Types of Privatization within Water Management & Context

What is Privatization?
It is the transfer of ownership of a public agency, asset, or service to the private sector. In the case of water management, transfer of assets (e.g. filtration plant) to a private operator does not always occur.

What is Private-Sector Participation (PSP)?

- PSP covers a wide range of contractual arrangements between a government agency (public sector) and a non-public institution, often a private company, which in the case of water management is usually a multinational water corporation.
- The private company involved in these contractual arrangements assumes responsibility and risk in managing the previously public agency.
- The term ‘partnership’ implies that both parties, the state and the private company, have mutually shared objectives and working arrangements that go beyond the fulfillment of their contractual agreement.

<table>
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<tr>
<th>Six main forms of Private-Sector Participation contracts:</th>
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<td><strong>Table 1</strong>: Allocation of key responsibilities for private participation options</td>
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<td><strong>Service contract</strong></td>
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<td>Asset ownership</td>
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<td>Capital investment</td>
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<td>Commercial risk</td>
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<td>Operations/ maintenance</td>
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<td>Contract duration</td>
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**History of privatization of the water sector: 19th - early 20th century**
- Water and sanitation first emerged in cities in Europe & North America in the mid-19th century
- These first water supply networks and sanitation services were built and operated by private companies to serve the wealthy neighbourhoods
- The inability or desire by the private sector to provide the urban population with water supply led to the takeover of the private companies by the state

**Major events leading to a resurgence of PSP**
- In the 1980s there was a shift towards neoliberal free market policies
- Dublin 1992 Principles, refined water as an ‘economic good’
- This commodification of water is driven by multilateral financial institutions (e.g. World Bank)

**Water Scarcity**
- 1.2 billion people in the developing world lack access to safe, sufficient water supplies
- 2.6 billion people in the world do not have access to sanitation services
References


The Water Market

A Natural Monopoly
- High Barriers to Entry
- Monopoly offer most efficient way to distribute water throughout.

The Inelastic Demand Of Water

Price

P2

P1

Demand
D2
D1

Why Seek Private Sector Participation?

3 Reasons

Specialized Knowledge
- Firms can offer services the government cannot provide.
- Firms increase overall efficiency and quality.
- Ensures adequate supplies year round.
- This has positive economic stimulation knock on effects.

For Profit
- Firms can offer greater return on the investment.
- Allows for extra expenditure where needed.
- Firms interest may not align with the public.
- Risk of increased prices or jeopardized services.

Structural Adjustment Programs
- Governments seek financial assistance.
- Aid allows for swifter development.
- This aid may have certain conditions attached to it.
- Such conditions could hamper development in the long run.
The Water Market

Sources


1. **U.N. Water Decade:**
   - The United Nations declared 1981-1990 as The International Drinking Water and Sanitation Decade in an attempt to provide universal clean water with a focus on accelerating provisions throughout the developing world (Budds & McGranahan, 2003). The program failed to meet targets because of the joint pressures of inadequate funding for operations and the global economic recession, which inhibited developing nations’ debt repayments (WHO, 1991).

2. **Neoliberal Reforms:**
   - The emergence of a Neoliberal market economy ideology (ie: free markets) removed state controls over the water sector and positioned private enterprise in charge of water management (Budds and McGranahan, 2003). Privatization remained prevalent mainly in developed nations, particularly in the United Kingdom where the Conservative government’s selling of public assets sparked globally a rise in private corporate interests (Dores et al., 2004).

3. **Dublin Principles:**
   - Following Neoliberal reforms, the United Nations began to explore the language of Water as both an economic good and a commodity with the fourth principle of the 1992 Dublin Statement on Water and Sustainable Development, stating:
     - “Water has an economic value in all its competing uses and should be recognized as an economic good”
     - “It is vital to recognize first the basic right of all human beings to have access to clean water and sanitation at an affordable price” (ICWE, 1992).
   - Principles recognize water as having an economic value, while recognizing a right to water.
   - This kind of thinking has led shift from water production to demand management (Parsad, 2008).
   - The Dublin Principles were adopted through the rising global trend towards neoliberal reforms. combined with growing interest from the private sector, a justification was established for treating water as an economic good (Budds & McGranahan, 2003)

4. **Role of Stakeholders:**
   - **International financing institutions:** The World Bank & International Monetary Fund (in partnership with donor governments and multinational corporations) believed they could better address water management than the state (Parsad, 2008). Packaged reforms in water sector through lending agreements called structural adjustment programs (Budds & McGranahan, 2003)
   - **Bilateral Development Agencies:** Development agencies that encourage private sector participation in water infrastructure projects. Facilitate foreign direct investment (Parsad, 2006)
   - **Governments:** Government’s often face pressures from international financing institutions and bilateral agencies to accept private partnerships. Governments however can benefit from private involvement, particularly by cost reduction and increased efficiency in water management (Davis, 2005).
REFERENCES


Social Implications

The Human Right to Water and Sanitation
- Must be:
  - Sufficient (50-100 litres of water per day per person)
  - Safe
  - Acceptable
  - Physically accessible (1,000 metres from home)
  - Affordable

Health
- 1.2 billion people lack access to appropriate water supplies
- 2.6 billion people lack water sanitation
- Every 15 seconds a child drops dead from water-related diseases
  - With Private Sector Participation (PSP) this dropped by 8% in poorer regions by 26%

Sanitation
- Progressions in water access will not inevitably result in progressions of health if sanitation is overlooked.
- Home purification methods are not as safe as commercially purified water.

Low-Income
- WHO recognized PSP as an important instrument in providing water services to the poor.
- It is argued that PSP is sufficient as long as a minimum amount of water is set aside for the poor at a lower price or for free.

Gender Equity
- The poor, mainly women, must commit copious amounts of time in collecting water.
- Due to the burden of collecting water:
  - Many young girls cannot attend school
  - Many women are unable to work
- In Africa and Asia, women walk on average 6 kilometers to acquire water.

For the Private Sector to Participate or Not?
- The acknowledgement of the Human Right to Water and Sanitation does not necessarily enquire that the public sector must be the only supplier, nor does that discount PSP.
- Governments and public services often lack the funding required to supply these services.
- Anti-PSP movements want governments and public services to be the main foundation for distributing water.
- It is argued that PSP companies lack the public’s interest.


Environmental Impacts of Private Sector Participation in Water and Supply and Management

POTENTIAL ENVIRONMENTAL BENEFITS

- clear delineation of jurisdictions over water management and supply through contracts
  - better coverage for sanitation and supply to users
  - less power struggle between levels of government for jurisdictional control if contract achieved
- higher scrutiny, enforcement, and prosecutions of private companies than

Case Study: UK

- water efficiency with public participation
- higher water quality
- higher compliance with standards and policy
- if water quality is improved, more water bodies qualified for recreational use

POTENTIAL ENVIRONMENTAL IMPACTS

Practices leading to contamination of water

- leaking septic tanks leads to high nitrate concentrations
- septic tanks that are not connected to treatment plants
- discharge of untreated wastewater into oceans
- pit latrines, open defecation

Diseases

1. Blue Baby Syndrome
   - when water with high concentration of nitrates is consumed, babies under 6 months can die from insufficient oxygen in the blood

2. Soil-transmitted Helminths
   - caused by poor sanitation through skin contact with infected soil or ingestion of contaminated water
   - parasites cause anemia, malnutrition and other health and developmental complications especially in children

Eutrophication

Process where water body receives high concentrations of nutrients like nitrates from organic or faecal matter leached into water.

Anoxia

Nitrates increase plant productivity and produce algae blooms that deplete oxygen in water, negatively impacting aquatic organisms, blocking solar radiation from reefs, and can kill fish. Akin to asphyxiation but in water.
Works Cited


Case Study:
Lagos, Nigeria

Lagos is one of the cities in Africa with underfunded water systems. However, whether the solution is private management or not is an ongoing debate.

- In 1999, the World Bank's International Finance Corporation (IFC) put pressure to expand city's water system.
- Lagos refuses any kind of privatization even though it is in desperate need of investment in its water systems.
- People of Lagos intend to protect their human right to water and the democracy of their state, as they have learned from the nations around them that public sector is preferable for poor cities like Lagos.

Root of the Crisis

1. Insufficient infrastructure
2. Decades of unsuccessful policies
3. Inadequate budget allocation
4. No meaningful public participation
5. Poor labour practices
6. Regulatory Failures

What Lagos Learned from others?

1. Reinventing public water is possible and preferable
2. Using public finance is preferable
3. The human right to water must be protected and fulfilled
4. Reinventing public water is good for democracy

What do Lagosians Want?

Lagos does not want to adopt an international model that has “failed” many times. They want a system in which the human right to water is protected while it integrates public participation in decision-making.
Sources


