot continue.

Disputes over water supply and management are not a recent phenomenon. Some speculate that water disputes can be traced back to almost 5,000 years ago[2], stretching to the mythical Great Deluges of the Antediluvian Age and the Lagash-Umma Border Dispute in Ancient Sumer. More recently, non-governmental organisations and the media have highlighted a multitude of localised conflicts between the public and both the public and private water sectors. One such example is the "Cochabamba Water War" in Bolivia in the year 2000 whose ramifications are still studied until today.

[2] http://www.worldwater.org/conflictchronology.pdf

Most of the disputes revolve around who should control water and how the management of water resources should be exercised. On one end of the spectrum are those who believe that water should be managed through a competitive market, where each stage - from collection through to purification and finally delivery of water - would be carried out by those who offer the most efficient and bestvalue service. On the other end are those who believe that water is too precious to be owned by a select few. They argue that it should instead be collectively controlled, usually by the state. There has been a growing acceptance that water, like many other public utilities, can be better managed privately without political interference from the state. However, the great majority of water remains under state control. It is estimated that just under 10% of water is formally privately managed and that drops down even lower in developing countries.

Malaysia is no stranger to this trend. There is a resentment against private sector management of water supply. But those who support collective or state management of water may find that their stance against privately-managed water has more to do with ideology, and little to do with fact. As shown by the three essays in this collection and the Malaysian experience of "faux privatisation" (outlined below), there is actually a strong case for challenging the state management of water.

On the surface, the three essays presented after this Introduction may seem to side strongly with private provision of water. But it would be a mistake to assume that the three authors are advocating an ascendancy of corporate interests. Carefully examined, we will see in these essays an overarching concern for greater equity in the distribution of water, and the belief that we must be open to any ideas that will ultimately benefit the people at large. The primary focus must be allowing people the freedom to choose, not the dominance of one ideology over the other. What the essays advocate is pragmatism, rather than rigid or doctrinaire adherence to either the pro- or anti-privatisation arguments.

The reality is, when done properly, privately run water services can create healthy competition that reduces market and price distortions, while providing safer and cleaner water for everyone, especially for the poor. But if the so-called 'privatisation' only creates rent-seeking and monopoly, it can end up being just as disastrous and as corrupt as many state-run ventures.

What the three essays say

The first essay, The Cochabamba "Water War": An Anti-Privatisation Poster Child? by David Bonnardeaux, describes what happened in Cochabamba, the third largest city in Bolivia, when residents took to the streets in 2000 to throw out the Aguas del Tunari (AdT) consortium following a rise in water prices. AdT's new prices favored the poor and were necessary, given derelict infrastructure, decades of underfunding under public authorities and the number of new household connections necessary. But increases in prices, from about 10 percent for the poorest to more than 100 percent for others were a main concern for Cochabamba's citizens. The protests were also seen as a sort of nationalist backlash against the World Bank, which had previously refused to extend loans to Bolivia unless the water and sewerage utilities were privatised.

The clashes and the ensuing political fallout eventually led to the termination of the contract. The Bolivian Government turned over Cochabamba's water supply management to a body of community leaders who were appointed to run SEMAPA, the public water supply network. The incident was then canonised all over the world as a textbook example of why water services should not be privatised. It was also seen as a heroic "resistance" to corporate power as portrayed in documentaries like The Corporation in 2003.

As Bonnardeaux's paper indicates, however, what happened in Cochabamba was not so straight forward. He explained that the failure of the privatisation of the city's water supply was not, as some argue, due to the very act of privatisation per se, but rather was caused by a myriad of socio-political factors inherent in the Bolivian landscape. Among the contributing factors were corruption and lobby from vested interests, flawed legal system, pre-existing social unrests, and hasty contract negotiations behind closed doors. Anti-privatisation campaigners rarely bring up these issues, as they insist on the ideological argument that privatisation is bad in and of itself.

Even more unfortunate is the fact that few anti-privatisation campaigners talk about how the state-run water provision in Cochabamba is now in disarray. The anti-privatisation campaigns have resulted in no service improvement for the public. As Bonnardeaux writes, it is therefore "not only misguided but counterproductive" to hail the outcome of the Cochabamba dispute as a success. It is simply another example of how Bolivia's slide to statism harmed her own people, denying them even the possibility of improved water services.

The second essay, Chile: A Dynamic Water Market by Maria de la Luz Domper presents a different picture. The case study outlines how the privatisation of water provision services and the establishment of water rights can substantially benefit the poor. Drawing on Chile's experience of nearly three decades, de la Luz Domper argues that the emergence of a water market in Chile has brought greater and better water provisions to its citizens.

Chile in the 1970s suffered from many of the weaknesses inherent in water management in the developing world. There was excessive control from the state, and both the supply and quality of water was unsatisfactory. The government gave some water users priority and ignored others. Central authorities did not possess enough information about availability or scarcity in any particular area, so water was scarce in some areas and wasted in others. This however changed with the passage of the Water Code of 1981. The legal reform created property rights for water, meaning that owners can trade their water rights independently of the land it is associated with. This Code allows the market to allocate water rights through supply and demand. By creating a bidding mechanism for the award of surface and underground water rights, it created competition in the water market.

Central to this system's success is the protection the 1981 Code awards to owners over their water rights. A dispute resolution mechanism protects the interests of both owners and consumers should disputes arise. The use of market principles for the supply of water not only resulted in a more efficient allocation of the resource, but it also significantly improved the quality of the water and infrastructure as water and sanitation companies competed to provide better services. Following the introduction of the Water Code, the Chilean Government partially privatised previously state-owned water companies in 1998. Within three years, five out of the thirteen companies were privatised, and these five served more than three-quarters of Chilean households. From 2001, the government changed strategy and decided to award 30-year concessions to private companies, allowing them to run seven more of the previously state-owned water corporations. The last state water company was eventually bought by one of the five original privatised companies, making all water supply in Chile privately managed.

De la Luz Domper found that the private providers provide more efficient services and better quality water. The private providers also invested more money to improve facilities and services. Generally, de la Luz Domper found that "improvements were made at an astounding pace". Urban Chilean areas now enjoy nearly 100% coverage for drinking water and 95% coverage for sewerage.

In sharp contrast to the secrecy and lack of communication surrounding the Cochabamba contract in Bolivia, the Chilean authorities took on board public concerns. Responding to fears that price hikes would harm vulnerable portions of the population, the government introduced a consumption subsidy. The subsidy covered between 25% to 85% of a household's water and sewerage bill. The implication of this was that households are always required to pay a portion of the bill whatever their usage. This meant that Chilean households became more careful in their use of water, thus reducing wastage of such a valuable resource.

Chile's privatised water management system therefore emerges as both an efficient and equitable arrangement. While certain weaknesses are bound to exist under any water governance system, the institutions that underpin the Chilean water markets, such as the protection of water rights, go a long way in reducing grievances and avoiding conflict. Over time, the market system should iron these difficulties out, enabling the system to naturally evolve and improve.

Our collection concludes with the third essay, *Water Provision for the Poor: How Ideology Muddies the Debate* by Alex Nash. An engineer specialising in water and sanitation, Nash wrote the essay in response to the 2006 "*Whose Rules Rule?*" conference in London organised by the World Development Movement. Nash was troubled by the conference participants' attack on the private provision of water, as these criticisms were usually based on ideological persuasions rather than any empirical evidence of poor performance. Nash writes that "The majority of those who attended the conference were fortunate to have very little experience of the depressing reality of urban areas without water and sanitation provision". Many participants, in effect, could afford to be ideological, unlike those who have no access to clean water in poorer parts of the world.

What is interesting about this paper is that Nash does not make a judgement on whether water provision should be left to the public or private sector. Considering the number of people who lack access to clean and safe water and sewerage around the world, this issue is of secondary importance in Nash's opinion. The real issue is how to provide clean water to the greatest amount of people. It is striking that Nash shares many of the beliefs of the anti-privatisation movement. He too believes that "everyone has an inherent right to water resources" and that its allocation should be "a democratically accountable process and transparent". But Nash is scathing in his criticism of those who argue against privatisation of water supply.

Nash takes three oft-repeated arguments by those who oppose private provision of water: (1) That privately managed water service providers had not significantly improved services to the majority of poor consumers; (2) That the private sector is not by definition more efficient than the public; and (3) That privatisation was being forced on developing countries by donors and lenders. In each case, Nash demonstrates how these arguments are not supported by evidence or sound reasoning. By doing so, he shows how the anti-privatisation campaigners' inflexible adherence to doctrine and ideology has denied poor people access to better water services. But Nash is not dogmatic. He admits that, especially in poor countries where poor governance and corruption are rife, privatisation is not a guaranteed success. The main question of his paper – "*If given the option to save a child's life by providing clean water, but with the condition that some shareholder would make a profit on this water, would you agree?*" is one that all those involved in the water debate need to consider.

We believe that these essays confirm the need for greater, and more informed, debate on the issue of management. The strict and rigid anti-privatisation campaign is denying us of a possible improvement in our water services. Objecting to the privatisation of water management simply because one believes private and corporate interests are bad does not make sense and ends up hurting the very people in society who need help the most. At the same time, we must be wary of the potential pitfalls of "*faux* privatisation", especially after Malaysia's own experience, as outlined below.

The Malaysian faux-privatisation experience

The management of water is not widely debated anymore in Malaysia but it was a contested issue several years ago. Following the 2008 General Elections, an unprecedented number of states fell under the control of the Pakatan Rakyat (PR) alliance and it immediately brought the issue of federalism to the fore. It had not arisen previously under the BN's near-absolute control of the federal and state governments. In past elections, when BN loses control of a particular state, the BN-controlled Federal Government simply embarked on a campaign of isolation and marginalisation in its relations with that particular state. But with five states – including Selangor and Penang, the two richest states in the federation - falling under PR's control in the March 2008 elections, simplistic marginalisation was not really an option.

One of the issues that came to the fore was the management of water supply. In Selangor for example, the state government while under BN administration gave concessions (up to 30 years) to private companies to provide various services relating to water treatment provision. The agreement included the right for the private operators to periodically increase the water tariff, subject to certain conditions being met. The nascent PR administration in Selangor then sought to nullify this arrangement almost as soon as it took over. It also sought to take over the management of water supply from the private operators. The state government's reasons for this were manifold. In addition to their professed desire to ensure that the people of Selangor would not be subjected to the unfair increases of water price, one could also point to PR's political promise to provide up to 20 cubic-metre of free water to Selangor households if they were elected.

A deeper thread, and one which has won the Selangor PR administration's much support, however, is the deep dissatisfaction in the way privatisation has taken place in Malaysia. Under Prime Minister Mahathir Mohamad several of Malaysia's public assets were privatised or corporatised since the 1980s. These included many utilities agencies. But despite the privatisation drive, the quality of services have not improved that much. Yet prices kept rising year by year. One cannot blame ordinary Malaysians if they see privatisation as a mere attempt to enrich certain individuals at the expense of the people, and without much improvement. The level of profit generated by these privatised or corporatised entities caused even further resentment as the public did not see the money reinvested for their benefit. Instead, they see well-connected individuals becoming richer and richer.

The so-called privatisation or corporatisation of state-owned agencies that began in the Mahathir era, more often than not, turned politically-connected individuals or groups, especially those with ties to BN component parties, into corporate directors. The privatised entities were often granted virtual or near monopoly on their various industries or sectors, precluding or shutting out any competition. The poor way in which privatisation à la Malaysia has been carried out has turned many Malaysians against the privatisation of more national assets or public utilities, especially when it comes to a vital resource like water. When one considers the abuses and inefficiencies that have occurred, one is inclined to share their frustrations.

The purpose of privatisation, ultimately, should be to introduce competition in the supply market. But, in the case of Malaysian privatisations, what was dubbed as "privatisation" did not actually create competition or consumer choice. This is a key factor that contributed to that frustration. The lopsided agreements and exclusive rights granted to politically-connected firms and individuals meant that the monopoly remains. What the government called "privatisation" is simply a transfer of monopoly from the state to monopoly by private, politically connected individuals and entities. Arguably, it was not true privatisation. This negative experience from our previous faux-privatisation is one that should not be repeated again, and it is also certainly not helpful in generating a healthy debate. That problems at that time was not caused by the act of privatising utilities per se. Rather, it was the state that failed the people because it was unwilling to open the market to genuine competition. Without competition, effectively, the monopolies continue.

Benefits of competition

It is most unfortunate that as many Malaysians are becoming tired of state and political interference in their daily life, the very same people call for greater state intervention in the economy. While most Malaysians know that state involvement in the economy usually leads to corruption, cronyism and nepotism, they still discount privatisation. They seem to be oblivious to the fact that to end crony capitalism, a proper competitive economy is a necessity. Competition will also force providers to improve services. In a market where consumers can swap providers, low quality provisions will drive customers away. If Water Company A supplies dirty or expensive water, why should consumers stay with Company A, and not swap to Company B? The problem is that in an environment where the state creates monopolies, there is no other choice but Company A. Even if they do not improve their water quality, consumers are forced to remain with that company. And, the likelihood is that the politically connected, state appointed company will continue to earn handsome revenues regardless of their service quality.

Perhaps the most obvious and most felt benefit of competition has to do with the pricing structure. It is widely accepted that in a nonpremium competitive market, providers vigorously try to provide the best product at the lowest cost possible. High prices generally drive consumers away, and private providers operating in a competitive market have all the reasons to find innovative ways to deliver their services at the lowest cost possible. In the context of water provision in Malaysia, it may be difficult to imagine a situation where consumers are able to change water providers every time they are dissatisfied with the service. When there is only one pipeline network owned by one entity, and when creating an alternative infrastructure is simply too expensive, some may argue that a 'natural' monopoly is unavoidable.

But even under such situation, it is still possible to create a competitive environment. The state could divide water provision into difference stages (such as purification, delivery etc) and award concessions through a transparent, politically-neutral and open tender process. The competition for concessions will force companies to make a better offer than their rivals. This will still be better than nationalisation which will create a state-owned or politically-linked water monopoly that politicians use as a political tool to bully the public.

It must also be said that the concept of 'natural' monopoly is not an uncontested one. Thomas J. DiLorenzo[3] wrote an extensive review of the history of public utilities and concluded that natural monopoly is a myth. DiLorenzo explains: "A natural monopoly is said to occur when production technology, such as relatively high fixed costs, causes long-run average total costs to decline as output expands. In such industries, the theory goes, a single producer will eventually be able to produce at a lower cost than any two other producers, thereby creating a "natural" monopoly. Higher prices will result if more than one producer supplies the market. Furthermore, competition is said to cause consumer inconvenience because of the construction of duplicative facilities, e.g., digging up the streets to put in dual gas or water lines. Avoiding such inconveniences is another reason offered for government franchise monopolies for industries with declining long-run average total costs."

DiLorenzo then went on to say that: "The theory of natural monopoly is an economic fiction. No such thing as a "natural" monopoly has ever existed. The history of the so-called public utility concept is that the late-nineteenth and early-twentieth-century "utilities" competed vigorously and, like all other industries, they did not like competition. They first secured government-sanctioned monopolies, and then, with the help of a few influential economists, constructed an *ex-post* rationalization for their monopoly power. This has to be one of the greatest corporate public relations coups of all time."

Undoubtedly, we too must make sure that we are not just simply buying into what the big corporations are saying when deciding our public policies. Make no mistake. No one is saying that privatisation is the panacea to all the ills of our country. As described above, some corporations want to monopolise the market for themselves. This too must be prevented. True privatisation, one that produces rivalrous competition, can indeed make an important contribution towards halting the crony capitalism that is so entrenched in our society, catalysing improvement in water services, and at the same time drive down prices and improve water quality for the benefit of the *rakyat*.

[3] The Review of Austrian Economics Vol. 9, No. 2(1996): 43-58

Essay 1

The Cochabamba "Water War": An Anti-Privatisation Poster Child?

By David Bonnardeaux

Introduction[4]

Back in 2002, when I was a young, wet-behind-the-ears Water Management Masters Student, I was of the mind that privatisation was wrong, or at the very least discriminatory. When applied to water utilities in developing countries – where lack of water and sanitation accounts for a high percentage of infant mortality – it was tantamount to immorality.[5] How could poor communities be forced to decide between putting food on the table and having access to water for their families?

As the course progressed, I and my fellow classmates listened to some very persuasive arguments as to why private-public partnerships in the water industry are beneficial and should be encouraged. Greater investment, more efficiency, better management; the reasons were many and legitimate. We were, however, also provided with very divergent views on the issue of social unrest and conflict that arise from privatisation of water utilities. The extreme views reflected the polarity which has come to define "privatisation". Privatisation of water: you're either for it or against it. Seemingly, there is no middle ground.

The outcome of a failed water privatisation in Cochabamba, Bolivia, has become a mantra for a variety of groups (academics, ideologues, trade unions) who oppose privatisation as a matter of course. In most media discussions and academic tomes, the cause of this failure is portrayed as unambiguous: foreign, multinational, profit-driven companies. Further analysis reveals that privatisation has become a scapegoat for the very complex origins of the conflict, involving local corruption, problems with regulatory enforcement, and lack of public engagement.

Cochabamba, Bolivia: 1997-2000

In Bolivia's third largest city of Cochabamba, the majority of residents were vociferously against plans to privatise the public water utility, and took their fight to the streets in the beginning of 2000 when exorbitant rate hikes took effect. Periurban and rural neighbours joined the cause and international interest groups weighed in, all of which fanned the flames of discontent. The end result was the cancellation of the contract with the international consortium and the transfer of the utility and its assets back to the public domain. But it also catapulted the Cochabamba "Water War" onto the international stage, with many citing it as a justification for opposing (and fighting) water privatisation around the world.

[4] This chapter was originally published by the International Policy Network in March 2009. The author would like to thank Brian Kennedy, student in African Politics at the School of Oriental and African Studies (SOAS) in London for his excellent research assistance.

[5] The World Health Organization estimates that "diarrhoeal disease alone amounts to an estimated 4.1 % of the total global burden of disease [measured according to Disability-Adjusted Life Years] and the deaths of 1.8 million people every year. It was estimated that 88% of that burden is attributable to unsafe water supply, sanitation and hygiene and is mostly concentrated on children in developing countries."

In 1997, the World Bank provided Bolivia with US$20 million in technical assistance for regulatory reform and privatisation, including preparation of laws and regulations for the financial, infrastructure and business sectors. Some of this funding was earmarked for the 'Major Cities Water and Sewerage Rehabilitation Project', which aimed to provide full coverage to Santa Cruz, Cochabamba and La Paz in the most efficient and sustainable manner. One of the Bank's conditions for the extension of the loan was the privatisation of the La Paz and Cochabamba water and sewerage utilities.

At the time in Cochabamba, only 60% of the population was connected to the public water supply network SEMAPA, and only 50% benefited from sewerage services. Those who were connected paid an estimated US$0.60/$m^3$, while those not connected (which invariably included the poorest citizens) relied on water from vendors estimated to cost between US$1.75/$m^3$ and US$3/$m^3$.[6]

Industries and wealthy residents benefited from the highest rates of connection and state subsidies; in the area of Casco Viejo, for example, connection rates were nearly universal at 99 per cent. Meanwhile, the highly residential northern and southern suburbs of Cochabamba showed a connection rate of less than four per cent in 1992.[7]

Numerous reports confirm that the city of Cochabamba suffered from chronic water shortages, with the majority of its inhabitants having inadequate access to water and sanitation.[8] More than a decade of underinvestment in the network had rendered the system highly inefficient, with water only being supplied up to four hours a day and losses due to leakages estimated at 43 percent. Unsustainable groundwater pumping for urban and agricultural supplies in the area also necessitated the urgent development of a new surface water supply source.

The Bolivian government turned to the private sector as a result, but not without some coercion from the World Bank and International Monetary Fund (IMF).

The previous Government sought to resolve the situation by privatizing the public water utility SEMAPA and using an existing hydroelectric dam project (the Corani Project) – under World Bank guidance – to supply the much needed extra water to the city. The privately owned Corani Project was planned to supply four m3/second at a total cost of US$70 million (obtained solely from private funds, without any public expenditure or subsidy), mostly for the construction of the 20km tunnel from the existing dam to the city. However, the Bolivian Supreme Court declared the bidding process void in response to a legal challenge by the Mayor of Cochabamba, Manfred Reyes Villa, and local organizations who objected to the implementation of the Corani Project.

Instead, they favoured an alternative water supply source, the Misicuni Project. This project entailed the initial provision of 3.9 m^3/second at a cost of US$75-85 million (from a public subsidy which was not yet secured at the time) plus a further US$100 million of the company's own resources, therefore totalling US$175-185 million.

[6] (UN-Habitat, 2003)
[7] (Baer, 2008) and (Finnegan, 2002)
[8] This was the view defended by Bechtel spokesperson Gail Apps who argued that "it is important to understand the difference between water rates (the unit rate paid for water) and water bills, which depend on the amount of water actually used. For the poorest people in Cochabamba rates went up little, barely 10 percent." Referenced in (Finnegan et al., 2002)

The World Bank still contended that the relatively cheaper Corani project was a better alternative than the Misicuni Project. Its rationale was that although Misicuni would in theory supply more water (6.6 m3/second) when completed, it would require more than two and a half times more investment (although some estimated at six times) and would take twice as long to bring online compared to Corani.

The result was the expiration of International Development Association (IDA) credit in December 1997, precluding any further World Bank funds for the project.

In 1999, the concession bid was rekindled, although this time the coalition of municipal and regional interests had prevailed, and the Misicuni Project was included in the contract. Initially, no bids were received, although later an unsolicited bid was received by a consortium called Aguas del Tunari (AdT). Lengthy negotiations followed, leading up to the successful signing of the contract in September 1999.

The negotiations were led by the government, represented by members from the Ministry of Foreign Commerce and Investment, the Superintendency of Water (later renamed "Basic Sanitation"), the Superintendency of Electricity, and the Prefect of the Province. Also present were the Mayor of the municipality, the president of SEMAPA, and the president of the Misicuni Company.

Many compromises were made to accommodate all the vested interests, including the immediate go-ahead with the building of the controversial Misicuni dam, the transfer of SEMAPA debt (totalling US$35 million) to the consortium as well as payment for the construction of the aqueduct from Misicuni to the city. The 40-year contract granted AdT exclusive control over all industrial, agricultural and residential systems, as well as an exclusive right to water in the natural aquifer.[9]

The disproportionately high costs of the Misicuni dam would require an immediate tariff increase of 38 percent, followed by an extra 20 percent after it came online. By the beginning of January 2000, the tariff was indeed increased to the authorized level of 35 percent (on average).

However, AdT had implemented a socially progressive tariff structure which allegedly conveyed increases of 10 percent for poorer households and 106 percent for industries and wealthier households (others contend that water tariffs increased by up to 100-300 percent). Water bills were described as leaping from US$12 per month to US$30 within a month.

However, in many instances these increases were due to greater quantities of water being utilized by households as a result of improved services by the new private utility, and likewise, the reduced need for water rationing.[10] Tariff increases were required in order to fund the badly needed maintenance on existing infrastructure and extend service to new areas. The new tariff reflected the true cost of water provision and sanitation, which until then was not recouped by the public utility. [11]

[9] (Baer, 2008)
[10] This was the view defended by Bechtel spokesperson Gail Apps who argued that "it is important to understand the difference between water rates (the unit rate paid for water) and water bills, which depend on the amount of water actually used. For the poorest people in Cochabamba rates went up little, barely 10 percent."Referenced in (Finnegan et al., 2002)
[11] There is ongoing disagreement as to how much water bills actually increased. Franz Chavez, in his article "Bolivia: Cochabamba's 'Water War'", contends that water rates went up as much as 200 per cent, meaning that water bills amounted to 20 or 30 percent of the income of poor households. Fredrik Segerfeldt in his book Water for Sale argues that the more realistic increase of 43 per cent in prices "meant that the cost of water equalled 1.6 percent of an average household's income. For the poorest 5 percent of the population, the corresponding figure was 5.4 percent."

Regardless, the people of Cochabamba had had enough, and protests broke out soon thereafter, causing the government water superintendent to roll back the higher rates. Protests spread into other parts of the country and ultimately escalated to warranting military intervention and martial law.

The result was the death of seven Bolivian protestors and the hasty retreat of AdT personnel, followed by the cancellation of the contract on April 10, 2000. The city's water system, including its $35 million debt, was turned over to the Coordinadora de Defensa del Agua y la Vida (the Coalition for the Defense of Water and Life), led by Oscar Olivera, a staunch critic of the concession.[12]

Cochabamba: Inherently Unique

To detractors of privatisation writ large, this case study embodied all that was wrong with privatisation and was used as a poster child for the various ill-fated attempts to privatise water utilities around the developing world. It is easy to vilify the private consortium and the World Bank; water is an emotive subject and the words 'privatisation' and 'World Bank' draw heated debate throughout the world.

There is no doubt that Cochabamba was a failed attempt to privatise the city's public water utility, but there were myriad reasons for the failure and the subsequent conflict. The failure cannot be wholly attributed to the consortium, the World Bank or privatisation per se. There were inherent antecedent issues with the Cochabamba water privatisation that obfuscated matters – yet these issues are rarely mentioned by antiprivatisation groups when talking about the failure of the Cochabamba contract:

- Nearly a year before the signing of the contract, the regulator approved a 20 percent tariff increase that was designed to improve financial viability of the future concession, thereby making a smoother transition and potentially alleviating the impact on customers.[13] But legal imprecision nullified the enforcement of this regulatory decision. SEMAPA refused to apply the increase, and the regulator was powerless to sanction the company. Once the contract came into force and the tariffs were increased, the people did not see a corresponding and immediate improvement in the service, so this added to their sense of disillusionment with the situation.

- The Bolivian government made great strides through the adoption of a Water Supply and Sanitation Law and the establishment of a regulatory body, the Superintendencia de Saneamiento Basico. The reforms were not sustainable in the short-term, however, and probably required more time and money to be truly effective in the future. Ultimately the economic and social environment in which the regulator was working worked to its disadvantage. Budget constraints and lack of human resources hampered the effectiveness of the regulator throughout the conflict. Decisions taken by the regulator during the concession contract were governed by the conflict and thus, it was limited to solving problems within the context of the conflict. Although the main portions of the contract were published in the press, AdT strongly recommended to the municipality that it launch an information campaign to inform the public of the terms of the concession and what to expect in the future. Neither the municipality nor the regulator endeavoured to engage the public in the process, which as shown, was a fatal mistake.

[12] (Finnegan et al., 2002)
[13] This stands in direct contrast to the tariff adjustment put in place by the Chilean government prior to launching the privatization of water companies in 1998. For more information, see (de la Luz Domper, 2009).

- The eradication of coca plantations (part of a US sponsored program) had forced many rural coca-leaf farmers to migrate to Cochabamba, thereby fuelling already existing resentment against the central government. This also added to an already high unemployment rate and informal sector in the city. In addition to this, the Water Services Law of 1999 posed a threat to irrigators, private well owners and water cooperatives, as it would effectively entitle the concessionaire to a monopoly of water service provision in its service area. Any communal entity or association made up of neighbours, farmers and indigenous groups that owned and managed their mutual assets for water abstraction within this area would therefore be operating outside the law.

  There was a real risk that any infrastructure and works owned by the community – including wells installed and managed by cooperatives – would be expropriated by the concessionaire, and water meters would be installed at the user's expense. Ultimately, this situation was an affront to powerful vested interests in Cochabamba and galvanised the already incensed populace. Though this law was never implemented (as the consortium pulled out), it was effectively the last straw for the public.

- The two main groups which represented Cochabamba's consumers (the Coordinadora del Agua y de la Vida, and the Civic Committee) were not just battling against foreign/external interests, as popular belief might suggest, but also against powerful local interests. Aguas del Tunari was a joint venture between International Water Ltd. (55 percent – and a subsidiary, 50 percent owned by Bechtel of the USA, and 50 by Edison of Italy), Abengoa Servicios Urbanos of Spain (25 percent) and four Bolivian companies (5 percent each) including Constructora Petricevic, Sociedad Boliviana de Cemento, Compania Boliviana de Ingenieria and ICE Agua y Energia S.A., all involved with the construction and engineering industry.[14]

  Even though it was stated on the record that the Mayor of Cochabamba called for the cancellation of the original contract (with the Corani Project) due to non-compliance with the procurement law, it is widely viewed that these four politically influential Bolivian firms – which stood to win lucrative contracts from the Misicuni Project – used their leverage to pressure the Mayor.

In retrospect, Menahem Libhaber, the Principal Water and Sanitary Engineer for the World Bank, has labelled Cochabamba as a "forecasted failure" due to the "corruption (or ignorance) of the Mayor and the Government, with cooperation of the private sector". In his opinion, the main lesson from Cochabamba is that corruption – whether instigated by politicians or the private sector (in this case, it was politicians) – is the major enemy of development.

[14] (Nickson & Vargas, 2002)

The Final Word(s)

Ultimately, there were many problems that were exclusively inherent to Cochabamba – including the vested interests surrounding the Misicuni Project, the flawed Water Services Law, the coca-leaf growers' involvement in and contribution to social unrest, and the hastily negotiated contract behind closed doors. The fact that Bolivia was a veritable playground of IMF, World Bank and Inter-American Development Bank (IADB) policies in the past had engendered a vehement anti-western and anti-privatisation sentiment. Bolivians and their social movements have been very adept at pushing out private oil and gas companies recently, not to mention the once successful water utility in La Paz.[15]

Using the failed case of Cochabamba as an anti-privatisation "poster child" is not only misguided but counterproductive. It has discouraged private investors, and continues to do so. They have shied away from working in regions which truly need technical assistance and investment in order to afford essential basic services for the poor. If we are to collectively reach the goal of universal water provision and sanitation coverage, it is time to set aside ideological rhetoric, put the Cochabamba case to rest, and assume a more pragmatic stance.

Epilogue: Present Day Cochabamba

SEMAPA is still woefully underfunded and the water supply network is in disarray. Leakage rates are thought to be over 50%.[16] It is estimated that around half of Cochabamba's 600,000 inhabitants remain without connection to water mains.[17] For others, service is intermittent at best, with water running for only three to four hours a day. As a result, the people of Cochabamba still pay exorbitant prices for water from vendors, or fend for themselves using poor quality water. Meanwhile, the rich and politically-well-connected continue to receive preferential treatment. In Zona Sur, the impoverished southern section of the city, about one-quarter of the inhabitants have access to tank systems or wells that are run independently, or they depend on poor service from SEMAPA. Another quarter relies on infrequent container deliveries, which can cost up to six times more than SEMAPA's tariffs. The remaining inhabitants live in hard-to-reach areas and must walk great distances to acquire water.[18]

Small cooperatives are cropping up, which is a promising development. And SEMAPA is now run by "the People", although there is a lack of commitment by citizens to take part in the administration of the municipal company. Many people involved in the 'Water War' demanded a job in the company, meaning that its administration is costly and inefficient as a result of having 700 employees rather than the 270 that were previously needed. Coupled with this, the team of citizen directors that was set up to run the company has been hit by one corruption scandal after another, with two directors removed from office in the last three years due to nepotism. "Whatever the reason for the failure of the SEMAPA reform project, the results are clear." After eight years, the levels of corruption are intolerable once again," admits SEMAPA's Camargo.[19]

[15] La Paz and El Alto water utility, SAMAPA, was privatised in August 1997. The only bid came from Aguas de Illimani, a consortium 34% owned by Suez Lyonnaise des Eaux (now Ondeo) and the rest owned by Bolivian and Argentine investors. It was largely successful until 2005 when residents of the poorer El Alto took to the streets in protest of the fact that over 200,000 residents were excluded from the official "served area" while another 70,000 were excluded from service because they could not afford a connection. 16(Chavez, 2006)

[16] (Chavez, 2006)

[17] (Friedman-Rudovsky, 2008)

[18] (Friedman-Rudovsky, 2008)

[19] (Friedman-Rudovsky, 2008)

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Essay 2

Chile: A Dynamic Water Market

By María de la Luz Domper

Introduction[20]

Thirty years ago, Chile's water management was not very different from water management in many parts of the developing world today. Management was top-down, there was excessive intervention from administrative authorities, and provision of water services was relatively poor. Yet today, Chile boasts near universal coverage of water provision in urban areas and 72 per cent coverage for rural households, one of the highest rates in South America.[21]

This is largely due to the emergence of water markets in Chile, where rights to water resources have been traded freely for over two decades. Chile successfully created an appropriate institutional framework that permitted ownership of water resources, independent of land ownership, and the free transfer of these water rights between users.

1981 Water Code Chile's Civil Code of 1857 (inherited from Spanish law) recognized that "the rivers and all waters running within natural banks are national goods for public use", and access to them was granted by "competent authority". But the terms of use were restrictive: water could only be utilized for the single use for which it had been approved, and the authority could revoke its grant if the terms of use were not respected.

For much of the 20th century, the central political administration made decisions as to whom water rights were granted and for which uses. There was little understanding of relative quantities of water (e.g. where water was abundant or scarce). Likewise, some users benefited from a generous allocation of water grants, while nearby users were left struggling.

The Water Code of 1981 changed this by applying market mechanisms to the re-assignment of water rights. Within its clauses, the Code stresses the establishment of well-defined property rights. Not only do these water rights contain the right to use the water, but also, the owner benefits from and disposes of it. Rights are assigned definitively and in perpetuity. Water is considered to be an asset in itself (as opposed to an asset tied to land ownership) which means that water rights are transferable independent of land ownership.

[20] This chapter was originally published by the International Policy Network in March 2009
[21] World Development Indicators Online, World Bank, accessed March 2009.

Under the Code, water remains in the public domain, but users are awarded the same protection over individual water rights as one would have over land property. This security has allowed for the efficient allocation of water for different uses -- whether industry (such as mining companies and electricity generators), agriculture or household consumption. It also gives legal security to investors in those enterprises.

In turn, this incentivizes the owner to manage and improve the quality of the water resource. This governance structure was developed to take historical or common law property rights into account, and it incentivizes existing owners of water rights – especially small farmers – to register their property (a process that is still ongoing).

In addition to the free play between supply and demand, another considerable benefit yielded by this market-based system is the efficient allocation of available water to different uses. Water rights are awarded ultimately to the most efficient projects and uses. Unlike the preceding system, no use of water is awarded legal preference over another and no permission must be obtained for different types of use. Similarly, no user is given priority over another.

The administrative authority (Chile's General Water Directorate) cannot refuse to grant water rights provided that water is available and that the grant does not prejudice others who have already applied for water rights. In addition, the central authority no longer has the right to terminate water rights if they are left unused by their owners. All of the above rules work together to guarantee that water is adequately priced, that supply and demand are linked to each other, and that ultimately, water resources are allocated between and by different users – not by a distant, misinformed administrative authority.

Another key element in the allocation of the resource has been the incorporation of a bidding mechanism to award both surface and underground water rights, when two or more parties are interested in the same water resource and there is insufficient availability for both. The only difference is that in the case of underground water, the auction is closed, meaning that only those who applied alongside others six months prior can participate. This difference means that the greater costs needed to develop infrastructure and connect to the groundwater can be covered. In the case of surface water, the auction is open and any user can bid.

Finally, one of the key components of this governance regime has been the establishment of a mechanism to solve any differences that may arise between the different users of the water originating from the same sources. When conflicts do arise, the board of the users' association works as an arbitrator, and disgruntled users can also appeal to the Courts of Justice. Protecting users' water rights is crucial to preserving confidence in the market mechanism and its proper functioning.[22]

In the years following the 1981 Water Code, vibrant markets emerged around water resources. Users that could use the resources most efficiently, often water and sanitation companies, became some of the biggest buyers of water rights. As demand for water increased, companies increased the price of water in urban areas to adjust for the mismatch between supply and demand, and to reflect increasing scarcity in certain areas. They also invested heavily in improvements to infrastructure, so as to minimize water losses.

[22] For more information, see (Donoso, 2006)

Water And Sewerage

In 1988, a new regulatory regime for water and sanitation was established. The government reorganized the sector under 13 public regional water companies. There were only two main public companies prior to this; one that serviced the capital and one in the second largest city. Both were replaced by two new public companies. Public services of water provision through government ministries were also consolidated into public companies.

The public authorities recognized that water was not an unlimited resource and that public sector prices did not reflect the actual economic and environmental costs of providing water and sanitation. In a first step towards privatization, the government applied a "crawling peg" mechanism, which applied a gradual increase in water and sewage rates.[23]

In 1998, the government began the partial privatization of the water companies. Within three years, five out of the 13 companies were privatized, and these five served more than three-quarters of Chilean households. As of 2001, the government decided not to privatize other public water companies, but to grant 30-year concessions to the private sector. This is the case for seven of the 13 companies that were previously public. The remaining company, ESSAM, was bought by one of the five companies that were privatized earlier.

Comparisons of efficiency and performance between the privatized companies and those that remained public are revealing: On key indicators of efficiency analysed by Chile's Superintendency of Water and Sanitation Services (the water regulator – SISS), private companies showed an improvement, while public companies' performance actually deteriorated.

- Private companies invested 70 per cent more in 2001 than they did in 1998 – but public companies invested almost 70 per cent less in the same time period.[24]
- Rates charged by private companies did increase 20 per cent more on average than public company rates, but much of this difference can be explained by the substantial difference in investments.
- In addition, "the rates charged by private companies are still 40 percent lower on average than those charged by their public counterparts". (This difference may partially be explained by the fact that the government retained control over the highest-cost companies, primarily those located in drought-prone northern Chile.)

However, efficiency in water use was clearly superior in private companies than in public ones, and improvements were made at an astounding pace. As a result of adjusted water rates, consumers reduced their water use by almost 10 per cent in almost three years.

[23] (Bitrán & Valenzuela, 2002)
[24] (Bitrán & Valenzuela, 2002)

The Evidence On Water Markets

The establishment of water rights, combined with the government's steady retreat from water provision, has encouraged a sustainable use of resources, especially in areas where water is relatively scarce. A wide range of studies confirm that in areas prone to water scarcity, there is vibrant trading in water markets.[25]

A recent study on water rights transactions[26] analyses the performance of the water market in the Limarí basin, which irrigates on average 32,000 hectares of farmland every year.[27] The study concludes that the market for water rights (both permanent rights and temporary usage rights) is quite developed and efficient. From 1980 to 2000, the percentage of reassigned water rights in each water users' association, independent of land, fluctuated from 20% to 50%. Increases in prices (ranging from 41% to 240%) in the period 1986-2000 indicate that the market really does reflect the relative scarcity of water resources – and thereby, water is being used in higher-valued activities.

At the same time, the Chilean Water Code has also granted a great degree of security to investors. This has benefitted farmers, the mining industry, electricity generators, and companies who provide water services, amongst others, because they have been able to develop their projects with reliable access to water as an input. Sixty-eight percent of water withdrawals are nonconsumptive, used for the generation of hydroelectricity[28]

- Initial estimates of efficiency improvements yielded in agricultural water use, covering the period 1975-1992, are between 22 and 26 percent.[29]
- Following privatization of the water companies, urban areas have nearly 100% coverage for drinking water and 95% coverage for sewerage. As of late 2007, coverage of sewage treatment (e.g. wastewater being treated) in urban areas was at 82.3%, whereas in 1998, it was only 17%.[30] With the incorporation of sewage treatment, the price of drinking water increased commensurately to generate revenue for investment in this new service.
- Water use in wood pulp production has fallen by 70 percent.[31]
- Water use efficiency has also improved in Chile's mining sector in the past two decades. Just as water rights are being traded to varying degrees in other areas of the country between different users, mining companies also purchase water rights from agricultural users.[32] But the relative scarcity of water in Chile's arid northern regions has contributed to some uncertainty over future water use between urban consumers, farmers and the mining sector (e.g. an increasing demand from the mining sector, but constraints on actual quantities of water available).

Such figures speak highly of the efficiency – in both economic and environmental terms – of Chile's management of water.

[25] See (Gazmuri &Rosegrant, 1996; Ríos & Quiroz, 1995; Hearne & Easter, 1995; Donoso, Montero & Vicuña, 2001), as quoted in (Donoso, 2006)
[26] (Cristi et al., 2000)
[27] (Zegarra, 2002)
[28] (Hearne & Donoso, 2005)
[29] "In addition, two studies have attempted to measure the increase in aggregate water use efficiency in agriculture from 1975 to 1992. The first study found a 26 percent increase in efficiency (Munita, 1994), and the second one a 22 percent increase (Frias, 1992). Considering the lowest estimate, and taking into account that Chile's total irrigated area, with permanent rights, amounts to 1,200,000 hectares, this is equivalent to freeing-up enough water to irrigate an additional 264,000 hectares of crops of average water-use intensity." As quoted in (Rosegrant & Gazmuri, 1994)
[30] See 2007 statistics on sewerage coverage in urban areas at http://www.siss.cl/articles- 6025_cobertura_tas.xls
[31] See Global Water Partnership Policy Brief 2
[32] See Jorge Arrueste's Presentation on "Water Availability for Mining Usage"

In the latter case (of mining), desalination of seawater is one possibility to increase supplies, but the costs of transporting such water to the high altitudes where mining operations occur would be immense. Depending on the relative value of the water to each set of users, "water swaps" are a solution which could potentially be used. Water could be desalinated and processed for urban uses, and could even paid for by mining companies in some way – either directly and/or by purchasing water rights from the urban users. The mining companies could thereby utilize water which is physically available. Although this is a theoretical proposition, it would be mutually beneficial to the parties involved – and not impossible, given Chile's pre-existing structures for defining and transferring water rights. There are already indications of a move in this direction, as a water company has recently purchased a desalination company, with the aim of swapping water with mining enterprises.

[23] (Bitrán & Valenzuela, 2002)

Ensuring Equitable Access

Initially, opponents of private water provision argued that the poorest would struggle to cope with increasing water tariffs. In the 1970s and 80s, water connections became almost universal in urban areas, and there was indeed a genuine fear that this progress would be reversed, first through the government's tariff adjustment and then through privatization. Although privatization would yield a reduction in long-term rates as a result of investment and increased efficiency, the short-term increases threatened to harm vulnerable portions of the population.

To address this situation, an individual water consumption subsidy was introduced in 1989. Subsidies accounted for anywhere between 25 to 85 per cent of a household's water and sewage bill. The subsidized households are required to pay for anything in excess of 20 cubic meters a month (allowance in 2009). It is interesting to note that even when households stayed within this limit, they were always required to pay a portion of the bill. This provided an incentive for all people to be rational in their use of water, rather than perpetuating the tendency for people to waste water for which they have not paid.

Though the subsidy itself was determined by government, water companies were charged with its implementation and enforcement. Municipalities are billed by the companies for the subsidies on a regular basis, just as they bill any private water user. Municipalities are even subject to late payment fees. This structure has meant that both public and private parties have an incentive to be efficient – authorities know they must pay regularly to guarantee the success of the subsidy scheme, while businesses continue to provide good service to both fullpaying customers and subsidized customers.

In 2001, the scheme totalled 500,000 subsidies and cost US$20.1 million. Around 15% of households were covered by the scheme, receiving an average subsidy of US$10 monthly. It is of course difficult to tell, in retrospect, whether these costs were necessary. What is certain is that the subsidy scheme made the privatization more politically viable.

Conclusion

Various academics have criticized Chile's market-based water system on the basis of equality of access, environmental protection and what they perceive to be a weak institutional framework. Other authors have identified areas of weakness, most often relating to the definition and legal status of rights: for example, rights of downstream users or "traditional, non-constituted rights".

But these problems are likely to exist under any water governance system. The transparency inherent to the 1981 Water Code goes a long way towards reducing these and other grievances. The General Water Directorate supervises transfers. It also ensures that information regarding transfers is publicly available, so that parties can challenge decisions and voice their opposition if needed. Also, the judicial system plays a significant role in settling conflicts over consumptive and non-consumptive rights.

Chile's water system has been able to update itself regularly in light of new challenges. From the 1990s onwards, there has been pressure to review water legislation. After 13 years of discussion in the National Congress, balancing the ideological differences within its centre left government, it introduced the payment of a license for the non-use of water resources. Through this tax, the Chilean government collected about US$15 million in 2008.

Notwithstanding ideological differences, Chile's market-based system for the allocation of water resources remains in place. The system is still relatively recent, and hopefully, over time, there will be more empirical studies on how better to define water rights and create a market can optimize the use and conservation of water resources. There is no doubt that Chile is in an exemplary position in piloting this institutional system on the international scene.

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Essay 3

Water Provision for the Poor: How ideology muddies the debate

By Alex Nash

Introduction[33]

An important part of my career has been spent working on the problem of supplying water and sanitation services, particularly to the urban poor in developing countries. As a professional engineer specialised in water and sanitation, I currently work on the regulation of private utilities. When the World Development Movement (WDM) organised a "Whose Rules Rule?" conference in July 2006 in London to assess the merits of water privatisation, I was glad to attend and keen to hear the debate on private provision. This short article is a modified version of a letter I subsequently sent to debate participants.

Since I began specialising in water management, I have had the good fortune to work directly for two large utilities and with several others as a consultant, both in the UK and overseas. My first job as a water engineer was working for a privately managed concession in a mediumsized North African city. During my year's contract, my job was identical to the subject of the debate – providing access to clean water and sanitation to the poor areas of the city. My employer was mandated to serve around 1.5 million people, 450,000 of whom were not connected to the service when the concession contract began.

My experience is not entirely within the private sector. I have also volunteered as a watsan (water and sanitation) engineer for a large international NGO in emergency water provision during the recent refugee crisis in Darfur, and have supplied technical assistance to another large international development NGO dedicated to providing safe water and sanitation to the poor. As a consultant, I have worked with various water providers ranging from public and private utilities, to NGOs and individual entrepreneurs, in various developing countries. I have no vested interest in the private water sector – my only interest lies in solving the practical problems of water and sanitation supply.

[33] This chapter was originally published by the International Policy Network in August 2007

The aim of the WDM conference was to discuss solutions to the global water crisis, with experts of extremely diverse outlooks assessing the practical advantages of private water management.

What is the main issue? Most of the participants who spoke at the conference were more interested in political and economic ideas than in the dull reality and tedious details of water and sanitation provision. In fact, many people believe that the provision of water (a natural monopoly which is essential for life) should be carried out by a collective, not-for-profit organisation, such as the government or a municipality. However, in Europe and North America, the development and management of water utilities was initially done by the private sector, with public management only coming into fashion in the late 19th century.[34]

A closer examination of the realities of water provision therefore raises some serious questions.

The fact that I am writing this article might suggest I have an opinion on whether water provision should be privately or publicly managed.

I do not. It's not important. More than a billion people lack access to clean and safe water, and 2.6 billion are without basic sanitation facilities. According to the World Health Organisation, water-related diseases cause 80% of all illnesses and deaths in the developing world – with waterrelated diarrhea alone causing just under 2 million deaths.[35]

With that in mind, I believe the only thing which matters about a water utility is how it performs for its customers – both now and in the future. I think most people feel the same way. Very few people are genuinely interested in management and ownership models of utilities – either in developing or developed countries. Certainly no-one in the peri-urban areas where I worked has ever mentioned that they were concerned that foreign shareholders were profiting from water. They were usually concerned about more mundane issues – like the reliability of the service, the price they paid, or the unhygienic conditions in their suburb.

It is therefore interesting that so many participants at the conference (from wealthy countries) were most concerned about the management models (in developing countries). I would be very surprised if any of them could tell me much about their own water companies – who the shareholders are, what the rate of return on equity is, how it is financially structured, who the regulators are, how water prices are set or how service levels are monitored. I would be willing to bet that most people could not tell me their water bill total, or their volumetric tariff, unless they had difficulty paying it.

This is not to accuse people of ignorance – only to demonstrate that management and financial arrangements for utilities are not very important issues. People in developing countries are no different from those in industrialised ones – all over the world, people really only care about the service's reliability and affordability.

[34] Jesús Mirás-Araujo and Carlos Piñeiro-Sánchez (2006). "Tensions between Public and Private: Water Supply in a Northwestern Spanish City under the Franco Dictatorship" Business and Economic History Online, Volume 4, 2006. http://www.thebhc.org/publications/BEHonline/2006/mirasandpineiro.pdf
[35] Kofi Annan (2003). "Message by Secretary- General Kofi Annan for World Environment Day, 5 June 2003" UN Press Release SG/SM/8707 OBV/348. http://www.un.org/News/Press/docs/2003/sgsm87 07.doc.htm UN (2002). "Johannesburg Summit Secretary- General calls for global action on water issues" UN Press Release Johannesburg Summit, 22 March 2002. http://www.un.org/jsummit/html/media_info/press

Reflecting this reality, both sides in the debate professed to be mainly concerned with the practical results of efforts to deliver water and sanitation services. However I think the ensuing debate showed that claim to be untrue.

The point of this article

I am writing this article for two reasons.

1. To highlight the underlying ideological motivation in the anti-private position, and to demonstrate that anti-private advocates are concerned primarily with promoting their ideology rather than actually improving water provision;
2. To put the case that governments should be free to choose between public and private models, because without a choice of provider there is no effective accountability, and ultimately, no service. This runs counter to the WDM position that the management of water utilities should always be public.

Where do we agree and disagree?

It is important to note that I generally agree with opponents of private water provision on a large number of fundamental issues. By outlining these at the start, the discussion can then focus on points of real disagreement.

Where we agree

1. *"Water resources are a public commons. As water is essential for life, everyone has an inherent right to access water resources as part of their right to life."*
2. *"The provision of water services and the allocation of this resource, being a commons, is therefore ultimately the responsibility of government."*
3. *"The state should ensure that everyone has access to clean water and sanitation, at a price they can afford, to meet their basic needs."*
4. *"The protection of the environment, being a commons resource, is ultimately the responsibility of government."*
5. *"Government should be democratically elected, accountable and transparent."*
6. *"As a consequence of (3) and (5), the allocation of water resources should be a democratically accountable process and transparent."*
7. *"The provision of clean water and sanitation services should not be organised according to ideological principles, but rather to best meet the needs of the population."*

Where we disagree

1. "Everyone has a right to clean water and sanitation"

When one claims a general right to water, we can almost always assume that they are referring to "clean water", rather than to merely "raw water" (or shared access to water resources). While I agree that it is the responsibility of government to ensure the provision of clean water and sanitation for all, I do not consider it an inherent right. As the provision of clean water requires effort, such logic would imply that I have the right to make someone carry water to my house and make it fit for consumption (in a two-person society, for example). By the same logic I could argue that I have the right to be provided with food by someone else.

Of course in complex societies we expect that food and clean water needs are met for all, but this does not make food and clean water inherent human rights. Perhaps a "social right" is a more appropriate term, as they are functions that we (rightly) expect to be provided in more organised societies. The difference is crucial because with social rights come social obligations, such as the obligation to pay (or do) something in return for the clean water and food produced by other people's efforts.

2. "Water supply is a natural monopoly."

I would qualify this by saying that the provision of water supply is a natural local monopoly. Markets can and do exist for water provision at a scale larger than the municipality. But even the fact that water provision is a local monopoly means that it must be regulated by a democratically accountable body such as local or national government.

3. "It is wrong to profit from the sale of water."

The fact that water is necessary for life does not mean it is wrong to profit from it. The same argument could be advanced for food, or indeed any economic activity. If one believes that the private sector should not exist, or that profit is unethical, as some participants in this debate did, then we are no longer talking about the practicalities of water provision.

A place for ideology in the provision of water?

As mentioned above, the speakers at the WDM conference claimed to be mainly concerned by the practical issues of water and sanitation provision. However, the points on which my fellow participants and I disagree relate back to fundamental political issues, such as wealth distribution and property rights, which suggests that ideology is central to the disagreement.

There are often two extreme views in the water debate – one being that the private sector is always better suited for the management of water utilities, and the opposite view being that best results can only be achieved under public management.

This particular debate was no exception. The views expressed by the participants of this WDM debate are not uncommon, in that they tend to dominate the debate over water provision, much to the detriment of the world's billion who lack access to safe drinking water.

Immediately after attacking "neoliberals" for propagating the myth that the public sector is by default less efficient that the private, one WDM participant actually put the case that the public sector is always better suited. I could only conclude that when this specific participant stated that "the pushing of ideology has no place", she meant the pushing of ideologies other than her own. The WDM participant simply replaced neo-liberal dogma with socialist dogma.

Much of the anti-private speech centred on three points:

1. That privately managed water service providers had not significantly improved services to the majority of poor consumers;
2. That the private sector is not by definition more efficient than the public;
3. That privatisation was being forced on developing countries by donors and lenders.

From these three arguments, the WDM participant made the breathtaking leap to the conclusion that there is no role for the private sector in the management of water and sanitation services.

The first point is where a disappointing lack of objectivity was displayed. I will discuss the various statements made to support the first argument one at a time to show how the debate could have been made more objective by telling the whole story, rather than half of it.

It's important to note that were it not for small private operators, many poor people would not have easy access to water. According to a World Bank study, "in most cities in developing countries, more than half the population gets basic water service from suppliers other than the incumbent official utility."[36] Private water delivery already plays a significant role for many people, by their own choice (the IMF does not, to my knowledge, force countries to employ water porters). For example, out of the 82% of people lacking access to piped water on the outskirts of Accra, Ghana, half rely on water vendors and 30% depend on streams and wells.[37] Latin America is no exception with its aguateros who operate largely informally – it is estimated that in Paraguary, 500 aguateros work to supply water to 500,000 people, often in peri-urban areas such as Asunción's surroundings.[38] But opponents of any private-sector participation would have these customers queue up or walk great distances, because the idea of paying someone to save time – and therefore money – is distasteful to them.

Perhaps recognising this oversight, the WDM participant later qualified her statement to mean "no controlling role" for the private sector, and that their definition of privatisation is "privately managed and operated water utilities", where the private sector has a "controlling role". Somehow it is worse if a big company is saving poor people from queuing than if it's a little guy, even if both parties profit from the transaction.

The use of the word controlling is deceptive. The private sector never controls water resources, or the retail price of water; this is always the role of government. In fact, most aspects of privately managed water provision are heavily regulated.

It was furthermore stated that private providers had only connected 600,000 households globally since 1997, and that this was insignificant compared with the 200 million that needed connections (although it's 600,000 more than any lobby group has ever connected).[39] If 95% of water provision is public, then the 600,000 connections should be compared with 5% of 200 million – which is the portion that the private sector is serving – not with the entire 200 million.[40]

That equates to a 6% increase in connections, which, while not enough, is not insignificant. It is misleading to compare the private sector's achievements with the combined public and private responsibility of 200 million. If public provision of water is a panacea, moreover, these 200 million would have been connected long ago.

[36] Tova Maria Solo (1998). "Competition in Water and Sanitation. The Role of Small-Scale Entrepreneurs" Public Policy for the Private Sector . Note No. 165, December 1998. http://rru.worldbank.org/Documents/PublicPolicyJournal/165solo.pdf
[37] Franklin Cudjoe, Kendra Okonski (2006) "The Reality of Water Provision in Urban Africa", The Water Revolution: Practical Solutions to Water Scarcity , London, International Policy Press. http://www.sdnetwork.net/files/pdf/chapter7-cudjoeokonski.pdf
[38] Franz Drees, Jordan Schwartz, and AlexanderBakalian (2004). "Output-based aid in water" Public Policy for the Private Sector . Note no. 270, April 2004. http://rru.worldbank.org/Documents/PublicPolicyJournal/270-water-paraguay.pdf
[39] PSI, PSIRU and World Development Movement (2006). Pipe Dreams. The failure of the private sector to invest in water services in developing countries. World Development Movement, March 2006. http://www.wdm.org.uk/resources/reports/water/pipedreamsreport01032006.pdf
[40] The generally accepted figure that I have found in literature is that 300 million people were serviced by privately managed utilities in 2002. Therefore, worldwide over 90% of water provision is public and the fraction is higher in the developing world (where the connections are required). Gary H. Wolff, P.E. and Meena Palaniappan. "Public or Private Water Management? Cuttingthe Gordian Knot" Journal of Water ResourcesPlanning and Management. Volume 130, Issue 1, January/February 2004.

The WDM participant also later qualified the 600,000 figure by stating that it was for "Africa, South Asia and East Asia". As her opposing participant pointed out, the regions where most private management has taken place – Latin America and South-East Asia – were deliberately omitted. In Latin America and the Caribbean, investment in water and sanitation with private participation went from US $75 million in the early 1990s to over US $3 billion in 2000.[41] Why would anyone who genuinely believes that "the pushing of ideology has no place" omit this? Anti-private activists are also quick to forget about successful privatizations. Chile's market-driven water system has achieved nearly universal access to water. Between 1970 and 1994, household access to water increased from 27% to 94% in rural areas, and from 63% to 99% in urban areas.[42]

Finally, the very figure of 600,000 was disputed by one of the pro-private participants. The private-sector opponent in question then qualified this figure by saying these were connections funded with private investment money, as distinct from public. So when comparing the results of private operation with public operation, they had actually only selected a small subset of private operational results in order to suit their purpose.

As the WDM themselves detailed in a report on the subject ("Pipe dreams"; March 2006), the fact is that many privately managed concessions use some public money – either government investment funds or World Bank loans – to carry out capital investment.[43] This is because the state remains the asset owner in concessions, and contracts vary in their arrangements regarding the source of investment funds.

The participant omitted to mention this during the debate, preferring to distort the discussion by obliquely referring to privately managed operations, but only crediting them with the results funded by "private investment", rather than the public funds they also manage.

If I were as ideologically motivated as these speakers, I could say that the vast majority of connections carried out by both privately and publicly managed utilities were "done by the private sector." In reality, the vast majority of all capital is private. Where does the "public" money used by governments (and the World Bank) for capital investment come from? Bonds. Who buys these bonds?

[41] Data for investment in water and sanitation with private participation (current US$) is from the World Bank's World Development Indicators Online, accessed July 2007.
[42] Mark W. Rosegrant and Renato Gazmuri (1994). "Reforming Water Allocation Policy Through Markets in Tradable Water Rights: Lessons from Chile, Mexico, and California" International Food Policy Research Institute, Washington D.C., Environment and Production Technology Division Discussion Paper No. 6. http://www.ifpri.org/divs/eptd/dp/eptdp06.htm
[43] PSI, PSIRU and World Development Movement (2006). Pipe Dreams. The failure of the private sector to invest in water services in developing countries. World Development Movement, March 2006. http://www.wdm.org.uk/resources/reports/water/pi pedreamsreport01032006.pdf

Pension funds. Private investors. Banks. Other governments.

So, using the same rationale, I could consider a great deal of "public" money to be merely private money "managed by governments". In that case, a large fraction of connections funded by "public money" would in fact be private. In addition to this, many public utilities borrow from private sources to fund investment. Does this mean their investment and connections should be counted as "private"?

This line of argument is puerile and deceptive. The aim of the debate was to discuss the relative merits of public and private management, not to engage in semantics about the source of investment funds. The pro-public speakers insist on the distinction of private and public funds, because they say that one of the principal arguments for privatisation of management is the injection of private capital.

Perhaps this argument is pushed, and it could be equally deceptive. It doesn't help the debate to respond with an alternative half truth. As it often is, the truth is somewhere in between. Private participation does bring some private capital in the form of equity, but also allows commercial banks, or institutions which manage "public" money to have more confidence in lending to the water sector.

The "private" capital can assume most of the risk, allowing other lenders (banks, governments, bond investors, the world bank etc) to assume the higher grade, lower return investments. In effect, private equity can be used to leverage overall investment. The increased confidence of other lenders comes from the fact that the shareholders are strongly motivated to ensure the utility does not go bust.

The second point claimed that the private sector is not inherently more efficient that the public. Having worked for an NGO, I agree that people who are motivated by reasons other than financial ones can be just as professional, hardworking and efficient as those who are simply interested in financial gain. In which case, the publicly managed utilities should be able to demonstrate a better service for a lower price than those managed by the private sector. But competition is a good thing and keeps everyone on their toes. As will be discussed later, the United Kingdom, the USA and France all offer examples where the public and private sectors compete healthily.

The third argument was that donors and lenders are forcing the "privatisation" of developing country utilities by attaching conditions to loans and aid. The WDM released a paper ("Dirty aid, dirty water"; February 2005) which made a reasonable case for this assertion.[44] Examples of forced privatisation were brought up at the meeting. It was not explained that these are usually initiatives of donors and lenders frustrated by decades of public failure to deliver.

[44] 11. WDM (2005). Dirty aid, dirty water. The UK Government's push to privatize water and sanitation in poor countries . World Development Movement, February 2005. http://www.wdm.org.uk/resources/reports/water/dadwreport01022005.pdf

It could be argued that forcing debtor governments to privatise is wrong. Perhaps. But the fact is that lenders will always impose conditions on their loans if they wish to see the money back. I'm not sure who would lend money on the borrower's terms, but if anyone reading this knows of such a lender, please forward me their contact details.

I don't think attaching conditions to loans is unreasonable, nor does it deny democratically elected governments a choice in running their own affairs. If borrowing governments don't like the conditions, they can always approach private sources of credit, which in turn have their own conditions. Prospective borrowers are unlikely to obtain finance at good rates unless they maintain a financially sustainable utility that will attract private finance.

The choice is therefore to run a responsible public utility or to delegate the management to someone who will. Personally, I am glad that lending institutions no longer offer the option of running a utility into the ground or looting it. When this option was on the cards (prior to the 1990s move to conditionality), a lot of money went into very few pockets, with the entire borrowing country becoming saddled with the ensuing debt. Such lending from the rich nations essentially helps the ruling elite in developing countries rob their poor compatriots.

The reality

The majority of those who attended the conference were fortunate to have very little experience of the depressing reality of urban areas without water and sanitation provision.

The reality of many state-run utilities is not pretty. Governments in many countries do not exist to serve the population, are not elected, and are not accountable. The utilities they manage reflect their methods and motivations. Senior management are often appointed for political reasons, by patronage, as a means of returning some favour. Accordingly they see their office as an opportunity (indeed a right) to loot the utility. Alternatively, they may be expected to channel revenues to the politicians or leaders who appointed them. Loans, when they can be obtained, are often not paid back. Tariffs, which apply to the wealthier connected classes, are set too low and often not even collected officially. Bribes, extortion, kickbacks, nepotism, patronage, shoddy technical standards; it's all in a day's work.

The presumption is often that the poorest people in society will be better off with public water provision, rather than private. However, water provision throughout the 1980s in Ecuador's capital, Quito, tells a very different story. Around 35% of the metropolitan population was unconnected to the system and had to rely on porters – who sold water at ten times the going rate. Those who were connected experienced a poor and unreliable service. Subsidies and below-market pricing had perverse effects, where the municipal water company often failed to recover more than 50% of its costs.

It was the rich who benefited disproportionately from these schemes because they remained well connected and could afford to pay for water when the system failed – exposing the poor to the perils of an inflation tax on water[45].

[45] Douglas Southgate and Eugenio Figueroa (2006). "Reforming water policies in Latin America: Some lessons from Chile and Ecuador" The Water Revolution: Practical Solutions to Water Scarcity, London, International Policy Press. http://www.sdnetwork.net/fil

The poor have no political clout or influence and end up paying high prices for very limited water services, from water porters or in bribes for connections. The utility managers only bother to serve the wellconnected. Any project to "reform" a public utility is by definition often a project to reform the entire local governance system of the country where it is located.

Keep your options open

Private management will not solve a serious governance problem, or eliminate corruption, or make the poor wealthy. But there is one fundamental difference between a privately and publicly managed utility that is obvious in countries with very poor governance. While public utilities are accountable to none and are therefore systematically looted, private management is forced to turn a profit and publish their accounts – it is simply impossible to steal funds, maintain no transparency or accountability and expect to stay in business.

Before forced privatisation was attempted, soft loans were extended to publicly managed utilities. Lenders started to impose conditions after decades of public failure, not before. This was misconstrued at the conference when it was claimed that public failure was a result of these changes, rather than the incentive for them. Once again, people manipulated facts to fit their ideology.

I agree that in countries with such poor governance, privatisation is certainly not guaranteed to be a success. Poorly regulated private companies may not always serve the public interest. However under such circumstances, publicly managed utilities are not just at risk of failing, they are virtually guaranteed to do so.

Of course not all developing governments are the same. For those which are genuinely trying to reform a corrupt or ineffective water utility, raising the option of an alternative system forces a degree of accountability on the incumbent monopoly. In the same way, the possibility of losing a contract or making a loss, spurs private management to meet their service obligations.

Such a mixture of systems is the way it works in France, which is both a bastion of state socialism and paradoxically, home to the big water multinationals. Approximately 50% of the water concession contracts to over 20,000 municipalities are private and 50% are publicly managed. Municipal Councils are able to "shop" for their service provider, or if they don't like the prices on offer, they can provide it themselves (public management).

I was interested to read an article by one of the anti-private participants about the utility he works for in Recife, Brazil. He noted that prior to the threat of privatisation and the resulting political shake-up, the water utility was "untouchable". It was only when private management was raised as an option that the public management was finally reformed and the utility started to deliver a commendable service. He sees this as proof that public utilities can do a good job and I completely agree with him. But I also see it as proof of the benefits of giving municipal governments (and therefore the people) the choice of provider

Case study 1: A multinational in a North African "slum"

I'm pleased to say I contributed to the connections carried out by privately managed utilities. I do not regard that contribution as insignificant and neither did the nice gentleman who was the first of the many we connected. He was so thrilled that someone from the water company had finally bothered to come into the "slums" that he invited us to dinner. We unfortunately had to turn down his offer, as my colleagues warned me that everyone in the neighbourhood would otherwise have assumed we entered his house to receive the traditional bribe for connecting him. This was the sort of atmosphere created by the public utility, the management of which had only recently been privatised.

This is not to denigrate all the employees of the utility – the success of our project should be credited entirely to my colleagues, who were mostly ex-public utility employees. They were motivated, honest, hard working and driven by a sense of social justice. This did not change when the management became private. On the contrary, for the first time in a long time, they were actually able to do something about the problems in their city.

As our first customer saw it, the public water supplier had ignored him for 10 years, even though he was prepared to pay the full cost in instalments. Within two years of private management he was connected. When the municipal council employees leaned on him for a bribe to get permission to be connected, we leaned on the council to follow the rules. If our employees asked for a bribe, the residents told us, with renewed confidence that something would be done about it. When the council insisted all "clandestine" residents pay a 7400 "tax" before we could connect them – a punishment for having no land tenure – we argued that this was an unfair obstacle to getting water.

The residents had been there for over 10 years and very few real efforts had been made to stop or reverse the construction of illegal suburbs. As ridiculous as it sounds, the guy in the slum finally had a powerful friend who could fight his corner, and that friend was a multinational. This will be disturbing information for someone with a cosseted, anti-globalist world view. Let me therefore reassure readers; our friendship with the guy in the slum was purely motivated by contractual requirements. At the end of the day the Company was only motivated by profit and is therefore still just as evil as the anti-globalists say it is. Connecting poor people to the water network and defending their interests against those of the local government who wished they would disappear – it was all an unintended consequence of greed.

I can't see why anyone would object to this system. Some people blindly insist that councils should do it themselves, regardless of their capacity to do so, or the results which they achieve.

The big question

I can only assume that the widespread insistence during the debate that municipalities should be denied a choice in how to provide water stems from an ideological belief that profit from water sales is wrong.

Which led me to ask one of the participants a simple question: *"If given the option to save a child's life by providing clean water, but with the condition that some shareholder would make a profit on this water, would you agree?"*

The position upheld by many at the conference leads me to think that they would rather people die than water company shareholders make any profit from the sale of water.

Their response was that the question was "fallacious", and that it would be best to use the profit to save more lives.

An aversion to profit

Apart from a failure to understand the concept of having one's cake or eating it, the response above demonstrates an apparent ideological aversion to (and misunderstanding of) profit. It's also hypocritical – I'm sure they don't insist that their local baker takes all the money above that which he needs for survival and invests it in baking bigger loaves for his customers.[46]

One of WDM's central arguments for insisting on public management (in "Pipe Dreams") is that "surpluses" (as they prefer to call profits) are reinvested in the service under the public model, whereas they are taken out as "profit" under the private model.[47]

For the purposes of our discussion, let us ignore the fact that privately managed utilities often deliver a better service for a lower price than a public model.[48] We will take the WDM position that private and public management models offer the same efficiency, and that private is therefore inherently worse because of the siphoning off of "profits" which would be reinvested in the public system.

Their position is still illogical.

[46] Or perhaps they do? Many participants held political views which I have only read about in text books. I have actually been to such a baker in Moscow in 1992 – just months after the end of the Soviet Union. I can only assume participants who believe their baker should work for no profit enjoy meeting people in queues, seek the simplicity of a life with few choices about what to buy, or need to lose weight.
[47] PSI, PSIRU and World Development Movement (2006). Pipe Dreams. The failure of the private sector to invest in water services in developing countries. World Development Movement. March 2006. http://www.wdm.org.uk/resources/reports/water/pi pedreamsreport01032006.pdf
[48] The UK offers a good example of this, as privatized England and public Scotland can be readily compared. See Hamish MacDonell. "Scotland's water is dearer and dirtier than England's" The Scotsman. Friday 20 April 2007. http://thescotsman.scotsman.com/index.cfm?id=6 06602007

As we have discussed above, both publicly and privately managed utilities rely on capital to finance investment. As the WDM went to some lengths to correctly demonstrate, with the exception of shareholder equity, the sources of finance available to both models are the same (that is, debt, bonds etc). A simplified version of the financing options is presented in Table 1.

Table 1

Finance option	Public Management	Public Management
Debt	Yes	Yes
Bonds	Yes	Yes
Equity (shares)	No (or if yes, 100% government owned)	Yes

Debt and bonds are similar in that the utility pays an agreed and predictable rate of interest on the amount borrowed. These interest payments must come from the utility revenues above and beyond those required to operate the system. Interest payments effectively come from "surpluses" to the minimum revenues required to keep everything going.

If a public and private utility have the same capital requirements, then their financial obligations might be broken down as shown in Table 2.

All of these obligations will be paid by surpluses or profits from the utility operations. So the WDM's assertion that more money can be invested under a publicly managed utility than a private one is questionable.

The only circumstances under which this could occur is if the average cost of capital were somehow higher for a privately managed utility than a public one. The thing about return on equity is that it is not fixed, and this is central to the private option. The cost of equity (and therefore the amount of "surpluses" which are "removed") varies and is used as the incentive mechanism to encourage efficiencies under the private system.

Table 2

Financing obligations	Public Management	Private Management
Total Capital employed	Interest on Debt	Interest on Debt
		Interest on Bonds
	Interest on Bonds	Return on Equity (dividends or "profits")

So yes, it is possible that more will be removed under the private system, but it is also possible that less will be removed, and shareholders will make a loss. By having a variable amount of money which is removed (as distinct from a constant amount under the public model), risk is passed to the shareholders and management as well as incentives to deliver a good service.

Case study 2: A tale of two systems

I recently visited a medium-sized East African city on the shore of a large freshwater lake. About half of the city population did not have domestic water connections – a consequence of ineffective public management and rapid urban growth, often in the form of "slums". As often happens, in the void left by the public utility, numerous NGOs and private operators had sprung up to meet the demand for water.

The Community-Based Organisation (CBO)
An internationally-funded NGO had created a CBO to operate a borehole, water tower and small network. It was a "not for profit" run by a committee, which served around 4,000 people through a number of kiosks. Water was expensive prior to the project and used to cost up to € 0.12 per 20 litre jerry can*. The new retail price (i.e the price kiosks were allowed to sell at) was regulated and set at € 0.01. Elsewhere in the city, water sold at kiosks for € 0.02-0.05.

A "not for profit" success story! Bulk tariffs were high enough to cover operating and financing costs. So far, so good. However the management committee did not view their service as a business. During electricity cuts (daily), pumping stopped and the suburb went without water – even though a petrol generator could have been used. Three local boys were paid for each leak they fixed but the CBO seemed oblivious to these distorted incentives! Many residents had paid in advance for connections which were never realised, due to lack of finance. Some of the kiosk operators had gone out of business, squeezed by the regulated and below market retail prices. Ironically, water shortages meant they couldn't sell enough to cover costs! No one replaced them. During power cuts, the price returned to its normal level of € 0.06 – 0.12 as water was only delivered by water porters. Finally, the committee stated that they planned to invest any eventual surpluses in road and housing projects, rather than save for the eventual replacement of the pump.

The chicken farmer
The next suburb over, an engineer was abstracting water from a small river and producing drinking water in his backyard in a homemade treatment plant. He originally set it up to provide water for his chickens, but quickly found that his neighbours were willing to pay him for the water. In no time, he had a doorstep water business going, selling to neighbours, and water porters and trucks. He used electric pumps, but also had petrol pumps for when the power supply failed. He employed 5 people and ensured a high quality of chlorinated water that kept the trucks serving big hotels and the water porters serving the poor. He sold 70m^3 per day, but could sell up to 300 or 400, which would be enough for 10,000 people in that area. He charged the standard € 0.015 for a jerry can, did not increase his price during shortages and never ran out of water. He built his business up from scratch, with no NGOs, international backing or subsidies required. A straightforward case of supply and demand.

The lesson?
These two operations were in a virtually identical setting, providing a comparable service. One was "for profit", one was "not for profit". Many people would expect the not for- profit service to be better – but the reality was very different. In this case, the private supplier water might have had a higher retail price, but the overall cost paid by consumers for the CBO ended up being higher. The service was poor quality, with shortages, lengthy queues (time is money everywhere) and no availability, forcing locals to regularly employ expensive water porters. Quite simply, if the chicken farmer's service was worse than the CBO's, he would not have been in business for long.

**Or €6.00 per m^3, compared with €1.40 per m^3 in London. Ever thought you'd read London was a cheap place to live?*

To state that the private system is inherently worse because of this extraction of "profits" is very misleading and betrays an ideological obsession with public service provision. A much more sensible discussion would be one about the levels of risk, return and service involved in the equity (private) model. Very simply – what are you getting for your money?

Why write this article?

It is apparent to those of us who work in the water industry and its regulation, that many people engaged in this debate are either very ill-informed or ideologically blinkered, and are in either case blind to the practical realities of the issue. As you can see from the answer supplied to my question about children's lives and profit above, it is often like talking to a brick wall.

The sad thing is that such people actually have some influence over slum dwellers' lives.

The Cochabamba riots in Bolivia – which overturned the privatization of local water supplies in 2001 – were widely celebrated by antiglobalisation groups. But six years later, the restored Cochabamba public utility company has failed to make any significant improvements. Half of the city's 600,000 inhabitants remain without access to water- and for the "lucky" ones who are connected, service is poor and unreliable. Far from arguing that privatization should have gone ahead in this particular case, the example does show that rejection of private providers on ideological grounds has hurt those most in need.[49]

By hastening the retreat of the alternative private model and the accountability it brings to the public sector, these well-meaning public provision ideologues have left the poor high and dry. Who is going to connect them now? How many more years are they going to wait for their public utility to bother with them? For the public sector to reform itself? For the looting and neglect to stop? Instead of dismissing the number of connections made, it would have been better for private-sector opponents to count connections not made as a result of their lobbying. They've done plenty to stop private water companies making any money in the developing world, but what have they done to get people connected?

The net result of their well-meaning efforts is a staunch defence of the corrupt, lazy or incompetent utility managers and mayors. It is a defence of the comfortable middle classes in developing countries who have cheap water while their poorer compatriots queue and walk all day.

Before these people flit off to their next cause célèbre, I recommend that they actually go out and connect someone to the water network. That they see what's involved, and how these utilities are run. That they talk to people in slums, gain their confidence and ask the awkward questions about bribes, nepotism and corruption. It's not all colourful fabrics, funky world music and the heady romance of solidarity against the evil multinationals. They might just learn a few uncomfortable truths which will turn their black and white world into shades of grey.

[49] Juan Forero (2005). "Bolivia regrets IMF experiment" International Herald Tribune, 14 December 2005. http://www.iht.com/articles/2005/12/14/business/ water.php

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