# Water Provision for the Poor

## How ideology muddies the debate

Alex Nash


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## About the author

**Alex Nash** is a chemical engineer specialising in water management, and was educated in Australia and France. He has worked in a number of developing countries on long and short term assignments and is currently working in London as a consultant engineer. His water experience has been in peri-urban supply, emergency water and sanitation, utility regulation, performance assessment and due diligence. He is now 33 years old and has been in engineering long enough to know that he should have taken his parents' advice, steered well clear of it and let someone else sort it out.

# Water Provision for the Poor

## How ideology muddies the debate

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 medium-sized 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.

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.[1] 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 don't. 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 water-related diarrhea alone causing just under 2 million deaths.[2]

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.

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 don't 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.

> *"It's important to note that were it not for small private operators, many poor people would not have easy access to water."*

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 "neo-liberals" 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."[3] 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.[4] 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.[5] 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.

> *"Competition is a good thing and keeps everyone on their toes- the United Kingdom, the USA and France all offer examples where the public and private sectors compete healthily."*

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).[6] 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.[7] 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.

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.[8] 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.[9]

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.[10] 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? 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 reality of many state run utilities is not pretty. Bribes, extortion, kickbacks, nepotism, patronage, shoddy technical standards; it's all in a day's work."*

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.[11] 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. 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.[12]

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 well-connected. 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 no-one 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.

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.

> *"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."*

## 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.[13]

One of WDM's central arguments for insisting on public management (in "Pipe Dreams") is that "surpluses" (as they prefer to call profits) are re-invested in the service under the public model, whereas they are taken out as "profit" under the private model.[14]

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.[15] 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.

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* | *Private Management* |
|---|---|---|
| Debt | Yes | Yes |
| Bonds | Yes | Yes |
| Equity (shares) | No (or if yes, 100% government owned) | Yes |

**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") |

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.

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. 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 anti-globalisation 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.[16]

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

**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 €400 "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.

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.

**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?

## Notes

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13. 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.

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## The Sustainable Development Network www.sdnetwork.net

The Sustainable Development Network is a coalition of individuals and non-governmental organizations who believe that sustainable development is about empowering people, promoting progress, eliminating poverty and achieving environmental protection through the institutions of the free society.

The SDN promotes the view that sustainable development can only be achieved with evolutionary institutions that harness human initiative, including property rights, contracts, the rule of law, open markets and open trade, and accountable, transparent government.

The SDN develops and promotes policy solutions to achieve real sustainable development, by enabling people to improve their own wellbeing (and that of others), pursue their own goals, and protect the environment, without bureaucratic intervention (whether local, national and international). Members of the SDN generate policy materials, participate in global fora and engage with the news media to encourage public discussion of this institutional approach to sustainable development.

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## Water Provision for the Poor

Though it is crucial to life, agriculture and the world economy, water is probably one of the most mismanaged goods on Earth. But while current policies have left one billion people without clean water and 2.6 billion without basic sanitation facilities, many oppose practical measures to change this situation – because of ideology.

Activists tend to make broad assertions with regards to water privatisation: that most people do not benefit from it; that the private sector is inefficient; it marginalises the poor; and, most crudely, that privatization is morally objectionable.

Anti-privatisation ideologues are quick to forget that many of the world's poorest people rely on small private operators for water – or that there are numerous successful cases of market-driven water management. Too often, they obfuscate facts and define terms in a way that suits their ideological stance.

The reality of many state-run utilities is not pretty as, too often, officials see their position as an opportunity – indeed a right – to loot the utility. While privatisation is certainly not guaranteed to be a success in countries with poor governance, publicly managed utilities are not just at risk of failing, they are virtually guaranteed to do so.

Anti-privatisation lobbyists have not helped the world's poorest people with their ideological aversion to profit. Quite the opposite. 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.