

Water Privatization and ADB, Its Impacts and Responses from Peoples' Movements

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The top three 'donors' in the Asia Pacific region -- Asian Development Bank (ADB), World Bank and Japan Bank for International Cooperation (JBIC) – attach conditionalities to their loans that prescribe private sector participation (PSP) or public-private partnerships (PPP) in the water sector. Various water privatization schemes effectively transfer management and control over water resources and assets from the public sector to private water companies, bringing much damage to economies, local communities and their environment. This paper will highlight ADB's water policy and lending operations in the region, the failures of water privatization and examples of people's struggles against privatization.*

ADB's water policy In January 2001, ADB approved a new Water Policy that views water as a 'socially vital economic good.' ADB's water policy aims to: (a) promote focus on water sector reforms; (b) foster integrated water resources management, or IWRM; (c) improve and expand delivery of water services through autonomous & accountable service providers, PSP and PPPs; and (d) promote regional cooperation for the mutually beneficial use of shared waters. Highly contentious is the view that water is an 'economic good' or a marketable commodity upon which profits can be made; this is anathema to long-held notions of water as a social good, a resource freely available in nature, and upon which whole livelihoods and cultures are based. The water policy promotes full cost recovery and tradable water rights and covers water utilities, other water infrastructure (e.g. irrigation) and river basin management. To avail of water sector loans, governments must adopt and implement a national water action agenda, including changes in legislation and policies, that subscribes to the Bank's water policy.

ADB leads water PSP reforms. ADB has taken a lead role in water sector reforms in the Asia-Pacific region, including Sri Lanka, China, Nepal and several Indian states. Sri Lanka has long been eyed by financial institutions as the "prime candidate to lead South Asia into PSP in water supplies" and in 1997, ADB promptly provided lending support to change legislation and policy on water. In 1999, ADB financed China's first water supply BOT project (in Chengdu) and promoted it as an "effective public-private partnership at the municipal level"; it is the Bank's first private sector project in the water sector. In Nepal, ADB helped prepare a PSP management contract as a precondition for the Bank's support to the controversial US\$464-million Melamchi Water Supply Project, approved in December 2000 with co-financing from JBIC and other donors. In June 2005, the ADB

* References include: (a) David Hall and Emanuele Lobina, PSIRU, Business School, University of Greenwich: "Water as a Public Service", December 2006 <http://www.psiru.org/reports/2007-01-W-waaps.pdf>; (b) David Hall, Violeta Corral, Emanuele Lobina and Robin de la Motte. 2004. *Water privatization and restructuring in Asia Pacific* <http://www.psiru.org/reports/2004-12-W-Asia.doc>

organized a forum in Bangalore to draw up PSP action plans in India's urban water supply for the states of Kerala, Karnataka, Madhya Pradesh, Uttaranchal and Jammu-Kashmir; participants came from State Water Utilities (SWUs) in India and overseas private water companies.

ADB's New Water Financing Program In March 2006 at the 4th World Water Forum (Mexico), ADB announced a new Water Financing Program 2006–2010, which is a commitment to more than double investments in water in the region over the next 4 years, and the Water Financing Partnership Facility, which aims to raise \$100 million in grants that will “support governments willing to take on reforms and develop skills within their institutions, utilities, and communities.” The new ADB program will focus on three key areas - rural water services, urban water services, and river basin water management -- through closer collaboration with the private sector and civil society. ADB's water investments is expected to greatly increase to well over \$2 billion annually, making water “a core business area of ADB's operations.” In 2005, ADB approved a total of US\$1.4 billion in water sector loan components (water supply, sanitation, waste management sector, ‘multi-sector’), amounting to 20% of ADB total lending.

ADB's stepped-up efforts flow directly from the report of the World Panel for Financing Water Infrastructure in 2003 (the Camdessus Report) and its successor, the Gurria Task Force on Water Financing in 2006. The various global estimates of the costs of reaching the MDGs, ranging from \$6.7 billion per year to \$75 billion per year, reflect the interests of international companies and bankers in estimating potential global water markets. Local projects are being designed to match the needs of global financiers, rather than of local communities. A number of water reservoirs and treatment BOTs have been far more than cities have needed or been able to afford, as in Chengdu. Local assessments of requirements for investment are usually far lower than those by external actors.

Continuing reliance on PSP will not meet MDG targets Water PSP contracts have failed to deliver investment in new infrastructure as promised. After 15 years, only about 600,000 households have been connected as a result of investment by private water operators in sub-Saharan Africa, South Asia, and east Asia (outside China) – representing less than 1% of the people who need to be connected in those regions to meet the UN MDGs. Compare this with the results of the ‘decade of water’ in the 1980s - when funding was provided to the public sector - which is usually referred to as a failure, yet reduced the overall percentage of people living without safe water supply from 56% in 1980 to 31% by 1990, results far better than the privatization experiment has delivered. According to a report commissioned by ADB in 2006, Asia Water Watch 2015, about 669 million people in the Asia Pacific region are still without access to safe drinking water and 2 billion people lack access to improved sanitation facilities.

For-profit incentives will not ensure safe, affordable and sustainable water The fortunes of international water supply multinationals have collapsed dramatically, due to a failure to make adequate profits in developing countries. One key reason is that developing countries could not support ‘rate of return’ required by international equity capital; water multinationals fail to make big enough profits from developing countries.

Since 2003 water multinationals have halted and reversed their expansion. French-based Suez announced in January 2003 that it intended to reduce its presence in developing countries by one third, and only make future investments which were financed by the business itself, free from currency risk, and achieved a target rate of return. In 2006, the Suez group itself was the subject of two takeover bids from companies interested in its electricity and gas business: it is unlikely that either buyer would want to retain the international water business. US-based Bechtel's water interests were up for sale for over a year and in the end were bought by a public development bank. UK-based Thames Water, the third largest water multinational, was formally put up for sale in November 2005, and finally sold to a financial investor in October 2006, after selling most of its operations in developing countries.

Water experts warn against pitfalls of privatization An ADB/IWA (International Water Association) publication in 2003 noted the pitfalls of relying too much on the private sector in providing water for all, including the poor: (a) The headlong rush toward private markets has failed to recognize that water has vital social, cultural, and ecological roles to play that cannot be protected by purely market forces. (b) There is a need to provide for the basic water requirements of people and ecosystems, permit access to water for poor populations, include affected parties in decision making, and improve water use efficiency and productivity. (c) Openness, transparency, and strong public regulatory oversight are fundamental requirements in any efforts to shift the public responsibility for providing clean water to private entities. (d) Improvements in efficiency reduce water sales and hence may lower revenue; as a result, utilities or companies that provide utility services may have little or no incentive to encourage conservation. (g) Efforts should be made to strengthen the ability of governments to meet water needs.¹

Private more efficient than public is a myth Private water companies have failed to show greater efficiency than public sector operations. Empirical evidence from studies in all continents shows that ownership does not appear to make any significant difference to efficiency. In 2004 the ADB conducted a survey of 18 cities in Asia, which included two cities with private sector concessions - Manila and Jakarta. These were performing significantly worse than average on some indicators of coverage for water and sewerage, investment, about the same on six indicators, and relatively well on another five indicators (including revenue collection, and minimizing the number of staff per 1000 connections). Even the ADB has cited the public Phnom Penh Water Supply Authority (PPWSA) as “one of the better run utilities in the Asian region”, dramatically improving its performance over the past 15 years. Japan has some of the most efficient water utilities in the world, with Osaka described as providing “an excellent water service”, and its level of non-revenue water, at 7%, is outstandingly low, by international standards, a

¹ *Asian Water Supplies – Reaching the Urban Poor*, A Guide and Sourcebook on Urban Water Supplies in Asia for Governments, Utilities, Consultants, Development Agencies, and NGOs, by Arthur C. McIntosh. Asian Development Bank and International Water Association, August 2003, p. 91.
(http://www.adb.org/Documents/Books/Asian_Water_Supplies/asian_water_supplies.pdf)

performance now threatened by new policies of the Japanese government, but which unions have successfully thwarted for now.

Successful people's campaigns stop privatization People's campaigns have publicly exposed the many fiascos and ills of water privatization -- unmet performance targets, exorbitant water rates, significantly diminished access to basic services for poor communities; reduced service delivery in areas deemed unprofitable; higher risks to health; damage to the environment; more work burdens for women in poor households who compensate for services no longer provided by government; heavier burdens on taxpayers, etc. Peoples campaigns is a global phenomenon, with the uprising which led to the termination of the private water contract in Cochabamba (Bolivia) in 2000, was the first and most dramatic. In 2004 another uprising in El Alto, the poor suburb of La Paz, led to the termination of Suez' concession in that city. The collapse of the Argentinian economy led to the ending of water concessions in Buenos Aires and Santa Fe, as the companies failed to force Argentina to guarantee profits in dollars. Privatization has faced similar rejections and reversals in developed countries -- in the USA, the city of Atlanta terminated Suez' concession because a public sector operation would be better value. Even in the UK, after 17 years of water privatization, a clear majority of 56% favor a return to public ownership. Maynilad, Suez' concession in Manila (Philippines) had become the subject of a bitter dispute with the regulator, became bankrupt and was bailed out by government in 2006, with 84% renationalized (but was however re-privatized later in the year, due to government's staunch privatization policy).

Challenging legality of new water laws In December 2003, a coalition of Sri Lankan NGOs and public sector trade unions challenged in the Supreme Court a controversial Water Services Reform Bill introduced by parliament, saying it will deprive the poor of access to freshwater; the high court effectively blocked the bill. In February 2004, the Indonesian Parliament approved a new Water Resources Law; in June of same year, a people's coalition on water filed a case in the newly-formed Constitutional Court for a Judicial Review of the law and argued that turning over government's responsibility in water services to the private sector is against the Indonesian Constitution.

Making privatization illegal Two countries have already made water privatization illegal. In 2004 the Netherlands parliament passed a law which prevents any private company from operating a public water supply. The law states that drinking water services to consumers may only be provided by entities which are 100% public or publicly-owned. In October 2004, in Uruguay, a referendum proposing a constitutional amendment on water was approved by 62% of voters; the amendment stated that access to piped water and sanitation are fundamental human rights, and that sewerage and water supply for human consumption will be provided exclusively and directly by state entities. Thailand is in the process of drafting a new Constitution and public sector unions are advocating stronger language on state provision of basic services such as water and electricity.

Developing concrete alternative models The Orangi project in Karachi (Pakistan) successfully campaigned for the rejection of a \$100 million project proposed by ADB as unnecessary by putting forward an alternative proposal which would cost only a fourth,

relies entirely on provincial and municipal resources and on affordable user charges, and recognizes investments already made by low-income households in sewerage disposal. In Dhaka (Bangladesh), a workers cooperative took over the water supply in two of the seven municipalities, which has shown that the water supply systems run by the workers were doing better than the private companies. The participatory model in Porto Alegre (Brazil) has resulted in poor communities gaining access to clean water as their needs are prioritized because they participate directly in the budgeting process.

Recognizing water workers as key stakeholders and instituting PUPs Public water management is still the solution, with reforms put in place to support the autonomy and efficiency of public water operators. Labor should be recognized as an important economic input and a largely untapped resource into the process of extending and operating water and sanitation services. Workers knowledge and skills should be systematically utilized in improving utility performance. There should be more training of water workers at all levels so that public sector organizations have a sufficient pool of trained staff, and sustain a well-trained permanent workforce. 'Public-public partnerships' should be developed and instituted to address problems of lack of managerial, technical and financial management capacity of public sector water operators. In Nepal, for instance, the role of Kathmandu Valley's five municipalities and community-based enterprises such as local cooperatives in water supply should also be strengthened. In Cebu City (Philippines), workers in the public water district have proposed concrete suggestions such as PUPs and viable measures to reduce non-revenue water as alternatives to an expensive BOT bulk water supply proposal. Tamil Nadu water engineers (India) have instituted 'change management teams' to improve the public water service, to connect with those who are served, and to conserve water. These are but some examples amidst many that are being undertaken by workers and their unions to build quality public services in the water sector.

Linking water campaigns and broader social movements The nexus among anti-water privatization campaigners, human right-to-water and environmental activists, community-based models of participation, social justice and illegitimate debt campaigners, quality public services campaigns, etc, has resulted in a vibrant social movement that ensures water remain in public hands, and that the poorest of the poor shall not be deprived access to safe, affordable and sustainable water.