



# Water = Life: How Privatization Undermines the Human Right to Water



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The U.N. General Assembly declared in July 2010 that access to clean water and sanitation is an essential human right, calling on states and organizations to help provide access for the 884 million people currently without safe drinking water and the more than 2.6 billion people without basic sanitation.<sup>1</sup> In the past, public-private partnerships — agreements between governments and water companies for the private operation of publicly owned water systems — were heralded as a solution to meeting this crucial need.<sup>2</sup> However, evidence is mounting that private control of water services can actually stand in the way of the human right to water more than it can help to achieve it. Although private utility management in itself may not constitute a violation of the right to water, as Violeta Petrova noted in the *Brooklyn Journal of International Law*, “[T]he particular circumstances in which privatization is carried out might give rise to substantive and procedural violations of the right to water.”<sup>3</sup> Unfortunately, these circumstances are met all too often.

The following sections provide an overview of the numerous ways that the financial objectives of private water operators can come into conflict with the human right to water.

## Price Hikes

Due to a misalignment of public and private interests, bad regulation and poor implementation, public private partnerships can fail to achieve their goals and lead to increases in the price of water service.<sup>4</sup> All too often, these higher prices and their effects serve to strip users of their right to water.

## Hitting the Poor Harder

These price hikes can disproportionately affect low-income households particularly when pricing structures force poor users to pay much higher bills.<sup>5</sup> In the *Review of Industrial Organization*, World Bank economist Antonio Estache explained this consequence of private sector involvement: “The reformers did often not pay enough attention to the redesign

of tariff structures and the efficiency gains were achieved at the cost of an increase in the burden imposed on the lowest income groups connected.”<sup>6</sup> It is not surprising then that in an opinion survey of Latin America, poor respondents were most likely to disagree with privatization.<sup>7</sup>

### **Keeping the Change**

Recent reviews of empirical research have shown that overall there are no cost savings with private operation of water services.<sup>8</sup> In the case when savings are achieved, however, consumers often never see any benefit. According to a World Bank report, when efficiency under a contract in Argentina grew by 1.9 percent — due in part to employment layoffs — the end users never saw reduced costs. Instead, rates increased by 1.75 percent.<sup>9</sup>

In the Philippines, the concession of the Metropolitan Waterworks and Sewerage System in Manila supposedly made water services more efficient.<sup>10</sup> The private companies even cut staffing levels by about 40 percent.<sup>11</sup> Water rates, however, instead of dropping, climbed 125 percent in eastern areas and 268 percent in western areas over the first decade of private operation.<sup>12</sup>

### **Disconnections**

When the poor are unable to pay for service, private players have responded by cutting existing connections, driving some households to rely on unsafe water sources.<sup>13</sup> This happened in Mbombela, South Africa, where after warnings about non-payment, the company cut off water service. It even removed pipe work, including 6,000 meters that had just been installed. Even during a cholera epidemic, these disconnections continued.<sup>14</sup> A similar situation occurred in poor areas of the Dolphin Coast, South Africa. According to a paper for the UK Department for International Development, “In poorer areas of Dolphin Coast there has been a reduction in service levels with disconnections of house water pipes, as a result of the higher water tariffs.”<sup>15</sup>

### **Real Health Effects**

High prices and cut connections have real and documented health effects, including increased cases of cholera.<sup>16</sup> According to a survey in Madagascar, even slight changes in water prices can induce the poor to turn to alternate sources.<sup>17</sup> This has a high social cost; inadequate access to water and sanitation and insufficient hygiene cause 88 percent of cases of diarrhea, resulting in 1.5 million deaths a year.<sup>18</sup> When private players get involved in water provision, prices often increase and the resulting disconnections can deprive users — especially the poor — of the human right to water, with potentially disastrous health and social welfare effects.

### **Inadequate Investment**

Governments find it difficult to compel private players to invest in infrastructure. In an article in the *Annals of Public and*

*Cooperative Economics*, Kate Bayliss noted, “...privatization projects have been designed so that private firms only acquire an interest in the aspects of service delivery that make quick profits, leaving the longer-term, less financially attractive responsibilities for investment with the government.”<sup>19</sup> The following are some of the most notable examples of this:

- In 2003, research published by the World Bank about privatization in Latin America revealed that contract renegotiations after privatization “tended to delay or bring down investment levels, as firms do not get immediate rewards through tariff adjustments on investments.”<sup>20</sup>
- For most of the 20<sup>th</sup> century, municipalities in France found it legally impossible to compel the private companies running their water systems to make necessary investments. As a result, they had to form municipal entities as vehicles to expand the water networks, particularly to rural areas.<sup>21</sup>
- In the Dolphin Coast, South Africa, the private company running the water system cut its promised investments by 60 percent.<sup>22</sup>
- In Nelspruit, South Africa, the private concessionaire also fell short of the promised investment level and stopped all investments in 2001.<sup>23</sup>



- In 2006, Mali terminated a concession contract and Cape Verde was threatening to do the same, both due to the private companies' failure to make promised investments.<sup>24</sup>
- The Gabonese government, according to *Agence France Presse*, accused the privatized water utility of "not wanting to invest in the short, the medium or the long term to renew plant (*sic*) for the production, transport and distribution of water."<sup>25</sup>
- Under a 10-year lease contract in Senegal, foreign aid and public sector investments totaled US \$230 million, while the private contractor committed to invest less than a tenth of that.<sup>26</sup>

### **Mind on the Meter**

Private players are often more interested in increasing profits than improving water access rates. That's why after Guinea leased its water services in 1989, the proportion of consumers with water meters quickly increased from 5 percent to 98 percent by 1996, while the expansion of the service area moved far more slowly; the number of people connected to the water network increased from 38 percent to only 47 percent over that period. At the same time, water prices steadily increased, and the operating company's revenues jumped tenfold.<sup>27</sup>

### **Selective Investment**

When for-profit companies do expand water service areas, they tend to exclude those with the greatest need. "Typically, operators will avoid low-income neighborhoods where use will be low and bill collection problems high," wrote John J. Boland of Johns Hopkins University in the *Journal of Water Resources Planning and Management*.<sup>28</sup>

An interview conducted by the UNC Environmental Finance Center with West Virginia American Water — the largest for-profit water provider in the state of West Virginia — perfectly illustrates this point. The researchers reported that when asked about expanding the system into high-cost, impoverished areas, "company officials responded that those areas make a case for public systems."<sup>29</sup> When a profit-motivated utility is uninterested in expanding service to customers that cannot cover the added costs, Boland added, goals between the public and private parties come into conflict.<sup>30</sup>

One study about public-private partnerships from Loughborough University's Water, Engineering and Development Centre concluded that private players refused to invest in infrastructure for some of the poorest communities — informal settlements without official status. Common practice among private players was to avoid such areas. According to the study, "... the literature makes very little progress as to how to address this issue in practice," and therefore recognizes the necessity of public attention to these situations.<sup>31</sup>

### **Continuing Need for Public Finance**

It is clear that the private sector is usually dependent on public financing of water infrastructure. According to an assessment by the United Nations Development Programme's International Poverty Center, "In sum, even if there were progress in increasing private sector participation, the bulk of financing would need to come from the public sector and ODA [Official Development Aid]."<sup>32</sup> A report by Germany's development bank determined, "... the private sector may be willing (in some cases) to manage water sector operations but is likely to lack any appetite for financing new works and coverage expansion," meaning that the public sector must remain a major source of financing for water systems.<sup>33</sup>



Unfortunately, research has shown that when private players get involved, public entities may take it as their cue to stop investing. “The shift towards private or commercialised services has meant that direct public investment in the water sector has declined,” said researchers in an International Policy Centre for Inclusive Growth report. “But the resulting gap has not been offset by private sector investments.”<sup>34</sup>

By prioritizing rich over poor and meters over connections, reducing public investment, and failing to meet their own commitments, private players bar low-income households from water access, obstructing an essential human right.

## Other Detrimental Economic Effects

### *Cutbacks and Job Loss*

Along with promises of increased efficiency comes the reality that private companies usually employ fewer workers than the public companies they replace. In a study of privatization in Latin America — primarily of electricity, telecommunications, water and gas utilities — David McKenzie and Dilip Mookherjee found that privatization resulted in labor cutbacks of 30 percent to 75 percent.<sup>35</sup>

In Argentina, for example, the privatized enterprises eliminated 150,000 jobs, accounting for an estimated 13 percent of the total increase in unemployment in the economy between 1987 and 1997. The researchers found that “the employment cutbacks in the privatized enterprises were greater than those occurring elsewhere in the economy.”<sup>36</sup>

Privatization can affect not only national employment rates, but also average earnings. Because public sector workers tended to earn higher wages than their private sector counterparts, privatization lowered the average wage in places like Nicaragua where there was substantial labor reallocation. Wage disparity between the public and private sectors was particularly large in rural areas. McKenzie and Mookherjee found, “[T]he privatization process is likely to have significantly accentuated the downward drift in the average rural wage.”<sup>37</sup>

Like price hikes, the effects of reduced employment and income tend to be concentrated on the poor. The privatized enterprises cut back a disproportionate number of low skill jobs,<sup>38</sup> while appearing to increase executive and managerial salaries.<sup>39</sup> Privatization also has an adverse economic effect on already disadvantaged minorities and women. Reduced labor benefits and wages under privatization often destroy job ladders for these groups.<sup>40</sup>

### *Widening the Gap*

With these employment and earnings losses in mind, it is not a surprise that privatization can drive people into poverty.<sup>41</sup> For example, the water privatization in Cochabamba, Bolivia, was estimated to increase the overall poverty headcount by 2 percent.<sup>42</sup> Because of price effects, this privatization caused all income levels to suffer welfare losses, with the poorest losing the most of all.<sup>43</sup>

## Case Studies

**Guayaquil, Ecuador:** Water prices increased by 180 percent after concessionaire Interagua — at the time, a subsidiary of Bechtel — took over, leading to residential water cutoffs. The Observatorio Ciudadano de Servicios Públicos de Guayaquil, a civil organization, blamed the company’s underinvestment and poor water quality for outbreaks of hepatitis.<sup>47</sup>

**Libreville, Gabon:** Not long after the 1997 concession of the water and electricity utilities, problems began to surface. Water shortages span back to 2003,<sup>48</sup> with prolonged and repeated interruptions of the water and electricity service beginning in February 2007.<sup>49</sup> On January 17, 2011, a family of five died when a candle necessary because of power outages set their house alight. “We all tried to extinguish the fire and save the lives of victims, but things were not easy, especially as water taps were dry in the district,” reported neighbors to newspaper, *Afrik*.<sup>50</sup>

**Jakarta, Indonesia:** In the first 10 years of the concession contract, average tariffs increased 258 percent.<sup>51</sup> Despite its high price, the water was of questionable quality. Numerous consumers claimed that the water was dirty.<sup>52</sup> The private operators also prioritized extending service to wealthier areas. Between 1998 and 2004, middle class customers received 58 percent of new connections, while very poor households received only 24 percent of them. According to researchers, the companies had “disincentives to connect loss-making poor households.”<sup>53</sup>

**La Paz and El Alto, Bolivia:** In these cities, the private contractor was accused of denying water service to about 80,000 families. Many people couldn’t afford the cost of setting up a connection, which for the poorest households, was equivalent to more than 2 years worth of food expenses.<sup>54</sup>

## *Poor Regulation and More Problems for the Poor*

Insufficient regulatory capacity poses further problems for consumers after privatization, particularly in undeveloped countries with limited qualified regulatory staff available.<sup>44</sup> Weak regulation has a disproportionate effect on the poor. Bayliss wrote, “Privatization is widely associated with cronyism and corruption and can therefore contribute to a consolidation of economic and political power in an interest group that rarely represents the poor.”<sup>45</sup>

A 1999 article in *The World Bank Economic Review* showed that bad regulation in Argentina decreased labor income by even more than water privatization alone. The researchers explained, “...when regulation is not effective, the gains from privatization are turned into a quasi-rent captured by the

richest, who are the largest domestic owners of capital in infrastructure services."<sup>46</sup>

In the end, reducing users' ability to pay is no different from raising the price of water. When private sector involvement in water services increases poverty, unemployment and disparity, it pushes the least well off further from being able to afford the safe water they need, depriving them of a human right.

## Conclusion and Recommendations

It is clear that involving private enterprises in utility operations is not a means to satisfy the human right to water. As has been true from Cochabamba, Bolivia, to Libreville, Gabon, bringing private players into the situation often obstructs the human right to water.

Research has found that in the United States, poor, rural communities with weak government power are most easily harmed by privatization. Researchers suggest that cooperation between municipalities can substitute for private sector involvement in a constructive way.<sup>55</sup> Such collaboration between public entities is commonly referred to as a public-public partnership—PUP.

PUPs can mitigate price increases and avoid other problems associated with private participation. They can improve water system capacity at minimal cost and promote fair and equitable use of water services in a transparent and accountable



manner.<sup>56</sup> Rather than engaging in risky deals with the private enterprises, governments must explore public-public partnerships as a way forward in meeting the basic human right to water.

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**About Food & Water Watch:** Food & Water Watch is a nonprofit consumer organization that works to ensure clean water and safe food. Food & Water Watch works with grassroots organizations around the world to create an economically and environmentally viable future. Through research, public and policymaker education, media and lobbying, we advocate policies that guarantee safe, wholesome food produced in a humane and sustainable manner, and public, rather than private, control of water resources including oceans, rivers and groundwater.

