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Privatisation of Water Supply

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Dialogue on Globalization

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Table of Contents:

Preface

Water is a basic element of all life. Water is a scarce resource and the access to and the utilization of water is more and more a political issue and cause for conflict, inside states, between states and in a global context.

Less than 1 % of world water reserves are accessible sweet water resources. According to the UN, 1.2 billion people are without access to fresh water and 2.4 billion lack proper sanitation. More than 3 million die each year from diseases caused by unsafe water. The number of people living in water-stresses countries is projected to climb from 470 million to 3 million by 2025. Nearly three quarters of the world's water supply is used to grow food.

In a bid to raise awareness and spur action towards reaching the target adopted by world leaders at the 2000 Millennium Summit of halving the proportion of people who are unable to reach or afford safe drinking water by 2015, the United Nations launched the International Year of Freshwater 2003. In his message marking the occasion, UN Secretary-General Kofi Annan underscored the importance of improving stewardship of water resources. "We need much more efficient irrigation, far less toxic agriculture and industry, and new investments in water infrastructure and services. And we need to free women and girls from the daily burden of walking great distances in search of water – time and efforts that could be better spent on education and building better lives for themselves, their families and their communities."

Clean water is a human right! Against this background the UN Committee for Economic, Social and Cultural Rights (Geneva) discussed and decided on a "General Comment" on the "Right to Water". The 18 members of this committee are elected by the Economic and Social Council of the United Nations (ECOSOC) with the task to supervise and monitor the implementation of this human rights covenant and to assist the state parties by additional interpretations of the covenants' content through "general comments". The Geneva office of the Friedrich-Ebert-Stiftung (FES) supported this process by organizing a roundtable discussion in November 2002 involving members of the committee, officials of the UN High Commission for Human Rights, UN Specialized Agencies (like WHO, World Bank) and representatives of business, trade unions and NGOs. In preparation of this event, Dr. Eric Teo Chu Cheow, Singapore, a business consultant and former director of the international service company SUEZ (Asia) was asked to provide his insight into this sensitive issues and in particular to the question of Public-Private-Partnership (PPP). Where many trade union and NGO speakers have a critical view on such partnerships and the implied privatization moves, UN agencies and development policy experts maintain that the giant task of providing safe water to a growing world population demands the mobilization of all resources and a new partnership between governments, the private sector and the communities and consumers. Dr. Teo discusses the pros and cons, the chances and risks of such a cooperation and maintains that this partnership could work "with long-term finance and fair and transparent regulatory frameworks well locked into".

Dr. Erfried Adam
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1. Executive Summary

That "Water is Everybody's Business" was the theme of the 2nd Water Forum, held in The Hague in March 2000. The UN Commission on Economic, Social and Cultural Rights likewise clearly perceives water as "a right," viz. the "right to water." And the 2002 Johannesburg Summit on Sustainable Development highlighted the imminent plight of acute water shortages in the world, noting that, at present, *"more than one billion people" lack* safe drinking water, and half the world's total population still has no good sanitation facilities.

The present paper, noting that water is "a common good, one of the basic public goods," and not simply a tradable commodity, starts out by outlining ten global trends which have had an Impact on the water issue, from the twin trends of *neo-liberalism* and *liberalization* began that swept the world during the Reagan and Thatcher years to the present realization that the world may be plunging into a period marked by more political uncertainties and slower economic growth.

The 2002 UN Conference on Financing for Development in Monterrey, Mexico, served to highlight the inextricable link between the crucial role of the private sector in the international strategy of financing development (in developing countries) and the critical need for good corporate governance (of the private sector) today. According to the Monterrey Consensus, big "clean" corporate businesses should now be closely associated with development, assuming that certain conditions of good public governance are met by emerging economies, to help invest, alleviate poverty, develop infrastructure, utilities, health, water, and educational programmes for a sustainable socio-economic development. The "new Monterrey compact" underlined the importance of *public-private partnership (PPP)* as a model for developing basic infrastructure and utilities and as a tool in the fight against poverty in developing countries.

In view of serious doubts about the privatisation of water utilities, PPP could be used as a means to provide multi-million dollar utilities or infrastructure to local populations in order to spur sustainable socio-economic development in developing economies. Such partnerships should bring in, as integral partners, the local autho-rities, private-sector consortia and their sub-contractors, as well as, in most cases, international organizations and financial institutions (either as guarantors or "part-financiers").

PPP can be seen as a key and a solution to "deficient" local administrations ("deficient" in both financial and technical terms) in satisfying the demands of local utilities, especially in the urban context. Local administrations often lack know-how in the building and operation of water treatment plants, a fact due in large measure to the rapid modernisation of operational facilities and technology, the huge financial costs involved, and continuous advances in industrial management and operations. In this context they should outsource the building and management/operation of such infrastructure and utility works to specialized private companies, through arrangements such as concessions, Build Operate Transfer (BOO)/Build

Operate Owned (BOT) contracts or delegated managements, depending on the degree of outsourcing they desire. Furthermore, developing countries, already at a loss for cash, would in this case not need to raise huge amounts of cash in the public sector to pay for such services or projects, since PPP, in the form of concessions, could prove to be an appropriate model in this regard, with the private sector taking over a concession for a specified period of time and also looking after the provision and expansion of services in line with supply and demand.

Considering the model presented here, it is essential to restate the principal arguments for PPP, as opposed to full privatisation of water and sanitation management. There are two key aspects that must be considered in any package for PPP in water and sanitation. Water is not privatised, but the service is put in private hands. Instead, the assets involved (raw water, water or wastewater production/treatment facilities, and the distribution network) remain with the state, which also defines the overall development strategy and regulatory framework for the private sector.

However, the greatest obstacle to successful PPPs in developing countries is likely to be existing low water tariffs, which stem from the heavy subsidies provided in the past for either social or ideological reasons.

The regulatory frameworks for PPPs must be clear and transparent. This is especially important for long-term concessions that involve a social value and a public good. And it is here that development banks, multilateral organizations, and export credit agencies would have to come in to provide some confidence for private capital and operators, playing a key intermediary role within a clear and transparent PPP framework.

With the rise of civil society against the backdrop of mounting anti-globalisation sentiments worldwide, it has become imperative for the authorities and the private sector to cooperate fully in delivering the best possible water and sanitation services to the population. Beyond the social aspects involved, the five "drivers" (or advantages) of PPP are: better human resource development (HRD) and management, better financial management, technological innovation, better commercial management, and greater customer satisfaction.

It may be said by way of summary that in view of the manifold changes in the world due to the trends outlined here, the private sector and privatisation may no longer be the panacea for poor economic management and all economic ills. The rise of consumer rights and civil society are giving consumers an increasing say in the provision of economic services and utilities. At the same time, clean and drinking-quality water is coming more and more to be recognized as a right and a social good, and not a tradable commodity subject to price competition alone; there is hence clearly a social dimension here, both in terms of poverty reduction and water's role as one of the foundations of sustainable economic growth. The experiences of the United Kingdom and the US state of California have clearly shown that full privatisation of utilities may lead to unexpected setbacks if they are not properly regulated or abuses are left unchecked by weakened regulatory bodies. This is where international and regional financial institutions must come in to help alleviate social burdens and support governments, the private sector, and consumers in PPPs.

2. Privatisation of Water Supply

Water is 'everybody's business,' a right, a common good, but not a tradable commodity.

"Water is Everybody's Business" was the theme of the 2nd Water Forum, held in The Hague in March 2000. The UN Commission on Economic, Social and Cultural Rights perceives water clearly as "a right," viz. the "right to water." Gérard Mestrallet, Chairman and CEO of SUEZ, had argued in 2000 in the "Water Truce," an open letter to the governments, members of parliament and international institutions of the world, that water is "a common good, one of the basic public goods" and "not a commodity" that is traded. Water is hence "everybody's business," a right, a common good, but not a tradable commodity. These may be different views, but, in effect, they tend to converge.

Ten Global Trends which have had an Impact on the "Water Issue"

The twin trends of neo-liberalism and liberalization began sweeping the world during the Reagan and Thatcher years.

1. The twin trends of *neo-liberalism* and *liberalization* began sweeping the world during the Reagan and Thatcher years. When the Soviet Union ultimately collapsed under the weight of "inefficient" communism, and when China became progressively engaged in a new "socialism à la chinoise" experiment, the days of liberalism's final triumph were hailed and those of communism's death knell were sounded. This Reaganite and Thatcherite revolution brought sweeping changes to the popular mentality of the post-World War order; with the ultimate liberation of the Eastern European satellite states and the collapse of the Berlin Wall, neo-liberalism finally triumphed ideologically. A recent award-winning television series, "Commanding Heights" (based on a book of the same name by Daniel Yergin), emphasized that the most important phenomenon and transition of our post-War modern times was undoubtedly the free market revolution, which progressively gripped the world in the 1990s.

2. Neo-liberalism and liberalization then engaged the world in a frantic race towards *globalization,* as four key elements became progressively "globalized"; but, on the other hand, and sad to say, half the world became and remains de facto "marginalized" in this same globalization process. The key elements, which have been progressively globalized for half the world that is already actively engaged in this process, would include the massive and rapid circulation of goods and services, capital, ideas, and human resources. The IT revolution has been instrumental (by partnering liberalization) in enhancing globalization. The United States, Europe (including parts of Russia, Eastern and Central Europe), Japan, Australia-New Zealand, and the urban agglomerations of the developing world (including many parts of East Asia and China) have been successfully plugged into this globalization process and network, whereas the rural worlds of Asia, Latin and Central America, and Africa remain in the dark shadows of "non-globalization."

3. Globalization has effectively created *a more unstable financial system and financial markets,* especially for developing countries or "emerging markets," as they have come to be termed. As international financial markets are prone to wild swings of sentiments, boom to bust, from euphoria to panic, financial liberalization, grossly incomplete in most emerging economies, has made these same economies very vulnerable to sudden shifts in capital flows as well. The Mexican, Turkish, Venezuelan, and Argentine crises of 1994-95, the Asian Crisis of 1997, the Russian crisis of 1998, and the most recent Argentine Crisis of 2002 all share the one common characteristic of spectacular capital flows and shifts out of the respective economies, which these countries were simply unable to control or stop, to the detriment of both economy and society.

4. These crises in turn have *huge social costs in developing economies,* since the latter have been tremendously weakened by each crisis, their people plunged into profound social crisis, a development furthermore entailing a reduction of the middle class and impoverishment of the popular masses. The gulf between the developing and developed economies has widened, as has the gap between the small proportion of the rich and a wide base of the urban and rural poor in developing countries. This divide is made even more glaring by the lack of social safety nets in emerging economies, and this is especially severely felt in the area of social goods, which states traditionally provide to the people, for example water and sanitation, medical care, and even heating and energy. Impoverished governments, in many cases plagued by poor governance practices, can no longer provide such basic social goods, especially to the poor, and have totally withdrawn subsidies or even services when their public sectors lose money or even go bankrupt. Many such governments have then endeavoured to turn to the private sector to deliver such social amenities, but with mixed successes.

Impoverished governments, in many cases plagued by poor governance practices, can no longer provide many basic social goods, especially to the poor.

5. Because of the frenzy to develop the economy at all costs, much had been sacrificed in terms of the *environment* and standards of living. The pitched battles against globalization had helped highlight the need for *sustainable socio-economic development,* and not just "an economic development at any cost." There was then a need for more state regulation of environmental and industrial standards, whereby the corporate sector was subjected to more stringent codes of conduct covering environmental and labour issues. Awareness of the interdependency of economies, especially in the environmental area, has clearly set in as developing countries become more aware of their potential resources, like clean water and the environment.

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6. *"Unbridled capitalism"* has come under attack as well lately since the worldwide anti-globalization campaigns began, from Seattle to Genoa, and more recently, thanks to the accounting scandals and frauds in corporate America. The private sector, which had been "glorified" by neo-liberalism and the free market revolution, has now to justify its efficiency and morality, since it is suspected of greed and using poor corporate practices to achieve goals and profits. Privatisation is therefore no longer considered the cure for all economic ills and has lost its absolute lustre. Furthermore, a recent *Business Week* article highlighted a possible major shift in capitalist enterprise in the next ten years from "market

and managerial capitalism" to "managed capitalism," where stakeholders other than management (for example, unions and workers) would play a greater role. There is definitely a need to build a new mutual trust between capitalism and the people, and *an urgent need to take a new look at the concept of privatisation,* especially in cases where it has been ill prepared for. Fundamentally, capitalism's future is now thought to depend on whether the flames of entrepreneurship have been tempered, after being rocked by financial scandals, shaky confidence, and the burst of the IT and dot.com bubbles.

7. There has been an upsurge in *democracy and participatory politics* throughout the world. Thanks to the winds of the free market and liberalization, democratic aspirations have also been rising in the developing world. A parallel development has been increased decentralization and devolution of power to the lowest possible levels of governance, the aim being to allow greater participation in decision-making processes at the grassroots level. People's power is rising in the developing world as well, even in socialist countries like China, Vietnam, Cuba, or Laos, or in Africa, where governments no longer control every aspect of life and politics. Multiple power centres are sprouting out, even in previously (or presently) centralized and authoritarian political systems and countries.

8. Subsequently, many developing economies have experienced an *emergence of civil society,* encouraged and galvanized by Western NGOs and interest groups in high-publicity anti-globalization campaigns. Furthermore, people's power can now be expected to more closely scrutinize and check the integrity and governance practices of both the public and the corporate sector. Civil society is therefore in an ideal fulcrum position to play a dual role, viz. to monitor both good public governance (through active NGO activities) and good corporate governance (through the stock market, qua private individual shareholders). The citizenry, through the development of civil society, could, after all, turn out to be the electorate, users of social goods and services, consumers and individual shareholders on the stock market, all at the same time. Hence, in view of rising civil society and emerging public opinion, both governments and the corporate world will now have to measure up to popular expectations in a much clearer way.

In the developing world there has been a progressive shift away from a bipolar nexus of the political economy and towards a more tripolar nexus, based on governments, civil society, and the private sector.

9. The *nexus of the political economy is consequentially shifting* in many parts of the world. In the developing world there has been a progressive shift away from a bipolar nexus of the political economy (based on big government and big business) and towards a more tripolar nexus, based on governments, civil society, and the private sector (and no longer necessarily on big business), which would, inadvertently, prove more stable. The rise of civil society as a "check and balance" against government and the private sector is definitely an acquis now. Furthermore, in many developing countries, and especially in those that have been affected by profound crises (as in Asia), there is now a realization on the part of governments that they must renegotiate the "contrat social" (a reminder of Jean-Jacques Rousseau's concept in the 18th century) between the governed and the governing class. Governments are definitely being held more accountable by civil society, NGOs, interest/lobby groups, and the media, as popular participation is now clearly on the upswing.

10. Lastly, there is now a realization that the world may be plunging into *more political uncertainties and slower economic growth* in the coming years. There will undoubtedly be more political upheavals, inter-state conflicts, religious tensions, and ethnic violence. Terrorism has become a world reality, as many wonder if it is ultimately the "dark side of globalization." A bearish mood has thus set in, in terms of investments, equity, and future domestic growth. At the latest IMF meeting in Washington in the last days of September 2002, Director Horst Köhler had actually spoken about the "weakening global economy." The burst of the tech and dot.com bubbles has probably spelt the end to unfettered growth, as productivity in the IT revolution appears to be levelling off (especially in the United States and developed economies), although the United States is still leading the world in hanging on to an economic recovery, probably for this and next year. Agricultural commodity prices remain depressed for most developing country producers, whereas oil prices may be on the upswing with tensions increasing in the Middle East, a development which will affect world economic recovery. But the key to the hoped-for economic recovery is now sought mainly in the continuous stabilization and growth in the three "confidence levels" necessary to maintain growth, viz. consumer, corporate, and stock market confidence. Unemployment and social woes are likely to increase, especially in developing economies, with dire consequences for the already severe social and digital divide. The world's poor are definitely likely to get poorer; and it is therefore even more urgent today to level this divide in the present anti-globalization context. But probably one of the most important keys to this anti-globalization push has been the rise of regionalism in the world, probably as a reaction to globalization itself as well as to growing political and economic uncertainties, with countries seeking greater security and space for manoeuvre under the umbrella of larger regional entities.

The New Global Context for Water Services

Today, seen from both the socio-economic and politico-social perspective, we can indeed be said to have entered a new global context for water services. The ten trends outlined above may be summarized in terms of the following socio-economic context for water services today:

- In today's neo-liberal context the private sector and privatisation are considered "in," although the recent scandals in corporate America have dampened the full confidence given to the private sector as "the panacea for all economic woes". This erosion of confidence has also been aggravated by unstable financial systems and markets, which are perceived as detrimental to developing countries in the current anti-globalization context of growing economic and social disparities.
- This kind of "distancing" from the private sector as a "solve-all panacea" has also been highlighted in the recent crises, especially in Asia (1997-98) and more recently in Argentina (2002). It is now reckoned that social goods and services cannot be left wholly in the hands of the private sector alone, since the primary task of government authorities is to provide for social distribution and harmony and the public sector can therefore not altogether shirk this primary responsibility and obligation.
- Provision of clean water and sanitation is clearly now considered a social good and service to the community, and even a "right" of the poor, and can

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thus not be abdicated totally by the authorities to the private sector alone, especially in developing countries and emerging economies. This is also in line with recent UN resolutions and conferences organized on this theme, like the 2nd Water Forum of the Hague and the big Monterrey and Johannesburg Summits.

- As a basis for a sustainable socio-economic development, the development of infrastructure and utilities (especially clean water and sanitation) is perceived as both a means to provide a more level playing field for society and the community as well as a means to lay the foundation for a country's future and further economic development. Such development, like the provision of clean water, hence constitutes both a social goal (viz. meeting the social needs of the less developed segments of the population) and the fundamental economic basis for sustainability of growth. This provision would also help reduce the social divide and "redistribute social goods and amenities" to a wider cross-section of the population at a moment when globalisation is widely perceived as having contributed to the widening of the social gap as well as to wealth disparities between and within nations.

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- Rapid urbanisation and poor management of urban services have become an important phenomenon throughout the developing and the developed world, with fast-growing populations bearing the brunt of all the inherent critical (but unsatisfied) needs and social strains. Among these urgent needs are those pertaining to the provision of adequate and satisfactory utilities, which could play a crucial role in alleviating poverty and depravation, especially in the slums and squatters areas on the fringes of urban metropolitan centres. Urban management is unfortunately stretched to its limits in most developing countries, and has in fact become a critical issue that governments must urgently address, especially for political, economic, and social reasons. All the related social ills and problems of big cities and the poor countryside have surfaced urgently, as it is in these sprawling urban centres that forces championing political and social upheaval could take shape, leading to dire political consequences, especially for political regimes that are in transition or consolidation.

The developmental and social situation in the developing world has in fact worsened as globalization sweeps across the planet. It is not primarily because of globalization but as a result of this process that many developing countries have been left farther behind in economic, political, and social terms and thus face further marginalization. The new politico-social context in developing countries must be clearly understood and analysed as well, as follows:

The key is to tap extra-public financing for poverty alleviation and the provision of clean water as a social good for and right of the poorest sections of the population.

- Many developing countries are feeling an enormous financial strain; government coffers are depleted and public budgets for public works, amenities, and utilities have dried up. These governments are now in dire need of other means of financing (other than via government budgets) to put in place the required basic infrastructure and utilities. And to keep the social peace, they have now no choice but to urgently turn to either the regional or international financial institutions or the international private sector (or both) as a source of financing. The key is thus to tap extra-public financing for poverty alleviation and the provision of clean water as a social good for and right of the poorest sections of the population.

- Globalization, liberalization, democratisation, and the shift to a tripolar nexus of the world political economy would mean including the private sector and civil society more effectively and at all levels of decision-making. Civil society will grow further in the developing world as governments are forced to slacken the reins in order to allow greater economic development to take off. Consumer and voter aspirations will rise as people's power increases, and clean water and sanitation (like the price of staple foods, oil, fuels, etc) will then constitute a politically sensitive area for government authorities. Hence, owing to the democratisation process, the rise of civil society, and greater accountability of public authorities to the people, voters now expect high-quality services from government authorities, who now can only deliver them in partnership with other stakeholders, notably the private sector.
- Because of the pressure of democratisation, governments are forced to decentralize governance and their decision-making processes down to the regions, provinces, or municipalities. In many developing countries, water used to be a "centralized service" provided at a state-subsidized rate, but with decentralization, local decentralized authorities would now be held directly responsible to their political constituents for provision of this service. Since many decentralized local authorities often lack the necessary managerial skills and adequate financial resources, the private sector (both international and domestic) as well as other financial institutions would inevitably have to play a greater financial, managerial, and even social role in providing utilities (like clean water and sanitation) to local consumers.

International Exigencies: Follow-up from the Monterrey and Johannesburg Summits

In calling the world's attention to the many urgent water issues facing it, the 2nd Water Forum of The Hague (March 2000) put the world water crisis squarely on the international agenda. The Forum introduced and adopted the idea of "water security" as a noble goal to achieve alongside food and environmental security. Its key message was that "water is everybody's business"; it stressed that access to water for all is essential to alleviating poverty, which was understood to imply a sharing of control over water by all as well as good governance as far as the supply and distribution of clean water is concerned.

In calling the world's attention to the many urgent water issues facing it, the 2nd Water Forum of The Hague put the world water crisis squarely on the international agenda.

Then came the most important decision taken so far on water at the global level, when the UN Millennium Assembly set in New York an International Development Target to "halve, by 2015, the proportion of people living in extreme poverty and to halve the proportion of people who suffer from hunger and are unable to reach or afford safe drinking water resources." The more recent Bonn International Freshwater Conference, with the theme of "Water, Key to Sustainable Development," emphasized the point that there would be no sustainable development without access to water for drinking as well as for productive purposes for all people.

In March 2002 the UN Conference on Financing for Development in Monterrey, Mexico, and the concurrent Enron-Arthur Andersen debacle in the United States highlighted the inextricable link between the crucial role of the private sector in the international strategy of financing development (in developing countries) and

The UN Millennium Assembly set in New York an International Development Target to "halve, by 2015, the proportion of people living in extreme poverty and to halve the proportion of people who suffer from hunger and are unable to reach or afford safe drink-ing water resources".

the critical need for good corporate governance (of the private sector) today. This Conference came on the heels of four global geo-political factors which grossly affect international security:

- September 11 has brought home the long-overdue message that poverty, growing frustrations against the lack of social progress, and the growing social inequity found in many developing countries have helped spawn terrorism.
- Globalization, which has the potential to create unprecedented prosperity through liberalized trade, investments, and the technological revolution, has also increased inequalities both between and within nations, thus aggravating economic and social inequities. If it continues unchecked, this trend could lead to more terrorism and instability.
- In this post-Cold War era, development aid is no longer tied to ideological support or alliances within the former Western or Soviet blocs. Today such aid is pegged to criteria other than political or ideological.
- A realization has emerged that sustainable socio-economic development is far more important than development at any cost.

Developed nations will no longer be able to live in security if poverty is not alleviated and social inequities are not quickly reduced in the developing world. Tearing down trade barriers is therefore imperative, but not sufficient.

The "Monterrey Consensus" has thus successfully linked these four key global issues of today in a powerful and logical way in the post-September 11 and post-Enron context. Development aid is "de-politicised" today, since Western-Soviet antagonism has collapsed; today's aid would be based on merits. September 11 and the anti-globalization clamour have driven home the message that developed nations would no longer be able to live in security if poverty is not alleviated and social inequities are not quickly reduced in the developing world. Tearing down trade barriers is therefore imperative, but not sufficient. Development aid must flow effectively to developing countries in order to create a more stable and safer world for all. But this aid should now be tied more stringently to recipient governments' anti-corruption clean-ups, democratic reforms, transparency, accountability, domestic private enterprise stimulation within good corporate governance frameworks, and a special focus by developing nations on education, human resource development, and health and water services. Above all, developed and developing nations and the public and private sectors must now jointly involve themselves in both institutional and capacity-building exercises in the developing world.

But also according to the Monterrey Consensus, big "clean" corporate businesses should now be closely associated with development, assuming that certain conditions of good public governance are met by emerging economies, to help invest, alleviate poverty, develop infrastructure, utilities, health, water, and educational programmes for a sustainable socio-economic development. However, there should also be a clear demand that the corporate sector must strictly embrace good corporate governance, accountability, and transparency. In short, rampant power and abuse of markets should also be stringently subjected to some forms of control as well. Furthermore, This partnership, which would inevitably come under stricter and more regular public and civil society scrutiny, will be increasingly championed by the World Bank, regional banks such as the Asian Development Bank, and developed countries as donors of development aid.

People's power could be expected ultimately to closely scrutinize and check both the public and corporate sectors' integrity and governance practices. Monterrey has thus focused on the corporate sector's crucial role in international development strategies, but only with strict enforcement of good corporate governance being. In short, the cry today is for the rampant power and abuse of once-omnipotent markets to be stringently checked, curbed, and subjected to some forms of international, national, and “self”-control.

In a certain sense, the Washington Consensus, and especially the prime role of markets and the corporate world within the context of the last decade’s “new liberalism,” appear to have been “dampened” and should now be revisited. The Monterrey Consensus thus highlighted the need to rehabilitate the “public economy,” a term advocated by Joseph Stiglitz, the former World Bank chief economist. The role of the state in economic intervention and a “participatory inclusion” (to quote Stiglitz again) are now back in vogue; new political and social contracts thus need to be renegotiated within developing countries. In view of the growing anti-globalization climate and the Enron-Arthur Andersen fiasco, markets and big businesses no longer necessarily rule the day alone. It is thus only logical that the role of the state be rehabilitated to develop the economy in a more responsible way, perhaps even with government playing a key role in helping to enforce corporate governance within its borders.

The Enron-Arthur Andersen saga has therefore clearly highlighted the need for the private sector to set its own house in order and strictly enforce good corporate governance, at a time when its contribution is called for in international development strategies and in financing development, as set out in the Monterrey Consensus. This is now also expected of international water companies, like SUEZ, Vivendi Environment, RWE, Thames, etc. Since the “Monterrey compact” had already adequately highlighted the necessity for good public governance in attracting development aid and investments into emerging economies (on the insistence of Washington and other Western capitals), it is unnecessary, now, to more adequately emphasize the corollary of effective corporate governance as well. Good governance is therefore both a public and corporate exigency, one raised by emerging civil society and public opinion. In fact, both governments and the corporate world will now have to measure up to popular expectations.

The economic slowdown has also forced many governments to shift their economic strategies towards Keynesian pump-priming and public spending/works. In the present context of the slowdown, and in order to cushion the harsh realities of globalization, there is hence a dire need for big business and capital to partner international and regional financial institutions with a view to working more effectively with governments in alleviating poverty and in bridging the social inequity gap, which is perceived to have widened in connection with globalization. In fact, water and sanitation are good examples of essential public works that are of great social value; in fact, they could even be better developed during this period of economic slowdown and Keynesian pump-priming.

The Johannesburg Summit on Sustainable Development then highlighted the imminent plight of acute water shortages in the world, since it has become known that there is currently no safe drinking water for half a billion people in the world, and half the world’s total population still lacks good sanitation facilities. Groundwater levels in important aquifers have dropped drastically, thus contributing to the overall “water crisis.” The summit also made known the fact that on a global

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basis water withdrawals amount to only 10% to 20% of total renewable water resources. About 40% of the world population already lives in river basins with less than 2,000 cubic metres of water per person per year for all purposes. In such areas, water shortages are in fact increasingly limiting development options for these populations. Hence, by 2025, about half of the world's population (or about some 3.5 billion people) will be living in areas facing such water shortages.

The Johannesburg Summit also highlighted the fact that there is a "crisis of governance" in water, and no real scarcity of water worldwide. In fact, it advocated changes in the way we manage, develop, and distribute our water resources, focusing on four aspects, viz. via a true debate on shared values (especially on integrated water resources management), the need to come to a consensus on the public-private nexus of water management ("not necessarily a privatisation of resources, but, instead, a privatisation of service provision"), a new "global governance of water" (especially in sharing water and in building capacity in water management), and, lastly, a wider use of science and technology (for example, in water recycling and research on controlling the quality of water).

The developed countries are advocating greater use of the private sector (primarily international water companies) to alleviate poverty and thus help resolve the current water woes of developing countries.

Of particular interest, there was a debate on the public-private nexus in water management and distribution, with Third World countries and activists condemning the international water companies for profiteering on the backs of the people in the developing world when they operate, invest, and make money from water projects there. On the other hand, the developed countries were advocating greater use of the private sector (primarily international water companies) to alleviate poverty and thus help resolve the current water woes of developing countries. This particular point is worth noting in the current debate on the private sector and the privatisation of utilities, especially in the current post-Enron phase and within the growing anti-globalization debate and context.

Fundamental Options in the Provision of Infrastructure and Utilities

But before looking more specifically at the provision of potable water, it is perhaps important to distinguish two basic categories of infrastructural development. Firstly, there is the "hard" infrastructural development, like roads, rail, seaports, airports, and roofs over our heads. Then, there is the "soft" infrastructure or "utilities," like water, sanitation, electricity, solid waste collection, telephone services, and cable. These two aspects are both necessary for the development of human communities to live together and to have access, through trade and communication, to other communities.

The development models of "hard" and "soft" infrastructure differ, however. "Hard" infrastructure is considered more "passive" in service provision to clients, since it is built and operated for users (i.e. consumers) as and when consumers need such services, for example, airports, roads, rails, and seaports. In the case of "soft" infrastructure, the operator plays a more "active" role in service provision, since the commodity or service (water, electricity, wastewater, and domestic waste management) is delivered on a regular and daily basis to customers; the operator needs the constant daily satisfaction and goodwill of his clients, and these clients pay for the continuous service which is provided. But "soft" infrastructure or services does not mean that capital investments (or sunken capital) are less important here than for "hard" infrastructure. For example, in water services (both potable water and sanitation or wastewater) capital costs for distribution/pipe-laying and treatment plant is enormous, not to mention the cost of maintenance.

Development models of utilities provision ("softer" infrastructure) could also be divided into two categories, i.e. either the private sector becomes the outright owner (totally or partially) of supply company and assets (as in the case of a full privatisation or a joint venture involving the public sector), or the private sector provides services through a contractual relationship with the authorities (central or municipal), who remain the sole custodian of the assets. But it is becoming clearer today that the asset sale approach is most effective when the public-sector entity that is sold off is in a field that is, or is near to being, an industrial activity; an asset sale also works best when there is some alternative form or real competition for the particular service output. However, this approach becomes more questionable when we consider "soft infrastructure" or utilities which impinges on the essentials of communal existence, or is what we now consider a social good. Utilities (or "soft" infrastructure) pertain to this second category, where it is best for the authorities to retain outright ownership of such communal assets and then to delegate the management of the services to the private sector over a specific period of time. The production of electricity could be in privatised hands, but well regulated (according to the first option); however, distribution should best be in state hands. In the case of potable water and sanitation, there are serious doubts today if privatisation or "asset sale of water" is indeed the best *modus operandi*. After all, water is not a commodity for competition to rule over but a social good, which should remain in the hands of the state, with the private sector being given the operating rights for a service rendered and paid according to the quality of this service.

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Solving the Water Issue: Key Facets, Aspects, Mechanisms, and a Factor

In fact, there are also four facets of the water cycle that must be addressed when we talk about the "water issue," viz. management of potable water and sanitation. These issues include:

- a better water resource management (at source, conservation of watersheds and protection of aquifers from environmental pollution, for example, through wanton discharge of wastewater),
- the management and distribution of raw water for agriculture and irrigation,
- the treatment and distribution of potable water, and
- the treatment and discharge of wastewater.

The first two areas are normally outside the purview of private capital and the private sector, since they are firmly in the hands of the authorities, with perhaps funding from multilateral organizations and development banks. On the other hand, the latter two areas have been tried out in the hands of the private sector with some mitigated success, although recent cases in developing countries and emerging economies in crisis may warrant a new look at the financing aspects of such projects. We will therefore be limiting our discussions and assessments in this report to the last two aspects of the water equation, i.e. potable water and sanitation management, especially in developing countries.

Success in dealing with and managing the water issue, especially in the potable and wastewater parts of the water equation, lies primarily in two aspects, which must be considered and thought through. These two key aspects are supply versus demand, especially in the mid and long terms, and pricing, or the "just" price, for both the consumer and the water company or operator. To achieve these two facets over the long term, there is a need to carefully lock in two other related mechanisms, long-term financing and a clear and transparent framework that would need to be established so as to better monitor the overall operation. But on top of all these, very careful consideration would also have to be given to the high political risk factor of operation, especially in developing countries.

Solving the Water Issue: Pitfalls of Privatisation

Privatisation in the neo-liberal mode has brought some unexpected disasters to water consumption and distribution, as water is not a commodity for trade (as stated earlier) and should not be subjected to competition and price wars. For example, privatisation in the water industry was undertaken during the premiership of Margaret Thatcher in the early 1990s. Today, of the nine privatised water companies which were created then in the United Kingdom half are in dire straits, with some already bankrupt, and the other half not doing particularly well at all. In analysing the debacle of the situation in the British water industry, pricing seems to be the major factor for its quasi-collapse. The nine privatised water companies were forced to undercut each other by coerced competition in pricing, after having to pay heftily for the assets, which they had bought from the authorities. Furthermore, the British regulatory body suppressed the water tariff to please consumers and to prove that the privatisation of the British water industry had inevitably led to reductions in tariffs. As a result of this financial "squeeze from both sides" (price war and hefty assets purchase), most of these water companies (especially the smaller ones which had not been bought up by international water conglomerates) have been running at a loss for years and some have gone into bankruptcy since. Their stocks had plunged and their financial situation had deteriorated.

The collapsing water companies then began asking the government or the local authorities to buy their "privatised" assets (like their treatment plants, pipelines, and even reservoirs and raw water stock) back, as their funds dried up, share prices collapsed, and the companies defaulted on their investment obligations, i.e. in expanding or improving their distribution. These companies had thus to be aided by the authorities years after privatisation, since they could not be allowed to collapse owing to the sensitivity of water as a social good, an essential service to the community, and a highly politicised issue. Furthermore, there had been complaints of unsatisfactory water quality produced as well as the lacklustre service provided. Pricing is therefore a crucial element in water management, especially when authorities always pledge good tariff reductions when the private sector takes over, as a means of campaigning for privatisation by the authorities. In this case, the private water companies went either into bankruptcy or financial insolvency, and hence, unfortunately, the privatisation of water services in the UK ended on a sour note. It is unfortunate that British water privatisation has since experienced something of a "renationalisation" when the situation spun out of control!

Taking another example, but one in a related utility, electricity, the collapse of two Californian electricity utilities was a big blow to the famous 1996 Californian deregulation package for electricity. In this case, the supply-and-demand equilibrium and projection, as well as pricing, have been at the core of the debacle. Fundamentally, electricity rates would have increased by double digits for a few months running in 1999-2000 (if it had not been for state intervention in subsidies), and even then the utilities ran into financial bankruptcy last year. But they, together with the power producers (one of which was Enron), had in fact tried to manipulate electricity prices through supply and demand as well as the wholesale electricity market, thanks to the "automatic" intervention of the state (in subsidies) when the electricity price rose too high. It was also clear that private companies could not be counted upon alone to build and expand power plants (and hence to enhance supply in line with growing demand, either projected or real), especially when they could also control the wholesale electricity market and hence push the price of electricity upwards. It then became obvious that these producers would naturally prefer to "make a fast buck" on the electricity spot market by voluntarily reducing supply and shelving new investments (to expand power plant capacity, and hence to increase electricity supply in order to lower prices). Unfortunately, the Californian state regulators failed to see this loophole, and thus failed to curb the supply-and-demand abuses in relation to the wanton spot market manipulation by gencos.

Pricing is a crucial element in water management, especially with authorities pledging good tariff reductions when the private sector takes over, as a means of campaigning for privatisation by the authorities.

This then became an embarrassing situation for the State of California, which had already lost a lot of money intervening to subsidize electricity tariffs for its consumers (each time the electricity price hit a certain fixed ceiling), when greedy producers were at the same time pocketing the extra profits from their spot market manipulations. Finally, the state had to save the deteriorating situation, as it was becoming a sensitive political issue; it ultimately did so by "nationalizing" the electricity distribution system and by better controlling the traded electricity price on the spot market. One of the two failed utilities, South California Edison (Eix), had already sold back to the state government its power transmission lines for US$ 93 million in 2001. In this case, it was the "greed" of those in the energy industry (gas suppliers, utilities in distribution and power producers or generators) in manipulating the price of electricity (by suppressing supply), the financial mismanagement of the utilities by the authorities in terms of distribution, as well as the failure of a good and impartial regulatory system to detect and arrest the abuse, which had led to the failure of the privatisation exercise there. It was indeed a setback for free market economics and deregulation, and many Continental Europeans then advocated that their more "regulated" electricity systems and tariff structures were far superior to the "lawless privatised system of California"! Deregulation and privatisation are therefore definitely not a panacea for the economic woes of scarcity and inefficient management of resources, and there is thus no universal marketplace magic. But what is perhaps more crucial to have learnt from these two "bungled" experiences is that it is necessary to have a good regulatory system so as to ensure that the private sector, as well as the public authorities, take their appropriate places in the overall water management system and for this system to reduce abuses of both parties to the utmost maximum, with consumers and organized civil society playing the intermediary role of check-and-balance.

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Solving the Water Crisis: The Public-Private Partnership Concept

With serious doubts about privatising the water utilities, the “public-private partnership” (PPP) concept could be used to provide multi-million dollar utilities or infrastructure to local populations in order to spur sustainable socio-economic development in developing economies. This partnership should bring in, as integral partners, the local authorities (with the prior blessings of the central authorities), private-sector consortia and their sub-contractors, as well as in most cases international organizations and financial institutions (which come in either as guarantors or “part-financiers”). In a PPP each party needs the close support of the others. Each also brings its own skills and complements the others, thus combining their respective strengths in the most effective way. There are thus important economic, social, financial, political, and PR aspects that must be seriously considered and manages if a PPP is to be successful.

It is crucial to note that the private sector would inevitably ask for a pricing as close to the ‘real’ cost price of the utilities as possible; gone would be the days of heavy subsidies for such essential services.

PPP is a key and a solution to “deficient” local administrations (“deficient” in both financial and technical terms) in satisfying the demands of local utilities, especially in the urban context. Politically, local administrations naturally lack know-how in the building and operation of power and water treatment plants, incinerators, or landfills, because of the rapid modernisation of operational facilities and technology, the huge financial costs involved, and continuous advances in industrial management and operations. In this context they should outsource the building and management/operation of such infrastructure and utility works to specialized private companies, through arrangements such as concessions, Build Operate Transfer (BOO)/Build Operate Owned (BOT) contracts or delegated managements, depending on the degree of outsourcing they desire. Furthermore, being already cash-strapped, developing countries would not need to raise huge amounts of cash in the public sector to pay for such services or projects, as would have been the case if they had commissioned these water projects as turn-key projects from the private sector. PPP, in the form of a concession, could be an appropriate model in this regard, with the private sector taking over the concession for a specified period of time and also looking after the provision and expansion of services according to supply and demand. But it is also crucial to note that the private sector would inevitably ask for a pricing as close to the “real” cost price of the utilities as possible; gone would be the days of heavy subsidies for such essential services.

Water is not privatised, but the service is put in private hands.

It is therefore essential to restate the principal arguments for PPP, as opposed to full privatisation of water and sanitation management. There are two key aspects and two essential factors that must be considered in a package in discussing a PPP in water and sanitation. Water is not privatised, but the service is put in private hands.

Firstly, in the PPP concept the assets (raw water, water or wastewater production/treatment facilities, and the distribution network) belong to the state, which also sets the overall development strategy and regulatory framework for the private sector to work within. The private sector would build and operate the facilities, so as to deliver these services more efficiently and effectively according to its best technical, financial, and managerial practices. The most developed form of PPP is the full concession, where the private sector manages overall potable water production and the distribution chain (or the overall wastewater treatment chain), from the intake of raw water at source right to the delivery to taps, down to and including the collection of water bills or taxes from the consumers. This partnership should clearly establish the quality of service (quality of potable water or wastewater treatment) to be provided, the pricing formula, future tariff increases, and the duration of the concession or contract (ideally for 25 to 30 years). It should fix a fair and reasonable water and sanitation tariff for the consumer (for social and political reasons), whilst ensuring that the private-sector operator gets a reasonable and fair profit margin over the duration of the concession or contract. This tariff should also take into account all the valid perimeters which affect potable water or wastewater treatment pricing, and take account of tariff increases by integrating all these factors in a predetermined and acceptable formula. The attractiveness of this concessionary formula is the possibility for the concessionaire to recoup his capital investments in the mid term, usually starting from the 7th to the 12th year, depending on the capital outlay which he has to provide in the project. By fixing a long concessionary period, the private-sector partner can seek to plan and achieve reasonable capital returns within a guaranteed public-sector framework. However, it must be noted that the greatest obstacle to a successful PPP in developing countries will come from existing low water tariffs, owing to heavy subsidies provided in the past for either social or ideological reasons. The PPP concept could therefore be best described as a "privatisation of water services, but not the assets involved."

The private sector would build and operate the facilities, so as to deliver these services more efficiently and effectively according to its best technical, financial, and managerial practices.

Secondly, to meet the projected supply-vs-demand curve over the duration of the concession or contract, there is a need to ensure that the private concessionaire or operator abide by his commitment to expand supply (or the water and sanitation facilities involved) through planned and staged investments throughout the duration of the concession, commensurate with projected demand. If this planned expansion of supply is not complied with, the authorities would levy a penalty on the operator, except in case of force majeure, which must be proven legally to the authorities, or through arbitration. On the other hand, if the authorities modify the concession contract (for example the tariff structure, cost of raw water, change of framework or regulations, etc), which inexorably affect the cost of supply, the operator should also be entitled to fair compensation based on contractual provisions.

Thirdly, financing of the expansion of the services (in keeping with supply-vs-demand) must be factored into the project over the duration of the concession so as to allow the operator maximum predictability and the greatest possible certainty in managing the finances of the concession over the predetermined duration. This involves a long-term commitment to the partnership by both the public and private sectors, the key to any PPP. Project financing will involve both equity and debt financing (usually at a 30-70% ratio) at each and every stage of expansion/investments in the concession. Since cost and revenue for the operations are calculated and controlled at each stage of the concession/investments, there is certainty and transparency for all parties concerned, namely the authorities, the operator, banks, insurance providers, as well as the consumer.

Lastly, regulatory frameworks must be clear and transparent. The appointed regulator must be fair and neutral, so as to be clearly credible in the eyes of authorities,

Regulatory frameworks must be clear and transparent. The appointed regulator must be fair and neutral, so as to be clearly credible in the eyes of authorities, operator, and consumers.

operator, and consumer. The transparency and fairness of the regulatory framework and the regulator are of the utmost importance for the project, in order to help lower the political risks as far as possible. This is especially the case for long-term concessions of this nature that involve a social value and a public good. This is where development banks, multilateral organizations, and export credit agencies will have to come in to provide some confidence to private capital and operators. There would definitely be better risk allocation with such organizations and agencies playing a key intermediary role here and within a clear and transparent PPP framework.

Project financing in the water and sanitation sectors must now seek, as far as possible, to fully integrate the social aspect. Such a scheme should bring together the state (central or local authorities), the private sector (together with private banks, insurance and credit agencies, as well as clear moral and financial support from international and regional financial institutions), and the consumers (civil society, unions, NGOs, environmental and lobby groups) in a partnership, which would necessarily be a Public Private Partnership. This PPP concept forms a contrast to the partial failure of outright privatisation of water and sanitation, a case amply familiar from the United Kingdom. However, the risk of "jumping the gun" in financing PPPs has recently become manifest in developing countries; this risk is bound up with their high sovereign risks, and may be described as follows:

The enormous risks for international water companies in high sovereign risk countries like the Philippines, Indonesia (both in 1997-98), and, recently, Argentina have highlighted the precocious nature of water concessions there. Economic collapse set back a projected expansion of facilities and the required investments from the private sector, since water tariffs literally collapsed in connection with the crises. Furthermore, in taking over water concessions, many international companies have had to take over the debts of local companies before they were awarded concessions, and with every crisis new debts would be expected to pile up on "old" debts in a catastrophic snowball effect.

These crises make it clear that massive devaluation of the affected currencies would pose a huge risk, together with the collapse of the water price, even if force majeure were to be declared and "reckoned" with. In the recent Argentine crisis, the water company holding the concession in Buenos Aires had to make a financial provision of US$ 750 million within a few months in two "instalments." Currency devaluation (or collapse) has inevitably added to the very high risks of PPPs in emerging markets.

With the rise of civil society (consumer lobbies, NGOs, unions, and environmental groups) against the backdrop of mounting anti-globalisation sentiments worldwide, it has become imperative for the authorities and the private sector to cooperate fully in delivering the best possible water and sanitation services to the population. In a crisis situation this would certainly become even more acute, since water and sanitation services would urgently have to be delivered at the lowest price possible (and even possibly, if need be, by subsidising the tariff levied on the poorest sectors of the population), and without losing sight of the need to ensure the financial viability of operations or concessions over the short term, i.e. during the difficult years of crisis. In such a crisis it would also be impossible to raise water tariffs, and in fact they might even have to be lowered to “relieve” the social pains during crisis; this would definitely be highly detrimental to the bottom line of the concessionaire, who could also end up in dire financial straits during or after a crisis.

It is at this point that it may be advisable to involve the international and regional financial institutions more closely in such PPPs, since private companies may not have the means to maintain the financial stability of their operations in “high-risk countries,” especially in terms of investments and capital outlays in expanding water facilities and services to the poorest segments of the population. This a social burden that the private sector may not be able to shoulder alone. The three crises named above have now clearly demonstrated the need for some form of “socio-financial support” from the World Bank or its regional developmental banks in order to help out in the task of poverty reduction. This debate is therefore crucial today for developing countries, and otherwise they may be left behind completely, since international water companies would in future probably avoid “high-risk countries” or emerging markets in their future business plans. It is here that the poverty alleviation aspect would clearly have to “mesh” with public authorities and private-sector participation in a PPP.

Recent crises have clearly demonstrated the need for some form of ‘socio-financial support’ from the World Bank or its regional developmental banks in order to help out in the task of poverty reduction.

To recap, by looking, beyond the social aspects, at the purely economic management aspect, the five “drivers” (or advantages) of PPP are thus: better human resource development (HRD) and management, better financial management, technological innovation, better commercial management, and greater customer satisfaction. Firstly, PPP provides a boost to HRD and management, since the private sector usually pays more attention to HRD and draws the best out of employees in terms of productivity, welfare, and creativity. Secondly, PPPs ensure that the private sector makes better use of available funds in the market in the most efficient way, thus reducing wastage or abuses, but without losing sight of the “real” pricing of the services required. Thirdly, thanks to the private sector’s emphasis on R&D, PPPs also ensure that the local population gets the best in cutting-edge technological innovation and research. Fourthly, the private sector’s rigorous procedures, budgetary rigor, planning, reporting, project control, and information technology, provide for better commercial management under PPPs. Lastly, in PPPs the private sector is more acutely “attuned” to customer satisfaction, from quality and service control to reliability and rapid expansion of services to the local population. Hence PPP clearly has its advantages in satisfying local authorities, the local population (the clients or consumers), and investors (private-sector and financial institutions). These five aspects constitute the “economic advantages of a PPP, beyond the social aspects of necessity.”

But this concept needs to be carefully explained to the local population, the aim being to rally it to the PPP cause. Beyond the socio-economic aspects of PPPs, there is also an intrinsic need for a clear PR management aspect of PPPs. Nationalist sentiments, fear of unemployment or redundancy, and concerns regarding indiscriminate rises in utility or infrastructure prices will inevitably fan protests among the local population. All possible attempts must be made at an early point of time to project a smoothly working “win-win” relationship between the local population and the private sector for the benefit of all. A transparent and fair regulatory authority should therefore be set up by local authorities as an independent institution in charge of handling all of the technical criteria (like quality, environ-

Consumers should be made to understand that reasonable price increases, in line with inflation, must be expected and that they should not always expect prices to remain low or be lowered incessantly.

mental standards, etc) as well as the social aspects involved (e.g. tariff structure and price increases, retrenchment and compensation, etc). Savings could be achieved as wastage is cut down to the minimum, and labour and operational plant is used more efficiently, in keeping with the private sector's best business practices; such savings should, as far as possible, be passed on to consumers and translated into price decreases or slower increments in utility tariffs. However, consumers should also be made to understand that reasonable price increases, in line with inflation, must be expected as well and that they should not always expect prices to remain low or be lowered incessantly, since the private sector needs to be financially viable – and its collapse would of course not benefit consumers in the long term! Once consumers (the local population) are completely assured and have rallied to the cause of having a private company (either local or foreign) provide them with their basic utilities, such as water, it is possible to effectively contain chauvinistic or unrealistic sentiments. A sound and smooth relationship between the private sector, local authorities, the regulatory body, and consumers/ clients (the local population) is therefore clearly in the interest of all parties concerned. All this must be conveyed to the consumer if a PPP is ultimately to succeed.

3. Conclusion

PPP can work only if pricing and supply and demand are both properly factored in, with long-term financing and fair and transparent regulatory frameworks well locked in as well.

In view of the manifold changes in the world due to the ten principal trends outlined above, the private sector and privatisation may no longer be the panacea for poor economic management and all economic ills. The rise of consumer rights and civil society are giving consumers an increasing say in the provision of economic services and utilities. At the same time, clean and drinking-quality water is coming more and more to be recognized as a right and a social good, and not a tradable commodity subject to price competition alone; there is hence clearly a social dimension here, both in terms of poverty alleviation and water's role as one of the foundations of sustainable economic growth. The examples from the United Kingdom and California have shown that full privatisation of utilities could lead to unexpected setbacks if they are not properly regulated or abuses are left unchecked by slackened regulatory bodies. But PPP can work only if pricing and supply and demand are both properly factored in, with long-term financing and fair and transparent regulatory frameworks well locked in as well. Another aspect which poses a danger to PPPs is the high risks incurred in such projects in developing countries, especially during wild currency fluctuations and economic crises, like the Asian Crisis of 1997-98 or Argentina today. This is where international and regional financial institutions must come in to help alleviate social burdens and support governments, the private sector, and consumers in PPPs.

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