Infopack

EDITORIAL

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Privatisation Bubble Bursts

- Piyush Pant

Surprisingly but surely the bubble of privatisation is bursting. If not generally speaking then certainly in sectors like water and power. May be the process is not visible in North but is omnipresent in South. Even in North gradually but surely it is becoming a reality. To those who connive with and benefit from the policies and agendas of International Financial Institutions like World Bank and IMF, such revelations might look immature and prejudiced, tainted with colour blindness but those who are keen to follow the current movement of the global capital in the developing countries it is amply clear that it has failed to meet the much flaunted objectives of the privatisation. The much-celebrated argument in favour of privatisation of service sector is that privatisation brings competition, which, in turn, brings efficiency in the market and results in price reduction with no apparent reduction in service quality. Besides, there has also been a strong presumption that services provided by private companies through competitive markets are inevitably superior to those provided by a publicly-owned monopoly.

Throughout 1990s, the development agencies and international institutions promoted private sector involvement in infrastructure, assuming that this would inject both investment and efficiency into the public sector, which was performing well below its anticipated and devised capacity, particularly in the developing countries. Throughout the decade privatisation of water delivery, often in the guise of Public-Private Partnerships (PPPs) was forced on many developing countries with the help of IMF and World Bank structural adjustment programme. These institutions in connivence with local elites promoted privatisation of public water utilities as the only possible answer to the lack of availability of finance with the government or to deteriorating public utilities. The result was that water supplies in a large number of major cities in South got monopolized by a handful of private water corporations. Many of these corporations had their headquarters in the European Union (EU).

But alas! In many of these cities it became clear, sooner than latter, that privatisation had failed to deliver the promised goods. Neither the promised efficiency, nor the improvements in access to clean drinking water for the poor, or reduction in the price without effecting the quality of the services being provided was visible. Escalating prices or non-fulfilment of promised investments were common features of the failure of privatisation in cities like Cochabamba, Manila and Jakarta. The most telling example is that of Jakarta. One of the ADB reports says that the private operators in Jakarta had not been very successful. It says that under private operators the consumers had to live without water for days together and had to pay 30% more for water charges in January 2004 whereas the water rates had already been increased thrice in the past. Similarly in Philippines the private operators promised to provide 24-hour water service and universal connections, reduce system losses, plug leakages and bring in 7.5 billion US dollars as new investment. But these promises were never met. On the other hand, instead of promised lower rates, Maynilad's water tariff was increased by 400% in 2003. In

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the state of Delhi in India, within a year of privatisation of the power sector, the prices of electricity were raised three-four folds.

But the steep hike in the power tariff is not the only issue. In Sri Lanka, opinion polls show that privatisation has been associated with deteriorating socio-economic conditions like greater poverty, increased cost of living etc. Similarly in a survey, conducted in 2001 in Russia, revealed that people had lost more than they gained from privatisation, with only 5% saying they had gained more.

Even in developed world, the picture is not that rosy. For instance, despite reforms, countries like US, Canada, UK and Sweden have been witness to total black outs. In the summer of 2003 a series of major blackouts affected OECD countries like USA and Canada in August followed by UK, Sweden and Denmark and whole of Italy in September 2003. Earlier California and Auckland in New Zealand were also affected by massive blackouts in 2001 and 1998 respectively.

Hence resistance is increasingly gaining ground against the privatisation of water and power sectors. As Buresch points out - globally 'It is getting harder to find political leaders that are willing to truly champion privatisation for reasons other than to generate cash proceeds'. Similarly, at the World Bank's energy week in February 2003, a speaker from the global consulting firm 'Deloitte' noted a 'growing political opposition to privatisation in emerging markets due to widespread perceptions that it does not serve the interests of the population at large.'

A significant feature of the resistance campaigns against privatisation has been that the opposition has not been confined to factors that are focused in developing countries alone. In fact they have occurred in countries at varying levels of national income. So countries with high-income levels like US, France, Germany; transition countries such as Hungary and Poland; countries like Mexico, South Africa and Thailand with middle income level and low-income countries like Ghana, Honduras and India - all have witnessed recent opposition to the privatisation of water and power sectors.

This issue of *Infopack* focuses on the time-tested failures of the privatisation in service sectors like power and water.

Water Privatization and Restructuring in Asia-Pacific

By:
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(with minor corrections January 2005)

Bird's Eye View

This report was commissioned by Public services International (PSI) for its Asia-Pacific meeting in Changmai, Thailand in December 2004, in order to survey the activities of the multinational companies as well as Asian private companies engaged in water sector services.

The 33-page document has seven sections including introduction. Section seven contains only references. The document also has six tables indicating the number of multinational water companies operating in Asian countries and rates of success and failure of activities of these companies.

The document illustrates how, after introducing privatization in Asian countries, the multinational companies are struggling to keep intact their existing contracts and also advances the reasons of their failure forcing them to withdraw from the very countries where they are operating.

The report further says that the main objective of the strategies of the multinational companies like two major France-based water companies Suez and Veolia, UK-based water companies like Thames Water, Biwater, which are operating in water sector in most of the Asian Countries, is to reduce their exposure to developing countries by exiting from their existing contracts and concessions which they find not much profitable and more risky. They are also avoiding new contracts and concessions except for less risky ones. Some of the smaller MNCs have already left the sector completely. Since January 2003 the main strategy of Suez is to withdraw 1/3 of its investment in developing countries. These MNCs are now interested in those countries, which carry low risk in investment and are able to generate good profits such as China. They are now considering only those contracts, which can be implemented through Build-Operate-Transfer (BOT) in collaboration with local private companies.

The Report also tells about the experiences of the countries after making extensive use of private companies, highlighting the problems the countries are facing after water privatization.

The report says that most of Suez's operations are in China in Asia. It also says that besides China this multinational company also operates in various Asian countries like Indonesia, Malaysia, Philippines, and Vietnam and in many more through their subsidiaries. The report also gives an account of its performance in these countries.

In west Jakarta, Indonesia, since 1997, the Suez holds the concessions for water distribution through its subsidiary Palya. But there has been industrial action and strong opposition against this multinational company because of its practice of water price hike. In 2003 both Palya and TPJ (Thames Water's Subsidiary) threatened to pull out of the agreement. Despite the strong opposition the administration was forced hike the price in 2003 by 40% putting the burden on the consumers.

In Philippines, Suez holds the water distribution concessions in Manila through a subsidiary Maynilad since 1997. But there has been a tense judicial stand off between Maynilad and the state authority the Metropolitan Waterworks and sewerage System (MWSS) resulting in threats to termination of the agreement, suspension of payment of concession fee due to the MWSS.

In India Suez won a contract for bulk water supply scheme named Sonia Vihar to supply Delhi with extra 140 m. gallons of water per day. The scheme has been criticised and opposed by local groups because it will divert water away from existing irrigation use and lead to over charging from users to pay to Suez. Suez also has other contracts for maintaining treatment plant in Mumbai and Kolkata.

In China Degremont was active in building plants since 1970. Suez claims that over 20% of populations now consume drinking water treated by 140 plants built by Degremont. It also won BOT contract for Thu Duc Water treatment plant in Ho Chi Minh City, Vietnam, in1997. Under this scheme, water was being sold to the public water authority at a very high price resulting in cancellation of the contract in February 2003.

Suez mostly lost its contracts because of its profit-oriented policy by hiking the water charge which effects the consumers badly forcing them to agitate.

The report says that Veolia, another French-owned multinational, besides water sector, is also active in waste management sector, and has established its business in India, Australia and News Zealand. In 1995 Adelaide signed a 1.5 billion contract with United Water, a joint venture of Veolia and Thames water and an Australian company through irregular bidding process, which led the government to investigate their works. And after 15 months Adelaide suffered a great loss due to failure to monitor the sewerage treatment plants. Between 1993 and 2000, prices for the basic water tariff increased by 59%, inflation was 11% and jobs were cut by 33%.

The report further says that China now offers a lucrative market for Veolia expecting to earn 8-10 % of the total revenue within the next 10 years. The company is building political connections to help it exploit the markets. Veolia has formed joint ventures in China with various Asian partners like Hong Kong partner Citic Pacific, Chinese infrastructure company Beijing Capital, Malaysian company LGB and others.

In India Veolia does not have any contract in water sector but continue to show interest in this sector. However, in 2000, Veolia had a management contract in Kolkata and still holds a solid waste disposal contract in Chennai.

In Philippines, Vivendi signed a 25-year concession in 1998 with Fort Bonifacio Development Corp (FBDC) to construct and operate water and sewage treatment facilities. But the residents and locators complain that the rate of water charge is very high. They also say that no doubt Vivendy supplies quality water, which is almost mineral water, but they also say that they do not need such high quality water just to flush their toilet.

The report further states that the multinationals also have been loosing contracts in many Asian countries because of their anti-people policy. Their purpose is not to supply purified water to the people at reasonable rate but to earn as much as possible by burdening the consumers with high water prices.

The report also mentions that in China, the Xian Water Contract, which was held by Berlinwasser, a joint subsidiary of Veolia and Thames Water ended in 2002.In Malaysia, Veolia's BOT contract since 1987 to operate 26 water treatment plants was terminated by the Malaysian company in 2003.

In Philippines, in January1999, Vivendi and local partner Aboitiz Equity Ventures submitted an unsolicited P9.2 billion BOT proposal to rehabilitate and expand the water distribution system in Cebu City, but in May 2002, the Aboitz Group dropped the proposal due to strong opposition from the MCWD employees union.

The report says that in September 2000 Thames Water, the largest water company of UK, was taken over by the German-based energy group RWE and was told by RWE to sell its international operations outside Europe, which would lead to sale of operations in Thailand and Indonesia.

The report further says that in China, Thames Water, which was originally guaranteed by Shanghai City Council for a 15% rate of return, withdrew its contract when the government declared such guarantees to be illegal and unenforceable. In Malaysia the Thames Water was forced to leave its water supply operation in 1999 because the Kalantan State government bought back Thames Water's 70% stake in Kalantan Waters, a joint venture of Thames Water. The Thames Water could not satisfy the consumers; instead the consumers were forced to deal with low water pressure, supply disruptions and unhygienic water supply.

The report also talks about the functions of other UK-based water companies like United Utilities, Biwater which owned many contracts in Asian countries but had to lose some of its contracts due to price hike, corruptions and being unable to meet the requirements of the consumers.

According to the report, Biwater's main ventures in South Africa, Tanzania, Philippines, Indonesia, Mexico provoked criticism for the way the contracts were obtained through government connections.

In Philippines, in 1996 the Biwater won the 25-year concession to manage the water services in Subic Freeport and adjoining Olongapo City. But immediately after privatization, the Taiwanese investors had threatened to withdraw from the contract because of the absurd rate hike and the local residents' complaints about rate hike, non-transparent decision-making by the regulatory board. In the Freeport water price went up by 465% within eight years. Subic Water failed to meet the projected targets in capital expenditures and reduction of the 44% non-revenue water. It continues to accumulate huge financial losses due to exorbitant foreign consultant's fees and a so-called "technology transfer" fee for over-priced second hand booster pumps imported from abroad which are no longer in working conditions. The report says that company wants overcome its financial losses through steep hike in water tariff placing the consumers in difficult situation.

The report further says that company's irregularities in operation and its self-interests had resulted in loss of contracts in many countries. Like in India, Bangalore city cancelled a planned contract with Biwater for a bulk water supply scheme from the Cauvery River for Bangalore after investigation of financial irregularities.

Biwater lost a water concession in Baguio, Philippines, before it even started because the company asked to increase its winning rate bid by P8.40/cu.m.

After surveying the functions of various multinational water companies the report states that the multinationals are no longer very active in Asia-pacific. It says that International Water Ltd, a joint venture between the Construction Multinational Bechtel (USA) and Edison (Italy), was a leading member of the consortium running Manila Water in Philippines. But in 2003 the company sold its shares to its partners, the Philippines firm Alya and the UK company United Utilities. Sale of shares indicates to general withdrawal of the MNCs from the water business. IWL now operates only in Equador, whose profits are protected by a World Bank insurance guarantee.

In the third chapter, the document talks about the activity of private companies based in Asia-Pacific in water sector, the international activity of which consists of investments in water companies outside Asia and most of the internal activities of these companies in Asia consists of BOT contracts on constructing treatment plants. Some of these companies' activity is carried out in some form of partnership with the established water multinationals like Suez, Veolia and Thames.

The most active companies are based in Hong Kong and Malaysia.

The Malaysian private companies have obtained an unusually high share of privatized water within their own country and outside Asia also they operate in partnership with the multinationals. Similarly, a giant Japanese Company like 'Marubeni' operates in Japan as well as in China in partnership with Veolia. In 2000 Mitshubishi won a maintenance contract for the waste water treatment plant in Hiroshima. The Philippines companies Ayala and Benpres also entered the market as partners of multinationals.

Cheung Kong Infrastructure (CKI) was involved in some water and waste water contracts in mainland China, but had to withdraw from a contract in Shantov because the municipality failed to honour the contractual obligations on its infrastructure projects.

A Chinese company such as 'Beijing Capital' is a municipality-based private infrastructure investment company in a joint venture with Veolia holds water supply system in Beijing and plans to enter into market outside China.

The report also states that because of country's privatization policies, Malaysia is one country in Asia, which has created a number of national water companies, which are active in water supply or distribution. Even some have been very active in almost the entire China. Those active outside their own countries include 'Pelicon', PPB/Kerry Utilities.

Puncak Niaga, Ranhill Utilities and Taliworks Corporation are three biggest companies active in water service.

In chapter four, the report talks about Asian countries where there has been significant experience of water privatization or significant moves towards it.

The report here talks about the experience of water privatization in Bangladesh, which was constantly under pressure from World Bank to introduce water privatization, but this has so far been opposed by the trade unions in Bangladesh. The trade unions had offered an alternative to take over the water service of Dhaka.

The Dhaka water and Sanitation Authority (DWASA) was created in 1963 as a public sector utility to cater for potable water, sewerage and storm water drainage of Dhaka, but by 1990s it appeared to be economically and operationally inefficient. Then World Bank proposed a new loan on the condition of institutional reforms, experimental privatization of revenue billing, collection and other activities. But the trade unions countered with proposal to test the supposed virtues of privatization and finally the IDA, DWASA, government representatives and the trade unions agreed to test one revenue zone under private sector and another under employees cooperative, for a trial period of one year.

The Employees Cooperative (EC) out performed both DWASA and the private contractors. Under EC the revenue increased substantially. The EC's success was based on buying integrity by doubling the salaries paid by DWASA and by satisfying the consumers' requirements. Private contractors failed because of top-heavy management, and inability to exploit grassroots knowledge. The DWASW failed because of bureaucracy, poor pay, corruption and inefficiency. Under EC the workers, the poor and the slum dwellers got normal household connections and were charged at normal rate, which was prohibited by DWASA. Thus EC was bringing higher revenue to DWASA. Under DWASA these people had to buy water from private vendors at an unaffordable price.

According to ADB report, the Phnom Penh Water Supply Authority (PPWSA) of Cambodia is said to be one of the better-run utilities in the Asian region. It has improved performance since the early 1990s. Under PPWSA over 80% people received water connections and financial efficiency has also increased. Corruption and leakage have almost ended. But the World Bank is actively promoting private sector based solution in Cambodia despite successful public utility in the capital.

The report further tells about the impact of water privatization on the people of Indonesia.

The people of Indonesia opposed the new Water Resource Law passed by the Indonesian Parliament in February 2004 promoting private sector participation in water sector. The groups are against this law as they have already experienced the bad impact of water privatization in the country in 1998. In 1998, the Jakarta Water Supply Enterprise (Pam Jaya) entered into a 25-year concession contract with PT Pam Lyonnaise Jaya (Palyja) and PT Thames Pam Jaya (TPJ). But in April 1999. it was reported that Jakarta water workers have taken strike action demanding equal pay for all the workers. They organized themselves into a trade union and demanded an end to the privatized water concessions in the city.

The report says that the ADB had reported that the private operators in Jakarta had not been very successful. Under private operators the consumers had to live without water for days together and had to pay 30% more for water charges in January 2004 whereas the water rates had already been increased thrice in the past.

In Malaysia Privatization of water services began in 1987 and by 1996, 57 water treatment plants were in the hands of the private players. But the people of the country have not been getting enough water to meet their requirements.

Three private companies like Thames water, Selangor Water management Corporation Ltd, PUAS and, Selangor Water Supply Department have 20-25 year concessions agreement to sell treated water at a stipulated price to PAUS which distributes water to the consumers. While the private companies made annual profit from their water business ranging from 10 million dollars to 47 million dollars, PUAS has faced annual deficit of around 100 million dollars. PUAS wants the price of the bulk water from the BOTs to be reduced, but the present government is planning to privatize PUAS by selling it to the BOTs, which will lead to steep hike in water tariff.

The report states that in the country there already exists an effective public water utility named Perbadanan Bekalan Air Pulau Pinang (PBA), which has the lowest non-revenue water, the lowest water tariffs and generates a surplus in Malaysia.

The report also talks about the failure of the 1997 privatization of Philippine's Manila Waterworks and Sewerage System (MWSS), which was the biggest privatization of a water service in the world.

The report further says that the private operators promised to provide 24-hour water service and universal connections, reduce system losses, plug leakages and bring in 7.5 billion US dollar as new investment. But these promises were never met. Instead of promised lower rates, Maynilad's water tariff was increased by 400% in 2003 and planning is on to push through another 36% tariff hike by 2005. Maynilad had stopped monthly concession fees to the government since 2001 forcing the MWSS to incur more debts up to 240 million US dollar by 2003. A strong public opposition forced the government to cancel the deal. In Baguio in northern Philippines attempts to bid out a 70 million dollar bulk water project to the private sector have already failed twice.

On the other hand Singapore's water and sewerage services are run by the state-owned Public Utilities Board, widely regarded as a model of efficiency. A BOT has been signed with a Singaporean contractor for a desalination plant to start operating in 2005. The PUB also owns an international consultancy, contracting and operating subsidiary named Singapore Utilities International Pte Ltd (SUI).

As far as Sri Lanka is concerned the repot says that financial institutions and contractors with the World Bank support have considered Greater Colombo of Sri Lanka a prime place to lead the South Asia in private sector participation in water sector. In 2003 ADB formulated a National Water Sector profile and reform action plan for Sri Lanka. But in December 2003, a coalition of NGOs and public sector trade unions challenged it in the Supreme Court saying that it will deprive the poor access to fresh water. The Supreme Court effectively blocked the Bill.

However, the report here shows through the experiences of the above-mentioned countries in Asia that the performance of public operators is better than that of the private operators who are having all financial and other supports. The report further shows that there has been an extremely high failure rate for private concessions and long-term BOT contracts.

In fifth section, the report talks about the policies and motives of the development banks and the donors regarding water sector privatization.

The report says that the policies of the World Bank and ADB are to promote privatization of basic services like water, health, and education in the developing countries. At present their activities are more focused on privatization of water sector.

However, the policy of the World Bank and other donors has not succeeded much in attracting investment and providing reliable profitability to the countries concerned which led them to adopt a policy of disinvestments in 2003 and forced them to change their lending policy. All the units of the World Bank like IFC and PPIAF (Public Private Infrastructure Advisory Facility) are all the time seeking opportunities for private investment, producing Country Framework Reports for this purpose, covering the water sector in Cambodia, despite the outstanding performance of the public utility in Phnom Penh, Vietnam, India and Bangladesh.

In the sixth section the document talks about the issues and trends emerging due to privatization of water in the Asian countries. The report here talks about the risks involved in water supply under BOTs Contracts as in the world most of the work regarding building a reservoir, capturing new water sources, or building a new water treatment plant to purify water for human consumption are undertaken by multinational private companies under the policy of Build-Operate-Transfer (BOT) contracts. Under such policy, the private companies sell water to the water authority under a long-term agreement at a stipulated price ensuring the profit of the private company. The price can be as high as possible, pushing the water authority to enter into debts. In order to obtain the deal for its own interest the company may adopt various tactics such as corruption, exaggeration of construction costs. Such contracts may result in public authority having to pay much more for their water, or may force it to buy more water than they really need, or result in having the government to use public money to subsidize the company's profit for the duration of contracts. A number of BOTs in Asia experienced such problems.

Towards the end the report tells about the performance of Asian Public Sector water operators. It says that the recent ADB survey of 18 cities in Asia confirmed that public sector water services could deliver services almost similar to the services being provided by the companies with private sector ownership. According to the survey, the private sector concessions of Manila and Jakarta are performing significantly worse than most public sector operators.

The report further says that cities such as Osaka and Phnom Penh being run by effective public sector water operators can clearly provide lessons for other water undertakings in Asia.

Reclaiming Public Water : Participatory Alternatives to Privatization

Published By:

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Transnational Institute

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Bird's Eye View

The 20-page document explores the possibility of alternatives, based on peoples' participation, to the privatization of essential services particularly the Water. In the process, the document enlists successful instances of participatory alternatives in some of the developing countries. While phoophooing the Indonesian State Minister of Environment Nabeil Makrim's statement that 'there is not a single state-owned water company in the whole world that has proved itself an efficient manager of water resources', the document says that there are innumerable examples of well-functioning public water utilities, including in developing countries. The document further states that globally 90% of those with access to water are supplied by public utilities. However, the document also concedes that hundreds of millions in developing world do not have access to clean water and sanitation, the reasons being the impact of global injustice through crippling foreign debt and disastrous structural adjustment programmes imposed by International Monetary Fund (IMF), and the World Bank as well as the local injustice in the form of state-run utilities delivering cheap water to rich neighbourhoods while failing to provide water to the poorest, especially in remote and informal urban areas.

However, the document says, there are more attractive alternatives to inadequate state-run utilities than handing over the keys to profit-seeking private Water Corporations. The document says affirmatively that dramatic improvements in public water delivery have been achieved through various forms of public utility reforms, including introducing diverse models of public participation and democratic control in certain cities.

The document points out that many failed privatization experiments have shown that profit-driven transnational water Corporations are ill equipped for - if not capable of- securing water for the poorest. That's why support for public utility reform and exemption of not-for-profit water supply is a far more obvious way forward. The document further points out that the European Parliament has already expressed its support for such a change in course. For instance, in a September 2003 resolution on the EU's approach to the water in the South, a majority in the European Parliament insisted "On the need for local public authorities to be given support in their efforts towards establishing an innovative, participatory democratic system of public water management that is efficient, transparent and regulated and that respects the objectives of sustainable development in order to meet the population's needs.

The document now moves on to give the instances of a range of cities around the world where public water supply has been improved through increased popular control, participation and other democratic reforms. It says that the well-known example of participatory water management is probably the Departments Municipal do Aqua e Esgots (DMAE) the water company of Porto Alegre in Southern Brazil. The document points out that water management in Porto Alegre was transformed when the Workers Party gained power in the city 15 years ago. The company shows a far-reaching degree of public participation and democratic control over its operations and investments. The document points out that like many other areas of public life in Porto Alegre, the population directly decides the budget priorities of their water company through a process of public meetings. This participatory model is one of the reasons that poor communities in Porto Alegre have gained dramatically improve access to clean water. The document also talks about other advantages of the participatory system like awareness raising through being involved in decision-making and a collective sense of ownership which allows the possibility for occasional price increase which may be necessary for financing new projects. Besides, the tariff system is highly progressive because under it low-income groups pay a low, cross-subsidized price and the water use above a basic level is relatively expensive. The document says that DMAE is publicly owned but financially independent of the state, being fully self-financed through the water bills paid by the 1.4 million inhabitants. The company does not keep the profit and re-invests any surplus into improving the water supply. However, the document says that the participatory experiment was scaled down after the state election of October 2002 when the Workers' Party (PT) was defeated by the Centrist PMDB.

The document says that the achievements in Porto Alegre and elsewhere in Brazil have also inspired communities in other parts of Latin America to introduce forms of democratic control in order to build more effective and equitable water management systems. It cites the example of Cochabamba, Bolivia where an innovative model of public-popular management is under development. The document records that in the spring of 2000, the population of Cochabamba mobilized against the disastrous record of Bechtel, the US Corporation controlling the Agues del Tunari Conglomerate that took over after privatization in 1999. The document further reveals that when Bechtel expropriated Community Water System and resources and raised water prices dramatically, community groups, trade unions and irrigation farmers organized themselves. Despite heavy government repression, a public referendum and several major mobilizations were organised which eventually forced out Agues del Tunari. The workers' organization gained control over SEMAPA's governing body and embarked on building a fairer and more democratic system of water supply. The document says that for decades, unchecked public bodies and manipulative party politics have prevented SEMAPA from developing into a progressive effective utility serving the poor. The company is now being restructured and developed into a transparent public utility with a high degree of participation and sense of ownership by citizen-users.

The document further informs that the model under development in Cochabamba has been successful in (re) claiming SEMAPA as a public, democratic entity with a pro-poor mission.

The document says that water delivery in Cochabamba is a high-profile political issue and the success of water-war against Bechtel and the public-popular management have massively boosted the Bolivia-wide social movements fighting the neo-liberal policies of the national government in La Paz.

Now the document cites the instance of Ghana and says that National Coalition against Privatization of Water (NCAP) has effectively de-legitimized the government's plans for selling off the public water utilities. However, the government is proceeding with preparation for privatization, backed by a loan approved by the World Bank in August

2004. But in a protest letter written to the World Bank President, NCAP insisted that a thorough examination of public sector option should take place.

The document says that NCAP's thinking about how to deliver water for all in Ghana is inspired by the achievement of local communities in Savelugu, a town in the north of Ghana. Ghana Water Company Ltd (GWCL), the national water utility, supplies water in bulk to the community, which is in turn, responsible for pricing, distribution and pipe maintenance. The township is divided into six areas, each with a water management committee, comprising equal numbers of men and women. The committees collect the tariffs and report faults and malfunctions of the water system to the district assembly. It says that the partnership was supported by NGOs like World Vision International, Global 2000, the Carter Center as well as UNICEF. All of them hoped that community management would bring clean water and reduce the number of guinea worm infection in Savelugu. The result was that between 1998 and 2002 the percentage of households with access to safe water increased from 9% to 74%. Moreover, the guinea worm disease in the community has been reduced by over 98% since the project started.

Now the document moves on to the case of Dhaka and says that a unique model has proved successful in Dhaka, the capital of Bangladesh, when the water supply in parts of the city is co-managed by a workers' co-operative. It says that in 1997 the proposed privatization of the water supply in a part of Dhaka, forced by the World Bank, was met with strong trade union resistance. In response the Dhaka Water Supply and Sewerage Authority (DWASA) decided to give contract of one zone to the DWASA Employees' Union, while another zone was given to a local private company named EPC Ltd, on a trial basis. The document says that after the first year's experiment, the Employees' Co-operative's results was so much better that DWASA handed over the private sector's contract to the Union. The Union achieved substantial improvements not only in customer services, billing and collection of fees, but also in reducing water losses. They out-performed not only the private company but also DWASA, a public utility suffering from over- bureaucratization and inertia.

The document further says that user co-operatives have been proved an excellent way to deliver clean water in many smaller communities around the world, both in rural communities and in urban slum areas, when the state fails to supply basic services. It says that the experience in the Bolivian city of Santa Cruz proves that cooperation models can also be very successful in major urban centers. Santa Cruz has 1.2 million inhabitants, and the city's water utility has been run by a consumer cooperative since 1979 and is regarded as one of the best-managed water utilities in Latin America. All customers are the members of the Cooperative and have the right to vote in the Co-operative General Delegate Assembly. The cooperative is financially independent and ensures that all costs are recovered from the water users. As part of its socially responsible approach, the Cooperative charged a lower price for the first 15 cubic meters of water consumed per household each month and customers failing to pay are not disconnected.

The document further says that inspired by the achievements in Santa Cruz, consumer-owned water co-operatives were set up in several other Bolivian cities in the 1980s and 1990s. It further informs that in Argentina, cooperatives have traditionally played a key role in water delivery to small and medium-sized cities, covering upto 10% of the population.

Under the heading 'Water Solidarity: Public-Public Partnership' the document states that major improvements in water delivery can be achieved through transfer of management and other skills between public operators. It gives the example of South Africa where Public-Public Partnership has been found to be successful. It says that local authorities in Harrismith in South Africa teamed up with Rand Water, one of the largest and most effective public water utilities in the world. During the partnership the water and sanitation sector was ring-fenced financially and run as an autonomous business unit under the name of Aman Ziwethu Water Services (AWS). The document points out that under the partnership, Rand Water staffs were responsible for management while Harrismith City Council workers ensured the day-to-day operations. Moreover, the labour and service users were closely involved in a consultative process. The document quotes a statement of Laila Smith and Ebrahim Fakir of the Centre for Policy Studies, Johannesburg highlighting the success of the partnership. The statement says - "Harrismith Partnership has made significant achievements that will hopefully help to set precedence in the development of future service delivery alternatives". The document also points out that in response to the Malaysian government's plans to privatize water, Civil Society groups point to the highly effective water utility 'Perbadanan Bekalan Air Pulan Pinang' (PBA) as an alternative model.

Thus many examples of major improvements in public water delivery in the South have been described in this document. In the light of all these instances, the document comments that the emergence of new participatory politics has breathed new vitality and effectiveness into publicly owned but often dysfunctional and bureaucratized water utilities.

In the end the document says that the question as to what the potential is for replicating such success stories elsewhere within the same country, in other comparable countries in a region or in very different countries in other parts of the world. The document records what the writers of the report have to say in reply - 'we would generally argue that boosting transparency, accountability and responsiveness through democratic control could probably improve the performance of most utilities, regardless of socio-economic circumstances and political realities. Far more research and discussion is clearly needed to assess the exact potential for replicating key features of a successful model elsewhere'.

Electricity in Latin America, 2004

By:

David Hall

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July 2004

Bird's Eye View

This report was commissioned by Public Services International in order to help the Trade Unions develop coordinated strategies to protect their members' rights and interests.

The report aims to present the activities of the multinational companies in privatized electricity operations in Latin America, and to identify some of the key issues, which affect the development of the sector.

The report consists of 16 pages and is divided into five sections. The report basically indicates the complex and deep problems that the trade unions in the developing countries have been facing with the privatizations and deregulation model imposed by the International Financial Institutions. It also indicates that many of the multinational corporations that appeared as agents of the International Financial Institutions (IFIs) have already run away or are looking for the first opportunity to get out of the contract of supplying safe and reliable energy to citizens, to industry and to agriculture. They appear to be weaker than the public services that were sought to be replaced by the multinationals.

In section three the report gives a brief information about the activities of the multinationals and their current policies towards Latin America, and also gives lists of multinationals which have earlier invested in Latin America but have now left, and about some of the important multinational companies that are still active in Latin America.

The report says that Endesa is the largest Spanish electricity company, which has been active in Latin America from the early 1990s, but the company has stated that it will stop expanding its operation in Latin America. The company is insisting on higher returns than it obtains in Europe in order to cover the company's losses in the region during 2001-2002 economic crisis that led to an electricity consumption trough. In Brazil, however, Endesa decided to re-invest in its distribution companies rather than agree to a refinancing arrangement with Brazilian bank BNDES. In Argentina Endesa is centrally involved in negotiations with the government to try and retain its investments, reclaim the dollarisation agreement and increase electricity prices to improve profits. The Argentinean president accused Endesa's subsidiary Edesur of deliberately creating a blackout to increase pressure for price hike.

Union Fenosa, another Spanish Company, is active in a number of countries in Central America like Guatemala, Mexico, Panama, Nicaragua, and is constructing a plant in Costa Rica. Union Fenosa's profits in Latin America increased in 2003, but the company intends to reduce its investments in the area if they cannot produce higher returns.

EdP (Electricidade do Portugal) is the main state-owned electricity company of Portugal. In Brazil it owns stakes in distribution and generation companies. And EdF (Electricite de France) is the French electricity company, which is 100% state-owned and is active internationally in all continents. Among Latin American countries it has invested in operations in electricity generation and distribution in Argentina and Brazil, and also in generation in Mexico.Its total business in Latin America in 2003 was E1763 million, but it lost E1 billion with its Brazilian distributor Light. Now EdF's strategy is to concentrate on Europe.

The report further says that in spite of making profits in its business, in 2003 EdF brought arbitration cases to the World Bank's International Centre for Settlement of Investment Disputes (ICSID) against the Argentinean government for ending dollarisation. It has demanded price hikes for its distribution companies, but the Argentinean government has not conceded them, instead it has imposed fines because of blackouts that have occurred since 2001. In July 2004 EdF announced that it was selling its stake in one Argentinean distributor Edemsa to a local business group.

The report also says that AES, a USA-based multinational company, has been operating in Europe, Asia and Africa. Half of its business is in Latin America, with investments in Argentina, Brazil, Chile, Colombia, Venezuela and in Dominican Republics and many more.

AES has restructured itself globally in 2002 and 2003, including the sale of 14 subsidiaries. It has also abandoned major investment in the UK, India (Orissa) and Uganda because of allegation against it of corruption. In Latin America it has increased its stake in many companies, buying shares from other multinationals who are leaving the region. In Dominican Republic, where it owns both generators and distributors, it has been involved in bitter disputes with the government. AES has shut down its generators to force the government to make payments, and is now planning to sell the distributor. The Argentine peso appreciated to the US dollar. In 2004 Buenos Aires province introduced a law obliging distributors, including AES-owned Eden and Edes, to provide a minimum of electricity to consumers. It has been accused by Enron of proposing collusion over the bidding for the shares of its subsidiary Electropaulo in Brazil.

Another USA-based energy company, CMS Energy, has expanded to operate internationally. Its investment in Latin America has included electricity generating and distribution companies in Brazil, Chile and Venezuela. In 2004 CMS announced a loss of $400 million on its Argentinean operation. It has taken court cases against the government of Argentina's devaluation of the peso and ending of 'dollarise' contracts. In October 2001, CMS Energy decided to discontinue the operations of its international energy distribution business. CMS was investigated for accounting fraud following the Enron scandal. In March 2004 CMS agreed to pay fines for fraudulent exaggeration of their sales by over $5 billion in energy trading.

El Paso, a USA-based multinational company, owns two generating companies in Brazil and has minority stakes in generating companies in Argentina, Mexico and Peru. During 2003 EL Paso abandoned its investments in the generating companies CAPSA and CAPEX in Argentina. The companies defaulted on their loans in 2002, EL Paso recorded a loss of $342 millions, and the World Bank's private sector investment division, the IFC, was forced to agree for a debt restructuring.

The company's share price fell 77% after press reports highlighted the company's reliance on off-balance-sheet accounting, following the Enron scandal. El Paso has also been exposed as having exaggerated the size of its oil and gas reserve, and was prosecuted for its role in contributing to the California power crisis, and had to pay $1.7 billion in settlement of these claims.

EL Paso also has significant operations in gas transmission pipelines in Latin America, including Argentina, Bolivia, Brazil, Chile, Mexico and Venezuela.

PSEG is a USA-based multinational, which expanded internationally in the 1990s, under the name of PSEG Global. It developed activities in a number of Latin American countries in partnership with AES. Up to 2002 PSEG's global investments were profitable but have since been affected by general resistance to privatization and political, economic and social crises especially in Argentina, Brazil and Venezuela. In 2003 it simply abandoned its investments in Argentina, by giving its shares to its partner AES.

The fourth section of the document deals with some key issues and trends like withdrawals by MNCs, the development of the policies of the governments of Argentina and Brazil, the scale of resistance to privatization in Latin America, and a new statement from the IMF and the World Bank.

Here the report says that apart from the above-mentioned multinationals many more have entered Latin America since 1990. But the report also says that many have already stopped to operate, and some are seeking opportunities to leave the country, and the remaining ones are not willing to increase their investments in the near future. The factors leading to this scenario are partly opposition to energy privatization in Latin America, partly political and economic factors constraining the profitability of the companies' business, the USA companies' California price-fixing episode, and the Enron fraudulent accounting scandal. The electricity multinationals are withdrawing from the developing countries because according to them the profits they are making do not seem enough to compensate for the political and currency risks involved.

The report also says that a number of problems with the economics of privatization and liberalization of electricity have been experienced in many countries such as increases imposed by generators through unsustainable power purchase agreements, or by distributors seeking higher rates of return. The generators need the prospect of secure future demand to justify investment resulting in uncertainty of the policy of attracting investment through privatization. Those, which are most stable, are the ones with local partners, where the finance raised and risked is local in nature. For example, Iberdrola's stake in the north-eastern Brazilian distributors.

The report further talks about the development of the policies of the governments of Argentina and Brazil. In Brazil, the new government under Luiz Inacio da Silva (Lula), who was elected as president in 2002,has chosen to minimize disruption to power sector and CEMAR, a multinational, was taken over in 2004 by Brazilian investors while the Brazilian development bank, BNDES, which lent money to AES to buy Brazilian assets in 2003, took a 49% stake in Electropaulo in exchange for renegotiation of AES's debt. Under the new policy, large new hydro-electric plants will dominate the Brazilian electricity system. The government prioritized investment in new generating capacity, which will be determined by central planning authority. The new plants will be financed by a mixture of public and private money. A deal concluded in April between the Brazilian government and the IMF has allowed Electrobras to invest an additional R$4 billion per year and

Petrobras R$7 billions for a test period. The changes will also allow BNDES to increase its lending.

In Argentina, privatized utility contracts were dollarised, which guaranteed the companies the right to take revenue in dollars, thus protecting them against currency fluctuations. However, in the wake of the economic collapse, the Argentine government cancelled the 'dollarization' clause and imposed a freeze on utility tariff, thus passing the cost of devaluation on to the utility companies. Since then the utility companies have been seeking to deal with issue either by abandoning their operation in Argentina, or by taking claims against the Argentine government to the World Bank's International Center for Settlement of Investment Disputes. So far the government has maintained a hard position.

The report also states, in this section, that the way the multinationals are operating in these countries caused resistance against privatization. In Ecuador, government's attempts to privatise electricity assets have encountered organized resistance including unions, provincial and local governments, indigenous organizations and others. In 2002, these campaigns forced the abandonment of proposals to sell electricity distributors. A further attempt at privatization was abandoned in February 2004 when there was not a single tender for any of the companies.

In Peru, the privatization of generating companies, which began in 1995, has faced powerful opposition. In June 2002 there were riots in Arequipa after two electric power plants were sold to Tractebel forcing the government to suspend the sale.

The report states that there has also been powerful political resistance to energy privatization globally. There has been number of cases where policy has been reversed. A presentation from the consulting firm Deloitte at the World Bank Energy Forum in March 2003 treated political opposition as one of two key factors for the fall in private energy investment worldwide.

In the fourth chapter the report further says that these types of activities of the multinationals forced the IMF to change its rules. In April 2004, the IMF published a report in which it had proposed allowing public sector corporations to invest without infringing restrictions on government borrowing. The immediate effect of this was to free Brazil from some of the restraints of the previous regime and enable investment to take place through the public sector. The report also says that the World Bank in a report published in June 2004 admitted that it has promoted privatization with irrational exuberance and that there have been cases where privatization was undertaken without institutional safeguards.

Electricity Liberalization : The Beginning of the End

By:

Steve Thomas

September 2004

Bird's Eye View

The report was commissioned by Public Services International (PSI) for the World Energy Council Congress held in September 2004. PSI is a global trade union federation representing 20 million public service workers from 150 countries. Its members are committed to provide quality public services to their citizens. But unfortunately, due to the pressure on governments from the World Bank to privatize and liberalize public services, the members of PSI are unable to provide the services that their citizens and their communities require.

The 12-page report, divided into six sections, states that privatization is creating serious problems all over the world, regardless of the wealth of the countries. It points out that the particular nature of electricity sector makes it difficult, if not impossible, to impose market dynamics.

In section I, the report says that safe, reliable and affordable electricity is one of the key components of sustainable development and the backbone for economic and social development for any modern society. It also says that in developing countries shortage of electricity and blackouts are the usual norm.

The report in its 2nd sections says that the World Bank is finally beginning to admit that electricity privatization has become widely unpopular now, and also acknowledges that foreign investment in electricity industries has gone down as US and European electric utilities had borne massive losses on foreign investments not only in developing countries but even in country like UK. So the report says that privatization is no longer politically or practically an option in many cases. But in 2003, the European Commission proposed a new Electricity Directive (EC/2003/54/EC) with stronger requirements on competition. This does not mean that no reforms are going to take place in the electricity sector.

The report further says that the International Monetary Fund (IMF) will not like to give up one of their main tools for governments to generate income to repay their loans.

In this chapter the report further talks about how the developed countries like European Unions and US are exerting immense pressure on developing countries through the General Agreement on Trade in Services (GATS) to open up their electricity industries for foreign investment. The report says that once a country gives its commitments, it cannot withdraw no matter how badly reforms go.

In the third section, the report indicates that the current position of the World Bank on electricity privatization is full of contradictions. On the one hand it acknowledges the failure of electricity privatization in many countries, on the other hand it still recommends privatization of public services stating that many countries can benefit from careful privatization of services.

The report also says that according to World Bank's report published in 2004, the private sector is not much interested in investing in developing countries' utility industries. The foreign investment worldwide in 2001 was less than half the level of 1997 leading to decrease in stock market, financial crisis in emerging markets and public opposition to privatization.

In this section the report further says that the World Bank thinks that the collapse of foreign investment is a temporary phase and the problem can be fixed. But reality indicates that the problems are deep-tooted. Following are some factors leading to the failure of privatization:

1. *Currency risk*: Devaluation of currency. If the currency is devalued in foreign market, prices will go high in order to maintain the profit of the present company.
2. *Demand risk*: For example, in Brazil, in 2001, demand had to cut by 20 percent because of lack of supply. This meant income of distribution companies was cut by a similar percentage.
3. *Political risk* When the citizens of the countries where the multinationals are active are faced with less amount of electricity at unaffordable price, the government cannot intervene on behalf of the citizens; means cannot go against the practice of the multinationals.
4. *Corporate incompetence* Private electricity utilities while portraying themselves as commercially astute, they had made many serious errors. For example, in Britain, in 2001, four American utilities companies like AES, AEP, NRG and Mission Edison made large purchases of generating plant, which was based on an inaccurate forecast of wholesale prices and a poor understanding of the structure of the market in Britain. Within 18 months, the investments had all failed and the companies had each written off billions of dollars of investment.

The report further says that it is not possible for the developing countries to come out of the mess created by the multinationals with the support of the World Bank and IMF. The IFIs do not support public ownership, they rather advise the government to continue with the privatization process. It also says that privatization will not lead to lower prices because the investors need bigger incentives to go back to foreign markets and strong regulation will make the investors to lose their interests. It also says the regulation also cannot be free of political influences as in most developing countries the government does not have legitimacy to appoint and dismiss regulators.

In the fourth section, the report analyses why the liberalized competitive electricity model did not work. It says that one of the most attractive promises of liberalization was that investment risk would be borne by the private sector without burdening the consumers. But the reality in the electricity sector is dominated by capital costs and long-term process. Moreover, the companies do not now take any risk. No bank is going to finance the investment in power sector without strong assurances on the volume and the price of the power they sell. For example, Britain is dominated by a handful of companies generating electricity for their own consumers bypassing the wholesale market.

The report further says that much of the policy seems to believe that competition is key to success, but for electricity sector the cost of competition is various and often very high. However, for power station, where repaying the capital is one of the largest costs, if the cost of capital is more than double, the competition will burden the consumers and the workers to repay the extra costs.

In this section the report also says that though neo-liberals sold liberalization promising that electricity could become just like another product to be bought and sold in the market , but it was not so because unlike other commodities electricity cannot be stored to maintain the balance between demand and supply by controlling the prices. Instead, it is withhold to force up the prices. A free market will inevitably expose consumers to huge price hike and will give ample opportunities for market manipulation by generators.

In the fifth section, the report tells that the policies that the government must follow will depend on the extent of the reforms already carried out.

It says that all the countries did not go for reform. For example, countries like Korea, Brazil, Mexico, and part of Canada, Australia and USA had to abandon liberalization because of the problems and opposition they faced. In Brazil the reform have failed as the new Lula government is committed to public control of the electricity sector. In Mexico and Korea, reforms were halted mainly due to mass opposition. In case of EU countries, the report says that member-states of EU are bound by the Electricity Directive. The Commission's relentless pursuit of reforms in this area leads to control of electricity from national governments, creating large electricity companies that can compete in world market and destroying nationally owned monopoly companies.

In this section, the report also talks about some countries where reforms have been completed and appear irreversible. These include Argentina, Colombia and Chile. Post reforms these countries faced the biggest problems because most of the old companies have been destroyed and the industry is in the hands of foreign companies with little commitment. For such countries, the IFIs often give little option but to pursue privatization and liberalization.

The report further says here that sanction will be soon imposed against those countries that do not carry out reforms soon and retain the nationally owned companies. Some other countries prefer to follow the letter of the Directive with the aim of creating a strong home market for National champions.

The report further says the major problem will be reversing the Commission's Directive, as the Commission will never admit its mistake.

In this section the report also talks about some success stories of countries like UK and Nordic countries (Norway, Sweden, Finland and Denmark). It says that these countries are the flagships of the reforms boasting lower prices, and maintaining supply, security and service standards. All these countries had strong mature networks that did not require major investment. Public ownership dominates and demand-growth is low.

In the sixth section, the report says that for developing countries the problems, because of liberalization will be significant. Prices may have to rise to pay for a backlog of investment. It also says that in the developing countries, national companies that were center for skills and good employment practices have been destroyed at the command of the IFS. Their industries often suffered serious under-investment in the privatized market and have been restricted on public spending by the IFI reducing the scope to retake control of the industries.

The report, as a last option, says that the developed countries must help these countries and the IFIs must re-assess their policies and must acknowledge their mistakes.

The report concludes by saying that the public monopoly organization is still the best option for the electricity sector, despite the professions of the free-market ideologues in the World Bank and in other powerful organizations.

Blackouts: Do Liberalisation and Privatisation Increase the Risk?

By:

Steve Thomas and David Hall PSIRU, University of Greenwich

December 2003

Bird's Eye View

This report was commissioned by EPSU in order to assess the generation and network activities in the electricity sector, which are causing blackouts in USA and in many European countries.

The 14-page report, divided into five sections, containing four tables indicating generating capacity adequacy, major blackouts and recommendation, tells about how liberalization of electricity services caused major blackouts in the developing as well as in the developed countries. It also has an annexure narrating the risk of blackouts in Britain in the winter of 2003-2004.

The report, in the introduction, says that blackouts can occur even in the best-run system if security standard is not maintained. Security standard is a balance between security and cost. It further says that there is no performance standard for the networks despite the fact that blackouts due to network failure are much more common than those due to generation shortage.

The report says that before the entry of private companies into the electricity sector, the traditional, publicly owned monopoly cost-plus system was generally effective at meeting the required security standard because unlike private companies profitability was not the key objective for the publicly owned companies. Instead their duty was to ensure security of the network and to ensure enough generation capacity. Any saving the company made was passed on to the consumers. But under liberalization this system was criticized as being inefficient because there was no motive to make profit to minimize costs. The liberalized model deals with this problem by making generation a competitive activity and by introducing incentive regulation under which the companies can keep cost savings as an extra profit for themselves. The report also says that activities in the electricity industry under liberalization are now being bought and sold frequently by changing the ownership not once but many number of times, based on "take the money and run" philosophy. For example, in Britain, the Eastern distribution network has had five owners in only eight years, while ownership of some power stations has changed three or four times in the same period. Currently in Britain, about 40% of the generation capacity is owned by companies that are bankrupt or close to bankruptcy.

In the second section, the report says that under liberalization the network activities remain regulated monopolies. Network companies are often unknown to the consumers. So the chain responsibility that existed in the old system is broken that meant the electricity companies had a direct responsibility to the final consumers. It also says that the transmission and distribution companies now have to deal with multiple users of their system who they have no influence or control over. Thus these companies have limited scope to order generators or retailers to take measures to ensure security.

The report further says that the introduction of the incentive regulation in the new system was meant to address the alleged inefficiencies of the old system also becomes a weakness for the system as under this the companies are allowed on approved level of investment and expenditure on operations and maintenance enabling them to make such savings as to increase their profits regardless of whether there will be a detrimental effect on services. For example, when the rail industry was privatized in Britain, a similar structure was adopted for the electricity industry. The network (the rails) was owned by a separate company with no interest in operating train services. The company under-invested and did not maintain the network properly. By the time the problems were apparent, so much damage had been done that it was beyond solution. Ultimately the consumers and taxpayers, not the shareholders, had to shell out large sums of money to administrators to make it viable once again.

The report also states that other factors that may cause problems to the system reliability include contracting out major activities and cut backs to training leading to skilled workforce being eroded. The UK Skills Dialogues Programme looked at the skill needs for the gas, water and electricity industries and found a number of problems, for example:

1. difficulty across the gas, water and electricity sectors in attracting young people into the industry to replace the ageing workforce;
2. the short-term regulatory framework of investment and contracting acts as a disincentive to invest in skill and training; and
3. there are concerns that poaching is a disincentive to investment in training.

The report here says that to deal with these problems the EU countries are introducing performance standard for the system that distribution and transmission companies must meet.

Although there has been huge changes in Europe's electricity industry, but in most European countries the electric system did not adopt the reforms. Instead they have taken a deliberate decision to keep, or to bring the transmission network into public ownership. In the Netherlands, the transmission network is now owned by a nationally owned company, TENNET. In other countries such as Finland, Sweden, Norway, France, Italy, Greece and Ireland the transmission system is either publicly owned or publicly controlled, which enables the governments to ensure that its development is not subjected to the vagaries of corporate finance.

In the third section, the report talks about generation of electricity. It says that earlier, generation was a national or regional monopoly, which ensured that there was enough generation capacity. But under liberalization the generation companies usually are interested in making profit from shortage of capacity by forcing up the price of electricity. For example, in California and Britain, these companies deliberately created a shortage of electricity by withholding capacity. They are simply not interested in building the required new generating capacity because they think it is economically risky and will tend to reduce the price of power.

In this section the report also says that the logic of the EU reforms is that the generation and retail companies should be kept separated so that the generating company could monopolize the market, but the EU has not enforced the logic of its reforms and in many EU countries generation and retail supply are fully integrated.

It says that a major objective of the electricity reform, creation of a strongly competitive wholesale electricity market, will be lost if integration of generation and retail supply becomes the rule.

In the fourth section, the report talks about some international experiences with blackouts in 2003. It says that in summer of 2003 a series of major blackouts affected OECD countries such as USA and Canada in August, followed by UK, Sweden and Denmark and the whole of Italy in September 2003. The report also says that California and Auckland in New Zealand, were also affected by massive blackouts in 2001 and 1998 respectively. The report here mainly concentrates on the US blackout and to lesser extent the blackout in Italy. The US blackout on August 14, 2003, was due to poor maintenance and failure of the networks to cope properly with trips and loss of generators. The report says that the transmission system of the US was not designed to cope with large amount of power traded over long distances in competitive markets. This has started happening under liberalization as owners of generating assets use trading to obtain the best price and so maximize the returns of their investment. This had also been observed earlier also in USA. In August 1999, a series of wholesale trade nearly caused the Tennessee Valley Authority (TVA) system to collapse ….as a grid that was built to exchange power among relatively small number of large monopoly generation utilities was bombard with unanticipated demands that complicated the flows in ways for which the system was not designed. Another cause for blackouts was load imbalances.

The report also states that the report by Swiss Authority SFOE identified some of the same factors as causes of blackouts in Italy in September 2003. These factors are: lines clashing with trees, an increased use of inter-connections and long-distance transmission, which increased the complexity, vulnerability and instability of electrical systems.

The report further says that under liberalized system few companies want to spend assets where the return is low or uncertain. In USA, S & P warn that if the companies make or forced to make large infrastructure investment in transmission upgrades without clear assurances about capital recovery, credit quality will suffer. Same is the case in Europe. The investor states that bulk of finance for projects will have to come from public sources. So the role and responsibility of the governments remain crucial in this respect the report also says that lack of incentive to invest in extra capacity also affects public-owned electricity companies operating under commercial rules in a liberalized environment.

The report further says that an official inquiry revealed that blackout in USA was caused due to negligence in some important issues like proper maintenance (inadequate tree cutting), inadequate operator training, failure to ensure operation within secure limits, lack of proper communication system, network failing and lack of safety requirement. The report also says that as per US report the inadequate training identified as a key issue, is now a problem not only in US but also throughout Europe. It has been observed that utilities has been cutting labour-force and failing to train new entrants to replace skilled and industry-knowledgeable workers who are now on the verge of retirement. Another factor for poor performance is shift in employment of workers by force from utilities to contractors in order to cut costs.

The report also says that many of the blackouts are either caused by, or started by, shortage of generating capacity. It further says that under liberalization, wholesale markets make the companies more vulnerable because they provide incentive and opportunities for generators to make profit from shortages of electricity.

The report concludes with few recommendations to improve the activities of the companies in electricity sector. These are:

1. the restructuring of the electricity industry should be subject to public interest considerations. There needs to be regulatory machinery which can limit market forces and commercial considerations by reference to public interest issues, even though it involves limiting the management of the companies;
2. there should be public interest re-assessment of the use of cross-border transmission lines for electricity trading. If generating capacity and system reliability can be more effectively met by national measures, then further cross-border transmission capacity for trading may be unnecessary; the facilitation of trading should not by itself be a justification for such investment;
3. transmission operators should be subject of stringent security and reliability standards, enforced by a regulatory authority with public interest mandate, and/or through public ownership of the grid;
4. regulators should impose strict conditions on distribution companies as part of their license:
   a) requiring companies to demonstrate how their future investment and maintenance plans will assure reliability, and monitoring these programmes to ensure the companies' compliance.
   b) An obligation to employ and train a skilled workforce to carry out the work.
   c) A prohibition on contracting-out off core functions, including network maintenance and customer service.
5. regulation of distribution and transmission should be based on open and public procedures which encourage and address representations from stakeholders and citizen groups.

Public Resistance to Privatization in Water and Energy

By:

David Hall, Emanuele Lobina, and Robin de la Motte

Bird's Eye View

The 16-page paper was published in volume 15 of the journal named 'Development in Practice' in June 2005. The paper contains two tables: one indicating the number of countries where water privatization was rejected since 1994 due to political opposition, and another - where campaigns have been going on against energy privatization.

The document says that the paper examines the role of opposition, encountered by the private investors and the multinationals while promoting privatization of water and energy sectors in the developing countries as well as in many developed countries, in delaying, canceling, or reversing the privatization of water and energy. It talks about the actors, about issues and methods of the opposition, and about the result it has achieved. The paper also discusses the roles of international and national actors and interests involved, the relationship to political parties and electoral politics, the alternative policies, and the reaction of international institutions and companies to the opposition.

The paper states that in the 1990s and early 2000, development agencies and international institutions had promoted private sector involvement in infrastructure, assuming that this would inject both investment and efficiency into the under-performing public sector, particularly, in developing countries. But the process of privatization in water and energy sectors has proved a failure, widely unpopular, and has encountered strong political and public opposition, largely because of the perception that is fundamentally unfair, both in conception and in execution.

The paper also says that campaigns were launched against the policies for privatization of public utilities, advocated by the government with the support of development banks and sometimes of traditional leftist practice. In many countries, the policies were either reversed or significantly delayed because of opposition. The paper here states that data from opinion polls in Latin America carried out in 1998 and 2000 reveal that support for privatization has decreased over time. In Sri Lanka, opinion polls show that privatization has resulted in deteriorating socio-economic conditions like greater poverty, increased cost of living. In Russia, two third of the respondents in a 2001 survey said that they had lost more than they gained from privatization.

The paper further says that at the World Bank's energy week in February 2003, a speaker from the global consulting firm Deloitte noted a growing political opposition to privatization in emerging markets due to widespread perception that it does not serve the interests of the population, attributing a number of features of privatization: pressure to increase tariffs and cut off non-payers, loss of jobs of vocal union members . It is only serving oligarchic domestic and foreign interests that make profit at the expense of the country.

The paper states that resistance to water privatization was not only confined to developing countries, but also was spread in many developed countries. For example, in UK, a strong campaign against Margaret Thatchar's 1985 proposal for water privatization forced her to abandon the plans before the 1987 election in order to avoid electoral damage. The writers, in this paper, tell about more political resistance to water privatization scheme. In December 2001, the water contract for Nkonkobe in South Africa was nullified, as public and municipal consent was not obtained. In May 2002, the City Council of Poznan in Poland unanimously rejected a water privatization proposal, and in June 2002, the Paraguayan parliament voted out the privatization plans for the state-owned water company Corpsana (now known as Essap). These rejections were hailed by the Trade Unions as a great victory against IMF, World Bank, globalization and neo-liberalism. The writers point out that resistance has come from different types of organizations like professionals, environmentalists, consumers, political groupings, community and civil society organizations of different countries.

The paper also talks about a widespread political resistance to energy privatization.. For example, in Senegal, the government has refused to meet the demand for price hike of three successive multinationals like Hydro-Quebec, Vivendi, and AES, forcing the World Bank to abandon the plan to privatize the electricity utility, (though it is now proposing the development of private generation through independent power producers-IPPs). The paper here also gives an example of India's power privatization. In India campaign had been going on against Enron's private power plant at Dhabol in Maharashtra, which was based on a long-term power-purchase agreement. The campaign was supported by NGOs and local communities whose livelihoods were seriously damaged by the plant. Demonstrations by these communities were suppressed-leading to the unusual case of an Amnesty International report on Enron (Amnesty International 1997). The campaign, nevertheless, achieved some success with Enron departing from India.

The paper further informs that basically opposition to privatization is based on central economic issues like price hikes, profits at the expense of consumers and job losses. It says that resistance to price hikes mainly leads to rejection of privatization. It further says that in developing countries, opposition is also based on a demand that water and energy sectors should be subject to local decision making, taking account of all public interests and not left to global and commercial operators and markets.

Campaigns against privatization of water and energy sectors are going on throughout the world. As recently as 2003, the German Federal parliament and many regional parliaments passed motion opposing any move by the European Commission under GATS (General Agreement Trade in Services), provisions of the WTO, that could lead to Germany's water sector to foreign private-sector competition.

The paper points out that these political and public resistances have forced the IMF to acknowledge the probability that curbs on public-sector investment in infrastructure have damaged economic growth. The World Bank, for its part, has published a report highlighting the limitations of privatization, acknowledging that it promoted the policy with 'irrational exuberance'.

However, the paper also points out that in some cases the activity has been defused, with various parties actively campaigning but without forming a single alliance, lack of coordination among various groups and organizations during campaigns against privatization. For example, in Jakarta, a trade union has conducted a campaign of strike, calling for the end of the water privatization contracts, but without any coordination with protests by consumers and community groups. Similar is case for Colombia where environmental groups are campaigning against energy policies, and the unions are also campaigning against the privatization of municipal utilities.

The paper further says that some of the international organizations like

PSI, Consumers International (CI) and a number of development NGOs are very active on these issues, but it laments that these organizations do not have a centralized structure capable of commanding local participation in global campaigns. Assistance from international organizations in one place can help strengthen the campaigns elsewhere. These organizations must provide support in terms of information, liaison, publicity and local solidarity in order to encourage the protesters of other places fighting against privatization.

The paper also says that most of the campaigns seek broad-based political support. In Brazil, for example, proposals on water privatization were rejected at parliamentary level on at least three occasions before the election of Lula's center-left PT government in 2002. The opposition campaigns have on occasion gained significance within wider political movements. The best known is the Bolivian example of Cochabamba, where the resistance to water privatization was coordinated by the coordinating groups to defend water and life, including businesses, labour, community groups, local vendors and local farmers.

The paper further states that energy campaigns also relate to political parties in a variety of ways. For example, in Australia, a campaign organized by trade unions succeeded in influencing the voters to reject the Conservative Party, which was proposing privatization of electricity, in favour of Labour Party that promoted public sector, corporatized energy companies. South Korean has had a long campaign against the privatization of electricity, gas and other utilities in collaboration with parliamentary pressure, an environmental group and others. The paper also says that the campaigns often have significantly affected the outcome of elections in Argentina, Australia and Panama. In some cases development banks have imposed conditionality preventing the implementation of such elections.

The paper also tells that sometimes campaigns involved pursuing cases through the courts to rule privatization policies illegal on constitutional or other grounds. For example, in Brazil, Court ruled that the proposed water privatization of Rio de Janerio was unlawful, in Canada; it reversed the proposed electricity privatization in Ontario, and in India, it ruled against the legality of a proposed power station on environmental grounds.

However, the paper says that the opposition campaigns have not always offered a specific alternative policy. Sometimes the campaigns do not want any changes in the existing public utility in place, however poorly functioning. It also says that it is unlikely that generalized alternatives would ever be developed because local conditions and demands vary to a great extent. The Water Resource Institute, in 2002, reviewed the energy reforms in Argentina, Bulgaria, Ghana, India, Indonesia and South Africa and identified major problems with goals and processes of electricity reforms in all these countries.

Following are four recommendations put forward in the report by Water Resource Institute for progressive policies of electricity sector reforms:

1. Frame reforms around the goals to be achieved in the sector. A narrow focus on institutional restructuring driven by financial concerns is too restrictive to accommodate a public benefits agenda.
2 Structure finance around reform goals, rather than reforms around finance.
3 Support reform process with a system of sound governance. An open-ended framing of reforms will reflect public concerns only if it is

supported by a robust process of debate and discussion.

4 Build political strategies to support attention to a public benefit agenda.

The report also says that locally, too, procedural issues have become central to alternative reform proposals, as can be seen from the followings:

1. The Indian energy group Prayas advocates the application of three principles: transparency, accountability, and participation.
2. Prayas agrees that there is a crisis in the power sector in India, but also recognizes the achievement of the existing model, based on state ownership, self-sufficiency, and cross-subsidy to agriculture and households.

For example, in South Africa, the public-sector union SAMWU not only organized a campaign opposing privatization of public services including water and energy but also ran a series of workshops for its members to address the issue of developing alternatives.

The paper now talks about the reaction of the multinationals against political resistance to privatization, which has been acknowledged by the World Bank as a factor for its failure in water and energy sectors and decreasing faith in markets. It says that the multinational companies (MNCs) have reacted more sharply, with a series of withdrawals from developing countries in both water and energy sectors.

The paper further says that the water multinationals have started developing initiatives to reduce political risks of private water ventures, especially in developing countries. For example, RWE-Thames Water has announced that it does not want to associate itself with private ventures resulting from conditionalities imposed on communities by donors or lenders; as well as it wants to dissociate itself from the European Commission's initiative in the GATS negotiations. The UK Department of Trade and Industry is similarly dissociating itself from the water initiative in GATS.

The paper also says that the donors are facing a number of challenges due to political opposition. The paper states that the IFIs and other multinational and donor agencies now need to address the question of whether privatization and liberalization in these sectors can possibly deliver sustainability in the absence of political legitimacy, and the question of how to maximize the size of the market open to international companies under such widespread opposition.

At the end of the paper the writers say that the attempt to introduce privatization as a global policy emphasizes the point that markets themselves are contentious political constructs that are subject to specific local conflicts. The inadequacy of the neo-liberal paradigm for the state is increasingly recognized, and the analysts are emphasizing on the importance of building strong state institutions, based on local culture and conditions for future development.

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