Trends in water privatisation

by

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1. Introduction

This paper sets out a global overview of trends in the public and private presence in the water sector.

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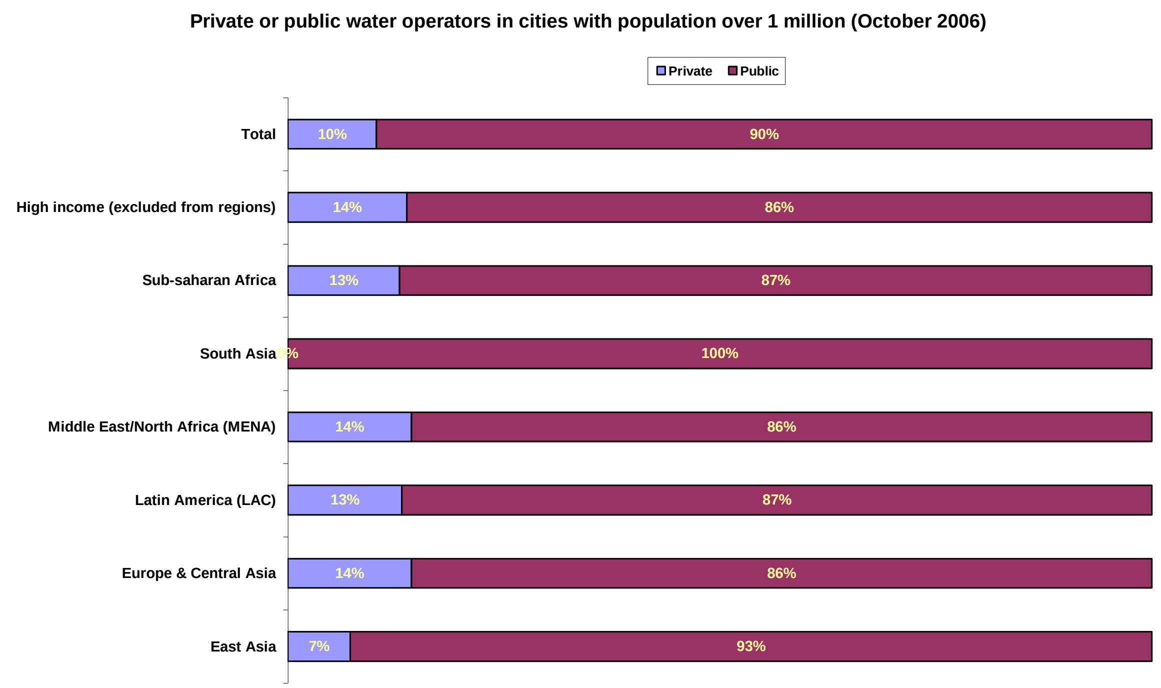
- the first section presents a general overview of the public-private mix;
- the second section discusses the withdrawal of the major water multinationals, and the 'myth' of the so-called 'local' companies;
- the third section examines the scale of terminations, the reasons, and the methods used;
- the final section notes the growth of public-public partnerships supporting municipally-run water services.

2. Global overview of public and private sectors in water

Up to 1989 very few cities or countries in the world had privatised water supplies, outside France. The UK privatised water in England in 1989, then the World Bank and others encouraged privatisation of water and other public services in developing and transition countries. In the early 1990s there was an expansion of privatisation in two regions: in the former communist countries of Eastern Europe, a number of cities were persuaded to privatise their water to the English and French water companies; and conditionalities imposed by the IMF and World Bank forced many cities in Latin America, especially in Argentina, to privatise their water services. In the mid to late 1990s some African countries and cities also privatised water, together with a few Asian cities, notably Manila and Jakarta.

However, privatisation never extended beyond a small minority of places, and its growth was halted and then slowly reversed in the 2000s, due to its unpopularity, unprofitability and reputational risks for companies and donors (see next sections). The most favourable environment for the private companies is large cities, but water services are owned and run by the public sector in over 90% of the largest 400 cities in the world (those with populations over 1million). The proportion run by the private sector is slightly higher - about 14% - in high income countries. In south Asia there are no examples of privatised water in large cities, and in east Asia (excluding China) there are only 3 cases, Jakarta, Manila and Kuala Lumpur. The proportion privatised has fallen slightly since 2006, the year in respect of which the analysis was carried out, due to the return of public sector operators in cities such as Buenos Aires, La Paz, and Paris. In smaller towns and rural areas the role of privatisation is even smaller.

Chart A. Public and private water operators in 400 largest cities in the world



Source: PSIRU

3. Private companies in the water sector

3.1. Unprofitable, unpopular, and underperforming

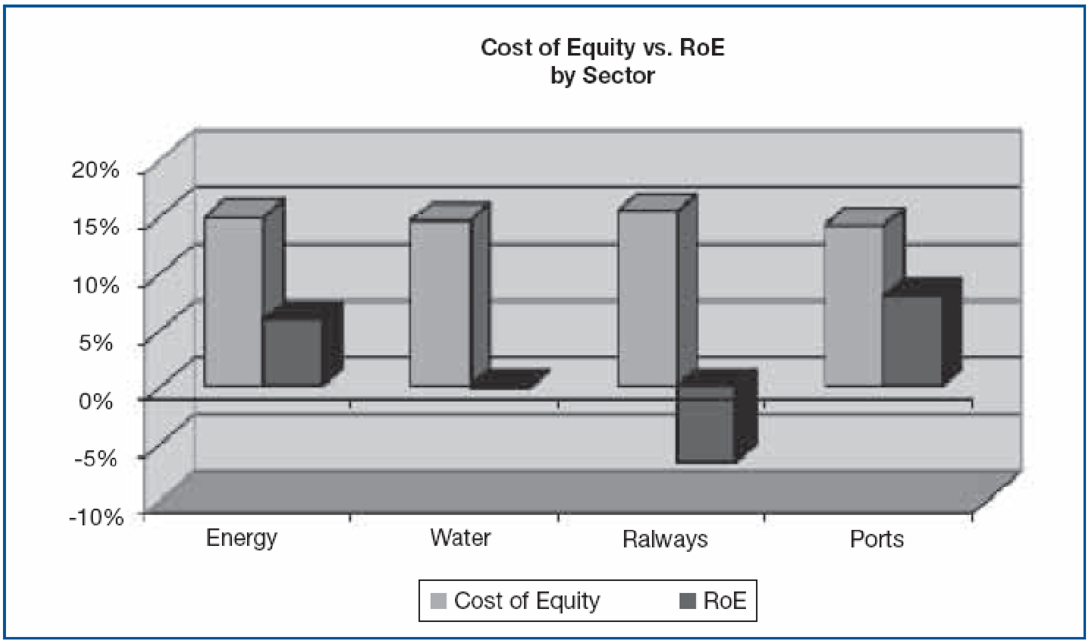
The large water multinationals – which effectively means Suez and Veolia – have pulled back from the aggressive international expansion which they were pursuing in the 1990s and early 2000s. They are no longer seeking new water services business in developing countries. They state that they remain interested in business in Europe, north America, China and the Middle East and North Africa, but in practice they have been losing rather than gaining water services business in these regions in the last 5 years (with the exception of China, where their presence remains very small compared with the dominance of the public sector. They have also refocused their business on engineering contracts, where there continues to be stream of profitable business from governments developing and extending public water supply systems. One aspect of this which has proved problematic, however, is the use of BOT contracts especially for water treatment plants.

By 2003 it was clear that privatisation was deeply unpopular, principally because of the price increases required by the companies. It was also clear that the companies were not making the expected investments in extending and improving the networks, nor making the expected improvements in efficiency, and the contracts, and regulatory systems did not create sufficient incentives to do so. In most cases, the companies were also failing to make the profits expected by northern investors, and so the companies themselves wished to end or renegotiate most of these contracts. Suez in January 2003 announced that it would withdraw from most developing countries unless they were protected from currency risk, financing all investment out of local profits, and providing a reliable short-term cash-flow – failing which the company would "prepare to depart".[1] As a result of all these factors, many of the privatised water contracts were terminated, and in most cases the service was renationalised. (see below). In some countries – Uruguay and Netherlands –water privatisation was made illegal.

Three key reasons can be identified for this reversal of water privatisation.

Firstly, and fundamentally, the multinationals failed in general to make an acceptable return for their shareholders. A World Bank review found that the returns to shareholders in private water companies in developing countries was close to zero (and was not much better in other infrastructure sectors – see chart below). The problems included currency devaluations, economic crises, over-optimistic projections, and public resistance to price rises, but also included the same problems which the companies had encountered a century before in Europe and north America, namely the impossibility of making profitable investment in extensions and improvements for poor households who were unable to pay the full cost of water supplied, without substantial public subsidy. A selective service could be profitable, but not a universal service. The point was succinctly made in December 1999 by the manager of a UK water company Biwater, which pulled out of a major water supply project in Zimbabwe, because the project could not deliver the required rate of return: "*Investors need to be convinced that they will get reasonable returns. The issues we consider include who the end users are and whether they are able to afford the water tariffs. From a social point of view, these kinds of projects are viable but unfortunately from a private sector point of view they are not*". (Zimbabwe Independent 10/12/1999) .

Chart B. Returns on infrastructure investment in developing countries



Source: Estache at al 2004[20]
Source: Estache and Pinglo 2004

Secondly, there has been a remarkable degree of public and political opposition to water privatisation. This has been visible in campaigns globally, in both north and south. The opposition includes trade unions, environmentalists, consumer groups, citizens' organisations, elected politicians and other groups. A common theme of opposition campaigns include the belief that water supply is an essential service, which should be public, that companies should not be allowed into a position where they can profit from their monopoly of vital resource; another is a reaction against what is usually perceived as a foreign private capture of a vital national service, and resentment of the imposition of conditionalities by the World Bank and IMF. Even in the UK, where it is often assumed privatisation has widespread public support, after 17 years of water privatisation, a clear majority of 56% favour a return to public ownership, according to the results of an opinion poll in June 2006. The unpopularity of privatisation is such that at least two countries in the world – Uruguay and Netherlands - have made water privatisation illegal. In 2010 the UN General Assembly agreed that 'water s a human right', a declaration which was widely interpreted as strongly critical of attempts at privatisation. (Hall and De La Motte 2004; Hall et al 2005).

The third major factor was the failure of the private sector to live up to expectations, especially in terms of investment, exacerbated both of the previous problems. Suez' concession in Manila (Philippines) had become the subject of a bitter dispute with the regulator, and by 2006 had been 84% renationalised. The collapse of the Argentinian economy led to the ending of water concessions in Buenos Aires and Santa Fe, as the companies failed to force Argentina to guarantee profits in dollars. In Africa, contracts were terminated in Gambia, Mali, Chad, Nkonkobe (South Africa) and Dar-es-Salaam (Tanzania). Privatisation has faced similar rejections and reversals in developed countries: in the USA, for example, the city of Atlanta terminated Suez' concession because a public sector operation would be better value.

3.2. The myth of 'local' companies

A PPIAF paper published in 2009 [2] claims that there is 'a new breed of investors', private water companies which are local and not multinationals based in northern countries. [3] But its list of 'local' companies fails to survive examination, on a number of counts:

- it includes a number of companies which no longer own or operate the water services listed
- It includes one 100% public sector company (ONEP, Morocco) and a company which has only invested in water in the UK, not in developing countries
- Some companies are historical oddities which cannot be imitated, such as the Tata 'company town' in Jamshedpur, India, or WSSA, the company set up in South Africa under the apartheid regime
- a surprising number are owned by companies or rich individuals based in tax havens thousands of miles from the contracts e.g. the Antofagasta contract in Chile

The few cases of actual local or national companies are all, in effect, the various private companies which have collected stakes in the former multinational subsidiaries in Argentina, Brazil, or Colombia. They are descendants of the multinationals, with similar performance problems. The largest of them, Latinaguas (in Argentina), has been warned, criticised and or fined for underinvestment or poor customer service in 2 of its 3 concessions, and supported by public subsidies in the third. The private companies – mostly local construction companies originally taken on as partners by the multinationals – are not credible sources of investment finance, nor are they remotely comparable to the public sector operators of the region as a pool of expertise. A detailed presentation and discussion is set out in an earlier PSIRU paper.[4]

4. Problems and terminations

4.1. Problems with privatised water

The problems with private water are not just a matter of poorly designed contracts or unsuitable regulatory mechanisms, as is sometimes argued. Very similar problems are seen in private water concessions and contracts all over the world. They include not only economic problems but public health problemsIn a wide range of countries, the economic and public service problems continue.

4.1.1. Malaysia, Selangor privatised water concession to Syabas (Malaysian company)

Malaysia is in the process of renationalising its water network. In Selangor province, including Kuala Lumpur, the water concession is held by Syabas, owned by the Malaysian private company Puncak Niaga. In 2009 press reports noted 'numerous irregularities', involving accounting and financial devices such as non-tendered awarding of contracts, and large fixed management fees, as well as high levels of inefficiency:[5]

- Awarding 72 percent of contracts worth RM600 million [US$180m.] without open tender;
- A discrepancy of RM325 million [US$97.5m.] between the summary of contracts awarded in 2005, 2006 and 2007 and Syabas' review document;
- Spending RM51.2 million [US$15m.] to renovate Syabas headquarters, despite Selangor Water Regulatory Department (JKAS) approving only RM23.3 million for the exercise
- Syabas' decision to source RM325 [US$97.5m.] worth of pipes from Indonesia instead of locally in 2005, in breach of finance ministry instructions.
- RM5.1 million [US$1.5m.] paid in allowances to its chairman Rozali Ismail (…the 32nd richest man in Malaysia)
- Syabas has a management fee agreement with its parent company Puncak Niaga. Syabas has to pay Puncak management fees, amounting to RM8.4 [US$million annually and RM32 million [US$9.6m.] since 2005
- Tariffs charged by Syabas are RM0.77 per cubic meter, more than double the amount of RM0.37charged by the public sector water operator in Penang State

4.1.2. USA: Camden, New Jersey: leaking money and water

Camden County in New Jersey, population about 80,000, is officially the poorest city in the USA. Three mayors have been jailed for corruption, most recently Milton Milan in 2001.[6] In 2000, Camden privatised its water services under a 20-year contract with United Water, a subsidiary of Suez Environnement: the company is a major contributor to New Jersey politicians of both parties. In 2009 the state of New Jersey conducted a special audit into the water contract. Its findings, reported in November 2009, included:

- The loss of 45 percent of the water due to leakage, overflow, meter inaccuracies and billing errors
- Camden residents have long complained of poor water quality and brown water from their faucets, and inspections by state environmental officials found the potential for contamination in the water system is grave
- Most Camden customers have uncollected balances at least 90 days old, but the company's account records are missing names and addresses, making collection impossible.
- The city paid $2.2 million in connection with an amendment to the United Water contract, even though that amendment was never legally approved by elected officials.
- A review of 64 "add-on" charges worth $8.3 million found problems with all 64 - including payments made without proper authorization.

- State auditors couldn't locate 15 of 17 city assets that were supposed to be maintained by United Water. The two that it did find, including a water treatment plant with nine vehicles, was virtually abandoned and "left to rot," according to the comptroller.
- United Water's record-keeping is so poor that when Camden relied on the company's list of properties with unpaid water bills to sell tax liens in 2003, it had to repurchase liens that should not have been sold. That cost the city nearly $72,000.
- Twenty percent of the city's fire hydrants need to be replaced, despite a contractual provision that all are operable.
- The company charged the city "administrative fees" not specified in the contract of 12.5 percent, even though the work was subcontracted to other companies.
- Water meters were not calibrated as mandated, causing inaccuracies and forcing the city to lose $1 million in charges to public entities like the Camden County Jail and the Riverfront State Prison.
- United Water failed to refund $550,000 owed to city customers." [7]

4.1.3. Jakarta: excessive pricing and public health risks

In Jakarta, Indonesia, the water service was privatised in 1998 under corrupt contracts with the dictatorship of Suharto. These contracts have been the subject of continuing bitter public opposition. There has been little extension of the network, with the lowest level of coverage of major Asian cities; the price per cubic meter of water is the highest of any major Asian city, because it is set at a level guaranteed to give the companies a rate of return of 22% on their capital; in terms of quality, the water coming out of the taps must be boiled; in terms of efficiency, non-revenue water remains over 50%. There have also been lethal episodes of poor service. For example, there was a loss of piped water in parts of north Jakarta for 6 months in 2007, due to inadequate maintenance of an electrical system, which caused an outbreak of diarrhoea in which 12 babies died and hundreds were hospitalised.[8]

4.1.4. Gabon: typhoid, underinvestment

Water has been privatised in Gabon since 1997, under a joint energy and water concession to SEEG, which is 51% owned by Veolia. In January 2010 some districts of Libreville, the capital, still had no water at all, while others faced cuts of up to eight hours a day. The Gabon government warned SEEG that failure to make improvements would result in a "sequestration" of the contract, and has ordered an audit of the company. The same problems of under-investment have existed for years, despite repeated government complaints: in 2004 there was an outbreak of typhoid in a town after months without a functioning water supply, and the government accused SEEG of "not wanting to invest in the short, the medium or the long term". In 2005 SEEG got £25m.from the World Bank's private sector support arm, the International Finance Corporation, but in 2009 there were still repeated, lengthy interruptions to both water and energy services.[9]

4.1.5. Brussels: Veolia releases sewage into river as bargaining tactic

Aquiris, a company owned by Veolia Water, has a PPP (technically a BOT concession) to operate a waste water treatment plant treating the sewage of the Belgian capital, Brussels. On 8th December 2009, Aquiris deliberately stopped treating the sewage and allowed it flow unchecked and untreated into the river Zenne, causing an environmental disaster. The action was described by the chief executive of the regional water authority as like releasing an atomic bomb. The action was taken because Aquiris were in a dispute with the responsible public authorities. Whatever the rights and wrongs in the dispute, it is hard to imagine that a publicly owned and operated company would have stopped the pumps like this.[10]

4.1.6. Manila: no competition, no sewerage treatment, donor aid for private capacity

There is a constant process of renegotiation, even in supposedly stable contracts such as those in Manila. In the first week of January 2010, the concession of Manila Water, one of the two companies sharing the city's water business, was extended by 15 years, without any competitive tendering, in addition to the original 25 year period which started in 1997. This means that Manila water's monopoly in eastern Manila will last at least until 2037. [11]

In the previous month, Manila water and the other concession holder, Maynilad Water, were jointly fined P29.4 million [about US$600,000] for failing to develop sewerage treatment plants despite this having been required by a law passed 5 years previously. In January 2010, both companies announced that they were appealing against this fine.

On the same day, Maynilad effectively admitted it had no skills or capacity in the field of sewerage, and needed public assistance to learn, when it announced that it would be using donor aid from the USA to pay Indah Water Konsortium (IWK) of Malaysia to teach Maynilad about this subject: "exchange best practices and learning experiences with the Malaysian firm and improve the Philippine company's ability to develop and implement sewerage and sanitation projects. Another component of the program is to promote the health and environmental benefits of being connected to sewer lines. We also want to raise awareness on the consequences of indiscriminate dumping of domestic and industrial wastes in rivers and waterways in Metro Manila".[12]

4.1.7. Chile fines private water companies for over-charging and foul smells

The private companies like to claim that the privatisations in Chile are model examples, but the same problems of over-charging and health hazards are experienced in that country too. In 2010 Chilean courts convicted the private water companies of both these types of offences.

In May 2010 the Supreme court confirmed the convictions of two of the private water companies – owned by a Canadian penion fund - for charging "abusive" sums to housing developers for connecting new houses to the water supply. The companies were fined a total of over USD$2 million. [13] In November 2010, the supreme court upheld a conviction for breach of environmental health laws against Aguas Andinas - the private water company for the capital Santiago, owned by Suez. The court imposed the maximum possible fine of just USD $75,000, but Suez was also ordered to pay USD $5million in compensation to 500 households which had been suffering from health problems because of the odours. [14]

4.2. Terminations of private water contracts

The table below sets out 34 known cases in which private water supply contracts have been terminated or renegotiated and then wholly or partly sold, (plus two ongoing disputes) together with comments on the process, in particular the use of compensation claims by the private companies. 21 of these cases concern Suez.

Table 1. Water service contracts: terminated, renegotiated, sold

Status: **E**xpired, **T**erminated (and renationalised or re-municipalised), **R**enegotiated, **S**old, **C**urrent

Argentina	Buenos Aires	2006	Suez	T	Compensation claim at ICSID was launched by Suez, then dropped to facilitate sale of its shares, now resumed. Lawsuits against Suez have been filed in front of Argentine courts by individual citizens, civil society organisations and local authorities for the poor level of service.
Argentina	Buenos Aires Province 1	2002	Enron	T	Azurix withdrew from the contract accusing the regional government of "serious breaches". An ICSID Tribunal rendered an award in 2006 condemning Argentina to pay US$ 165 million instead of the US$ 565 million claimed by Azurix. The case is still pending and no payment made.
Argentina	Buenos Aires Province 2	2006	Impregilo	T	Impregilo filed a compensation claim in front of ICSID and the case is still pending. No payment made.
Argentina	Cordoba	2007	Suez	RS	Suez discontinued ICSID proceedings after renegotiating the contract with local authorities and transferring its shares to a local company.
Argentina	Mendoza	2009	Enron, SAUR	RT	The city council took over the company in 2009 on a 'temporary' basis, after failure to renegotiate. SAUR filed a compensation claim for US$ 200-300 million to ICSID, suspended the claim and then reactivated it. The council is carrying out a financial, technical and environmental audit which could lead to compensation claims against SAUR and even prison sentences.

Argentina	Santa Fe	2006	Suez	T	After failing to sell its shares to private sector buyers, Suez withdrew from the contract. A compensation claim in front of ICSID is currently pending.
Argentina	Tucuman	1998	Veolia	T	Terminated after consumers stopped paying bills due to serious operational failures. An ICSID Tribunal rendered an award in 2007 condemning Argentina to pay US$ 105 million instead of the US$ 375 million claimed by Vivendi. The case is still pending due to appeal and no payment made.
Belize	National	2005	Biwater	TS	Renationalised by buying shares in BWS from Cascal/Biwater. Government then floated BWS for sale to Belize citizens only.
Bolivia	Cochabamba	2000	Bechtel	T	The concession was terminated following social unrest. Bechtel filed a compensation claim in front of ICSID demanding payment of US$ 50 million. Due to pressure from an international civil society campaign, Bechtel decided to abandon the claim to protect its reputation. The claim was formally settled for a token payment of 2 Bolivianos (US$ 0.30).
Bolivia	La Paz/El Alto	2007	Suez	T	The contract was ended after amicable negotiations providing for the Bolivian government to assume responsibility for loans, amounting to US$ 9.6 million, and pay US$ 5.5 million as compensation to Suez.
Brazil	Guariroba	2006	Suez	S	Suez left and sold its shares to a Brazilian operator. No reports of compensation.
Brazil	Limeira	2006	Suez	S	Suez left and the company is now wholly owned by a Brazilian operator. No reports of compensation.
Central African Republic	Bangui	2001	SAUR	T	The SAUR contract was terminated 5 years before its expiry. No reports of compensation paid.
Chile	Calama	2006	Biwater	TS	BOT. Regulator SISS stops payments to wastewater treatment BOT because of bad performance. Contract was terminated and plant taken over by water authority Essan.
China	Da Chang (Shangai)	2004	Thames	W	BOT. Thames Water abandoned its Da Chang BOT treatment plant after the Chinese government declared that the municipal guarantee of a 16 per cent profit was invalid. No report of compensation paid.
China	Shenyang	2002	Suez	T	BOT. Terminated, council could not afford to pay
Colombia	Bogota	2004	Suez	T	BOT. The Salitre wastewater BOT was terminated after the city council calculated that the project was charging ten times too much, and that it was worth paying US$ 80 million to buy out the contract.
Estonia	Tallinn	2009	United Utilities	C	City council refers profit rate of return to competition commission which rules it is double the acceptable level. Council seeks revision or termination.
France	Grenoble	2000	Suez	T	Operating contract renegotiated into joint venture with commune. Terminated after 2 court cases
France	Paris	2009	Suez, Veolia	TE	Re-municipalised at expiry by decision of Paris city council.
Gambia		1995	Veolia	T	The Veolia contract was terminated by government on grounds of poor performance. No reports of compensation paid.
Germany	Potsdam	2000	Suez	T	With agreed but undisclosed compensation and agreement to contract works to Suez
Hungary	Pecs	2009	Suez	T	Attempted termination 2004, dropped after Suez claim compensation. New attempt Oct 2009, confirmed by court 2010.
Indonesia	Jakarta	2001	Suez, Thames	RS	Renegotiation protected payments to companies and rate of return. Partially sold by Suez, 98% sold by Thames.
Malaysia	states	2009		TR	Malaysian government policy to renationalise all water assets and revise or terminate existing concession agreements.
Mali	Bamako	2005	SAUR	T	The SAUR contract was terminated by government on grounds of poor performance. No reports of compensation.

Philippines	Manila	2005	Suez, United Utilities	TR S	Many conflicts with regulator. Maynilad Water (Suez) was bankrupt, bailed out by re-nationalisation, state funds, reduced targets, and higher prices, and then 84% sold to a new private equity/ construction joint venture. Manila Water (United Utilities) floated on stock exchange, now mostly owned by Ayala. Continuing problems over prices and investment.
South Africa	Amahthali (Stutterheim)	2005	Suez	T	Contract taken over by municipal water company
South Africa	Johannesburg		Suez	TE	Management contract, not renewed
South Africa	Nkonkobe (Fort Beaufort)	2002	Suez	T	City council won court ruling invalidating the contract.
Tanzania	Dar-es-Salaam	2005	Biwater	T	Terminated by government on grounds of poor performance. Biwater filed two compensation claims in front of two different international arbitration tribunals and lost both cases. It lost the case filed in front of the UK High Court under UNCITRAL rules (on grounds of early termination of the contract) and was condemned to pay GBP 3 million in damages, which Biwater refused to pay. It also lost the case filed in front of an ICSID tribunal on grounds of expropriation. The ICSID tribunal "found that while Tanzania's government had violated its bilateral investment treaty with the UK on four separate counts (including the unlawful expropriation of assets from Biwater's local JV City Water), the company is not entitled to compensation because the value of its investment in City Water was nil at the time of the expropriation".
Turkey	Antalya	2002	Suez	T	Suez subsidiary made bankrupt after price increase refused, municipality took over.
Uruguay	Aguas de la Costa	2006	Suez	T	Suez left after reaching an amicable settlement with the government and selling its shares.
Uruguay	URAGUA	2006	Urbaser	T	Urbaser and Aguas de Bilbao filed a compensation claim in front of ICSID and the case is still pending. No payment has been made.
USA	Atlanta	2003	Suez	T	Amicable settlement forbids Atlanta mayor and city councillors to criticise Suez in public and provides for a payment of US$ 13.3 million to Suez, due to "transition costs". Technically, this is not paid as compensation.

These terminations have in some cases been by mutual agreement, where the company believes it can no longer run the contract profitably, and the municipality and public are pleased to terminate. In other cases, municipalities have used various methods for putting pressure on companies.

One common approach has been to withhold payments, refuse price rises, or impose fines as a response to persistent non-performance. A refusal to permit price increases was the key measure in Buenos Aires, Dar-es-Salaam, Manila and many other cities. The effect of this was not only to make the service more affordable to citizens, but also to make the business less profitable and less attractive for the companies, thus triggering re-negotiations or terminations. This was done in Antalya, Turkey, for example, where the private company was then liquidated, and the service taken over by the municipality. In Chile, in the case of a badly performing wastewater treatment contract at Calama, the regulator simply suspended that portion of the user charge which financed the payments to the operator. The company appealed, but lost: the court stated that it would be absurd to support the company's appeal because then "it could provide a bad service at a very low cost [to itself], charge full price to users as if it had been paid in good condition.... gaining huge profits". [15]

A similar approach is to insist on rewriting the contract to ensure that it is 'well-balanced' between the interests of the public authorities and those of the company, and/or to insist on introducing 'performance-related' provisions that provide real incentives and penalties for the private company. This has been done recently in a number of contracts in Russia, where existing lease contracts were rewritten in this way, supported by the European Bank for Reconstruction and Development, which made these revisions a condition of its loans. [16]

Independent audits have been used in a number of cases, for example La Paz, as a way of both confirming and publicising a government's criticisms of a company, supporting fines or price reductions, countering a company's claim for compensation. Similar audits are now being commissioned by the government of Gabon in Africa,[17] and the provinces of Mendoza and Santa Fe in Argentina. Regulatory bodies have also played a significant role. In La Paz, Buenos Aires and Manila they published or commissioned reviews of performance, imposed fines for non-performance and/or recommended against price rises. In Paris, reform of the regulatory body to establish public accountability was the first stage in the process.
Consumers and other groups have been key players in terms of making public complaints about performance (e.g. in Dar-es-Salaam), participating in demonstrations and other action (e.g. in La Paz), bringing court cases against the private operator (e.g. in Buenos Aires, Manila), and campaigning and making submissions to the ICSID cases (e.g. in Cochabamba, Buenos Aires, Dar-es-Salaam).

4.3. Outcomes: re-municipalisation or nationalisation

The public authorities have nationalised or municipalised in the great majority of cases. In four of the five capital cities - Buenos Aires, Paris, Dar-es-Salaam, and La Paz - this was the final result. In the case of Manila one of the companies, Maynilad, was renationalised, restructured with extra state aid and a contract more favourable to the private company, and the government then sold its shares in the company to new investors (a similar process happened in Belize). The act of nationalisation sometimes happens as the first move in the sequence of events – for example in Dar-es-Salaam, Atlanta and La Paz; sometimes as an initiative during the bargaining processes – as in Buenos Aires; but usually as the final step, either implementing an agreed termination or as a way of imposing a termination. In Malaysia, the government policy is to systematically renationalise all the assets of the state water services, terminating existing private concessions, reducing allowable price increases, and negotiating compensation, financed by a RM20 billion sukuk bond issuance (USD $5.9billion).[18]

5. A different trend: Public-public partnerships (PUPs)[19]

Water operators need to be efficient, accountable, honest public institutions providing a universal service. Many water services however lack the institutional strength, the human resources, the technical expertise and equipment, or the financial or managerial capacity to provide these services. They need support to develop these capacities. A growing number of public sector water companies have been engaged, in a great variety of ways, in helping others develop the capacity to be effective and accountable public services. These supportive arrangements are now called "public-public partnerships" (PUPs). A public-public partnership (PUP) is simply a collaboration between two or more public authorities or organisations, based on solidarity, to improve the capacity and effectiveness of one partner in providing public water or sanitation services. They have been described as: "a peer relationship forged around common values and objectives, which exclude profit-seeking".[20] A great advantage of PUPs is that they avoid the risks of private partnerships: transaction costs, contract failure, renegotiation, and the complexities of regulation, commercial opportunism, monopoly pricing, commercial secrecy, currency risk, and lack of public legitimacy.[21]

PUPs are not merely an abstract concept. In the last 20 years there have been over 130 PUPs in around 70 countries, in all regions of the world. This means that far more countries have hosted PUPs than host PPPs in water (according to a report from PPIAF in December 2008, there are only 44 countries with any kind of private participation in water). The earliest PUPs date to the 1980s, when the Yokohama Waterworks Bureau first started partnerships to help train staff in other Asian countries. Many of the PUP projects have been initiated in the last few years, a result of the growing recognition of PUPs as a tool for achieving improvements in public water management. From 2010 the European Commission has provided up to €40 million Euros to finance PUPs involving EU public sector water operators and partners in developing countries. This money is not available to companies or projects engaged in profit-making.

Notes

[1] See PSIRU 2003 Water multinationals - no longer business as usual http://www.psiru.org/reports/2003-03-W-MNCs.doc

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