

Privatisation and water policies
Sunethra Desilva
National Water Supply & Drainage Board
(Seconded to the Ministry of Inter. & International Commerce and Food)

Abstract

Privatisation and competitiveness are increasingly a subject of great controversy today. Efficiency and effectiveness can be achieved through either; the idea is to become more competitive by doing the job better in technology, in management and in consumer relations.

Good infrastructure such as water, electricity, telecommunications etc., not only helps to raise productivity but it lowers production costs considerably. Slow infrastructure development would hinder active investment from international and domestic markets and would further delay the economic growth.

Currently great emphasis is being placed on private sector participation in developing and managing the water sector. There is a new arrangement in sharing responsibility for operating and managing what are largely government contracted and publicly owned water systems. The implications and inputs of this transfer must be measured in terms of costs and benefits, productivity and equity. Government must establish the regulatory agencies to protect the interest of the people, focusing on monopoly powers, environmental issues and the regulating and contractual arrangement to make sure that these items are properly addressed.

Public run infrastructure such as the water supply system is often not self sustaining and financial sustainability ought to be improved by the introduction of private sector methods. But the private sector will only invest for an acceptable level of reward related to the risks. There is clearly a need for partnership where facilities are provided such that providers make reasonable profits, but profits and levels of service must be fair to consumers. In order to ease the burden of the government it is necessary to have private financing. This will also encourage better risk sharing, accountability and most importantly monitoring and measurement in infrastructure provision. Although it is undesirable for the developing country's governments to owe risk excessively the private sector cannot share the whole of the risks.

A certain part of political risks can be most appropriately shared by the developing country's governments. However relying upon the private sector entirely would make a country's systematic infrastructure development impossible.

Increasing private sector participation in the provision of water services on a trading basis may be appropriate given the growing acceptance of water as an economic good. Water also has public and merit good attributes which require continued and often increased government involvement in the water sector at the very least through effective regulation. Appropriate policy analysis suited to developing country environments drawing on successful experiences leading to staged implementation is needed to capitalise on recent developments. The government has decided that regulated private sector provision is preferable to public ownership. Therefore the government should be responsible for strategic infrastructure planning as part of its economic development strategy.

Introduction

New sources of water are becoming scarce, more expensive to develop and require more expertise and technological know how for planning, design and implementation. Accordingly decision makers are beginning to realise that water can no longer be

considered to be a cheap resource which can be used, abused or squandered without much consequence for mankind's future. During the next two decades water will be increasingly considered to be a critical resource. Of all natural resources water is probably the most essential for life. Many of the great migrations of humans and animals are linked to be presence or absence of water. Yet much of it's scarcity has been man-made in so far as a free good. However it's acute shortage that often times reveal the true value of this critical resource.

Different Uses and Demand Management

Now we are entering the period of the "Maturing water economy" with increasing competition for access to fixed suppliers, a growing risk of water pollution and sharply higher economic, social and environmental costs of development. The shift is from a supply orientation to emphasis on demand management.

Managing demand entails taking into account the value of water in relation to it's cost of provision and introducing measures which require consumers to relate their usage more closely to those costs. It entails treating water more like a commodity as opposed to an automatic public service. The supply and demand for water are not absolutely determined by natural forces and engineering requirements but rather are to be measured in terms of the economic balance of all the needs and resources of the community. Whether water is cheap and other resources are scarce, water can be liberally applied to industrial domestic and agricultural uses; recycling may be minimal and consumption uses need not be severely penalised.

Where water is scarce and expensive it becomes justifiable to construct elaborate facilities to minimise intake to recirculate quantities withdrawal and avoid uses that are consumptive.

Water management of irrigation also play an important role here in Shri Lanka. Irrigation management transfer was proposed to be described as the expansion of the role of farmers and the private sector and the reduction of the role of government in irrigation. Management. Here too the necessity to increase the private sector participation and the reduction of government participation is spelled out. Irrigation management transfer became a national strategy in developing countries only in the 1980's and 1990's. These trends necessitate a new look at water policy especially in developing countries.

Why Privatisise

The purpose of privatisation is to make enterprises more efficient, productive and profitable. Many of the state owned enterprises have played a major role in our society and economy. The fact is that many of them are inefficient and require huge state subsidies to remain in operation, this creates a massive burden on the treasury. The immediate pressure for privatisation may come from the World Bank the International Monetary Fund and other agencies demanding reductions in government expenditure. The obvious solution is to dispose of activities where the cash outflow is greatest and to restructure those which may currently appear to be profitable so that they can do even better or draw in investments which can help expansion, as well as the confidence for investment in other areas on offer.

From the micro point of view privatisation is concerned with the enterprise level and from the macro point of view privatisation refers to changes in the whole economy. The

Bank initiated its structural adjustment programme in 1980 and then Bangladesh was well poised for dramatic moves in privatisation. The private sector did not want government regulations but neither could they stand on their own. Instead of having unproductive bureaucrats who are usually a hindrance to public welfare and productive investment. The consciousness of a long term policy of contraction of government must be the basis of any future programme for Bangladesh.

Zambia-Like most other countries which have adopted the mixed economic system the Zambian economy since 1968 has been characterised by the emergencies of a large public enterprise sector. Zambia is just embarking on a long road towards privatisation or gradual de-emphasis of the government's direct presence in economic activities. From the experience of other countries that have carried out similar programmes there is no doubt that Zambia must brace itself for a long and complex privatisation programme. It should be acknowledged that the privatisation programme will have a positive side and much support both internally and from the donor community. The government must resolve in a fundamental and satisfactory manner the question of the investment climate which provides the enabling environment for investors.

Need for Private Financing

Financial requirements differ from nation to nation. Usually developing countries financial allocations come from government budgets. The upgrading of an economy requires that ample capital is available at low real cost and is allocated efficiently through the banking system and the other capital markets to investments with the highest productivity. The government has a role in affecting both the supply cost of capital as well as the markets through which it is allocated. In case of private sector financed infrastructure the private sector should share a large portion of the risks.

In all economies the government must exercise some degree of economic management and control. The important aspect is the nature and quality rather than the extent of state intervention. It is the private sector financing that will lead to the general development of capital markets. Michael Curleys suggestion of the creation of a world water resources bank will certainly help the world's water problems. Since providing safe drinking water to the poorest and most remote areas will always be a burden on the government a world water resource bank could ease some of the pressure on national budgets. It will create a private mechanism to fund at least some of the world's water needs. This could certainly create a private structure for obtaining the long term fixed rate capital which local water systems need to reach their goal of providing safe drinking water.

A Regulatory Authority

For water industry managers government legislation from 1981 onwards created immense practical problems. It starved them of cash and required them to operate in a Pseudo-commercial world. Privatisation presents an equally formidable scenario. The form of economic regulation devised for the privatised water industry provides water companies with a powerful incentive to cut costs and improve labour productivity. The industry had to restructure around a different set of management policies. There was a shift to some form of profit centre management with centralised control and decentralised responsibility. Regulation is normally associated with private sector operations of water

economic performance improved during the decade across the 1979 public sector. If you accept that the central goal of the reforms was to increase the efficiency of the public sector then the reforms must be judged a success. Improvement in performance were more significant in companies operating in competitive markets or where the introduction of greater competition through deregulation or tendering was feasible. Performance improvement although positive was less impressive in the natural monopolies. Ownership change too cannot be easily linked to changes in performance. It is possible that improvement in total factor productivity may reflect reduction in the quality of products supplied by a monopolistic producer rather than greater efficiency.

Privatisation experiences in other sectors/countries

The UK experience-At the end of the 1970's the nationalised industries in the UK accounted for nearly 10 percent of the Gross Domestic Product and employed nearly 10 percent of all workers. But by the end of the 1980's this picture was transformed. In the UK, telecom, gas, electricity, aviation, steel production and water supply had all become largely or wholly private sector activities. Their role changed from procedures of service to suppliers of services produced by others. The most important factor has been the concern to improve efficiency of the public sector enterprises. Another important reason is the concern to reduce the role of the government. This is better financial management for example here is Shri Lanka the private sector is the engine of growth. Privatisation also increases competition

East Germany

The creation and organization of the Treuhand which is in charge of privatisation in East Germany is a state trustee agency. This was founded by 1st March 1990. The purpose of Treuhand was rather to transform the economy. The leading principle that Treuhand should pursue is to transfer to state-owned wealth into private ownership. Growing social problems increased Treuhand's awareness about the danger of decisions which may be difficult to reverse. It uses today a high dose of caution in deciding about liquidations.

Japan-Privatisation in Japan basically falls into the transfer of whole government enterprises to the private sector. Privatisation and deregulation in Japan are very closely joined and even mixed. Privatised enterprises in Japan are not free enterprises altogether. Nearly all of them belong to the public utility area and are regulated by the government. Deregulation and privatisation are a part of Japanese adjustment policies. Competition is not a goal, it is only a device to achieve some goals. Nationalisation in Japan unlike in Europe was motivated by a desire to make the state prosperous and powerful.

The big change after privatisation of Japanese National Railways is that the emphasis of railway business has been placed upon profit rather than upon public welfare. In city areas where traffic demand is vigorous Japanese Railways improves passenger traffic by the improvement of coaches, maintenance of cleanliness and increase in train schedules. However abnormal accidents that have never been seen while JNR was engaged in railway operations have been frequently brought about.

Bangladesh- Privatisation began in Bangladesh well before the global popularity of the concept. It was mainly a reaction to the nationalisation process of 1972. The policy had virtually prohibited all private initiative in trade and industry. It encouraged only promoters, agents and indentors for trade and industry. Dhaka Water Supply and Sewerage and Chittagong Water Supply and Sewerage remained authorities. The World

supply and sewerage. However the same concepts of independent control through transparent regulation are equally valid where operations are in the public sector. Many countries already have quality regulation for drinking water, bathing water and treated effluent but economic regulation would also be beneficial to public sector operations. Therefore establishing a regulatory framework and organization can and should precede private sector involvement. The main aims of economic regulation are to ensure that the consumer receives a proper service, the private sector operates efficiently and that the private sector makes a reasonable profit.

The relationship between the government the private sector and the regulators must be one of mutual understanding of their respective roles and respect for their objectives. The principles of regulation should be clearly stated and published in order to achieve transparency. Thus we see that privatisation and it's effects or repercussions will largely depend on the nature of the enterprise, the state of the economy and the business environment as a whole. Globalisation has placed a high premium on sound economic management and competitiveness. Nations will compete in the future not only in terms of private sector outputs but also on the basis of government performance and effectiveness. Deregulation and privatisation in many Western countries resulted not only in diminishing the public enterprise role but also in diminishing the role of the state in the economy.

Recommendations and Conclusion

The involvement of the private sector successfully in the provision of water supply and sanitation services in the Asian and Pacific region has led to better services, better handling of risks and greater value for money through improved operational efficiency and managerial flexibility. Here in Shri Lanka the water sector should be restructured, reorganised and totally reengineered in order to generate overall profits. Through deregulation a water authority could be formulated in order to exercise some degree of economic management. The important aspect is the nature and quality rather than the extent of state intervention. The objective of privatisation of the water sector here in Shri Lanka should not merely be to transfer the state owned wealth into private ownership instead it must achieve competitiveness, support the structural changes in the economy and above all improve it's efficiency in rendering a vital service.

References:

Privatisation of the Water Sector UNDP handbook
Towards effective water policies-edited by Linklain,Bird Derkoff & Mosley
Privatisation edited by V Ramanathan