THE WATER PRIVATIZATION DEBATE: A CRITIQUE OF AND ALTERNATIVE TO THE INTERNATIONAL FINANCIAL INSTITUTIONS' PROMOTION OF THE PRIVATE PROVISION OF WATER SERVICES

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ABSTRACT

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This thesis focuses on the debate over the private provision of water services. One billion people worldwide lack access to clean water, which results in millions of illnesses and deaths every year. The international financial institutions have blamed lack of access to clean water on government corruption and deficient funding. Their solution has been promoting the private provision of water services to increase access to clean water. Growing international social movements have been disputing the value of the private provision of water services. This thesis adds to the debates by arguing that the private provision of water services is a political choice, not an economic inevitability and that the private provision of water services does not promote the mission of the international financial institutions to decrease poverty by increasing access to clean water. The private provision of water services is not efficient because it is a natural monopoly and it tends to: increase water costs and service disconnections, not account for the costs from water-borne illness, concentrate investment in wealthy areas, and perpetuate corruption. The alternative solution promoted in this thesis is strong democracy based on the right to water.

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CHAPTER ONE: INTRODUCTION

The strategies used to increase access to freshwater are increasingly controversial around the world. This thesis focuses on one of the most debated subjects within discussions of freshwater: international financial institutions' promotion of the private provision of water services as the solution to the lack of access to clean water worldwide. While this topic is frequently addressed from the engineering, economic and ecological angles, this thesis analyzes the private provision of water services from a political perspective. In this thesis, the underlying political decision-making that has enabled and promoted the private provision of water services as the current strategy towards ending the lack of access to clean water will be explained and critically analyzed.

Definitions

The term "private provision" is used to refer to the process of the public sector contracting out the operations, service delivery and user fee collection to the private sector. The term private provision is used throughout this thesis instead of the term "privatization" because privatization most commonly refers to the sale of a resource to private ownership, and the international financial institutions do not promote the direct

sale of the water as a resource to the private sector. The private provision of water services occurs through contracts that are typically called management or lease contracts and they can vary in length from three to fifteen years. Concession contracts are the other type of private provision contracts that the international financial institutions encourage because they are the longest-term contracts, usually lasting about thirty years. In addition to running services, the private companies own the water system infrastructure and therefore are expected to provide the investment to maintain and expand the infrastructure (Finger and Allouche 2002, 81-82; Kessler 2004, 3; Budds and McGranahan 2003, 3).

The term “international financial institutions” generally refers to publicly funded agencies that loan money to developing countries; the largest of these organizations are the World Bank, the International Monetary Fund (IMF) and the four regional development banks. The World Bank is the common name for the International Bank for Reconstruction and Development. The four regional development banks are the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development and the Inter-American Development Bank Group. All of these agencies are also called multilateral financial institutions.

The term “water” is used throughout the thesis to refer to freshwater. The term “clean water” in this thesis refers to water that has been improved to ensure it is safe for basic domestic consumption by humans for activities that include drinking, cooking, cleaning, and sanitation. The minimum quantity of clean water necessary for survival is

frequently calculated using the “basic water requirement” formula, which combines water for drinking, sanitation, bathing, and cooking to equal fifty liters per person, per day. The minimum quantity of clean water must include more than just drinking water because disease will continue to spread without enough clean water for sanitation (Gleick 1998, 44; World Health Organization 2000, 4). According to the World Health Organization improved sources of clean water can be accessed through household connections, public standpipes, boreholes, protected dug wells, protected springs, and rainwater collection. About half of the population within developing countries has access to household connections (World Health Organization 2000, 12). The focus of the international financial institutions is to increase access to household connections; therefore that will also be the focus of this thesis. The term clean water in this paper will not refer to agricultural or industrial freshwater use, only to personal domestic consumption.

The Problem of Lack of Access to Clean Water

Water is one of the most basic requirements for human existence, yet over a billion people in the world lack access to clean water. Additionally, almost half of the world’s population has no access to sanitation, which escalates the risk of water contamination. Due to unclean water, one-third of the people in the world suffers from preventable diseases every year (United Nations Environment 2003). In all, over two million preventable deaths are caused by contaminated water each year (World Health Organization 2003, 6).

International financial institutions began promoting programs to increase access to clean water in the 1950s. But, it was not until 1977 when the United Nations held the first international conference on freshwater that the lack of access to clean drinking water was declared an international crisis (Finger and Allouche 2002, 20). At the time of the conference, 41 percent of the world's population lacked access to clean water. In response the United Nations declared the 1980s the "International Decade for Clean Water and Sanitation." International financial institutions and national governments significantly increased their funding for water development, which caused the percentage of the world's population who lacked access to clean water to drop to 21 percent by 1990 (Gleick 1993, 171). Currently, 18 percent of the world's population (or 1.1 billion people) continues to lack access to clean water (World Health Organization 2003, 7). The percentage of people who lack access to clean water has decreased, but the rate of increased access has slowed in the last decade.

In cities, governments have created infrastructure to provide clean water services to most residents. The highest concentrations of people who are unconnected to water services tend to be located in the least wealthy areas, on the outskirts of cities and in rural areas (Finger and Allouche 2002). The World Health Organization has found that approximately 90 percent of the people who lack access to clean water are located in developing countries in Africa and Asia (World Health Organization 2000, 7). Without water connections, people either have to buy water from private vendors or collect water from sources that have not been purified. Private water vendors charge substantially

more per unit of water than public water systems charge. For example, in Lima, Peru, people who have to buy water from vendors pay twenty times the amount that city residents connected to the water system pay (Cosgrove and Rijsberman 2000, 14). Since it is the least affluent people that are not connected to water systems, they usually cannot afford to pay private vendors for the minimum amount of water necessary for drinking and sanitation; hence they are left collecting unimproved water. Peter Gleick, an expert on water development, simply states, "The failure to provide safe drinking water and adequate sanitation services to all people is perhaps the greatest development failure of the twentieth century" (Gleick 2004, 1).

The Problem of Water Scarcity

Many countries are increasingly using water faster than it is naturally replaced, resulting in water scarcity. Within the last two decades, international financial institutions have recognized that water scarcity is becoming a problem on a global scale and thus have announced their new water distribution strategy to prioritize efficiency. In 1992, both the International Conference on Water and the Environment in Dublin and the United Nations Conference on Environment and Development in Rio de Janeiro were convened. Both of these conferences focused on finding a solution to the problem of rising water scarcity. The final declaration from the conference in Dublin often referred to as the "Dublin Principles," suggested two major changes in strategy for water development: (1) water was identified as a scarce resource that needs to be valued as a

market good in order to efficiently allocate water and decrease scarcity, and (2) water development should involve not just the state but all “stakeholders” including the private sector and non-governmental organizations (World Bank 2004a, 1). The focus on the efficiency of water delivery in order to decrease the rate of water scarcity has been one of the reasons the international financial institutions state they promote the private provision of water services (World Bank 2003; World Bank 2004a).

While water scarcity is a serious concern on a global scale, on average only 10 percent of water is consumed for domestic purposes; 70 percent is used for farm irrigation and 20 percent for industry (United Nations Educational 2005, np). Since most water is used for agricultural purposes, increasing the efficiency of domestic water services can only make a marginal effect on overall water use. If international financial institutions want to make the largest impact in decreasing water scarcity, the best use of resources would be to focus on promoting water efficiency in agriculture. Technology already exists to greatly enhance the efficiency of water consumption in farming, but many countries lack the financial means to incorporate these tools (World Resources Institute 2003).

While the problems of lack of access to clean water and water scarcity use are different, international development organizations have applied the same solution for both: incorporate the private sector in the provision of water services. A short history of international financial institutions will follow in order to better understand their influence in water policy.

International Financial Institutions' Influence on Water Development

Many developing countries depend on loans from international financial institutions to cover the huge costs of building or expanding the infrastructure for clean water availability. The lowest-income countries (which also have the highest percentage of people who lack access to clean water) have the fewest loan options, and often the only agency that will offer loans is the World Bank (World Bank 2004a, 46). The World Bank is the most influential international financial institution in water development because it is the oldest and largest development financer,[1] providing half of all international loans for water projects in developing countries (World Bank 2004a, 32; Finger and Allouche 2002, 63). The remaining half of international loans comes from regional, sub-regional and bilateral development agencies. All these development agencies work closely with the World Bank, whose budget for research and policy is unrivaled among development agencies (World Bank 2005a, np; World Bank 2005b, np; Berger and Beeson 1998, 492).

Aside from these development agencies, the IMF is generally considered the most influential international financial institution affecting water policy that does not focus on development. Access to clean water is traditionally considered a development issue so the IMF, which focuses on short-term loans for economic stability, typically does not directly address water issues. Even so, the policies that the IMF requires recipient

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[1] The World Bank has loaned over $40 billion to water development projects around the world over the last forty years (World Bank 2005a, np)

countries to adopt often have a direct affect on water policies and public access to clean water (Grusky 2001, 2).

For over half a century international financial institutions have influenced public-policy decisions made by local and national governments dealing with the problem of lack of access to clean water. Loans supplied by the international financial institutions come with political recommendations and expectations (Krasner 1985). Many governments must change their policies on water service in order to receive loans. Since countries have little or no choice in lenders, the lender has strong influence on national policy (Berger and Beeson 1998; Brohman 1995).

International Financial Institutions' Strategy: The Private Provision of Water Services

The World Bank began promoting a new strategy for water development in 1993 called Water Resource Management. This new strategy was based on the "Dublin Principles" and remains essentially the same today. The other international financial institutions followed the World Bank's lead, also promoting similar strategies (World Bank 1993; Cosgrove and Rijsberman 2000; Pitman 2002; World Bank 2004a). The international financial institutions are in universal agreement that lack of access to clean water is a major obstacle to development, and they blame the problem primarily on government corruption, deficient funding, and water scarcity. The Water Resource Management strategy applied by the international financial institutions stresses the private provision of water services as the vital change necessary to increase accountability, funding and efficiency.

In order to facilitate the transition from public to private water service provision, the international financial institutions promote two pre-conditions as part of their strategy: (1) charging water users directly in order to recover the full costs of service provision (instead of subsidizing delivery through general public taxes), and (2) decentralizing government structure. According to the World Bank, "The solution is to separate the policy-makers from the providers—and to make providers more responsive to clients" (World Bank 2004b, 159). Chapter Two of this thesis will explain in detail the international financial institutions' strategy to increase access to clean water.

The private provision of water services has become more controversial in the last decade due to the failure of numerous concession contracts. International financial institutions have generally stopped using the word private unless it is coupled with the word public; the common term now used is "public-private partnership" (Budds and McGranahan 2003; World Water Council 2003). A public-private partnership can refer to any type of private provision water service contract. Because public-private partnership implies shared goals that may not be present, the term "private provision" will be used throughout this thesis to explain what the international financial institutions refer to as either public-private partnerships or private sector involvement (Budds and McGranahan 2003, 89).

The private provision of water services began over a century ago, but prior to the 1990s France and England were the only two countries that provided private water services for a significant amount of their drinking water instead of having state-run water

systems (Luoma 2004, 54; Gleick et al. 2002, 60-61). A decade later 10 percent of water systems (located in ninety-three different countries) worldwide are being managed privately (Gleick et al. 2002, 60). The number of new concession contracts peaked in 1997 and has since decreased significantly. Thus, the international financial institutions have given concession contracts a "gloomy forecast" with poor future prospects (Camdessus 2003, 13). The international financial institutions acknowledge that private companies have a decreased interest in concession contracts due to the economic crises in Argentina and elsewhere that caused monetary devaluations in many developing countries, resulting in too high of a risk for private companies to invest (Camdessus 2003, 7).

The international financial institutions have declared that the debate over the private provision of water services is no longer relevant due to the decreasing rate of new concession contracts in most developing countries. However, other types of the private provision of water services, such as management and lease contracts, continue to be promoted strongly by the international financial institutions and as a result they continue to increase (World Water Council 2003; World Bank 2004a). Currently 40 percent of all World Bank loans in water development include participation by the private sector (World Bank 2004a, 19). Given the large percentage of loans that continue to include the private sector, the debate over the private provision of water services is far from over.

Debates Over the Private Provision of Water Services

The international financial institutions' decision to promote the private provision of water services has been increasingly challenged by social movement groups throughout the world (Bond 2004; Gleick et al. 2002). These social movements are not one cohesive group, but are comprised of a growing network of organizations from around the world that oppose the private provision of water services, because they argue, it routinely increases the price of water services while rarely expanding the service coverage to those who lack access to clean water. These social movements have demonstrated their objection to the private provision of water services in many different forms, including mass protests in the streets in Bolivia, Argentina, Ghana and the Philippines, citizen lawsuits in Indonesia, France and the United States, mass citizen refusal to pay increasing water bills in South Africa, and organized education campaigns in India (Olivera 2004; Santoro 2003; Adam 2005; Buenaventura, Palattao, and Nacpil 2004; Ardhianie 2005; Godoy 2003; Pauw 2003; Shiva 2002). The mass citizen opposition to the private contract in Cochabamba, Bolivia in 2000 caused the cancellation of the water contract. This contract cancellation brought worldwide awareness to the debates over the international financial institutions' promotion of the private provision of water services (Olivera 2004).

Additionally, social movements have been critical in the ongoing debates with the international financial institutions over the value of the private provision of water services in resolving current water problems. Many of these debates over the private

provision of water services have taken place at international water conferences, in particular at the World Water Forums.[2] At the World Water Forum in 2000, World Bank officials concluded that the private provision of water services is inevitable by declaring, "there is no alternative" (Hall 2005a, 16). But, groups opposing the private provision of water services disagreed and the debates continued (Mehta 2003). At the most recent World Water Forum in 2003, debates over the private provision of water services became increasingly heated and brought about no resolution (World Water Council 2003; Watts 2003). Social movements strategized for over a year prior to the 2006 World Water Forum in preparation of the debates that would ensue at the next Forum (World Social Forum 2005, np). Social movements, along with numerous academic scholars, continue to challenge the international financial institutions and assert that private provision of water services is not the solution to lack of access to clean water. While most international financial institutions hoped the debate would be over in 2000, the opposition continues to grow and become more organized, and the debate over the private provision of water services continues.

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2 The World Water Forums are organized by the World Water Council, a non-governmental organization formed in the mid-1990s by the development banks, private water companies and non-profit development organizations (World Water Council 2005, np).

Private Provision of Water Services as a Political Choice, not an Economic Inevitability

This thesis adds to the debate on the private provision of water services by showing that within the international financial institutions' liberal ideology the promotion of the private sector is not inevitable but it is a choice. Liberalism means ensuring individual freedoms and rights to citizens, which can include providing essential services in order for rights to be actualized. Because liberalism is the foundation of the international financial institutions' decision-making process, they have always expected governments of developing countries to incorporate liberalism in their public policy. Within liberal philosophy, it is possible to choose either to value water as an essential service governments provide as a precondition for their citizens to actualize their freedom and rights, or to value water as a market good that citizens have the freedom to choose to purchase. Since the early 1990s, the international financial institutions have promoted the latter choice: the private provision of water services. From their inception until 1993, the international financial institutions have supported the public provision of water services, which is evidence that the private provision of water services is a political choice and not economically inevitable within liberal ideology. Both the supporters and the critics of private provision argue that the current form of liberalism the international financial institutions follow, neoliberalism[3] is economically inevitable.

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[3] Neoliberalism is explained in Chapter Two.

A Critique of the Private Provision of Water Services

The private provision of water services is critiqued and discredited, in Chapter Four of this thesis, as a solution for international financial institutions to increase access to clean water. This critique is formulated from arguments by academic scholars, social movement activists, and non-governmental organizations that are active in the debate over private provision of water services. This thesis' critique of the private provision of water services argues that private provision fails the basic criteria of creating efficient water markets because water is essential and has no substitute, and water service is a natural monopoly. Therefore, water services must be highly regulated by governments. Additionally, the private provision of water services can aggravate the problem of lack of access to clean water due to (1) increased water costs and water disconnection due to the private sector profit motive, (2) private companies not having to pay for the public health problems caused by lack of access to clean water, (3) private companies lacking the incentive to invest in areas that lack access to clean water, and (4) private water services perpetuating corruption. This critique shows that the international financial institutions can best ensure their mission of increasing access to water services by halting the private provision of water services.

Increasing Access to Clean Water Through Government Accountability

This thesis argues that it is not the market that will solve water development problems but rather accountable, transparent and responsive government structures and policies. While there is no political system that stops corruption and is accountable to all citizens, democracy is the most popular solution among those who oppose the private provision of water services. But the international financial institutions and other supporters of the private provision of water services also agree that democracy can be part of the solution. The reason all parties in the debate on the private provision of water services agree on democracy as part of the solution is because the democracy is used so widely, and as a result lacks meaning. This thesis adds to the debate on solutions to lack of access to clean water by differentiating between the term "democracy" promoted as an alternative to private provision of water services (what Benjamin Barber calls "strong democracy") from the democracy promoted by the international financial institutions (what Barber calls "thin democracy") (Barber 1984). Through these definitions, which will be explained in Chapter Five, strong democracy coupled with the right to water is identified as a distinct and preferable alternative to increasing access to clean water.

Overview of the Thesis

The introduction gives an overview of the thesis highlighting the urgency of the problem of lack of access to clean water and the debate over the solution. Chapter Two explains the international financial institutions' strategy that promotes the private provision of water services as the solution to the problem of lack of access to clean water. Chapter Three argues that private provision of water services is a political choice not economic inevitability. This argument of Chapter Three is based on the history of liberal theory and the international financial institutions basis in liberalism. Chapter Four is dedicated to critiquing the private provision of water services as the solution to increasing access to clean water. This critique discredits the international financial institutions' promotion of the private provision of water services as the solution to expanding access to clean water. Chapter Five argues that government accountability is the solution to increasing access to clean water, and strong democracy and human rights are the preferred methods towards the solution.

CHAPTER TWO
THE ROLE OF INTERNATIONAL FINANCIAL INSTITUTIONS IN THE PRIVATE PROVISION OF WATER SERVICES

Introduction

This chapter explains the role international financial institutions have in water development and the increasing role stakeholders have in creating the international financial institutions' current political platform on increasing access to clean water. The three major components of this platform are explained in detail: private provision, cost recovery and government decentralization. The current political platform is put into context within the history of the international financial institutions' involvement in water development.

History of the International Financial Institutions' Involvement in Water

The World Bank and the IMF were both created after World War II by forty-four nations at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The purpose of these organizations has always been to promote financial stability, international trade, economic growth, and poverty reduction (Rapley 2002). The IMF generally gives short-term loans for economic stability and the World Bank gives long-term loans for development. Originally, the loans were focused on

economic reconstruction in Europe after the two world wars (World Bank 2005c, np; IMF 2005, np).

The dynamics of world politics changed drastically after 1945 when most parts of the world that had been colonized formally gained their independence. Independence was possible due to increasing self-rule movements and loss of resources by imperial powers that had been used to control their colonies. The newly independent former colonies were generally referred to as Third World countries. Most Third World countries were viewed as underdeveloped by Western nations (Rapley 2002, 10). Since the 1950s the World Bank and IMF have been loaning money to developing countries to aid economic stability and development (World Bank 2005c; IMF 2005).

As the concern for international development on a global scale increased, so too did the awareness that a large percentage of the world's population lacks access to clean water. This lack of access is a major obstacle to development. As part of the "Decade for Development" in 1970 the United Nations set goals to ensure access to water for all urban populations and one-quarter of rural populations by the end of the decade. The targets were not met. By 1976, it was clear that clean water needed to be made a higher priority in development. The delegates at the first United Nations Water Conference in 1977 unanimously agreed to aim for the goal of access to clean water for all people by 1990 (Agarwal et al. 1981). The final declaration from the conference stated, "All people, whatever their stage of development and their social and economic condition, have the right to have access to drinking water in quantities and of quality equal to their

basic needs" (Finger and Allouche 2002, 12). The result was a declaration that the 1980s would be the "International Drinking Water Supply and Sanitation Decade," with the intent of bringing clean water and sanitation to all people through increasing public funding (Agarwal et al. 1981).

However, donor countries never allocated the increased funding that was hoped for in the declaration to provide clean water to all people by 1990. Actually, the highest funding years for clean water development were throughout the 1970s, when international financial institutions funded one-third of the total expenses of expanding access to water and sanitation in developing countries. However, in regions with the greatest lack of access to clean water, the percent of international aid was often much higher. For example, in 1978, international financial institutions funded two-thirds of the investment to water development in Africa (Agarwal et al. 1981, 16).

Still, the international drinking water supply and sanitation decade drew enough attention and funding for clean water that by 1990 the percentage of the world's population that lacked access to clean drinking water was cut in half, from 41 percent in 1980 to 21 percent in 1990 (Gleick 1993, 171). Even so the International Drinking Water Supply and Sanitation Decade is frequently described as a development failure by international financial institutions because the goal, to ensure access to water for all, was not achieved (Finger and Allouche 2002, 22).

The Role of the International Financial Institutions in Water Development

The international financial institutions provide the vast majority of international loans for water development. These loans come with political recommendations and expectations that allow international financial institutions to exercise a great deal of influence over national policy in the countries in which they lend. Their stipulations often require governments to change their policies on water service in order to receive loans. As a result, in the last decade with few exceptions, water systems in developing countries went from fully provided by governments as a public service to partially privatized.

In order to foment popular support for the private provision of water services, the international financial institutions encourage "stakeholders" in water development to involve themselves in the process of developing water policy (World Bank 1993; World Bank 2004a). The term "stakeholder" is used by international financial institutions to refer to those who can affect water policy, such as private companies, non-governmental organizations and local people. Stakeholder involvement differs from citizen involvement because it includes the private sector in the decision-making process. Due to the promotion of stakeholder involvement, many new non-governmental organizations have been created to influence water development policy.

The two most prominent non-governmental organizations are the World Water Council and the Global Water Partnership. Both of these organizations were created and continue to be supported by wealthy international stakeholders including the World Bank,

regional development banks, non-governmental aid organizations and transnational water corporations.[4] These two organizations were created to build coalitions and design water policy for developing countries. Both organizations fully support the private provision of water services as the solution for increasing access to clean water (World Water Council 2005a; Global Water Partnership 2005). By finding and encouraging stakeholders that support the private provision of water services, the international financial institutions are able to promote their policy with broader support (Finger and Allouche 2002; World Water Council 2003; World Bank 2004a).

The increase in stakeholder involvement in water development can be seen in the change regarding who sponsors international water conferences. Until the early 1990s the most influential water conferences were sponsored by the United Nations. But since 1997 the largest water development conferences have been the World Water Forums, sponsored by the World Water Council (World Water Council 2005a, np).[5] Unlike previous United Nations water conferences, private water companies are primary financial contributors and agenda setters for the World Water Forums. The focus on stakeholder involvement at the World Water Forums enables the private sector to

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[4] The World Water Council is not an open group. It charges each organization from developed countries $750-$1000 per year and from developing countries $250-$585 per year in order to be part of the visioning process for water policy (World Water Council 2005). The financial barrier prohibits many small non-governmental organizations and citizens, especially from developing countries, from joining the Council.

[5] The most recent World Water Forum in 2003 was the largest water conference in history with over 24,000 participants (World Water Council 2005, np).

strongly influence debates on the role of private involvement in increasing access to clean water.

The International Financial Institutions' Current Political Platform for Water

The mission statements of international financial institutions continue to link access to clean water with poverty reduction and other basic development concerns. This is clear in the World Bank Water and Sanitation Unit's mission:

> Water Supply and Sanitation is directly related to the main themes on the development agenda -- poverty reduction, environmental sustainability, private sector-led growth, participatory development, and good governance…we seek to foster approaches that are people-centered, market-based, and earth-friendly. (World Bank 2005a, np)

The World Bank makes clear that improving water supply is central to reducing poverty, and poverty reduction is at the core of the World Bank mission (World Bank 2005a). The World Bank and the declarations from the World Water Forums continue to name corruption and deficient funding as the primary causes of the current water supply problems (World Bank 1993; World Bank 2004b; World Water Council 2003; Cosgrove and Rijsberman 2000). The World Bank's mission continues to promote an increased role for the private sector and use of market-based approaches as the solution to these problems.

The World Bank further argues that increasing private sector participation in clean water services is the solution to corruption and deficient funding because private provision creates market competition, which improves efficiency. Proponents of private

provision argue that privately provided water services create a separation between the regulator and service provider which in turn decreases the role corrupt governments play in these services and increases accountability (World Bank 1994; World Bank 2004b). The international financial institutions continue to argue that while private investment in water infrastructure has been decreasing since 1997, private sector involvement is still vitally important because it provides competition, which raises efficiency (Camdessus 2003, 13-15).

The international financial institutions acknowledge that private provision of water services cannot be implemented uniformly; instead policies and approaches need to vary depending on each country's current situation (Kikeri and Kolo 2005). They promote two pre-conditions necessary for the private provision of water services: (1) consumers must be charged directly for recovering the cost of the water service, instead of taxes partially or fully covering services, and (2) the political structure of governments must be decentralized to create a regulatory system to support private services. The international financial institutions argue that if direct user charges and decentralization are implemented, water services will improve in efficiency and accountability, which will result in a greater access to clean water (World Bank 1993; World Bank 2004b; World Water Council 2003).

The private provision of water services

International financial institutions view the private provision of water services as the pragmatic option for water services (World Water Council 2003; Camdessus 2003; World Bank 2004a). They argue that there is a wide range of solutions to water problems and private sector involvement is necessary to find solutions (World Water Council 2003, 21). The World Water Council's analysis of the Third World Water Forum includes the following remarks: "The Second Forum made the notion that water is everybody's business accepted by the whole spectrum of participants not exclusive business of governments and water professionals" (World Water Council 2003, 17). Thus the promotion of the private sector is part of the stakeholder language that situates governments as exclusive and stakeholders as inclusive.

The private provision of water services refers to the privatization of water services but not of actual water as property. The only exception is in Great Britain where the country has permanently privatized drinking water by selling both the water service and the water as a resource leaving the government only the role of regulating the private companies who own drinking water. International financial institutions do not promote this kind of full privatization because the investment in owning drinking water is too high of a risk in developing countries to interest the private sector (Finger and Allouche 2002).

Most of the large private water service contracts funded by the World Bank in the 1990s resulted in concession contracts with large transnational corporations (Finger and Allouche 2002). Numerous concession contracts have failed over the last decade

primarily because private companies have broken their contracts with governments when the contracts did not generate the income companies expected. Economic crises that cause monetary devaluation and citizen refusal to pay increased water service costs have caused private companies to be increasingly wary of investing in water infrastructure in developing countries. In a few cases governments have broken contracts with private companies because these companies did not produce the expected results, such as increased efficiency, enhanced water quality or expanded infrastructure. Some of the largest and most well known contracts that have ended since the late 1990s are in Cochabamba, Bolivia, Manila, the Philippines and Buenos Aires, Argentina (Slattery 2003, np). The World Bank explains that failed concessions "have contributed to declining public support, worldwide, for privatization" (Kikeri and Kilo 2005, 22). In response, the international financial institutions continue to promote private provision of water services but have changed their strategy to introduce private provision at a slower rate (Slattery 2003; Kikeri and Kilo 2005).

In order to slow the process of implementing the private provision of water services, international financial institutions are more commonly promoting service and management contracts (which require no private investment) to entice the private sector to continue contracting water services in developing countries. With these new programs, the public sector continues to be responsible for water infrastructure, risks, and costs. Sub-Saharan Africa is considered a high-risk investment location by the private sector; therefore, the international financial institutions have facilitated the private

provision of water services in fourteen countries in this region through service and management contracts. As a result, some of the water systems in these countries have privately provided water services but the countries are not receiving private investment towards improving and expanding their water infrastructure (Budds and McGranahan 2003).

In addition to changing the forms of private provision to encourage private sector involvement, the World Bank has made three major structure and policy changes in order to ensure the desirability of contracts for private companies. First, the World Bank has traditionally only given money to governments for development projects; however, the World Bank created a new branch called the International Finance Corporation, which provides companies with loans to help invest in their contract deals. Second, the World Bank created another branch called the Multilateral Investment Guarantee Agency, which provides political risk insurance to transnational corporations. Third, the World Bank created the International Center for Settlement of Investment Disputes, which according to the World Bank encourages foreign investment by enforcing contractual rights through arbitration (World Bank 2005b).

Due to the World Bank strategy to increase the role of the private sector in water services, half of the 230 World Bank staff who is employed in water development work for the Private Sector and Infrastructure Department, which promotes the private provision of water services. Despite this, less than 10 percent of water services worldwide use private contracts (World Bank 2004a, 51). This shows the discrepancy

between the World Bank's active promotion of the private provision of water services and the global reality that the vast majority of water services continue to be provided publicly.

Charging directly for water services: cost recovery

As part of the Water Resource Management Strategy, the World Bank and international financial institutions began to promote charging individuals the full cost of water services at the same time as they began promoting the private provision of water services. Charging water users directly to recover the costs for water service has been promoted both to encourage a decrease in water use and to facilitate the private provision of water services. However, like most services that governments decide are public (e.g., primary education, roads, and the military), most water services worldwide are paid for partially or fully by public funds through taxes. Even though most governments consider water to be a public service, international financial institutions promote removing the government's role in funding water services and advocate charging individuals directly. The international financial institutions argue that charging directly is necessary for the private provision of water services because companies directly receive water payments from customers, thus not having to rely on potentially corrupt governments for payment (Finger and Allouche 2002; Cosgrove and Rijsberman 2000; Camdessus 2003; World Bank 2004b; World Water Council 2003).

The international financial institutions agree that charging customers the full cost for service delivery is necessary but unrealistic, because many people cannot afford to pay the full cost of water services. Therefore, the international financial institutions accept that subsidies for those who cannot pay need to be included. Their preferred method is cross-subsidization, which means charging the wealthy more than cost and the poor less than cost for water services instead of using public funds (Cosgrove and Rijsberman 2000; World Bank 2004a; Pitman 2002). The World Bank continues to promote a long-term target of full cost recovery, but they acknowledge that this process needs to happen slowly and citizens need to see improvement in services in order to be willing to increase payment for water services. The Camdessus report justified cost recovery by stating, "The panel has been repeatedly told that even poor urban people are willing to pay for water, though politicians are often reluctant to charge them higher tariffs" (Camdessus 2003, 19). This argument then blames developing countries for having bad governance as the problem when cost recovery is not implemented.

As the private provision of water services has become less favorable (due to concession failures), the international financial institutions have altered their approach. Instead of implementing direct usage charges and private provision simultaneously through concession contracts, they are implementing private provision in steps. This is especially the case in financially high-risk countries. The international financial institutions first encourage all developing countries to implement direct water usage fees, which later may enable the private provision of water services (Slattery 2003; Kikeri and

Kolo 2005). Cost recovery can also be implemented by public water utilities to promote the efficient use of water, but the focus for the international financial institutions is setting the pre-conditions for private provision of water services. However, to implement either direct water use charges or private provision most countries must change their government policies and structure to allow and support these changes.

Government decentralization

Government corruption is the primary reason why international financial institutions argue water use must be paid for directly and services need to be provided by private contracts. The international financial institutions blame any lack of accountability specifically on large centralized governments. The international financial institutions characterize publicly owned and operated water services as a protectionist measure that slows development (Burki and Perry 1998; Cosgrove and Rijsberman 2000). However, most countries have public water systems that are run by the state and are considered a public service whose costs are generally paid for in part or full by public funds.

The international financial institutions acknowledge that actual details of government reform are dependant on the country and situation. However, they argue that, "governments should create an enabling environment for the participation of the private sector in the delivery of infrastructure services" by changing national policy to support private provision and decreasing the risks for private companies through the creation of a structure for cost recovery (Camdessus 2003, 15). Many developing

countries have laws that require water infrastructure to be administered by the state. International financial institutions expect developing countries to change these laws and decentralize their structure so that there can be a competitive process to decide who will provide the most efficient water services (Kikeri and Kolo 2005).

Government decentralization is not generically a precursor to the private provision of water services. But, the international financial institutions argue the role of government must change so that the national government's role is decreased to either a regulator position or to having no significant role so that the local government is in charge of service or regulation. The international financial institutions argue that decentralization to local governments will enhance accountability because it will increase local participation in water management, which will result in more shared power and ability to create local projects (Camdessus 2003; World Water Council 2003; Cosgrove and Rijsberman 2000). How changing the level of government that is responsible for ensuring water services will increase accountability is never explained because their argument is built on the assumption that local government is automatically more efficient. Additionally, the international financial institutions have not created mechanisms that will ensure the right of all citizens to be involved in either the decentralization process or local water services beyond promoting stakeholder interest.

The international financial institutions' platform promoting the private provision of water services, cost recovery, and government reform has been promoted for just over

a decade. The World Bank prepared a self-evaluation ten years after implementation of its changed water strategy.

World Bank Self-Assessment

In 2002, the World Bank conducted a ten-year assessment of its private provision of water services strategy, which it implemented on 190 of its water projects. Although the World Bank admits that its new strategy has been highly controversial and cannot be labeled a success, it continue to fully support their strategy. The World Bank states that where countries have fully implemented the World Bank's suggestions the projects have been successful. The problem in its view, is that most developing countries have not promoted the public policy necessary for successful change (Pitman 2002). The World Bank found ongoing difficulties implementing successful private water contracts, which it blames on the complexity of managing water, the lack of clear guidelines, and the need for more flexibility (but the term "flexibility" was not explained). While the World Bank explains that several projects have been a success, it acknowledges that many of these projects have "…neglected creating mechanism to equitably allocate water" (Pitman 2002, xxi).

The most important problem identified in the ten-year self-assessment was the lack of support given by developing countries in changing from a system where water is publicly funded to directly charging water users the full cost for water service. Additionally, the World Bank blames recipient developing countries for not

implementing government decentralization that supports both cost recovery and the private provision of services. The World Bank does admit that cost recovery has often been pushed too fast, resulting in the escalating costs of water bills that citizens often refuse to pay. Therefore, the implementation of cost recovery must be slow. Additionally, problems persist because the World Bank has deficient funds to implement more water development projects (Pitman 2002).

Near the end of the assessment the World Bank briefly discussed the effects of privately provided water projects upon access to clean water and poverty alleviation. The World Bank admits that less than half of the projects include a poverty alleviation target. It states that prior to 1993 only 23 percent of projects had targets and after 1993, 42 percent of projects had targets. But these statistics were followed by an explanation that the criteria for determining poverty targets were made less stringent in 1993, which makes determining an improvement impossible and renders these statistics meaningless. It does not give any data on the percent of contracts that require expanding the current water distribution to increase the number of people who have access to clean water. In addition, it admits that under their new water strategy only 46 percent of the projects are even monitored for impacts to poverty. The World Bank admits that this is a problem and it needs to create stronger social indicators, but no potential strategies for implementing stronger social indicators were discussed (Pitman 2002, 80).

In another World Bank assessment of private provision of water services, the World Bank acknowledges that, “General gains have been harder to achieve and sustain

in low-income, institutionally weak countries and in sectors such as water where the social implications of tariff adjustment cost recovery make private participation more of a challenge" (Kikeri and Kolo 2005, 22). However, the international financial institutions continue to promote private provision of water services to increase access to clean water because they argue the private provision of water services is successful at increasing accountability when developing countries implement private water service contracts that include increasing water distribution (World Water Council 2003; Pitman 2003; Kikeri and Kolo 2005). The international financial institutions often refer to accountability without ever defining it or giving direct examples of it.

In summary, this chapter explained the influential role the international financial institutions have in creating solutions to the problem of lack of access to clean water. The history of the international financial institutions involvement in water development gave context to their current political platform on increasing access to clean water. The three major components of this platform: private provision, cost recovery and government decentralization, were described. The chapter concluded with an explanation of the World Bank's ten year assessment of their current water strategy, showing the strategy has many problems.

CHAPTER THREE:
THE PRIVATE PROVISION OF WATER SERVICES AS A POLITICAL CHOICE, NOT AN ECONOMIC INEVITABILITY

Introduction

There are three major groups that are involved in the debate over private provision of water services: international financial institutions and their supporting non-governmental organizations, academics, and opposition movements. Each of these groups presents its own view on the inevitability of the private provision of water service. The international financial institutions and the non-governmental organizations that support them (such as the World Water Council and Global Water Partnership in the last decade) all explain that the private provision of water services is still necessary in order for increasing access to clean water to be economically feasible even though it has yet to produce the results they hoped for.

There are a substantial number of academics that harshly critique private provision, including Gleick 2002,2004, Finger and Allouche 2002, and Budds and McGranahan 2003. But even though they criticize private provision, all of their critiques are based on the economic inevitability of private provision. As a result, their critiques do not seriously question the validity of a strategy of private provision for increasing access to clean water. For example, after Gleick thoroughly critiques numerous deficiencies in private provision he states:

> Despite the vociferous, and often justified, opposition to water privatization, proposals for public-private partnerships in water supply and management are likely to become more numerous in the future. There are many forms of water privatization, or public-private partnerships, making unilateral support or opposition to privatization illogical. (Gleick 2002, 79)

Finger and Allouche also promote a vision of economic inevitability stating, "Such facts and figures are proof that the private sector is going to become, whether one likes it or not, a lasting presence in the global water sector" (Finger and Allouche 2002, 213).

The third major group in the debate over private provision of water services is the opposition movements. Because this group opposes the private provision of water services, they are often written off as unrealistic idealists proposing radical change and frequently ignored within the debate. In one example, Finger and Allouche speak about Petrella (one of the most well known academics and activists within the opposition movement) saying, "In this respect, Petrella's initiative and arguments, which are quite symptomatic of current opposition to water privatisation, are simply unrealistic" (Finger and Allouche 2002, 213). While the opposition movements oppose private provision of water services, they have not explained how alternatives are possible within the current liberal philosophy of the international financial institutions, which is the argument built in this chapter.

Though international financial institutions and academics deem any alternative to private provision as unrealistic, this thesis argues that private provision of water service is

a political choice that international financial institutions choose to promote and states choose (albeit often within great pressure and constraints) to politically promote.

The international financial institutions' argument promoting private provision of water services follows Adam Smith's notion that laissez-faire, free-market ideology is naturally the most efficient system (which will be explained in further detail later in this chapter). But, as noted by political economist Karl Polanyi in his classic work *The Great Transformation*, the increased role of the market in the nineteenth century advocated by free-market ideology was only made possible by repealing numerous regulations and increasing the centralized government administrative functions that facilitate the market. "The road to the free market was opened and kept open by an enormous increase in continuous, centrally organized and controlled interventionism government" (Polanyi 1957, 139-140). According to Polanyi's argument, private sector involvement does not decrease government regulations and policies; instead it requires a rearrangement in the role of government to support the private sector. The market is not self-regulating; it is dependent on facilitation by public policy (Munck 2003, 498). Therefore, within a liberal political structure, international financial institutions are dependent upon governments to support and facilitate the pubic policy behind water systems (whether they be private or public) in order to ensure the success of their choice.

The primacy of the political structure in defining the role of the market is best understood in water services by understanding the history of liberalism, which has always been the underlying value for decision-making used by the international financial

institutions. However, which variations of liberalism international financial institutions have subscribed to has defined whether water services have been promoted as a public service or the private provision of service. Variations within liberalism are clarified and are used to explain why the platform on water has changed and how the platform is a choice and not an inevitable result.

The Liberal Political Theory Underlying International Financial Institutions' Decision-Making

Liberalism is a political theory that is based on the primary values of liberty, freedom and choice for the individual (Ryan 1993; Rosenblum 2001; Arblaster 1984; Macpherson 1985). Liberalism was formed as a reaction to strong religious conformity, ascribed status and totalitarian rule (Rapley 2002, 7). In the seventeenth century, the philosopher John Locke popularized what is referred to as classical liberalism by proposing that private property is necessary to achieve personal freedom; to Locke, property represents "life, liberty and estate" as the goals for human development (Locke 2000[1690], 141). Liberalism is the theory on which governments with limited powers and functions are based. These governments are contrasted with both authoritarian states and communist states (Bobbio 1990).

Liberalism as a political theory also provides the foundation of modern economic theory. Adam Smith, the most well known classical economist, wrote *The Wealth of Nations* in 1776 as an expression of liberal economics. Smith popularized the French term "laissez faire" (literally meaning "let do") to mean limited government involvement

in the market. Specifically, Smith believed that a liberal (free market) society in which competition is promoted allows the individual to pursue their self-interest, resulting in efficiency, which increases economic productivity, eventually spreads prosperity to all people. Conversely, when the state interferes in economic activity, it decreases the incentive of the individual, thereby creating a less-productive society and undermining the collective good (Smith 2003[1776]; Frieden and Lake 2003). Nevertheless, Smith recognized the need for a limited state, because for markets to prosper, governments must provide basic services such as education, public services, and military (Rapley 2002, 7).

Variations in liberalism based on negative versus positive freedoms

Thomas Hill Green, a philosopher of the late nineteenth century, is well known for expanding the definition of liberal freedom. He explained that classical liberalism generally is understood to mean "negative freedom," or freedom from the state. An emphasis on negative freedom results in finding solutions to problems by creating market solutions with government policies to support the market. Green argued that liberalism needed to be expanded to also include "positive freedom," which he described as the creation of pre-conditions to enable freedom for all citizens (Merquior 1991, 101). Positive freedom often necessitates the state supplying certain resources or powers to ensure the freedom to achieve (Richardson 2001, 37). When governments provide the preconditions for all people to achieve individual freedom they often redistribute resources and create laws to ensure equality (Gray 1986, 58; Merquior 1991, 108).

Different variations of liberalism put greater emphasis on negative or positive freedoms. These different variations of liberalism are debated in practice through the continual changes in the role of governments.

Varieties of liberalism in the twentieth century

Liberal theory in its long history has varied in form while continuing to have the same underlying values of freedom with limited government. Since the international financial institutions began they have been founded on liberalism and have promoted different variations of liberalism (Krasner 1985, 150). When the international financial institutions were established, they were influenced by Keynesian liberalism, which has a stronger focus on providing positive freedoms to ensure personal liberty. In the 1980s they began promoting neoliberalism, which supports negative freedoms while discrediting positive freedoms. Since the 1990s, a version of neoliberalism, often called the "third way," has been promoted.

Keynesianism

Keynesian liberalism became the popular answer for stabilizing the market system both on national and international levels after World War II (Rapley 2002). Keynesian liberalism is based on economist John Maynard Keynes' belief that the economic market-system could only increase economic prosperity for all people if the government created fiscal policy that promoted full employment. While Keynes valued liberal ideology, he disagreed with the classical economic theory that suggested the market was the best

method to decrease unemployment (Merquior 1991). Keynes promoted positive freedoms provided by the government as pre-conditions to ensuring equal opportunity for all individuals.

Under Keynesian ideology, the "welfare state" expanded in most countries from the 1940s through the 1970s (Richardson 2001; Finger and Allouche 2002). As a result, governments controlled and administered public services such as infrastructure of roads, energy, telecommunications, aviation, postal systems, water and sanitation. The World Bank, created under Keynesian liberalism, provided funding for the construction of infrastructure in developing countries (Berger and Beeson 1998, 488). The World Bank provided low-interest loans to governments for long-term financing, which private financing lacked incentive to do because of the focus on short-term profits. The World Bank up until the 1980s argued that governments had an advantage in providing monopoly services such as water because public services are held politically accountable while private services are not, which can increase the temptation for corruption (Golladay 1983, 44). While the World Bank never declared that water needed to be a public service, it accepted under Keynesian liberalism that clean water services were not attractive to the private sector and may be better served by the public services.

Neoliberalism

The 1980s began a change in liberalism, frequently termed "neoliberalism" (Munck 2003; MacGregor 1999). Neoliberalism is generally characterized as: decreased size of government, increased privatization or private provision of formally public

services and increased trade liberalization by decreasing tariffs (Kiely 2004; Feigenbaum and Henig 1997; Richardson 2001; Rapley 2002). Neoliberalism is associated with valuing negative freedoms and discrediting positive freedoms as an infringement on negative freedoms. Neoliberalism rose quickly in popularity due to economic troubles including high inflation, rising unemployment, and increasing oil prices in the late 1970s (Rapley 2002; Berger and Beeson 1998; Richardson 2001).

In the mid-1970s, the Nobel Prize in Economics was given to two different academic scholars that advocated the principles of neoliberal theory: Friedrich August von Hayek and Milton Friedman (Gray 1986; Merquior 1991). This began the popularization of neoliberal theory led by Prime Minister Margaret Thatcher and President Ronald Reagan to adopt vast neoliberal reforms within their countries in the 1980s (Feigenbaum and Henig 1997, 338; Kessler 2004, 1). These academic scholars and politicians rejected Keynesian liberalism, arguing that greater government involvement negatively affects the economy. The international financial institutions also rejected Keynesian liberalism in the 1980s, promoting private provision in most major public-service sectors including telecommunications, energy and transportation (Finger and Allouche 2002, 17).

Neoliberalism places negative freedom as the paramount political objective, while positive freedom is seen as moralizing and coercive and leading to authoritarian governments. Neoliberals argue that economic freedom is a precursor to civil and political freedom, and government control over economics results in an authoritarian-like

concentration of political power (Merquior 1991, 147). For neoliberals, human values will always be diverse and competing so the best way to ensure individual liberty is to provide choice, usually through the market (Gray 1986, 39). Neoliberal academic scholars generally agree that government involvement in promoting positive freedoms will decrease personal choice and therefore restrict liberty. They argue the size of governments needs to decrease from the Keynesian liberal model (Gray 1986; Merquior 1991).

While international financial institutions continue to promote neoliberalism, it has been losing popularity in the last decade due to the economic instability caused by the Mexican, Asian and Argentinean economic crises (Richardson 2001, 120; Giddens 1998, 148; Munck 2003, 501). Since the mid-1990s, many academic scholars and political leaders have been promoting what they call a type of "alternative to neoliberalism" that promotes governments as useful and necessary but limits the government's primary role to enforcing regulation that promotes the success of market solutions. While these new theories are touted as alternatives to neoliberalism, a more accurate description might be versions of neoliberalism as they are fundamentally based on the same underlying value of market solutions. The most popular of these neoliberal versions is called the third way (Burkett and Hart-Landsberg 2003; Giddens 1998; MacGregor 1999).

The third way: a version of neoliberalism

While the third way evolved from the critiques of neoliberalism, it uses the same neoliberal values and proposes that market mechanisms are the reasonable solution to

development problems (Hill 1998; Hartman 2005; Berger and Beeson 1998). Anthony Giddens popularized the term third way, which he defined as combining "social solidarity with a dynamic economy," which necessitate decreasing the size of the national government (Giddens 2000, 5). The international financial institutions have followed the ideological shift from promotion of neoliberalism to third way-type rhetoric, which can be seen in the changes in their terminology. In the 1980s, the international financial institutions promoted the terms "deregulation, liberalization, and privatization;" however since the mid-1990s, "stakeholder, partnership, and participation" have been the words associated with development (Munck 2003, 501; MacGregor 1999, 108). The World Bank began re-emphasizing the role of state in the *World Development Report 1997*, saying, "An effective state is vital for the provision of the goods and services -and the rules and institutions- that allow markets to flourish and people to lead healthier, happier lives" (World Bank 1997b, 1). While the third way-type policies may put more rhetorical emphasis on social and government roles, the fundamental neoliberal values continue to be demonstrated through the need to increase market-policies and competition (MacGregor 1999, 95). Thus, third way-type ideologies are not alternatives to neoliberalism; rather they are variations of neoliberalism. Therefore, throughout this thesis, the term neoliberalism will be used to refer to the overarching political platform promoted by international financial institutions, which includes third way type versions of neoliberalism.

Summary

International financial institutions have been based on liberal ideology since their inception, but they have shifted the boundaries of what is necessary for governments to provide to all citizens in order to ensure personal freedom. Beginning in the 1980s, international financial institutions, applying neoliberal ideology, reduced their lending to governments for providing services in electricity, communications, and transportation. Instead they chose to require or encourage governments to privately provide these services in order to receive loans. A decade later the international financial institutions again chose to redefine the role of government by deeming it no longer necessary for governments to provide water as a public service. They declared government-run water services an impediment to providing access to clean water and promoted the private provision of water services, cost recovery, and government decentralization.

This thesis argues that the liberal ideology in which the international financial institutions are based on does not necessitate the private provision of water services. Instead, within liberal ideology the international financial institutions choose to politically distinguish access to water as a positive right, depending on their choice they either promote public or private promotion of water services. Polanyi's argument reaffirms that what is distinguished as a market good is a political distinction, which governments then need to create supportive public policy to ensure.

The World Bank admitted in its ten-year self assessment that the private provision of water services cannot be called a success and the World Bank acknowledged in a

report on neoliberalism in Latin America that, “Privatization of utilities has become one of the most controversial and least popular of market-oriented policy areas in Latin America” (Walton 2003, 179). But the international financial institutions continue to argue that private provision needs to be implemented in order to increase access to clean water. This thesis has argued that private provision of water services is not economically inevitable but in fact a political choice that enables a genuine critic of the current international financial institutions’ choice to promote the private provision of water services in order to increase access to clean wate

CHAPTER FOUR:

CRITICAL ANALYSIS OF THE PRIVATE PROVISION OF WATER SERVICES AS A SOLUTION TO LACK OF ACCESS TO CLEAN WATER

Introduction

A critique focusing on the international financial institutions' promotion of the private provision of water services as the solution to the problem of lack of access to clean water is provided in this chapter. This critique is built from the arguments, in the debates over the private provision of water service, by supporters, critics and the opposition. All three groups blame the problem of lack of access to clean water on government corruption and deficient funding. The international financial institutions promote their strategy for the private provision of water services for three main reasons: (1) private provision creates market competition, which increases efficiency and yields a decrease in overall costs, (2) private provision brings in private investment and direct user charges, which both help to solve the lack of water funding, and (3) private provision decreases corruption because a privatized water service provider is separate from the government regulator and thus receives more scrutiny.

Private provision is the process of subjecting a good to economic market mechanisms. The international financial institutions and most governments base market

decisions on neoclassical economics. Classical economical theory was popularized by Adam Smith who argued that an efficient market system is based on individuals rationally seeking to maximize their utility and companies maximizing profit through market choice. The neoclassical economic market is based on competition and choice.

This critique argues that clean water service fails the basic criteria to fit the market structure because water is essential and has no substitute, and water service is a natural monopoly. Water services lack choice and competition thus do not fit neatly into the neoclassical theory that competition in the market will give rise to better services. Therefore services must be highly regulated by governments. Private provision can cause the problem of lack of access to clean water to worsen due to: (1) increased water costs and water disconnection due to the private sector profit motive, (2) private companies not having to pay public health costs caused by lack of access to clean water, (3) private companies lacking the incentive to invest in areas that lack access to clean water because they will lose money in developing the infrastructure to do so, and (4) private water services perpetuating corruption. The critique concludes by comprehensively showing that the private provision of water services does not promote the international financial institutions' mission to decrease poverty by increasing access to clean water. In fact, private provision works against their mission and aggravates the current water development problems. Therefore, since it is a political choice international financial institutions can best achieve their goals by choosing to stop their promotion of the private provision of water services.

Water is Essential for Life and Has No Substitute

Water is unique because it is essential to all living things; there is no alternative to or substitute for water (Daly and Farley 2004, 196; Mehta 2003, 557). These characteristics of water create an inherent conflict with market ideology. Neoliberalism is based within capitalist ideology, which accepts private property as the basis of the market system. Private property means one has ownership of something and therefore has the right to exclude others from using their property (Anton 2000, 13). Market exclusion is generally accepted because ideally there should always be a substitute available on the market if one is excluded from their first choice. Water has no comparative choices because there is no replacement and everyone needs it to live (Petrella 2001). Those who are excluded from water services have no other safe public option. Those who can afford it often purchase water from private street vendors who charge up to 100 times more per water unit than the monthly charge for piped water service from the utility (Budds and McGranahan 2003, 98). There are numerous examples of the private provision of water services that have resulted in increased exclusion due to service disconnection when people are unable to pay increasing prices. A particularly egregious example of exclusion happened in South Africa, in August 2000. Two towns stopped supplying free communal water pipes, which resulted in a cholera epidemic that killed over 250 people (Bond 2002, 15).

Since the late 1970s, when leaders of developed countries began pushing neoliberal policies, private provisions have flourished. But since water is essential to

survival, without substitute, and difficult to justify exclusion for profit over accessibility, privatized water services were promoted later than most goods and services by the international financial institutions (Petrella 2001). Water service continues to be the least attractive investment to the private sector, which has committed only 5.4 percent of all private investment in infrastructure towards water during the 1990s and has declined since then (Camdessus 2003, 7).

Water Service is a Natural Monopoly

International financial institutions promote the private provision of clean water services on the market by avoiding discussions that water service is a natural monopoly. But water service is a monopoly because of the high capital costs to build and maintain the infrastructure that functions most efficiently with only one set of water pipes and one water service provider per area. Water consumers cannot exit the market of monopoly suppliers (Daly and Farley 2004, 198). As late as 1986, the World Bank still published works that acknowledged, "If water is distributed by means of pipes, the economies of scale are so great that this becomes a textbook example of the natural monopoly" (Roth 1987, 236). The World Bank no longer acknowledges that water is a natural monopoly, but it does say that the private provision of water services can have trouble naturally succeeding on the market thus private provision needs to be facilitated by governments (World Bank 2004a, World Bank 2004b).

Since water service is a natural monopoly, it is only the initial bid for the service contract that creates the competition for the market; there is no actual competition within the market while services are being provided (Budds and McGranahan 2003; Kessler 2004; Finger and Allouche 2002, 142; Jouravlev 2000, 3). After the bid the only market recourse available is to terminate the contract. The competition for water service bids is affected by the cost advantage, where by only large private water companies have the resources to supply large-scale water service at an affordable price. While concession contracts have become less favorable in the last five years, they are still the international financial institutions' preferred method of private service provision because they provide long-term contracts and private investment to finance infrastructure upgrades. However, concession contracts require private companies to invest in the services they provide, which further limits the competition for initial bids, leaving only the very largest private water companies to compete for the contracts (Mehta 2003; Finger and Allouche 2002; Daley and Farley 2004, 198).

As a result there is an emerging type of transnational corporation that focuses on owning or managing newly privatized public services (Finger and Allouche 2002, 105). France has the oldest private water companies worldwide, which gives them financial and experiential advantage over other companies. As a result, the market for private provision of water services worldwide is dominated by two French water companies, Suez and Veolia (formerly owned by Vivendi until 2004). Both companies were in the top 100 largest companies on the Fortune's Global 500 in 2000 (Finger and Allouche

2002, 105). In the early 1990s, these two companies had contracts in only twelve countries, mostly within Europe. But by 2002, Suez had the private water service contracts in 130 countries and Veolia 100 countries. This constituted 70 percent of the private water services market in the world in 2002, making it questionable whether even the initial bid for water services could qualify as open-market competition (Luoma 2002, 37; Barlow and Clarke 2004, 16). Many private water service contracts have no competition for the bid or transnational companies will form consortiums removing the competition for the bid (Kessler 2004; Olivera 2004; Finger and Allouche 2002; Budds and McGranahan 2003). The result is that some water services were never competed for on the market. Instead, the government allows water to be changed from a public to a private service with no actual market competition.

The international financial institutions' policy of encouraging governments to decentralize in order to privatize water services has resulted in local officials attempting to regulate transnational corporations. After the original contract has been made, the deal often gets renegotiated in favor of the corporation due to unequal bargaining power (i.e., the companies have larger budgets than the entire country in which they are contracting). While the international financial institutions promote private contracts as a form of greater accountability, the reality according to the World Bank, 55 percent of private water concession contracts in Latin America in the 1990s were renegotiated (Hall, Lobina, and Motte 2003, 8). Sometimes companies will intentionally underbid the competition, known as "dive-bidding," even if the bid is financially unrealistic because

renegotiation is frequently possible in developing countries soon after signing the contract (Budds and McGranahan 2003, 99). While the international financial institutions continue to promote the virtues of the private provision of water services, they do acknowledge there is a problem with a lack of transparency in water contracts and a high rate of renegotiation after initial contracts (Camdessus 2003). When the contract is changed after the initial bid, any market competition is negated. The end results are often private monopolies.

Since water service lacks both choice and competition, the international financial institutions' argument supporting private provision to increase efficiency is no longer accurate or relevant. Advocates of privatizing water services continue to present research that shows private provision increases efficiency and profitability (Meggison and Netter 2001, 380). But opponents of private provision also have research on efficiency that shows public service can be equally or more efficient than private service (Jouravlev 2000, 5; Daly and Farley 2004, 198). Efficiency arguments are not relevant when acknowledging that water service is a natural monopoly. The rest of this critique both shows ways private provision aggravates problems of lack of access to clean water and does not improve intended goals.

Increased Water Costs and Water Disconnection

The private provision of water that directly charges water users assumes that all people are capable of paying whatever the market price for water happens to be. When

governments provide water as a public service it is common in developing countries to include the partial or full cost in taxes so water is charged indirectly, which ensures everyone can afford water service. Those who advocate for charging individuals the cost of water directly have done extensive models theorizing the "willingness to pay." Their results show that people will spend on average 5 percent of household expenses on water (Kessler 2004). However, many have challenged the willingness-to-pay-model because it ignores the fact that water is essential, not a choice, and it ignores the huge inequality in wealth that exists within every society that can result in the inability to pay for water (Mehta 2003; Barlow 2002; Shiva 2002; Petrella 2001; Olivera 2004).

Water is a human essential but neoclassical economics does not recognize needs, only individual wants. Neoclassical economics refers to basic human needs as universal wants, which are weighed equally against all other wants regardless of necessity. The system is based on the assumption that individuals have the ability to pay for their most desired wants (i.e., needs) because of rational decision-making. But it ignores the reality that there is grave inequality in wealth for humans using the market system (Bay,1988). Since water has no substitute, mounting prices mean those who are wealthier can continue to afford the rising costs while those with the least income will increasingly be excluded from access to water (Daly and Farley 2004, 197).

Water companies can disconnect users from their system if they do not pay. Water disconnections are increasing with cost recovery and can have deadly effects because users commonly have no other clean water options and must turn to potentially

contaminated water sources to meet their basic needs. For example, in South Africa in recent years the push to require full cost recovery for water service has led to one-quarter of the 44 million people in the country having their water or electricity disconnected due to the inability to pay the rising costs, which has resulted in an increase of water-borne diseases (Bond 2002, 15). Lack of access to clean water is almost always a distribution problem directly related to the grave inequality in wealth, not a scarcity problem. Those who lack access to water are the same people who are deemed the most financially poor. Neoliberal policies (including private provision) promoted by the international financial institutions in the last two decades have not resulted in a decrease in poverty.

The increasing gap in wealth distribution

Under neoliberal policies over the last few decades unequal distribution has caused an increasing absolute gap in wealth between the most and least wealthy people in the world (Kiely 2004, 6). There are several different methods to compare poverty and inequality, which can result in contradicting data. According to World Bank analyst Martin Ravallion, overall relative inequality throughout the world has not changed significantly, though absolute inequality[6] is rising (Ravallion 2003). The gap in inequality is growing fastest between average incomes of the wealthiest twenty

[6] Relative inequality compares the percent increase in wealth, while absolute inequality compares the actual change in wealth. For example, a comparison of two incomes $1,000 and $10,000 each doubled, to $2,000 and $20,000. Relative inequality would stay the same but absolute inequality would increase (Ravallion 2003, 741).

developed countries and the thirty-one least developed countries from eleven times greater in 1960 increasing to nineteen times greater in 1999 (UNCTAD 2002, 122). The rate of growth of per capita income for the poorest 20 percent of countries between 1960-1980 was 1.9 percent a year, but in 1980-2000, under increasing neoliberal policies, it was minus 0.5 percent growth per year. Even the percentage of world trade has decreased for the least developed countries; in 1950, Africa had 5.3 percent of the world trade and Latin America had 12.1 percent. By 1995, Africa had 1.5 percent and Latin America had 4.4 percent of the world trade (UNCTAD 1998, 183). These numbers show that the increasing neoliberal influence has not dispersed wealth evenly, but instead causes a tendency towards concentration of capital in the most developed regions (Kiely 2004, 18). This makes it increasingly difficult for countries to afford to increase access to clean water for those citizens who lack access.

These numbers contradict the international financial institutions' mission to ensure poverty reduction. However, the World Bank admits that poverty reduction is not the priority in over half of their projects (Pitman 2002, 12). The increasing gap in wealth combined with the low rate of actual poverty reduction targets implemented in development projects call into question the priority of the international financial institutions' commitment to ensure access to clean water. The World Bank has changed its structure, adding new departments to protect and facilitate private water contracts; but there is no equivalent structure to ensure that the private provision of water services will

decrease poverty or increase access to clean water in all contracts (Finger and Allouche 2002). Peter Gleick states the following about the international financial institutions:

> Far more effort has been spent to ease financial constraints and government oversight, and to promote private-sector involvement, than to define broad guidelines for public access and oversight, monitor the public interest, and ensure public participation and transparency. (Gleick et al. 2002, 75-76)

The gap between the international financial institutions' rhetoric and implementation can be seen in that many water service projects are labeled a success but the projects did not increase access to those who lacked it. For example, the United Nations Environmental Program has labeled the city water system of Abidjan on the Ivory Coast a success because the private provision of water services increased financial efficiency; however, the company did not increase distribution, so there are still significant numbers of people in the city who lack access to clean water (Finger and Allouche 2002, 154-160).

The Private Sector Does Not Have to Account for the Costs of Public Health Problems

Private companies have no incentive to increase distribution to those who lack access to clean water, because they do not bear the public health costs created by water-borne diseases. The World Health Organization has extensive documentation showing that a huge number of people become ill and die every year from not having access to clean water. Governments pay the public health costs for the spread of infectious disease due to water-borne diseases, while private companies who contract water services make

income from providing water service and bear no costs of disconnecting customers who cannot pay for service. The public health costs of water-borne diseases are not included in private companies' costs because it is a negative externality, not affecting their income (Daly and Farley 2004, 17). When governments provide water services, they also bear the costs of infectious disease outbreaks from water-borne diseases. As a result, governments have an incentive to extend clean water services to all people. For example, the South African government spent millions of dollars to control the spread of the Cholera outbreak that happened when the free public water was shut off from just a few towns (Bond 2002, 17).

Private Investment is Not Expanding Access to Clean Water

The international financial institutions promote the private provision of water services in order to attract private investment so as to finance expanding water systems that will increase access to clean water. Numerous studies have been conducted estimating that funding needs to be two to three times larger than current levels to ensure access to just half the people who currently lack access to clean water (Cosgrove and Rijsberman 2000; Annamradja, Calaguas, and Gutierrez 2001; Hall, Lobina, and Motte 2003). The World Bank has been proactively facilitating private investment through their new branch called the International Finance Corporation (World Bank 2005b).

Private investment in water development peaked in 1997 and it has been decreasing since (World Bank 2004a, 44; Camdessus 2003, 23). At its height, private

investment only accounted for 10 percent of water financing, while the World Bank has cut its infrastructure investment lending by 50 percent in the last decade (Hall, Lobina, and Motte 2003, 5). The international financial institutions do acknowledge that private funds for water have decreased significantly since 1997, however they continue to support private investment hoping it will increase (Camdessus 2003, 7). Private investment is heavily concentrated in relatively low-risk economies in East Asia and Latin America (World Bank 2004a, 44). These regions are in the least need of investment to increase access to clean water for those who lack it. Sub-Saharan Africa has the highest percent of people who lack access to clean water, yet in the years between 1990 to 1997, when private companies where making the greatest investment risks in water services, only 0.2 percent of private sector investment in water services went to Sub-Saharan Africa (Lenton and Wright 2004, 76).

Private investment in water infrastructure primarily comes from concession contracts, which have been concentrated in the wealthy areas of cities. As of 2000, 20 percent of the world's 433 largest cities have private provision of water services, while worldwide only 5 percent of water systems have private provision (Finger and Allouche 2002, 221). Areas with citizens that have higher incomes attract greater interest by private corporations to provide private services (Warner and Hefetz 2002, 455). Once privatized, private operators have an incentive to exclude the least wealthy houses within their service area and not to extend services to low-income settlements. As a result, the least profitable areas are often excluded from the private service contract. The private

sector favors providing services in a manner that does not require extending water infrastructure to unprofitable areas (Finger and Allouche 2002; Budds and McGranahan 2003, 110; Gleick et al. 2002, 68).

For private companies, it is in their best interest to run the water services with minimal cost to produce the best profit possible for the duration of their contract, even if it means installing poor quality machinery, postponing necessary expansion in service areas, or avoiding system upgrades (Daley and Farley 2004, 197). But governments have to deal with the consequences of these decisions for years after the company has left the country. The huge investments required for increasing service distribution result in a marked lack of incentive for private companies to invest in the least wealthy areas because they are unprofitable (Mehta 2003; Gleick 2002; Kessler 2004). Due in part to these factors, Gleick, who does not oppose private water contracts, states that no private company has provided effective enough private water services to label any of the privately provided water service projects a full success (Gleick 2004, 46).

All three of the largest private water companies made comments in 2001 and 2002 acknowledging that even with the World Bank's protection mechanisms, the risk of investing in many developing countries is too high. This changing attitude is influenced by the fact that 11.5 percent of the World Bank's facilitated private water service and infrastructure projects have been cancelled between 1990 and 2001, primarily by the private companies who have not received expected profits (Hall 2003, 8). Financial failures in the private provision of water services have led several transnational water

companies to state that low-income populations are too great of a financial risk to invest in (Budds and McGranahan 2003). The chief executive officer of the third largest water company, Saur, stated at a World Bank lecture series, “Service users can’t pay for the level of investments required, not for social projects…” (Pauw 2003, 53). The private provision of water services is only beneficial to companies if they can charge users the full cost of expanding water infrastructure, which the head of Saur admitted is unrealistic in many places. Private companies will not invest where they cannot secure profitable returns. Instead, companies are now attempting to provide private services to areas that are already providing water access for all people publicly. The result is that private investment is not going where it is needed most: to those without access to clean water (Finger and Allouche 2002; Kessler 2004).

The records of the two largest water companies in the world reconfirm that the private provision of water services will not increase access to clean water in the future. A spokesperson for Veolia (formerly Vivendi, one of the two largest private water service companies in the world) stated in 2002 that South Africa is not ready for the private provision of water services (Pauw 2003, 54). The other largest provider, Suez, said in 2002 that they would cancel contracts in cities where there have been disappointing profits and they will only be looking for new concession contracts where the opportunity for profit is feasible within the first few years of service. Other water companies have followed Suez’ lead (Hall 2003, 3; Brennan 2004, 4). Private water supply companies are targeting contracts in developed countries that already have full distribution.

Therefore, the neoliberal ideology promoting the private provision of water systems as the means to increase access to clean water has not proven successful.

Because the goal of private companies is to maximize profit, they lack incentive to provide service to low-income areas and to expand service to areas that lack access. The international financial institutions continue to argue that private contracts can be effective at increasing access to water when it is in the private contract (Camdessus 2003, 7). This assumes that the contract does not get renegotiated. The percent of contracts that expect infrastructure expansion to increase access to clean water is low, and even when the contract is promoted as pro-poor it often does not increase access to the surrounding areas. For example, in the private provision of water services in La Paz, Bolivia, which was designed to be pro-poor, low-income households on the periphery of the city were excluded and continued to lack access to clean water (Budds and McGranahan 2003, 110).

Private Provision Does Not Decrease Corruption

The monopolistic nature of both public and private provision of water services has resulted in extensive records of corruption. Cases of private water company corruption are increasingly being published (Luoma 2004, 56; Godoy 2003, 25-31; Kessler 2004, 12). The World Bank insists that this corruption can be dealt with without abandoning an agenda of private sector involvement. It argues, “While privatization can be associated with corruption or the monopoly power of privatized utilities, the variety of experiences

shows that these risks can be reduced, and the potential gains increased by effective design" (Walton 2003, 180). In attempting to show that private provision is the solution, the international financial institutions ignore the reality that when corruption is the reason for changing from public to private service provision, the same corrupt regulators remain in place and are supposed to hold the private company accountable (Kessler 2004; Budds and McGranahan 2003). Since water service is generally a monopoly, only the regulator can hold the service provider accountable whether the service is public or private. Individual clients cannot hold the service provider accountable, regardless of whether they pay directly or they pay through their taxes (Kessler 2004). The World Bank turns a blind eye to this point stating, "In particular, because most of the instruments of modern regulation are based on financial incentives, in the absence of user charges, regulation of public providers would be ineffective" (World Bank 2004b, 169). These financial incentives may work in a competitive market; but water service is not competitive, thus water service under a monopoly can only be effective with accountable regulation.

The international financial institutions' solution to increasing regulatory accountability is to decentralize government structure so that different levels of government have different roles in water service combined with the private provision of water services (World Bank 2004b; World Water Council 2003). The World Bank does admit that, "Devolving responsibilities to local governments has had mixed results in water" (World Bank 2004b, 164). Because of lack of evidence, they do not directly state that decentralization and private provision increase accountability, instead they say, "The

proof of this potential is already evident. Formal private participation in water and sanitation has led to greater demand for accountability" (World Bank 2004b, 167). After a decade of promoting the private provision of water services as more accountable, the international financial institutions can still only discuss the future potential not actual reality.

Decentralization can aggravate corruption problems when local governments, which often lack funds, are expected to regulate and negotiate the private provision of water contracts. The World Bank acknowledges, "Transnational firms headquartered abroad are more likely than other firms to pay public procurement kickbacks" (Kessler 2004, 12). This exaggerates corruption (Finger and Allouche 2002). Decentralization and private provision change the structure of the water service provider and regulator without addressing the underlying problem: corruption within the government.

The solution to decreasing corruption is not decentralization but a transparent political system that holds the service provider accountable (Finger and Allouche 2002). Social movement activists acknowledge that if the current situation is primarily caused by corruption then it is a problem of lack of political will to prioritize water funding and distribution, which will not be solved by decentralizing government (Paquerot 2005). Therefore the way for governments to increase accountability is to address government responsiveness to citizen concerns, which means addressing political structure further (Kessler 2004). Government accountability will be discussed in the next chapter.

Summary

Clean water is essential, and there is no substitute and water services are a natural monopoly. As a result, water services do not fit as a market good due to lack of competition and alternatives. Private provision: commonly increases water costs and water disconnection due to the private profit motive, allows the cost of water diseases to be externalities not felt by the private companies, concentrates service in wealthy areas, reduces funds to increase access to clean water, and perpetuates corruption. Private provision of water services does not promote the mission of the international financial institutions to decrease poverty by increasing access to clean water. On the contrary, private provision aggravates the current lack of access to clean water problems. Since the promotion of private sector involvement is a choice, international financial institutions can best achieve their goals by choosing to stop their promotion of the private provision of water services.

CHAPTER FIVE:
INCREASING ACCESS TO CLEAN WATER THROUGH GOVERNMENT ACCOUNTABILITY

Introduction

The critique from last chapter argues that the market does not increase government accountability and it will not solve water access problems. Therefore, if the goal of international financial institutions is to decrease poverty and increase access to clean water, the solution is to not include private provision of water services. All parties who debate solutions to increase access to clean water agree that the two major causes of the problem of lack of access to clean water are government corruption (also called the lack of political will or political priority), and the lack of funding. A solution that effectively addresses these causes will identify the government structure that is least corrupt and most accountable by prioritizing access to clean water for all citizens.

Democracy

While there is no political system that stops corruption and is accountable to all citizens, democracy is the most popular type of system that is promoted as a way to increase government accountability by those who oppose the private provision of water

services. Also, the international financial institutions and all those who support the private provision of water services would agree that democracy should be part of the solution. The reason all groups within the debates agree that democracy is part of the answer is because, as political scientist John Dryzek explains, “We also live in democratic times, in that hardly a political leader or activist anywhere would claim to be anything other than a democrat” (Dryzek 1996, 3). Worldwide, 50 percent of the countries in the United Nations General Assembly now have what the United Nations defines as a democratic government (Association 2005). However, the result is that the term democracy is used so widely that it has lost its meaning. This opens up the possibility for opposing groups in the debate on the private provision of water to agree that democracy should be part of the solution, but with very different ideas of what democracy means. For democracy to be seen as an alternative solution to the international financial institutions’ current platform, the type of democracy they promote will be distinguished using Benjamin Barber’s terminology thin democracy versus the alternative solution, which he defines as strong democracy (Barber 1984).

Before distinguishing between types of democracy, the components of democracy will be discussed below. Williams explains his definition of modern democracy: “No questions are more difficult than those of democracy, in any of its central senses” (Williams 1985, 97). Democracy is complex and has many forms. Barber states, “Pure democracy suggested a form of government in which all the people govern themselves in all public matters all of the time” (Barber 1984, xiv). He continues by explaining that

there are extensive constraints on democracy in practice but that this definition is the ideal.

Political theorist Robert Dahl's explanation of the components of democratic theory will be used as the basis for democracy in this thesis. Since democracy is based on the self-rule by all citizens, the democratic process assumes no substantive end results. It only ensures that every citizen has equal opportunity to participate in the process of governing. In order for all citizens to have equal opportunity to participate in the democratic process, fundamental (primary political) rights need to be established. The extent, nature, and type of fundamental rights (such as freedom of speech, assembly, press and the right to due process) codified in a democratic system of government affects the extent to which all citizens can participate in the democratic process.

Because democracy is the collective decision-making process of citizens, it often takes the form of majority rule, which can often infringe on the fundamental rights of the minority. The democratic process then also must take into account protecting the fundamental rights of the minority in order for all citizens to continue to be part of the democratic decision-making process (Dahl 1989). Most liberal democratic governments that currently exist in the world take the form of what can be defined as thin democracy. This is the form of government that is promoted in the political platform of the international financial institutions.

Thin democracy

Thin democracy is a term that describes a system where there are aspects of democracy, but the system does not adequately ensure that all citizens have an equal opportunity to be part of the democratic process. Thin democracies often result in democracies where elite citizens, though few in number, have more power and influence than the rest of the citizens (Barber 1984, 261). Thin democracy has also been called low intensity democracy (Saul 1997, 343).

The current platform of international financial institutions aggravates unequal power dynamics by promoting stakeholder participation instead of citizen participation. The term stakeholder is defined as everyone who has interests in water services, which is different than citizens who all have a right to water or for whom water is a necessity (Association 2005, 3). The international financial institutions define stakeholder much more broadly than citizenship; they also include private companies and non-governmental organizations. This definition contradicts the democratic value of equal opportunity for each citizen because by validating extensive participation by non-citizens such as private companies they are weakening the voice of the average citizen. While the term stakeholder initially seems to encourage participation, which is valuable for democracy, it does not promote the equal participation of those who govern a democracy: the citizens.

Thin democracy is also based on economic determinism, which is based on the notion that market-based solutions are preferable (Barber 1984, 253). The international

financial institutions base their promotion of what they call good governance on economic determinism. The result is that good governance is characterized as governance based on the business model of efficiency and performance ratings (e.g. benchmarking) (Saul 1997, 346). This model of governance does not include the democratic goal of ensuring the fundamental rights of all citizens through equal opportunity to participate in the democratic process.

Government decentralization is the strategy that the international financial institutions most commonly promote within good governance. Government decentralization, as promoted by the international financial institutions, involves switching control of water services from the national governments to the local governments. On the surface, government decentralization seems to promote democracy by encouraging local participation. However, this switch fundamentally changes the role of both levels of government. It is based on the assumption that national governments are corrupt and inefficient and demonstrates an inherent bias against national government solutions. The international financial institutions go further with their program of government decentralization by encouraging local governments to facilitate private provision of water services. This program is based on the assumption that market solutions are preferable to democratic solutions based on fundamental rights. It has resulted in many citizens being disconnected from water services and having no access to water services, which goes against the notion that all citizens have a fundamental right to access clean water. Countries that have a democratic system but whose citizens continue

to lack access to clean water are most often examples of thin democracies that fail to protect all citizens' rights equally.

Strong democracy

When democracy is explained as the alternative solution to the private provision of water services, the terms strong, popular, or participatory are frequently used with democracy. Strong democracies are rare in practice. In a strong democracy, the government structure defines the economic system (Barber 1984, 252). This government structure is built on protecting the fundamental rights of all citizens by allowing all citizens equal opportunity to be a part of the decision-making process. Determining which rights are fundamental and therefore requires the government to protect and possibly supply for all citizens is not straight forward because these decisions are based on conflicting, underlying values (Barber 1984, 252) that relate back to the different types of liberalism. Classical liberals and neoliberals would minimize fundamental rights because they want the least government involvement possible. As a result, in neoliberal democracies fundamental rights are often limited to the right to vote, the right to private property, and a few other political rights. In contrast, Keynesian liberals or progressives would argue that fundamental rights must be defined more broadly to include more than political rights but also what Green described as positive rights, because full participation in the democratic process requires that the necessities for life must be met. In this view, the government must ensure that basic necessities such as food, water and shelter are

available. Additionally wealth must be redistributed enough to ensure that every citizen is able to access information, education, resources and has time to fully participate in the democratic process (Dahl 1989, 115).

A strong democracy requires a broad definition of fundamental rights, which include not only government protection of rights but also public provision of services. Within a strong democracy water services could not be provided privately because private provision excludes citizens from participating in the decision-making process for water services, including deciding the budget, the taxes, the infrastructure upgrade and expansions.

In a strong democracy all citizens must have the opportunity to participate in setting the political agenda, to access political documents, and to participate in public meetings in order to ensure their fundamental rights are being upheld (Barber 1984; Dryzek 1996; Dahl 1989; Saul 1997). The level of participation that is required to ensure a strong democratic process has never been displayed by a nation state and according to many authors it is not possible under a neoliberal democracy. This is because the economic constraints caused by neoliberal policies on an international level are too great (Saul 1997, 351). Barber points out that liberal democracies tend to result in thin democracies, but they have the potential to become stronger democracies if economic constraints are put secondary to the democratic process (Barber 1984, 252).

While the international financial institutions support democracy, their political platform for water services promotes at best a thin democracy, which can weaken the

potential for a strong democracy by prioritizing market solutions and unequal citizen participation. Additionally, international financial institutions put constraints on the ability of nation states to create a strong democracy because when they provide aid they often require that governments politically restructure to take on the form of a thin democracy (Dryzek 1996, 10). The international financial institutions' version of thin democracy is being adopted by an increasing number of governments around the world. This is due in part to the influence international financial institutions have in promoting thin democracy as the universal solution to government structures (Chan 2002).

Strong democracy in Porto Alegre, Brazil

Strong democracy is an alternative that looks very different from what the international financial institutions are currently creating to increase access to clean water. One of the best examples of strong democracy in practice is in the city of Porto Alegre, Brazil. Through the 1980s Brazil was under an authoritarian regime, which in the late 1980s became a thin democracy. In 1990 the city of Porto Alegre voted in the Workers Party, whose goal was to increase public participation and democratic control. As a result, they created numerous additional democratic checks and balances, the most unique being that the city budget went through a citizen participatory process. All citizens got to be a part of directly deciding the city's budget priorities through public meetings. As a result, the public water system increased access to 99.5 percent for the million residents. At the time, no other city in Brazil had almost universal access to clean water services. The participatory budgeting process resulted in making taxes increasingly progressive to

help redistribute wealth in order to afford greater opportunity for citizens to equally participate in the democratic process (Association 2005, 7-9).

Achievements towards strong democracy

Strong democracies are the goal for those who promote an alternative to neoliberal policies. But greater participation in the democratic decision-making process can be achieved even within thin democracies. There are three recent examples of citizens holding their governments accountable to protecting access to clean water for all people. In 2002, South Africa became the first country to implement public policy that guarantees a free monthly allotment of clean water for every person. The free basic water services law was enacted as a result of citizen opposition to the previous decade of attempting full cost recovery and private provision of water services, which caused a continued grave inequality in water access. Prior to 2002, 98 percent of whites and only 27 percent of blacks had access to clean water in their homes. A year after the law was implemented, 57 percent of South Africans were receiving their free water allotment, but less than a third of the people defined as poor received free water (Pauw 2003, 44).

Even as the access to free water in South Africa increases, there are still fundamental equity problems in how the law is implemented. The law allows 200 liters per day per household, which assumes there are four people per household. Ironically, the law is biased against those who need it most, because it is common for multiple poor families to share one house. The government has instituted the free allotment through a water meter system, which punishes consumers who cannot afford to pay for water above

the free level. The water service provider accomplishes this by delivering the free water with no water pressure in a constant trickle over twenty-four hours (Pauw 2003, 52-53). The method for free water allocation in South Africa puts into question both the usefulness of water service without pressure and lack of human dignity. The South African example shows that exploring new public policy options can create laws that ensure access to clean water for all people. But the methods in which water is allocated and enforced can still create obstacles to providing equal water access to all citizens.

Additionally, two governments have recently created laws protecting water as public. In 2004 the countries of Uruguay and Netherlands both passed laws that prevent any privately owned company from providing drinking water services to the public. In Uruguay, the constitutional amendment was passed through a nationwide referendum. Social movements, trade unions, and environmental groups actively promoted the referendum. The private provision of water services had already begun and will be reversed. Companies will be compensated from past investment but not lost future earnings (Hall 2005). While all three of these countries would be defined as having thin democracy, the recent laws protecting water are examples of strong democratic decisions.

The Human Right to Water

Since a democracy is based on rights, those who oppose the private provision of water services advocate both national and international laws be created to include water as a fundamental right. Due in part to the heated debates over protecting water as a

human right, in 2002, the United Nations publicly recognized that water had not been directly included in a universal United Nations Declarations on Human Rights. In response, the United Nations Committee on Economic, Social and Cultural Rights created a document entitled, “The Right To Water” which argues that access to water is fundamental to the maintenance of other human rights. The United Nations committee stated water is necessary for leading life with human dignity, thus it is a basic right that is a prerequisite for the realization of other human rights. The Committee explains, “The human right to water entitles everyone to sufficient, safe, acceptable, physically accessible, and affordable water for personal and domestic uses” (United Nations Committee 2002, 2). The Committee later explains that water should be treated as a social and cultural good and not primarily as an economic good (United Nations Committee 2002, 5). Since there is currently no human rights declaration directly stating there is a right to water that has been ratified by member countries, there is no mechanism to call the lack of access to this right into question.

Macpherson points out that the governments both provide the right to exclude others (i.e., private property) and the right not to be excluded from the use or enjoyment of things that society has declared a basic right for all individuals (e.g. public parks and roads). Both the right to exclude and the right not to be excluded are created and maintained by the state (Macpherson 1985). Liberal democracies choose to promote public policy that determines whether access to clean water can be an excludable private right or a non-excludable human right.

Much of the debate over the private provision of water services centers on whether declaring water as a human right makes it a non-excludable good. Opponents of the private provision of water services argue that to guarantee water as a basic human right, water cannot be excludable; thus, they say, it is best if the private provision of water services is not promoted since private provision often leads to exclusion (Paquerot, Weissbrodt and Frederick 2005, 7). The human right to water defined by the United Nations does not require the public sector to provide services, so the private provision of water services is not forbidden (Budds and McGranahan 2003, 94). Since the United Nations explicitly considers access to water a fundamental human right, the international financial institutions acknowledged the designation of water as a human right. But they prefer to use the term "human need" and avoid using the term "human right" (Farolan 2005; National 2004; Barlow and Clarke 2002). In fact, the final declaration of the 2003 World Water Forum specifically did not include defining water as a human right. This can be attributed to the international financial institutions' view that access to clean water for all is a goal rather than a universal right (Herren and Joerchel 2005). A goal is something to aspire to, but if the international financial institutions promote the human right to water then they also have the obligation to ensure every person's right to water.

Currently, the United Nations declaration of water as a human right is a soft law, meaning that it cannot be upheld in international courts of law, because it has not been ratified by United Nations member countries (Foirstentar 2005, np). The long-term goal by those who want to see water be a human right is to create an international convention

on water that includes binding legislation (Petrella 2001; Olivera 2004; Barlow and Clarke 2002; Herren and Joerchel 2005; Padilla 2005). By creating both international and national law that can enforce the human right to water, citizens within democracies could have recourse guaranteeing every person has the right to access clean water. The human right to water would be most effective if promoted within a democracy and the stronger the democracy the greater the chance the right to water will be enforced.

Democracy is not the solution in all countries, but it is highly unlikely governments will be accountable for protecting all citizens' rights without the leaders being held responsible to democratic decision-making by the citizens (Macpherson 1985). By strengthening democracy, which includes the right to water, there is the potential to increase access to clean water for all people. The next section evaluates the Millennium Development Goals to determine to what extent thin versus strong democracy is promoted.

The Millennium Development Goals: Prioritizing Poverty Reduction

The Millennium Development Goals were agreed on in 2000 by 189 countries, at the United Nations Millennium Summit. The resolution set forth goals and targets for combating poverty, hunger, disease, illiteracy, environmental degradation, and discrimination against women (UNMDG 2002, np). The primary goal is to eradicate extreme poverty and hunger, which entails redistributing wealth. Kofi Annan, the United Nations Secretary General, states that the Millennium Development Goals are intended to

"break with business as usual" and the only way to achieve these goals is to double the current global development assistance (UNMDG 2005, np). Development funds primarily come from the governments of wealthy countries and are loaned or granted to less wealthy countries primarily through the international financial institutions. Therefore, Annan's focus is on the need for an increase in government funding worldwide to counter the current increasing inequality in wealth.

There are eight millennium development goals; goal number seven targets reducing in half the proportion of people without access to safe drinking water by 2015 (UNMDG 2005, np). The United Nations explains this target was created because clean water for domestic purposes is essential for human health and survival. The current lack of access to water and sanitation kills some 6,000 children every day. The United Nations recognizes that increasing access to water services creates social benefits such as decreasing poverty and hunger, safeguarding human health, reducing child mortality, promoting gender equality, and managing and protecting natural resources (Lenton and Wright 2004).

The publications for the Millennium Development Goals argue the problem of lack of access to clean water is primarily caused by public funds not going where they are needed most. In particular, international financial institutions do not target money where the lack of access to water is greatest. In the late 1990s, only 12 percent of all water development aid went to countries identified with the greatest lack of access to clean water (Camdessus 2003, 23).

The Millennium Development Goals support and have brought attention to the need for making clear and defending a human right to clean water and increasing public funding for access to clean water. But the Millennium Development Goals also promote direct user charges and increase private sector involvement as solutions (Lenton and Wright 2004, 14). By promoting market mechanisms as part of the solution towards increasing access to clean water, the Millennium Development Goals do not acknowledge the drawbacks to privatizing water. The World Bank fully supports the water policy platform of Millennium Development Goals because it incorporates market mechanisms as solutions to promote increasing access to clean water (World Bank 2005c).

The attention the Millennium Development Goals have drawn to the need to reduce poverty will hopefully result in an increase in public funding to expand access to clean water. But the focus on promoting market mechanisms will hinder the rate of increase in access to clean water and the creation of strong democracies, as was made clear by the critique of private provision in the last chapter. The United Nations could change its strategy to prioritizing strong democracies and human rights laws, within the democracies, which can increase water services for all people.

Conclusion

This thesis focuses on one of the most debated subjects within freshwater: international financial institutions' promotion of the private provision of water services as the solution to the lack of access to clean water. One billion people worldwide lack

access to clean water, which results in millions of unnecessary illnesses and deaths every year from water-borne diseases. Due to the large capital costs of expanding clean water systems, international financial institutions loan developing countries money to help with infrastructure costs. As a result, international financial institutions have a large influence on water policy in developing countries.

Since the early 1990s the international financial institutions have blamed lack of access to clean water on government corruption and deficient funding. Their solution has included promoting stakeholder involvement through the private provision of water services, cost recovery and government decentralization, with the argument that this will increase access to clean water. But the World Bank ten-year assessment of its current political platform shows there are numerous inadequacies, most troubling being the lack of monitoring or implementation of water projects that intend to increase access to clean water. In contrast to most who debate the private provision of water services, this thesis argues that private provision is a political choice not an inevitability. The international financial institutions' decision-making is built on liberal ideology. Liberalism is not one uniform theory, thus the international financial institutions can choose how to define water services within any number of variations of liberal ideology. Currently, international financial institutions employ neoliberal ideology to promote the private provision of water services as the inevitable solution. But only two decades ago, within Keynesian liberalism, they funded public water systems, accepting that water systems are natural monopolies that do not benefit from private provision.

A growing movement of academic scholars, non-profit organizations and social movement activists has been arguing over the value of the private provision of water services with the international financial institutions. The critique of the private provision of water services is built from these debates and focuses on water as essential to life with no substitutes and water service as a natural monopoly. These factors negate competition and choice, making water services a market failure, which does not produce efficiency. The critique also argues that the private provision of water services tends to increase water cost and service disconnections, does not account for costs from water-borne illness, is concentrated in wealthy areas, and perpetuates corruption. If increasing access to clean water is truly a priority for international financial institutions, it is in their best interests to stop promoting the private provision of water services.

It is argued that corruption is the cause of ongoing water problems, and increasing government accountability is the most direct way to address corruption. While there is no political system that stops corruption and is accountable to all citizens, there is evidence that democratic systems with mechanisms to promote and defend human rights reduce corruption. Democracy promoted by the international financial institutions is a thin democracy, which does not ensure access to clean water. Strong democracy that is based on fundamental rights including the right to water protected and provided by the government in order to ensure an equal opportunity to fully participate in the democratic process is the alternative to the private provision of water services. Democracy entails structuring the government so the citizens have control, making it so citizens can hold the

government accountable for ensuring that every person has access to clean water. If the main concern of the international financial institutions and the United Nations Millennium Development Goals is to reduce poverty, then promoting strong democracy with the human right to water, not the private provision of water services, will best ensure a strategy to increase access to clean water for all.

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