Water in public hands – the alternative to privatisation and globalisation

By David Hall

d.j.hall@gre.ac.uk

Director, Public Services International Research Unit (PSIRU)

University of Greenwich, UK

www.psiru.org

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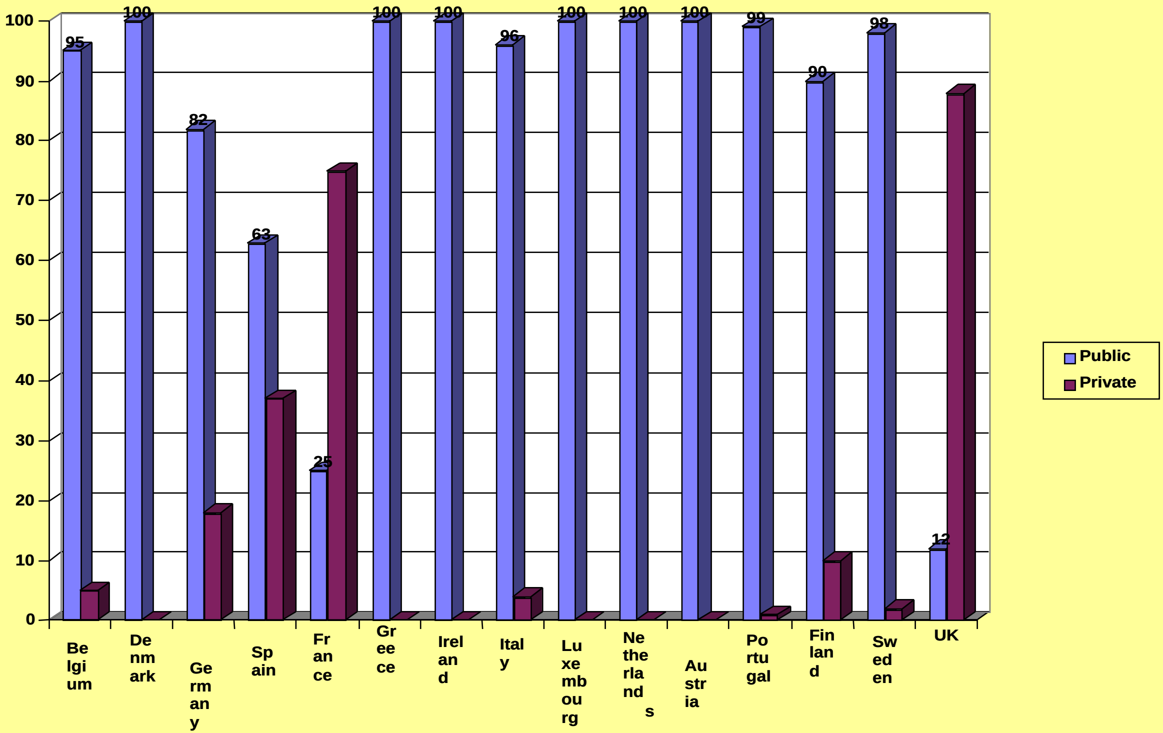
Summary

- Public performance
- Restricted competition
- Risks and guarantees
- Contract dynamics
- Transparency and accountability

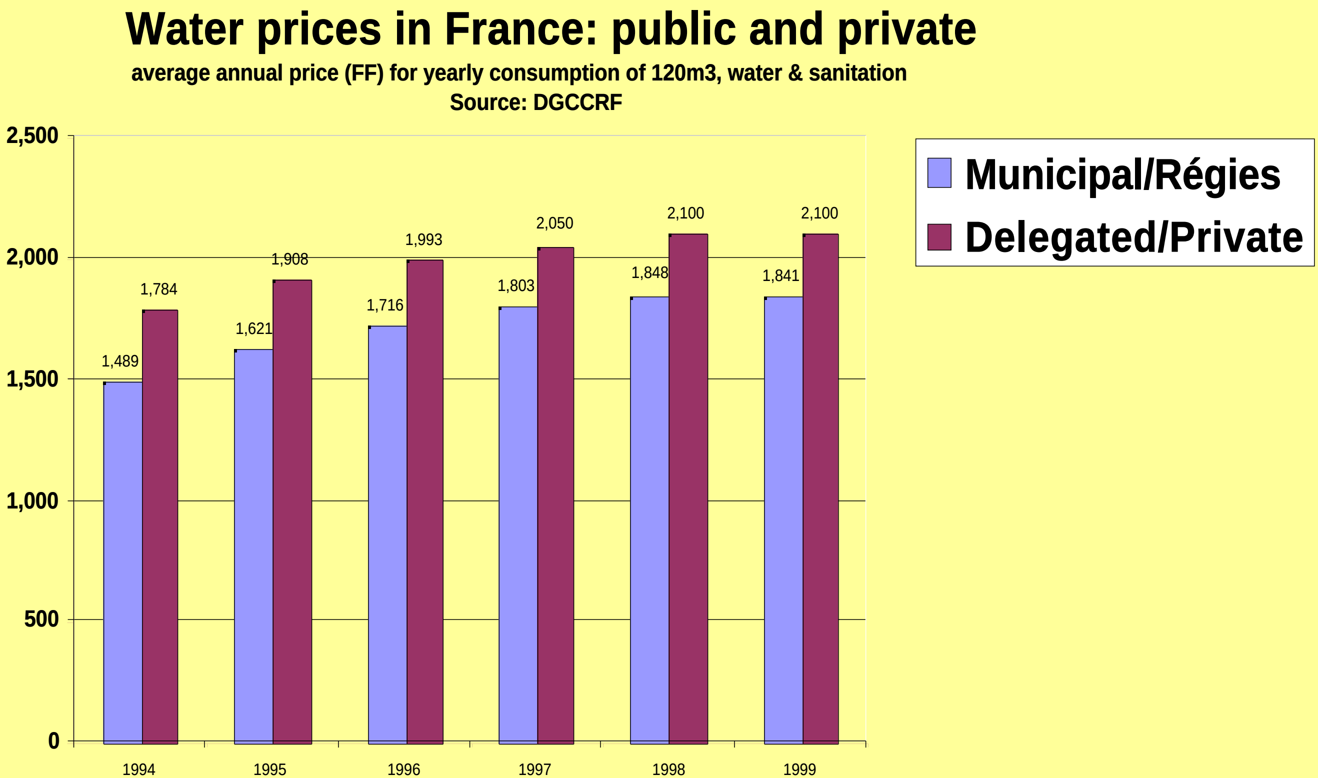
Why public?

- **Proven history**
  - Great majority in developed countries is public
  - Development reasons (essential service, health, solidarity, monopoly)
- **Costs and efficiency**
  - The Stockholm arguments: capital, costs, competitive tendering
  - Direct comparisons very rare but eg Washington DC, Debrecen.
- **Accountability**
  - Direct ownership, control of monopoly, electoral accountability
  - Essential public service
- **Solidarity**
  - Solidarity finance (cross-subsidy) for extension and lifelines
  - Public authority needed for solidarity financing

Public/private water in EU countries

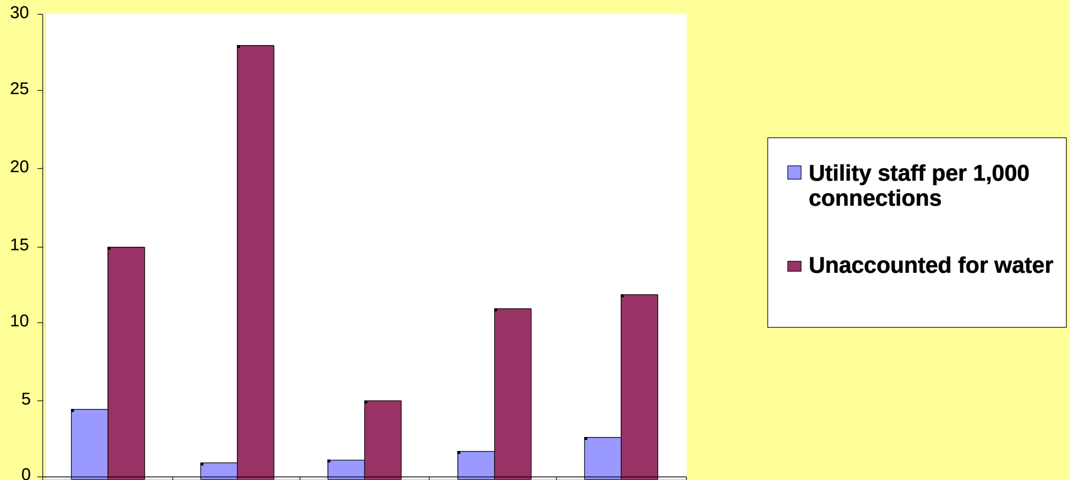


Comparisons I: Public and private prices in France



Comparisons II: staffing and IFW, 5 countries

Some staffing and UFW measures, private and public countries



	France	UK	Netherlands	Japan	USA
Utility staff per 1,000 connections	4.5	1	1.3	1.7	2.7
Unaccounted for water	15	28	5	11	12

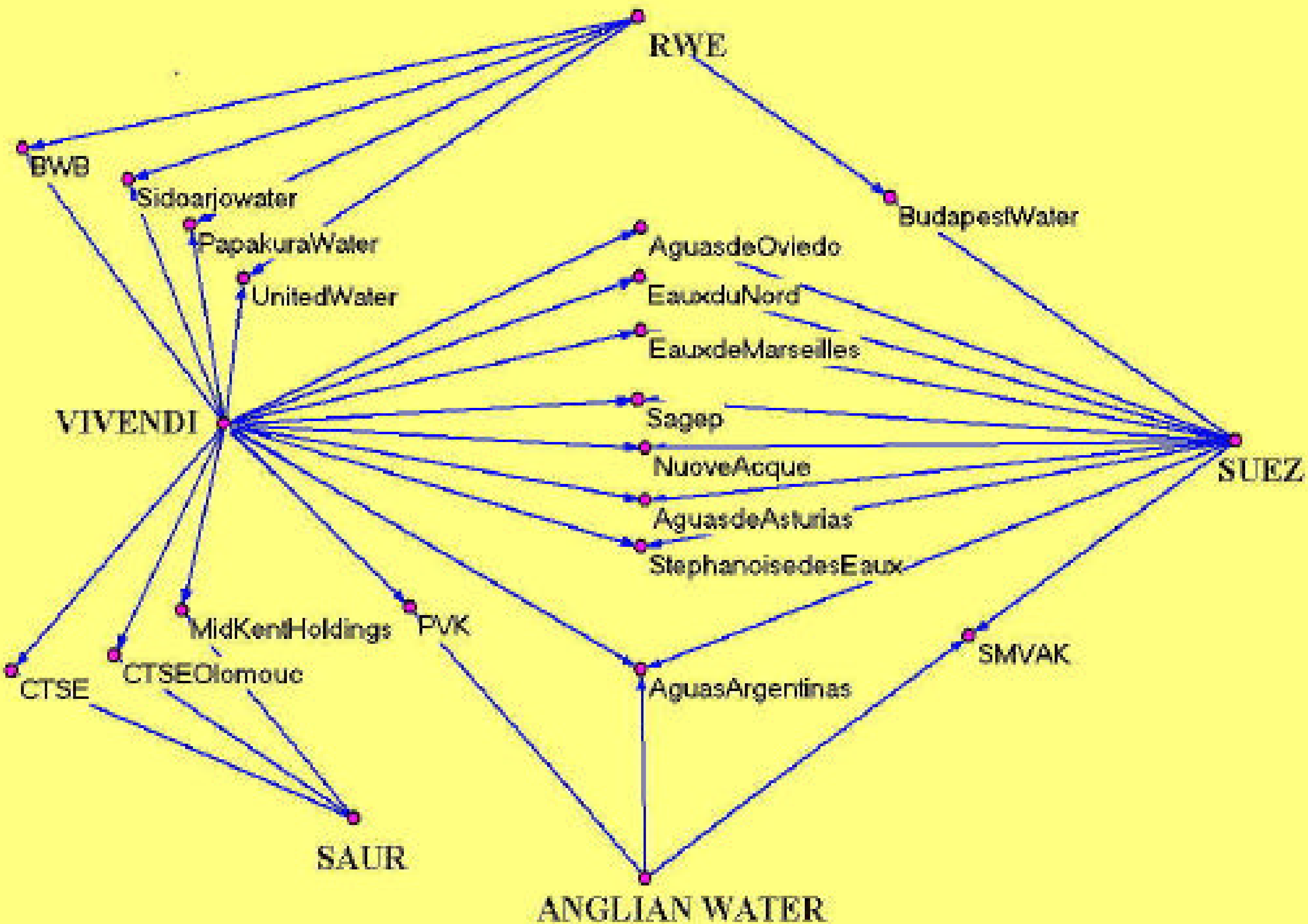
Source: In Public Hands, PSIRU, 2001

Trade or aid ?

- Privatisation in developing countries from 1992
- Business opportunities for multinationals
- Supported by World Bank, donors
  - Increases trade, business opportunities
  - World Bank loans safer with MNCs
- Weakness of economic cases:
  - FDI: not new business,
  - Competition: but small cartel, 30-year monopolies
  - output-based aid=concession+World Bank guarantees

Weak competition in sector

- **Water dominated worldwide by Suez, Vivendi**
  - **Even RWE/Thames, SAUR much smaller**
- **Joint ventures further reduce competition**
  - **Vivendi/Suez joint ventures in France, ruled uncompetitive**
  - **RWE/Thames, SAUR, Anglian all link with Suez and Vivendi**
  - **Also jvs with well-connected local companies eg Manila, Jakarta**
- **Entry very difficult**
  - **Enron fails with Azurix, shocked**
  - **Established markets effectively closed: UK, France, Spain**
- **Corruption at heart of these markets**
  - **Suez, Vivendi convicted in France, Vivendi also in USA, Italy**
  - *"transnational firms headquartered abroad are more likely than other firms to pay public procurement kickbacks" (World Bank study)*
- **So little competition (even 'for market')**
  - **No competition = no efficiency incentive, no privatisation gain**


RWE
BWB
Sidoarjowater
PapakuraWater
UnitedWater
BudapestWater
AguasdeOviedo
EauxduNord
EauxdeMarseilles
VIVENDI
Sagep
NuoveAcque
SUEZ
AguasdeAsturias
StephanoisedesEaux
MidKentHoldings
PVK
SMVAK
CTSE
CTSEOlomouc
AguasArgentinas
SAUR
ANGLIAN WATER

Shared cities

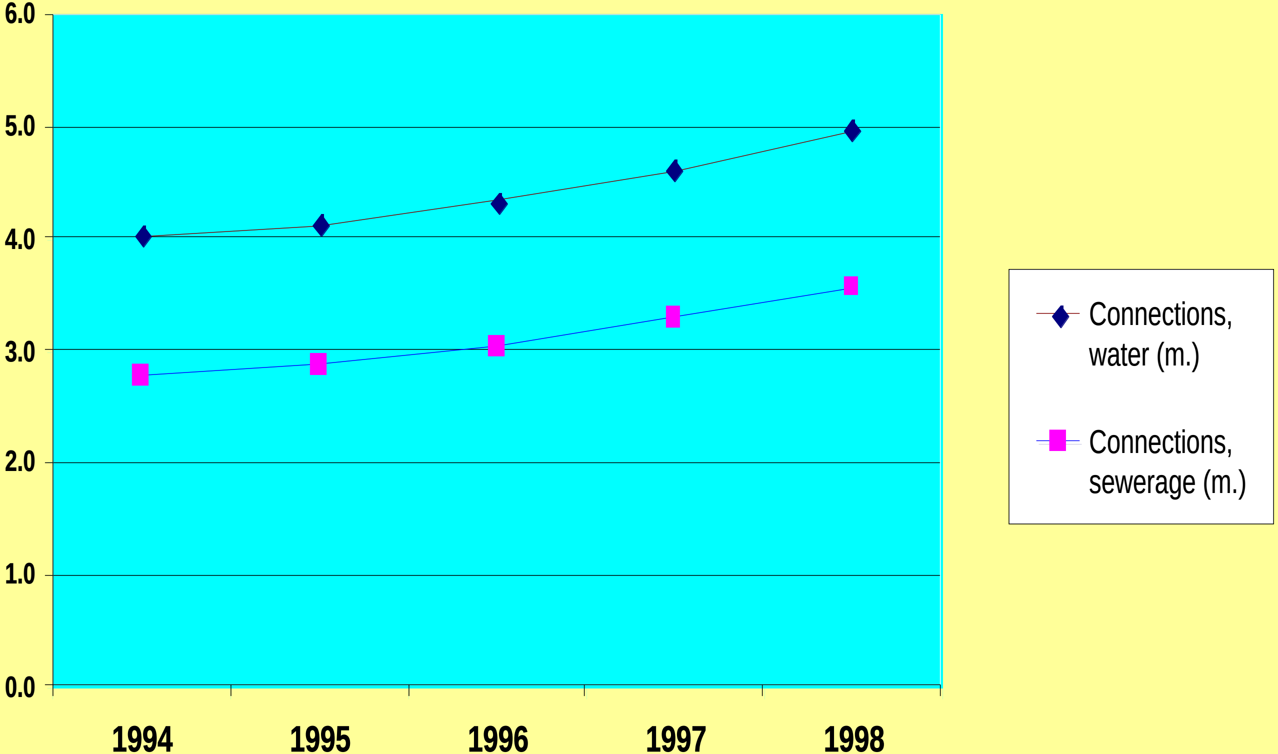
City	Type of sharing	Companies involved		
Paris	Geographic	Suez	Vivendi	
Marseilles	Joint venture	Suez	Vivendi	
Berlin	Joint venture	Vivendi	RWE	
Milan (BOT)	Joint venture/geographic	Suez	Vivendi	
Budapest	Sector/joint venture	Suez	RWE	
	Sector/joint venture	Vivendi	RWE	
Prague	Joint venture	Vivendi	Anglian	?SAUR
Manila	Geographic	Suez	IWL	
Jakarta	Geographic	Suez	RWE	
Adelaide	Joint venture	Vivendi	RWE	
Buenos Aires	Joint venture	Suez	Vivendi	Anglian

Revenue collection, financial turnaround

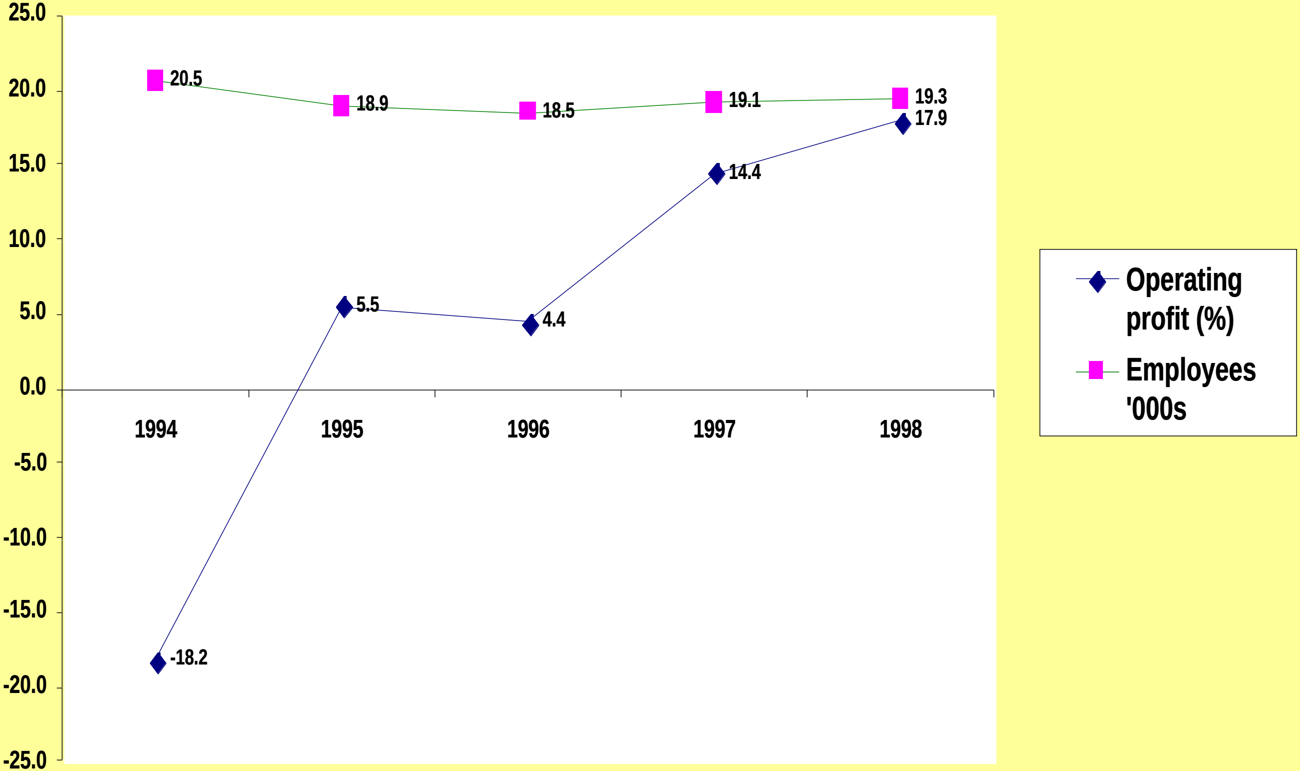
- Aguas Argentinas increases revenues
  - Increased payers to 95%
  - 1. Computerised invoicing 2. Updating database 3. Recovery mechanisms 4. Termination of 500,000 unauthorised collections
- Similar achievements by public sector operations
  - WASA Trinidad
    - doubled revenue in 1995 compared with 1994
    - achieved “by a rigorous collection programme aimed in particular at those households that are connected to the public water supply but pay no rates”
  - ONEA Burkina Faso
    - Achieved collection rates of 95% after reorganisations in 1990s
    - By computerisation, up-to-date customer databases, monthly billing by meter-readers
  - SANAA Honduras
    - from 1994 restructuring of SANAA, joint with the trade unions
    - decentralisation of management, computerisation of billing, a significant increase in tariffs to boost revenue, reduction in staffing levels
    - Leaks reduced and the continuity of supply improved to 24 hours for majority
  - Cf Vivendi proposal in Kenya: computerise billing then sell PCs after 10 years.

Extension of system connections

SABESP, Sao Paulo



Improved finances, no job loss SABESP, Sao Paulo



Financing public sector: Debrecen, Hungary

- **Preferred public to private**:
  - 1995 city council of Debrecen, 220,000 population, rejects privatisation proposals from Suez and Vivendi. Investment costs proved lower under public sector.
- **Corporatised**:
  - Created its own municipal water undertaking, Debreceni Vizmu (Debrecen Waterworks in 1995 as a corporatised separate entity from the municipality, with a business plan drawn up by the management with the support of the trade unions.
- **Cheaper:**
  - 23 km of pipework finished by April 1997, at a cost of Forint 320m, 40% of the amount Eurawasser (a Suez-Lyonnaise-led consortium) would have spent on the same work
    - partly due to the use of local suppliers of equipment, such as meters and pipes.
- **Sustained**
  - The financial performance of the company compares favourably with that of privatised water companies in other cities in Hungary.

A N-E Europe model: capacity through twinning

- International solidarity
  - Helsinki Commission on Baltic Sea
  - Collective international commitment to objective, resources (expertise, finance) according to capacity
- Restructuring municipal water and sanitation operations
  - Corporatisation and transparency
  - Sustainably efficient (especially sanitation)
- Capacity-building by twinning/PUPs
  - from established public sector companies eg Stockholm
  - Linked to projects and targets
- Financial package
  - **Aid up front**
  - **banks long-term**
  - **Credit based on business**

Risks : corporate and public sector strategies

- **Companies avoid risk:**
  - Refusal eg of currency risk in Manila, demand risk in Fort Beaufort
  - Insurance: eg MIGA pays Enron $15m, recovers from Indonesia
  - Legal action: freezing of performance bond in Manila, counter-claims stop termination in Szeged, competition in Valencia
  - Political action: France and Spain press Argentina over dollarisation
  - Guarantees: sought from govts, municipalities eg Cochabamba
- **Countries take risks**
  - Demand risk, currency risk, political risk naturally with governments
  - Private sector may add other risks: poor service (eg Tucuman), company failure (eg BA province and Azurix), corruption & contract abuse (eg Jakarta, Fort Beaufort), loss of choices (eg Dolphin Coast), prices and social instability (eg Cochabamba)
- **Compare public and private responses**
  - Eg SANAA to hurricane, Aguas de Mozambique to floods, Brazilian water companies to 1999 devaluation, Argentina to current crisis

Guaranteed rates of return, take-or pay agreements –water concessions = long-term debt

- Guaranteed return makes water virtually risk-free business: Aguas del Tunari; Aguas Andinas; Aguas Argentinas; Pecs and Szeged, Hungary; Plzen, Czech Republic

- Take-or-pay contracts imply guarantee of return (obligation to purchase irrespective of future demand): Agua Azul, Rio Chillon; Vivendi and Marubeni, Chengdu, China; Lyonnaise, Thu Duc, Vietnam

- Dollarisation: Aguas Argentinas; La Paz and Cochabamba, Bolivia; Rio Chillon, Peru; Jakarta, Indonesia

- Argentine crisis: Ley 25,561 suggests PPPs are part of problem; renegotiation to take into account *“impact of prices on competitiveness of economy and income distribution; quality of services and investment plans; consumers’ interests and accessibility to system; security of the systems; and the profits of the firms”*

Contract dynamics

- **Dynamics needed for understanding**
  - not static models but agents interacting with events
  - **Perpetual renegotiation eg Ag Arg, Grenoble**
  - **Lessons from France/Spain: eg Cour des Comptes report 1997, Valencia**
  - **Regulators are part of the process, not above it**
  - **May be weakened in advance to attract investors, or captured later**
  - **Difficult to be effective in developing country eg Manila, Guinea**

- **Problems with termination**
  - **Eg Valencia (no alternative after 95 years), Szeged (cannot afford compensation): cf Tucuman, Cochabamba arbitrations**
  - **Difficult to change eg Grenoble, Dolphin Coast**
  - **But 2003 multinationals leaving? Manila, ?Argentina, diff role in Parana**

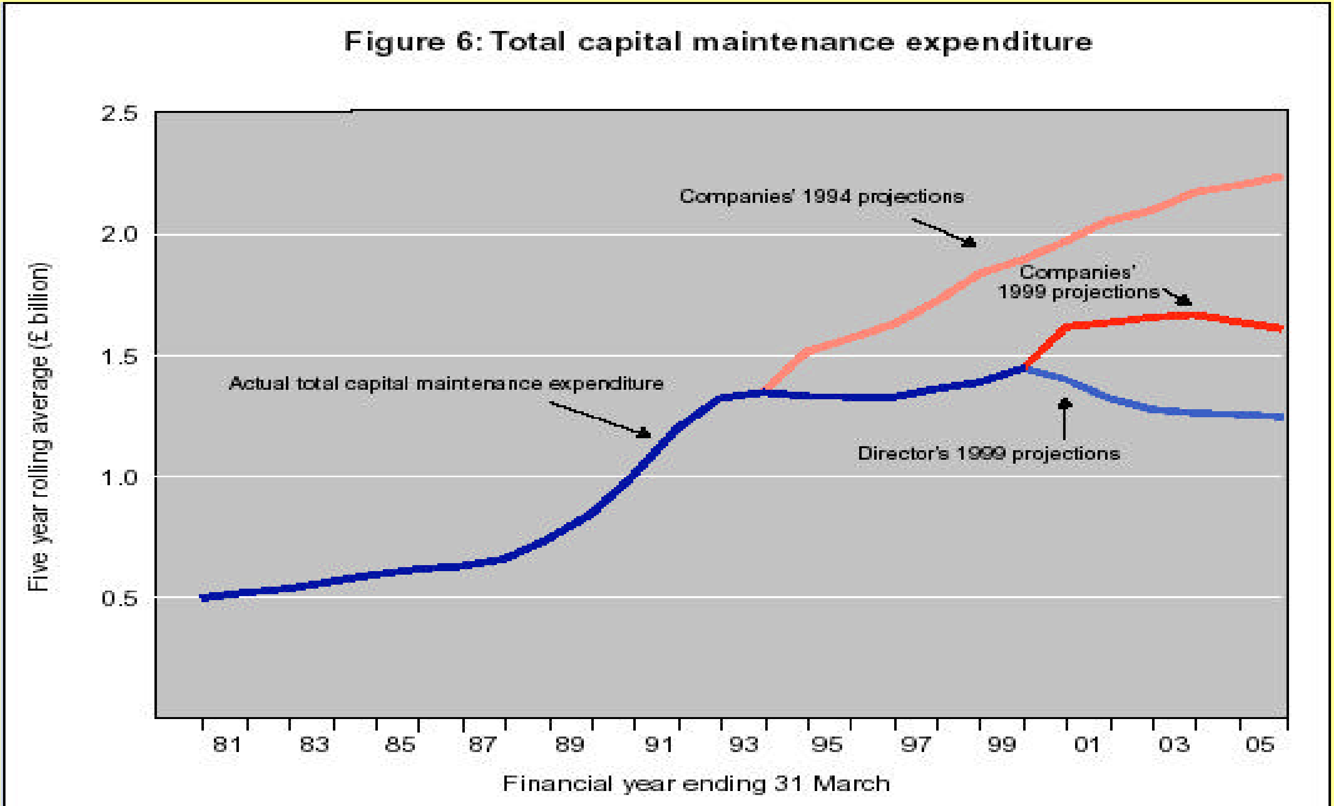
Downward revision of investment/service levels

- Over-optimistic demand projections may trigger renegotiation after 1-2 years into contract (Rostock, East Germany; Dolphin Coast, South Africa)

- Concession agreement may lower risk by definition of service levels (Aguas de Santa Fe, Argentina)

- Renegotiation may cancel/postpone originally agreed investments (Aguas Argentinas, Aguas de Santa Fe)

Investment forecasts by English and Welsh water companies



Source: OFWAT, 2000

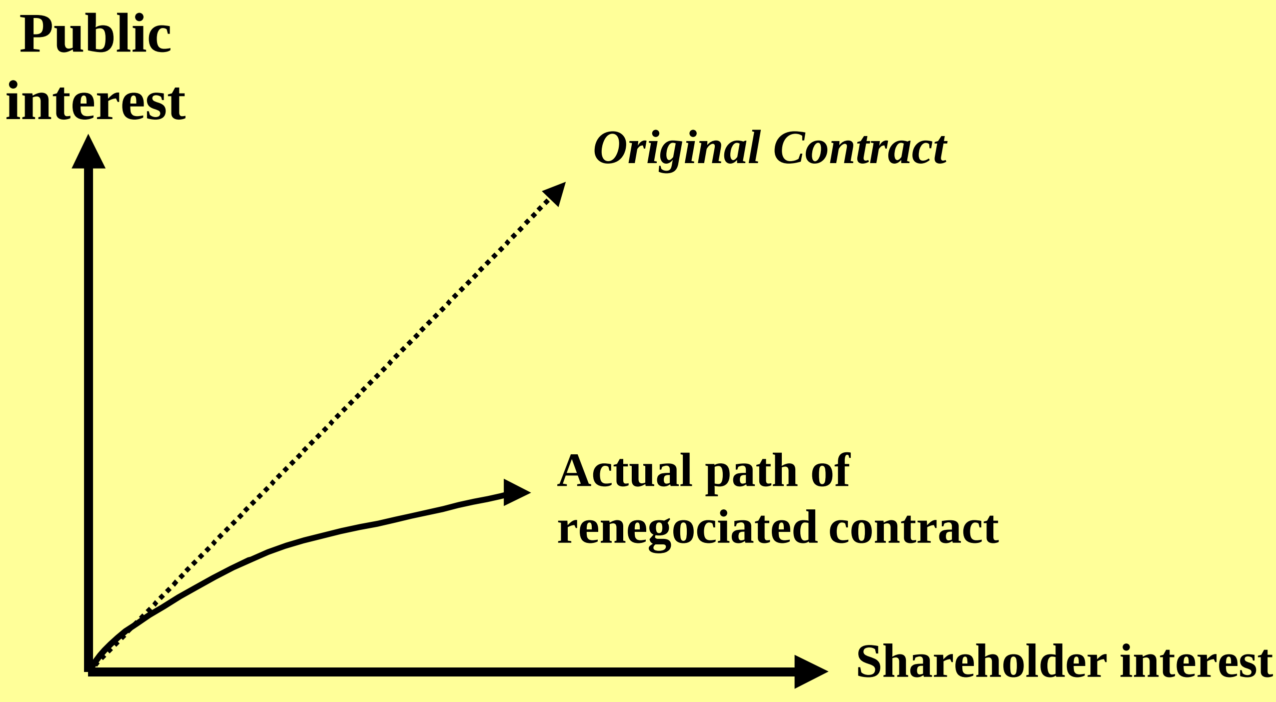
Home and abroad: corruption and tactics for overcharging

- Tactics in Grenoble
  - Corruption
  - Entry fees recovered through charges to users;
  - tariff formulae indexed on wrong base;
  - retroactive invoicing;
  - privileged access to works contracts,
  - inflated costs of debt service;
  - secret documents

- Tactics in developing countries:
  - Non-democratic regimes (apartheid South Africa, Suharto Indonesia, Hassan's Morocco)
  - adjustment of indexation bases (Guinea);
  - over-estimation of projected investments and demand forecasts;
  - subcontracting (ACUACAR);
  - double charging for same investment (Tallinn, Estonia);
  - non-payment of fees as lever in bargaining (Dolphin Coast, Manila)

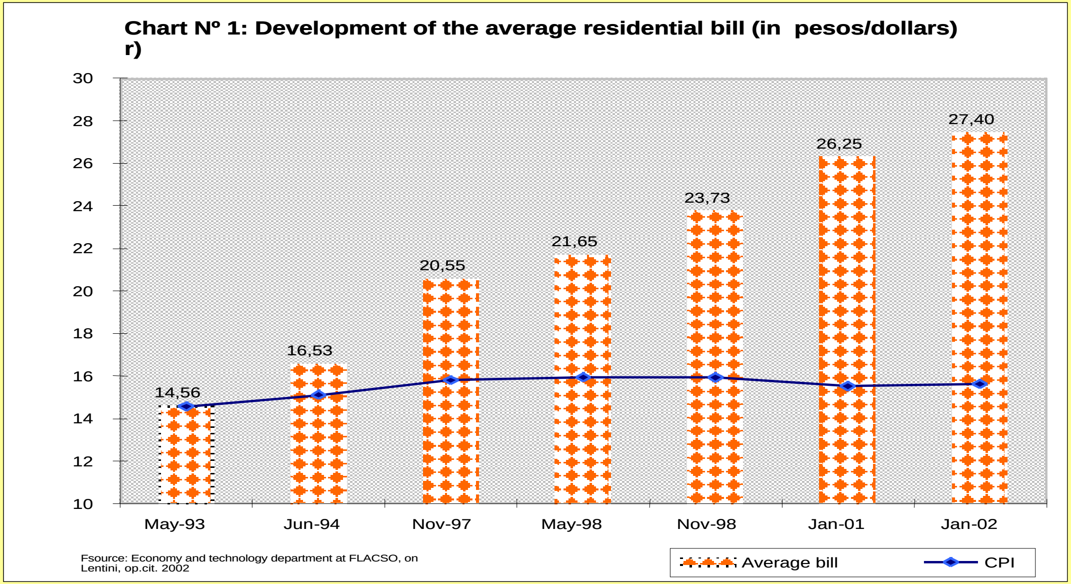
Based on Grenoble: see PSIRU report at www.psiru.org/reportsindex.htm

Dynamic process of interest-seeking



Buenos Aires: price rises over inflation

- Service coverage, 1993-1998: 46.3% (water); 56.8% (sewerage)
- Rate of return 1994-2000: +19% on average – compares against +4.5% by largest 200 Argentine companies



Cross-subsidy, the poor, the multinationals and the public sector

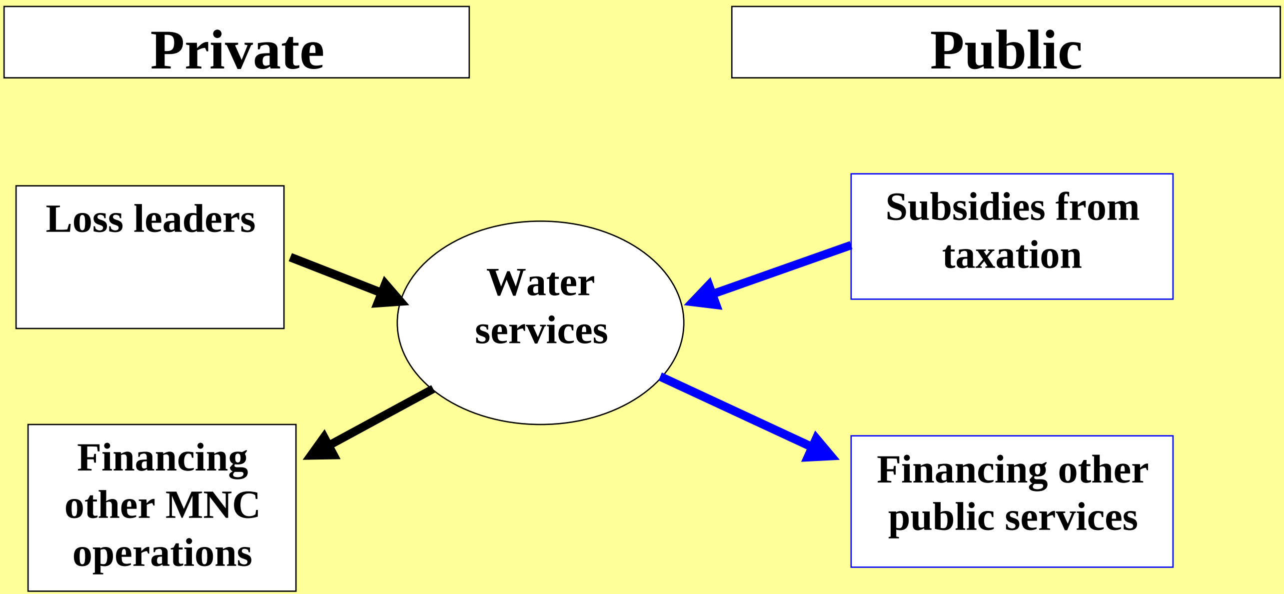
- **The importance of cross-subsidy**
  - To finance extensions & new connections, subsidise costs, provide lifeline
  - Traditional role of central government, fits with raising finance
  - E.g. tax-based charging, subsidised prices, lifeline 'zero' tariffs
  - Depends on political will eg Aguas Argentinas, sustainable eg Ireland, UK
  - Note local, national, international scales
- **Problem of the poor for private sector**
  - Companies want customer ability to pay for sustainability of income
  - The poor get 'selected out' eg La Paz (by contract redefinition), Ghana (by territorial redefinition). So poor get the service they can afford.
  - Marginally profitable consumers form boundary of expansion; reduced service, or community contributions are means to make more people profitable customers
  - 'hard to get them to design pro-poor tariffs; rural and peri-urban too risky' (OED comments 2001).
- **Public sector problems**
  - Extension for electoral gain (pro-poor) but may avoid liabilities eg over tenure
  - Financial regimes constrain public spending and favour private purchases

SAUR : problem of poor – solution is subsidise multinationals

- *"The scale of the need far out-reaches the financial and risk taking capacities of the private sector"*
- General increase in risk made worse by *"Unreasonable regulator power and involvement … An emphasis on unrealistic service levels … The demand for "connections for all""*
- "*Service users can't pay for the level of investments required, nor for social projects*".
- Solutions: public sector subsidies, soft loans and guarantees – for multinationals

(presentation to World Bank water division, SAUR CEO, January 2002)

Private and public: subsidies to and from water



Transparent and accountable: the Porto Alegre model

- **Private sector brings own problems**
  - Secret contracts; commercial secrecy
  - incentives to obscure accounts
  - Regulator may only reflect same culture eg UK secrecy or USA openness
- **Public sector can deal with transparency**
  - **eg Porto Alegre**
    - **Autonomous department with accounts**
    - Efficiency and public accountability as central principles
    - Two boards: management and supervisory
    - ‘Participatory budgeting’: non-state public sphere
    - Decentralised democratic prioritising