

Privatisation in Deep Water?

Water Governance and Options
for Development Cooperation

Annabelle Houdret/Miriam Shabafrouz

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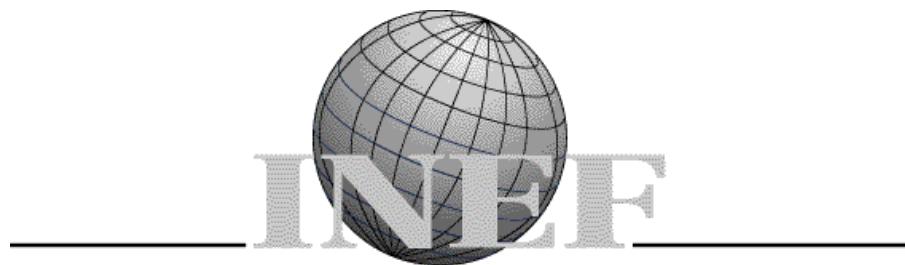
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Abstract

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Water is an essential factor for human development and health, but also for agricultural production, the development of the tourism sector and industrial growth. The increasing scarcity of the resource contributes to high competition between these user groups. Growing tension and conflict over water allocation urge for new approaches in demand management.

The provision of safe drinking water constitutes one of the Millennium Development Goals, but is still far from being achieved. While the public sector has often been blamed for bad water service and corruption, the subsequent involvement of the private sector has frequently resulted in a lack of supply to poor population groups and has not kept the promise of large investments in infrastructure. The currently heated debates over the pros and cons of a privatisation of water services have led to sometimes violent conflict.

The report explores the global trends, which have led to the promotion of privatisation as a solution for deficits in development. Furthermore, it investigates the cooperation of international financial institutions and the private sector. It provides an insight into the underlying interests, norms and values of the different actors involved, be they public, private, or from the civil society.

Based on this analysis, the authors propose a concept of socially, economically and ecologically sustainable water governance and point to two essential options for development cooperation: the implementation of political regulation and the equilibration of power relations at the institutional level.

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1. Introduction:

Water Governance in Times of Scarce Physical and Financial Resources

Within the last fifteen years, the availability and distribution of freshwater has become a highly relevant and often strategic issue of domestic and international policies¹. In many regions of the world, water resources have already become scarce, and shortages entail droughts, poverty and famine. In numerous countries, the lack of drinking water and sanitation infrastructure or their bad state is responsible for poor health conditions and the spreading of diseases. The UN estimates that more than 1.1 billion people lack sustainable access to safe drinking water and 2.6 billion do not dispose of basic sanitation infrastructure (UNESCO-WWAP 2006: 97). Rapid population growth, the extension of irrigated agriculture and increasing pollution restrains the availability of clean water resources, which, in turn, increases its economic and strategic value. Supply management and investment in large-scale infrastructure projects for the mobilisation of additional resources is not enough to cope with these challenges. Technical solutions need to be much better embedded into political approaches, because, as the UNDP states "this water crisis is largely our own making. It has resulted not from the natural limitations of the water supply or lack of financing and appropriate technologies, even though these are important factors, but rather from profound failures in water governance" (<http://www.undp.org/water>). These failures have led to the well-

known overexploitation of the resource, as well as to increasingly inequitable distribution patterns, causing social unrest and conflicts between concurrent user groups in many parts of the world.

Besides the water consumption of the agricultural and the industrial sector, it is the fast growth of urban settlements that increases the pressure on water resources and leads to their over-exploitation and deterioration. This trend is expected to continue, as 80-90% of world population growth will affect cities (UNDP). The need for improved water distribution and sanitation systems is thus evident and constitutes one of the eight Millennium Development Goals (<http://www.un.org/millenniumgoals>) But progress, especially in developing countries, is still rather slow. The public sector, which remains dominant in water supply and sanitation, is often not able to cope with the challenges of nonexistent or old infrastructure, the urgent need for water economy and the effects of pollution. The inefficiencies of public water management and the lack of public financial means for improving the situation have become the main arguments for the call for privatisation. As in other domains of public service, public-private partnerships (PPP) or the complete privatisation of the supply have been promoted as efficient tools of development.

While privatisation was meant to compensate for the deficiencies of public management, the situation became worse for many of the users.

¹ We thank Lars Wirkus, BICC Bonn, for his comments on a draft of this paper.



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Gleick points to the fundamental problem in this regard, namely that "the greatest need for water services often exists in those countries with the weakest public sectors; yet (...) the greatest risks of failed privatisation also exist where governments are weak" (Gleick et al. 2002: 29). The protest of civil movements exerting pressure on their respective governments effectively led to the retreat of the private sector from important projects of water supply, such as in Bolivia, Tanzania or the Philippines. But neither has the private sector totally withdrawn from drinking water supply, nor have states and donor agencies found the financial means for the necessary investments in infrastructure.

After these different problems in implementing efficient water governance, the "water game" now seems to be at a new turning point, where competing actors negotiate and sometimes fight over their influence. Multinational companies, which had first benefited from the privatisation campaigns, are increasingly withdrawing from non-lucrative markets. International financial institutions, as a reaction to the massive critique of the effects of privatisation and top-down water management policies, increasingly adopt discourses of the developmental context, such as the strengthening of participative approaches, the decentralisation of public services, poverty reduction and the implementation of good governance. At the same time, a few key actors of the private sector were able to establish their worldwide leadership in the privatisation of water supply and simultaneously strongly influence the political and scientific discourses on water management. In their struggle against this influence, non-governmental organisations (NGOs)

are actively promoting a "Human Right for Water", insisting on the need for a minimum quantity of freely accessible safe drinking water for every human being. They insist on state regulation of the resource's management, as "water has vital social, cultural, and ecological roles to play that cannot be protected by purely market forces" (Gleick et al. 2002: 1).

The clashes between these different interests and values at stake do increasingly provoke - sometimes violent - conflicts. In addition to the growing demand for water and the uncertainty over its availability, these dynamics enhance the pressure on political decision-makers, as new solutions for the mobilisation and allocation of the resource are urgently needed. The need for not only effective but also legitimate governance structures seems crucial for overcoming the present polarised stalemate.

Interestingly, the heated debates refer to far-reaching issues at stake, which do not only concern the water sector: the duty of a state to provide basic services to its citizens, the extent to which governments are able to impose rules on the private sector, and the impact of civil society on policy design. Beyond the mere questioning of resource management, it thus appears that a whole process of negotiation over power structures is involved.

The report approaches the current problems of water governance from a perspective of actor-centred institutionalism. It points to three types of relevant actors - the state, the private sector and non-state actors - who are embedded in patterns of formal and informal organisation. Beyond economically efficient infrastructure management, these

organisational patterns actually point to different modes of governance, based on differing norms, values and goals. Contradictions between these diverse strategies of the stakeholders implicated have reached a momentum of polarisation, which results in conflict potentials and sometimes the escalation of violence.

But, at the same time, this momentum of renegotiation constitutes a chance for the implementation of new forms of water governance. In this context, if development policy is able to adapt to these dynamics and challenges, it constitutes a powerful tool for improving sustainable water governance conflict prevention. But the implementation of a legitimate water governance structure requires the overcoming of ideological cleavages, which persist between the stakeholders but also within development cooperation agencies. On the other side, by financing inadequate solutions and enforcing existing disparities, development policy also runs the risk of "doing harm." In view of the important implication of European

and especially German and French private companies and development agencies in cooperation projects in the water sector worldwide, a reorientation of policies may have a significant impact.

The first chapter of the report provides an introduction to the policy problem and gives a short overview on its issues of conflict as well as the more general global trends, which have led to the promotion of privatisation. It also proposes an analytical framework guiding the study. The second chapter deals with the actors and the constellations of their basic interests and resources. Furthermore, it proposes an analysis of their modes of interaction and the norms and values referred to which significantly contribute to the current policy output, which is characterised by misunderstanding and conflict. The third section then outlines a concept of socially, economically and ecologically sustainable water governance and proposes options for development cooperation in this regard.





2. The Policy Problem: Equitable and Efficient Water Supply

While the increasing scarcity of water resources and its ecological impact have often been the object of academic research and public debate, international agendas neglected the issue of drinking water supply and sanitation for a long time. Today, not only the strategies regarding water scarcity, but also the conditions of drinking water provision are most controversially discussed. The issue of privatisation deeply divides politicians, development workers and activists, and mobilises stakeholders at the local, national and international level. The present chapter provides an introduction to the debate by a) clarifying what privatisation in the water sector is about, b) outlining the major global developments which led to this trend and c) shedding light on the main divisive issues. Finally, it proposes a stringent framework for the analysis of this policy problem.

2.1 Water Supply and the Issue of Privatisation

The characteristics of water resources and the multiple uses which humans make of it make it a resource whose management is not easy to handle. Water crosses geographical and political boundaries, it is difficult to transport and to store, and its manipulation has immediate consequences for the quantity and quality of the resource available for other users. Every modification in the rules of its management might thus have a potentially large impact on social stability.

Maintaining the balance between the three key dimensions of

sustainability - the ecological, the socio-political/economic and the political one - is an essential task of political decision-makers. In the management of the water supply system, which may be completely in public hands or involve private companies, their task is to weigh these dimensions up. Presently, about 90% of drinking water systems all over the world are still in public hands (Cevallos 2006), but this is rapidly changing. In developed and transitional countries, private companies have already become massively involved in the management and building of supply systems (Aït Ouyahia 2006). In developing countries, and especially those with fragile governments, financial risks for these companies are higher and investments thus lower. International financial institutions and donors increasingly aim to reduce this risk for private investors and provide credits or investment guarantees, often to be reimbursed by the respective state. Privatisation in the water sector concerns the transfer of some or all of the assets or operations of public water systems into private hands (Gleick et al. 2002: 3).

Five types of delegation may be distinguished:

- 1) Service contracts cover up to three years and consist in the outsourcing of limited tasks to a private company. Fixed fees are paid for such services.
- 2) Management contracts designate the support of the public water system through private companies in the management and maintenance of the supply system. In this case, the private



- company is remunerated via a fixed fee by the public authority and does not invest or take on any risk.
- 3) Leasing contracts concern a time period of 8 to 20 years. The private company is responsible for the maintenance, but not for investment in expansions of the net. The operative risk lies with the company, while the state takes over the investment risk.
 - 4) BOT-contracts (Build-Operate-Transfer) are signed for similar time periods and consist in the financial participation of the private partners. They invest in infrastructure, operate it until the amortisation and then hand it over to the public authority.
 - 5) Concession contracts are agreed upon for periods of at least 15 to 30 years, and the private companies assume the entire responsibility and most of the risk for operation, maintenance and investment of a supply system.

The concrete mode adopted can range from the full transfer of the task and infrastructure to the private sector to various other arrangements still partly implicating the public sector. Public-Private-Partnerships (PPP) are more frequent than a purely private supply in the water sector, and middle-term arrangements more frequent than long-term contracts. Privatisation is usually linked to deregulation and thus to a reduction of state intervention on the market, but it is in practice frequently accompanied by a "re-regulation" (Deckwirth 2004: 7). Public authorities do, theoretically, still have an influence through regulatory agencies, in order to be able to defend the goals of social equity and ecological sustainability. In cases of failed privatisation projects the public

sector takes usually over the management again.

A few typical characteristics of the water sector restrain the number of possible management forms and have an effect on the power relations between the different actors. In general, the infrastructure expenditures (for networks, plants and junctions) are very high, while the production costs of water are rather low. For this reason, a single provider can better run the market than several competing ones. As it becomes very expensive for competitors to enter the market, a so-called "natural monopoly" is likely to occur. This is a typical situation of market failure. It can lead to the same problems as any other monopoly, such as higher prices, lower production rates, under-investment in capital and lower quality (Beck 2001: 151). In short, the monopolist – be it a public or a private one – might abuse its power and maximise its own interests at the expense of those of the customers. Operators working on the basis of economic goals have little interest in serving low-income groups (Kessler 2005: 7), and thus exclude important parts of the population from the water networks. This privileged position of the provider explains the political sensitivity of its influence.

Several examples such as failed privatisation in Cochabamba (Bolivia), Jakarta (Indonesia) and Manila (Philippines) point to the relevance of this argument. In all of these cities, water supply systems were already in a bad state before the involvement of private firms: over-aged and leaking networks, limited or no delivery to important parts of the population and almost non-existent sewage systems (Deckwirth 2004: 11). A closer look at the case of Manila reveals that deci-



sions made at the beginning of the project are crucial for its further evolution. In 1995, two companies obtained concessions for 25 years to improve the desolate situation of the city's water network. The Western part of the city was contracted to Maynilad, partly owned by the French multinational company Suez/Ondeo. In the beginning, this contract served as a reference model of PPP to the World Bank, but was then dissolved in 2002 due to different reasons. Maynilad had made a claim for a compensation of the losses caused to the company by currency fluctuations from the Philippine government, who refused (Gleick et al. 2002: 31). Contrary to the agreement, the company did not provide access to the population excluded from water supply, nor did it reduce the leakages which caused water losses of about 70 per cent. The prices, promised to be stable, rose by 400 per cent (Deckwirth 2004: 12). The company spent high operating costs for management salaries and the outsourcing of tasks, and was then unable to invest in the infrastructure, especially when it had to bear the consequences of natural disasters like El Nino.

Privatisation of water services, as experience has shown, entails the danger of neglecting social, ecologic and long-term economic goals for short-term benefit calculations. The policy problem of providing safe and affordable drinking water in times of scarce public financial resources and important investment needs is reframed here in an analytical framework, which summarizes the main variables influencing the final output of success or failure.

2.2 An Institutionalist Perspective on Water Governance

The actor-centred institutionalism proposed by R. Mayntz and F. W. Scharpf provides a useful approach for the analysis of water governance (Mayntz/Scharpf 1995). The key assumptions on the different factors shaping the process are outlined below. The question of their impact on the disputed output, namely the governance of the resource which today provokes conflicts, is addressed in the second chapter.

The different types of actors involved in water governance (public authorities, private and public firms, user groups, banks, shareholders, international institutions, development agencies) have their specific interests and therefore aim at different policy outcomes. The institutional context as well as the resources available for the pursuit of their interest defines their scope of action. The actors find themselves in different constellations to each other and confronted with different options for their interaction: either adjusting their interests and building coalitions, or negotiating agreements, or adopting strategies of confrontation. Their behaviour is, to a large extent, guided by institutions, often referred to as "rules of the game" (North 1990). These rely on a common acceptance within the society and are often linked to cultural, ideological or religious beliefs. Informal rules, which are not legally codified but well-established through customs and habits, can therefore have an important impact on structuring relationships. Merkel

et. al. point to the different processes of establishment of formal and informal rules, stating that while the first "emerge through authoritative political, administrative or judiciary statutes and are changed by them, informal rules emerge through the self-organising dynamic of social interaction processes, basing on regular interaction between individual, collective or corporative actors without compelling/coercively formal statute" (Merkel et al 2003: 192). They are not sanctioned by the state, but socially.

In water management, formal rules are usually agreed upon but numerous informal rules, negotiations and arrangements over priorities in allocation or the maintenance of infrastructure actually determine their practical implementation. Furthermore, informal rules such as specific norms and values might guide the long-term strategy of the actors involved, and determine their behaviour to a higher degree than formal agreements. It is also widely acknowledged that formal (political) institutions can only establish and reproduce themselves in a stable way, if they can rely on complementary informal arrangements (Merkel et al. 2003: 193). In the processes of privatisation of water supply, we observe the frequent failure of newly created institutions. One explanation might be that these were shaped on a purely formal level, but without enjoying any social and political legitimacy and therefore not embedded into an informal institutional context.

The formal and informal institutional context is therefore highly relevant for conflict and cooperation in water governance. Institutions are modifiable and often reflect the result of negotiation processes, and their

concrete shape therefore very much reflects existing power relations.

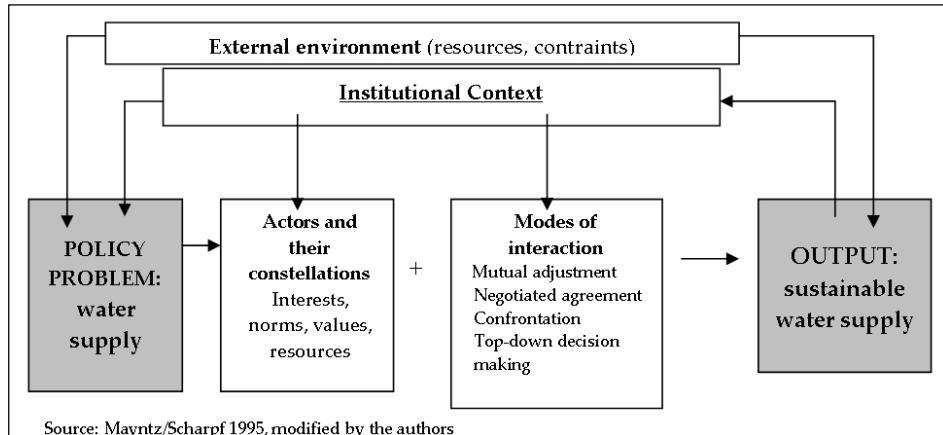
The policy problem of water supply is thus embedded in this complex institutional context, which determines the positioning of the different actors involved. As Rogers and Hall put it, the concept of governance "of course encompasses laws, regulations, and institutions but it also relates to government policies and actions, to domestic activities, and to networks of influence, including international market forces, the private sector and civil society" (Rogers and Hall 2003: 4). Water governance is therefore much more than the implementation of formal rules for the mobilisation and allocation of the resource, but rather "refers to the formulation and stewardship of formal and informal rules regulating the public realm, the arena in which state as well as economic and societal actors interact to make decisions" (idem: 16). Basically, water policies "determine who gets what water, when and how and decide who has the right to water and related services and their benefits" (UNDP/IFAD 2006: 47).

Water resources have multiple functions for human development and affect the social, ecological, economic and health related well-being of individuals and groups. An explicitly normative approach to water governance is therefore justified and needed, namely as a political regulation to ensure an equitable and affordable supply for all population groups. The process of formulation and implementation of water governance is summarized in the scheme below.





Figure 1: Actor-centred Institutionalism as an Analytical Framework of Water Governance



The external environment encompasses all the issues not directly related to the water sector but which nevertheless represent constraints for the scope of action for water governance. These issues are raised in the following chapter on the trends that have led to the call for privatisation. The precise institutional context then depends on a range of factors. The institutional context provides a frame of action that defines the constellations of the actors, i.e. their relative positions in the field, also determined by the specific resources they are able to mobilise. Their modes of interaction very much reflect the strategy they adopt to reach their objective, thus the policy outcome pursued.

2.3 The External Environment: Global Trends Paving the Way for Privatisation

Three major developments on the global scale shaped the context from which the current debates emerged:

- 1) the economic globalisation with the growing role of the private sector in service provision,

- 2) resource scarcity coupled with a rising demand, and
- 3) important financial difficulties the public sector faces in developing but also in industrialised countries.

Regarding the trend of economic globalisation, besides the technological evolution the international financial organisations played an important role in redesigning the institutional framework of the private actor's involvement in service provision. The structural adjustments plans leading to the broad liberalisation of formerly state-controlled economies in developing countries and the conditioning of financial aid by linking it to the premise of market liberalisation were two of the main tools of the development policy conducted by the World Bank (WB) and the International Monetary Fund (IMF) (Hall/de la Motte 2004: 5f.).

The second development concerns the deteriorating state of freshwater resources. Besides the growing demand, the impact of climate change further reduces the available quantity of water through long drought periods and higher evaporation due to the temperature increase. The UN pre-



dicts that if the current patterns of water use and pollution are not modified and the world's population grows as expected to 8 billion in 2025, in twenty years 1.8 billion people will live in regions of complete water scarcity and another 5 billion in regions where access to sufficient water remains difficult (Atlas du Monde Diplomatique 2006: 14). This will very probably render the struggle against poverty, malnutrition and bad conditions of health and hygiene even more difficult and might enhance conflicts at different user levels.

The third trend refers to the increasing difficulties of the public sector, especially at the communal level, to mobilise sufficient financial means to cover the costs related to state-run infrastructure (Kluge/Scheele 2003: 8). Many governments are more and more reluctant or unable to pay for new water infrastructure, and look for private investors. In addition to the retreat of the public sector, development policies are increasingly controlled by international or supranational organizations and networks, and less by national parliaments, which also impacts on the deregulation of water provision (Hall/de la Motte 2004: 4). The fact that water supply is just one of the many formerly state-run sectors affected by privatisation points to highly relevant dynamics of shifting power relations, resources and scopes of action of the various players involved.

In this context, international financial institutions and donor agencies presented three key tools for preventing further damage and referred to the private sector as the main actor of their implementation: water economy, often via water pricing, the mobilisation of new resources, and improved efficiency in supply manage-

ment. The privatisation of water services has since become a major issue of friction between the different stakeholders implicated and the debates are currently polarised in a way that makes negotiations between the parties difficult and frequently leads to conflicts, which are sometimes violent. The following part will provide an introduction into the key controversial issues, which have now gained a highly symbolic value.

2.4 Key Issues of the Debate

There are two broad issues of friction between the proponents and the opponents of water service privatisation, which then entail a range of specific disagreements: the consideration of the economic or the social value of water resources as such and the financial aspects of the conditions of infrastructure supply and maintenance. In both cases, the responsibilities of the public sector and the role of private sector involvement regarding the goal of long-term sustainable service provision are heavily debated.

a) *Water as a social or an economic good?*

One fundamental difference dividing the parties involved in the struggle over water governance is the consideration of water resources as a social or common good subject to public regulation, or as an economic good that can and should be "subject to the rules and power of markets, prices, multinational corporations, and international trading regimes" (Gleick et al. 2002: 1). In the first case, a commonly available resource with vital functions may not be considered as an economic good because of the potential consequence of exclusion. Ecological concerns and cultural im-



plications are equally referred to. In the second case, human beings are considered as consumers or clients of a good or a service subject to pricing. This basic opposition is very well reflected in the rhetoric of the parties involved and often renders negotiations over required investments in infrastructure difficult.

This cleavage leads to the subsequent consideration of water as a right or a need. The access to clean and affordable drinking water is a condition for the health and well being of humans and a basic element of social justice and therefore acknowledged as a Human Right by the United Nations (UN Doc. E/C.12/2002/11), a position that has been confirmed in the Second World Water Development Report (UNESCO 2006). NGOs argue for a "Human Right to Water" while private companies keep up the vision of a "Human Need of Water" and thus a costly service. At the judiciary level, this differentiation is crucial, because a right can be claimed before a court while needs are to be taken care of by private efforts.

b) Financial aspects: public subsidies or cost-recovery and the issue of investment guarantees

As the mobilisation, transport and supply of clean drinking water is a very costly issue, financial aspects play a key role in the debates on privatisation. Regarding water pricing, there are essentially two ways to pay for public water delivery: taxes or user fees (Balanyá et al. 2005: 261). Full cost-recovery might be combined with cross-subsidisation by wealthier users through differentiated tariffs. In other countries, like Ireland, water services are almost entirely financed through central government taxation

(Balanyá et al. 2005: 261). While international donors and financing institutions had hoped to attract private investments for the maintenance and enlargement of the infrastructure, these hopes are nowadays mostly deceived. Instead, rising prices after privatisation often excluded the poor population from access (Balanyá et al. 2005: 262). The opponents of privatisation point to depletion and waste of the resource as well as serious social consequences if water is considered as an economic good like any other and short-term gains prevail over common interests. In any case, "the basic trade off a regulator has to face is between short-term private profits and long-term collective benefits" (Finger/Allouche 2002: 226).

Regarding the investment in infrastructure, public and private companies face similar accusations of not investing surpluses in maintenance and enlargement of the networks. Experiences have indeed shown that private companies increasingly carefully choose the projects they invest in and practice "cream-skimming" focusing on lucrative markets. This has been the case in Latin America, where cross-regional subsidies were then eliminated, but where private companies nevertheless managed to get subsidies from the public sector not accessible to public companies (Estache 2005: 9).

Another issue of confrontation over financial aspects concerns the unequal conditions for private and public companies regarding the access to credits and investment guarantees. While proponents of privatisation argue that private companies might mobilise the necessary capital more easily, opponents claim that public companies are mostly backed by the states and can thus have better condi-



tions for loans, which is why private companies would benefit from PPPs, leaning on the public hand (Fritz 2006: 18, referring to Bayliss et al. 2001: 6). This then leads to the so-called "privatisation of gains" and "socialisation of losses" (Nowotny 1999: 238). Presently, international financial institutions are increasingly engaged in improving the private sector's access to subsidies and credits – mostly to be reimbursed by the respective state.

Particularly transnational corporations (TNCs) are accused of short-term profit seeking and not caring about long-term social, economic and ecologic impacts while conquering whole markets via their sub-companies. Research and funding might indeed be easier for TNCs but is also more restricted to profitable issues and areas. Another key argument for privatisation, the issue of

corruption of the public sector, has to be seriously reviewed after several similar scandals of private companies, such as the one of Suez in Grenoble/France or of RWE in Germany (Kürschner-Pelkmann 2005: 368).

These main dividing issues in the struggle over privatisation of water services have contributed to a strong polarisation between the proponents and the opponents, who each reflect a fundamentally different targeted policy output. The global trends that paved the way for privatisation policies determine to a large degree the external environment (see fig. 1), and contribute towards shaping the scope of action, the resources and the constraints the actors dispose of. This aspect is further detailed in the following chapter, analysing the different actors of the water game, their modes of action and interaction.



3. The Institutional Context: Scope of Action, Resources and Constraints in Developing Countries

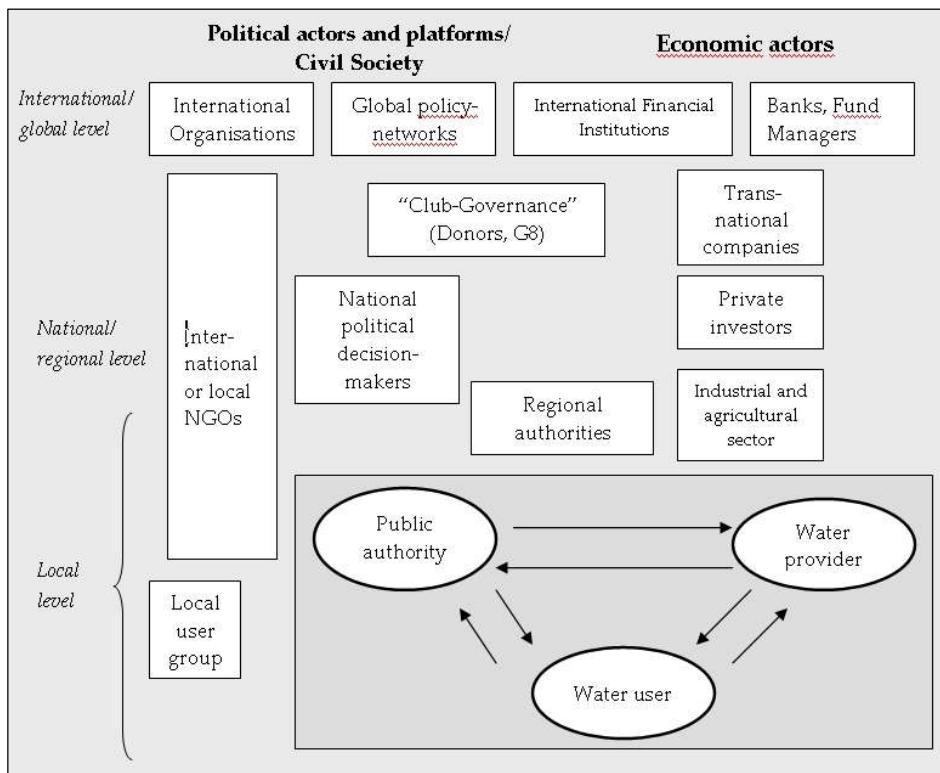
The now highly politicised debates over water service privatisation are closely linked to the immediate social, economic and ecologic consequences of changes in water service provision. Practices of water allocation strongly reflect the socio-political hierarchies and priorities of a society. The struggle over the conditions of water allocation therefore often becomes a struggle over power relations. This is the symbolic field the actors are placed into, which nevertheless has important material consequences. The institutional context (see fig. 1), i.e. the differing values, rules and modes of interaction of the stakeholders shape the processes of water governance (outcome) and have resulted in the current stalemate over privatisation. In order to better understand why these actors act in the way they do and what the resources and constraints of their action are, the key groups involved in the game are presented below.

Besides the local public and private managers and the end-users of water, various global players involved in financial and technical co-operation, but also in the institutional design of policies gain increasing influence on water policies in developing countries. As figure 2 points out, while the conflicts over privatisation are most obvious at the local level of water management, they are frequently linked to decision-making at a higher level.

A presentation of the different stakeholders, their resources and interests will provide greater understanding of the actor constellations in the field of water governance. A second part will then focus on their modes of interaction as well as the dominating power relations and argue that the contradictory rules the actors refer to hamper effective governance.



Figure 2: Water Supply - A Local Business with Multilevel Dependencies



3.1 Actors and Actor Constellations

3.1.1 Financial Institutions: The Rise of Global Players

Different financial institutions are involved in the water sector, from international institutions to banks, investment advisors and fund managers, to private investors. The primarily relevant international financial institutions (IFI) are the World Bank (WB), the International Monetary Fund (IMF) and national institutions with international activities such as the German Kreditanstalt für Wiederaufbau (KfW). As mentioned above, the IFI played an important role in the deregulation of formerly state-controlled domains of service provision. Their two essential modes of action to promote the involvement of the private sector in water services are

legal and financial tools. The IFI's policies are mainly implemented via two methods: on one hand the facilitation of investment through massive intervention on local market regulation and the provision of guarantees, and on the other hand the tying of aid for the respective country to measures facilitating private sector involvement.

Free-trade Agreements as Policy-tools of the IFI

The policy of direct subsidies to the public sector conducted from the 1960s on for enhancing investments in large-scale water projects had frequently led to corruption and inefficiencies in public service provision. Privatisation was promoted as a panacea for the managerial and financial problems. The Washington Consensus, promoting deregulation, privatisation and trade liberalisation to



encourage private sector investment (Grusky/Fiil-Flynn 2004: 1) then had important impact on water governance. Besides, "structural adjustment plans" and sector reforms entailing the conditioning of loans and the deregulation of public management was further backed by the policies of the World Trade Organisation (WTO) and several bi- and multilateral free trade agreements signed in this period. The WTO, after intense debate, decided in its 2001 meeting in Doha to include water resources in its General Agreement on Trade in Services (GATS), which entails the obligation for states to compensate companies when re-nationalising service provision. Nevertheless, most countries until now have refused to include the highly sensitive topic of drinking water provision into the agreement.

A key tool of the IFI for supporting the private sector is the option of bilateral investment treaties (BIT), increasingly applied to water resources and providing important compensations for private companies when withdrawing from a country (Belén et al. 2005: 273). The "Private Sector Development Strategy" of the World Bank is a key document in this regard which further systematizes the procedures and, in combination with other developments in the international development policies, has contributed to a general shift of project implementation towards the private sector. The dream of the overall efficient, equitable and sustainable water management by private companies was brought back to the reality of its effects on poverty, health and bad infrastructure. Since mid-2003, a modification in the rhetoric and an "offensive de charme" of the World Bank (WB) and the IMF can be perceived, increasingly referring to the importance of participative ap-

proaches and poverty reduction (Bliss 2004). The IMF stated: "it cannot be taken for granted that PPPs are more efficient than public investment and government supply of services. One particular concern is that PPPs can be used mainly to bypass spending controls, and to move public investment off budget and debt off the government balance sheet, while the government still bears most of the risk involved and faces potentially large fiscal costs" (Ter-Minassian 2004: 3). This is frequently the case when PPP-agreements fix production rates and thus benefit from the allocation, while states have to subsidise overproduction or compensate for losses. Nevertheless, problems of water supply in cities are still rather addressed by providing securities for private sector involvement than through constructive support and capacity building for the public sector or public companies. The World Bank, as one of the most relevant "trend setters" in policy design, currently spends almost one third of its budget for private sector projects (Fritz 2006: 14).

Fund managers deciding on investments in the water sector

The rising demand for water resources and their diminishing supply entail high profit rates for investments in all related sectors. As the ownership mostly remains with the public, the economic value of the resource itself and of the related companies lies in the management, where direct and indirect investments are quickly expanding and diversifying. They can have far-reaching impacts on geographical areas to be disserved, certain technologies to be developed at the expense of others or shareholders to be backed against public authorities. The growing influence of the financial actors might therefore lead



to an indirect shift of decision-making capacities, because fund managers rather than democratically legitimised institutions decide over the direction of investments (Hall/de la Motte 2004: 8). How does this asset management work? Banks essentially provide the credits for investments of private operators as well as different packages of investment funds. Obtaining credible figures on the shares of each company, their countries of operation, etc. is rather difficult, as, at the European level for example, the leading document in this regard is the "European Water Industry Market Assessment", purchasable for over 1000 €, a price that restrains its availability to a large public. One of the key players is the European Investment Bank, supporting European companies or their Joint Ventures with local enterprises (Fritz 2006: 30), among them the above-mentioned cases of failed privatisation (Suez in Buenos Aires, Manila, Thames Water and Suez in Jakarta) (*ibid.*).

Fund managers and advisors have particular interests in the game and play a key role in risk assessment and strategy formulation, which also influences IFI's estimations. As Antonio Estache, a responsible figure of the World Bank and researcher at the Université Libre de Bruxelles, puts it: "Indeed, when things go sour and a renegotiation is needed, as was the case in East Asia at the end of the 1990s or in Latin America more recently, the more active players are the financial advisors helping in the fi-

nancial restructuring of the business. Every restructuring, just like any initial placement of bonds, has its plethora of transaction fees which are often much more profitable than any lending activity per se for these companies. It is thus natural that this group of actors will tend to be in favour of a long lasting PPPI (Public-Private Partnerships in Infrastructure) and will be there, rain or shine" (Estache 2005: 15f.). The close cooperation with IFI like the World Bank gives these advisors an important scope of action for influencing policies at the macro-level.

The shareholders themselves, finally, decide about a specific type or a certain ethical orientation of water related investments. The respective funds mostly contain stocks from different companies working in the water sector, including water service provision but also dam construction or sewage water treatment. The investor's decisions can therefore have a significant impact on water governance, as, for example, certain types of investments such as pension funds may require long-term contracts by private investors for attaining interesting benefit rates (Rogers/Hall 2003: 14).

As the overall growth rate of investments in the water sector is expected to be 6 to 8% for the next few years (FAZ 2006b), further regulation or clear social investment standards linked to the funds would be needed.



Investment Funds in the Water Sector: the “Blue Gold” of the 21st Century?

The *Swiss Pictet Water Fund*, created in January 2000, was the first water fund on the market. It proposes investments in values from over 40 companies, whose benefit results at least for 20% from interests, amortisation or taxes in the water sector. Suez, Veolia Environnement, RWE, United Utilities and even the second largest producer of mineral water worldwide, Danone, are some of the companies involved. The growth rate of this index is impressive, as it has shown an increase of 30% within the first 18 months of its existence and 20% within the last 12 months (FAZ 2006a, see also <http://www.pictetfunds.com>).

The *SAM Sustainability Water Fund*, also administered in Switzerland, offers a different investment strategy, as it promotes funds quoted at the Dow Jones Sustainability Index. This now well-established index rates companies investing in sustainable management. The SAM water fund contains stocks of companies as diverse as Geberit, a Swiss toilet manufacturer, Veolia Environnement and Ecolab, a business involved in the fabrication of ecological products for industrial purifying. Within the last year, the index has shown a growth rate of 12% (status of June 2006, FAZ 2006a).

The French bank Société Générale recently created a new investment opportunity (February 2006) and proposes an index-certificate for the specialised *World Water Index WOWAX*. The 20 largest global companies active in water provision, water infrastructure and water purification are in the basket expected to yield benefit to the investors.

3.1.2 Public Authorities in Developing Countries: A Diminishing Scope of Action

Given the large influence of international financial institutions and donors on policy formulation in developmental countries, what is the scope of action left for national governments? The exact modes of management widely differ from one country to another, but two key issues are in most cases decisive: the regulation of property rights and the evolution of legitimacy. A clear distinction has to be made between the ownership of the resource, generally remaining with the state, and the delegation of service provision with or without the ownership of the network. The state is historically the owner of basic service supply systems when these relate to a general interest and need central

regulation for ensuring equitable and sustainable management.

In most developing countries, the decentralisation of public services implemented in the 1980s/1990s has led to a delegation of the control over water provision at a local or regional level. Here, water supply might be in the hands of the public sector as such, public companies or private firms. All of these suppliers have a common concern, largely determining their investment strategy: the state of the infrastructure for water supply. Where states have invested in systems which are still well functioning today, they can maintain public control rather easily. But where, as in the majority of the cases, these systems are too old leaky, or deliver water of bad quality, or also where the network needs to be enlarged, the scope



of action of the public service is seriously restrained by its financial capacities. A basic difference between both providers is their interest in controlling the management and/or the ownership of the resource: for the politician, lacking supply of what is considered to be a basic service quickly leads to losses of his legitimacy and social uprising, while the private sector only takes over the economic management without social responsibilities. But, besides a source of legitimacy, governments are also interested in keeping water service provision for using the revenues generated by the payments for cross-subsidising of other sectors, for the cost-intensive renewing of water infrastructure or its extension to households in poorer regions.

While the policies of decentralisation and the so-called New Public Management Methods promoted by IFI and donors have increased the financial resources of states through access to loans, they simultaneously limited their frame of action by conditioning these subsidies. Water management is, as this example indicates, very much a problem of governance in general and is difficult to improve without the former without addressing the latter. As Finger and Allouche rightly point out referring to the World Bank's policy: "while privatisation is generally implemented, the institutional axis generally gets bogged down in some intransparent state reform process" (Finger/Allouche 2002: 216). Many states in the developing world then face an important restriction of their effective control over public services and, at the same time, deceived expectations of the population regarding not only ineffective and intransparent decentralisation of political power but also

often worse conditions of service provision after privatisation.

We might summarize the state's position in water governance and supply as follows: its interest in a well-functioning service provision is determined by the symbolic value of the service as a tool of political legitimacy, and by the economic value of potential gains obtained through water pricing. Nevertheless, the second aspect is very much subject to the investment needed for obtaining these gains, which depends on other external factors. Besides the financial capita, non-material social or political resources might also play an important role when negotiating with IFIs and private investors or while imposing water pricing.

3.1.3 Private Water Providers: Selective Investments in Strategic Interests

The degree of water service delegation to the private sector differs very much according to its specific agreement with the respective state (BMZ 1999). The private companies involved mostly operate at the city-level, where they take over the management of an existing infrastructure and impose new forms of financial and sometimes technical administration. Many of them are originally based in industrial countries, but have rapidly grown and, especially in the 1990s, taken over former publicly run systems in Latin America, Asia and Africa. A few companies have reached the multinational level and are now established as market leaders, often multi-utility conglomerates of European or US origin (see box below). Their investment rather concentrates on countries with larger economies, important populations, and a high level of urbanisation



(Trecco 2005). Today, while some "classical" international companies withdraw from markets where the benefits do not reach the expected rates, new companies emerge as in China or Russia that might soon be active at the international level. Which are the key resources these companies rely on to establish their market dominance?

Compared to public companies, the private capital is often significantly higher. Especially multi-utility-firms are well positioned to take advantage of the scope of action following the retreat of the state. They have the competitive advantage of disposing of benefits generated in other domains, which they can reinvest, which serve as backing capital allowing risky investments or are invested in public relation strategies. Multi-utility firms are able to conquer whole markets via their sub-branches active in infrastructure building and maintenance, economic advice, sewage water treatment, dam building or the supply for non-drinking-water users, such as the agriculture or industry. This monopolisation of different market segments under the leadership of a single conglomerate facilitates its influence on prices and consumption patterns and confers a powerful position when negotiating new markets, new sectors to be privatised or the creation of new institutions.

Other key resources of private water companies are informal, such as good relationships with key actors of the public sector influencing the institutional framework of their activities, or with the financial sector facilitating investment credits. The constant shifts of a few crucial persons occupying positions in the public sector subsequently or simultaneously in private companies and in international policy

organisations further increase this strong network of informal relationships (Petrella 2003). Expertise in the judiciary domain and the financial and informal resources for legal defence further back the dominance of private investors before entering a market, during management or when leaving. Therefore, they enjoy a much larger scope of action than public servants, who often are neither familiar with the legal issues nor have the capital to finance adequate advice.

Even in the technical domain, private service providers can rely on experiences in other countries, even if these are accused to be limited to large-scale, cost-intensive solutions while more modest locally designed projects are ignored. Private companies have little incentive to pursue equity goals and to expand the access of water services to poorer parts of the population (Hallet.al. 2003: 10). Long-term investments in particular have significantly decreased since financial returns are weak and the risk involved perceived to be high (SIWI 2004).

In the context of decreasing interest of private companies in non-lucrative markets in developing countries, development policy often aims at improving the conditions for their engagement. Access to loans, subsidies and guarantees for the private sector are some of the tools applied. The capital needed is thus not mobilised by the companies but to be taken care of by the governments. This policy can seriously destabilise the latter, as the example of Bolivia showed. Here, after months of social uprising and intense political pressure on the government, the high water prices imposed by the private supplier in Cochabamba had to be substantially subsidised by the state, in order to



allow the alimentation of less wealthy population groups. According to the NGO "Federation of Neighbourhood Boards", 208 000 people were excluded from drinking water services after the privatisation had taken place (<http://www.waternunc.com/gb/CAWT.htm>). When the private service provider decided to end the contract, the IMF obliged the Bolivian government

to pay high compensations for the loss of expected benefits – a sum the state was generously allowed to dispose of via a loan from this same IMF. The Bolivian government cancelled two contracts with Suez, for the cities of La Paz and El Alto, because of social unrest following high, rising prices (Kürschner-Pelkmann 2005: 418).

Key Players of the Private Water Sector

French companies have established a clear leadership among the internationally operating ones, shared only with the German-British RWE/Thames Water. During the 1990s, Suez and Vivendi/Veolia were focusing on countries in Africa, Asia and Latin America, while SAUR was concentrating on Africa. But the companies increasingly withdraw from water supply and "are consequently focusing even more on the less risky market of Europe and North America" (UNDP/IFAD 2006: 71) or on the construction of purification plants and supply networks.

Suez/Ondeo (former Société Lyonnaise des Eaux), the second largest water company in France and the first worldwide, is active in about 130 countries and serves approx. 125 million water clients (Laimé 2005b). After a few failed projects in emerging and developing countries (the cities of Johannesburg, Buenos Aires, Manila, Jakarta), in January 2003 Suez decided to reduce its capital in these countries by one third (Kürschner-Pelkmann 2005: 418). In February 2004, the capital bound in investment was reduced from 10.3 billion € to 6.2 billion € (ibid. 415).

Vivendi/Veolia Environnement (formerly Compagnie Générale des Eaux) was created in 1835 and is one of the oldest water companies. With 110 million water clients in over 100 countries, it is the second-largest water company worldwide (Kürschner-Pelkmann 2005: 429). Under its director Jean-Marie Messier, Vivendi was the second largest media corporation in the world, and furthermore active in other branches such as supermarkets, construction or transport. In July 2002, after a serious crisis, the water and environment sectors were separated and the former company now comprises the waste company Onyx, the transport company Connex, the energy supplier Dalkia and Veolia Water.

RWE – Rheinisch-Westfälische Elektrizitätswerke AG – was originally an Energy company and became a multi-utility corporation since the liberalisation of the energy sector in the 1990s. Since the takeover of the British corporation Thames Water in 2000 (already active in more than 40 countries) and of American Water Works in 2003, it became a real global player in the water sector. In November 2005, RWE sold its subsidiaries Thames Water and American Works and then focused only on its Continental European water sector activities.
(continued)



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3.1.4 User Groups and Their Advocates: Local Struggles With Global Support

"Water users" are quite a heterogeneous group, but nevertheless considered here as a single actor with its specific interests, norms and resources. They are mainly organised as

- 1) mostly community-based, regional or national non-governmental organisations (NGOs),
- 2) local or international advocates of such user groups (individuals or organisations), and
- 3) the general "public", including groups of citizens backing the movement or individual support by celebrities.

The "Right to Water" is one of the essential topics of NGO campaigns, who struggle for a basic supply of safe water as a common good, accessible for all on a non-commercial basis. The current campaigns on the topic illustrate the cooperation between local initiatives and internationally operating NGOs such as the German "Brot für die Welt". Besides this subject, NGOs focus on activities around dam building, the privatisation of water supply, or ecological and hygienic standards in service provision and pollution.

SAUR international is the fourth strongest player in the water sector at the international level, providing services for a total of 29 million customers (Laimé 2005a) and with a turnover of 81 billion € on international water markets alone (<http://www.saur.com/fr/journal/presse/presentation.html>, 12.06.2005). It belonged to the French group Bouygues before 90% were sold in 2005 to funds managed by PAI partners (<http://www.saur.com/en/home.php>), an independent company which manages and advises dedicated private equity funds in Europe (http://www.paipartners.com/10000/11000.asp?id=10&id_txt=16).

The organisations mainly rely on two basic resources: the legitimacy they enjoy, especially at the local but increasingly also at a higher level, and their knowledge on technical or legal issues. Furthermore, successful locally organised groups struggling against the private sector's influence are often involved in other efforts for social equity and "have often very elaborate visions and concrete proposals for public sector alternatives" (Balanyá et al. 2005: 267). In some cases, this has led to the withdrawing of private companies (Buenos Aires/Argentina, Manila/Philippines, La Paz/Bolivia, Dar-es-Salam/Tansania) and sometimes even to the resignation of government officials. The scope of action of the NGOs can be enlarged by the success of the tools they employ, as it increases their legitimacy. The organisation of referenda or courts of justice, for example, such as in Uganda (2004) or at the "Central American Water Tribunal" (Mexico 2006) conferred a political legitimacy to these actors, as they explicitly referred to existing regulations and laws to claim their right. As a common reference between the states and the civil actors, the rule of law makes it possible to create alliances between these two kinds of actors. In France, for example, an NGO proposes highly qualified legal advice and increasingly contributes towards obliging private investors in the water sector to observe certain norms of ecologic sus-



tainability and social equity. The network also successfully provides guidance to local communities whose public authorities have signed contracts with the private sector and who now want to withdraw from these contracts as they experience negative effects (<http://www.transcub.com>).

At the international level, NGOs increasingly make their voices heard, such as at the World Water Forum. While their concerns had been largely marginalized during the first Forum, they submitted a separate report during the third meeting and brought in experiences from failed privatisation processes, and their opposition was mentioned in the final declaration. At the last Forum in 2006, some NGOs decided to support the Forum's policy on access to water as a paying service, while others participated in their own alternative forum

existing since 2004 (<http://www.fame2005.org>).

After the overview of the dividing issues between pro's and con's of privatisation, this brief survey on the actors involved, their resources and modes of action completes the picture on the water game. Nevertheless, the reasons for the current strong polarisation over the issue of privatisation are not yet sufficiently evident. Beyond the issues referred to as such, a profound difference in basic assumptions seems to prevail that renders any negotiation difficult. The following chapter will analyse the modes of interaction between the private, the public and the civil society actors, which determine to a large degree the power relations and the resources available in the struggle over the influence on water governance.

Water Privatisation in Africa

In *Ghana*, the World Bank initiated the privatisation of the public drinking and sanitation water supply system. The issue was not an object of debate in the media before the signature of the contract and the consultation of local stakeholders through meetings with NGOs, presented as "highly participative" by the World Bank, were limited to a few exchanges without substantial delegation of decision-making capacity to the NGOs (Neubert/Horlemann 2005). The protest against the contract over several years, which has now been signed, is based on several local NGOs allied in the *National Coalition Against the Privatisation of Water in Ghana*.

After the failure of privatisation in *Tanzania's* capital Dar-Es-Salaam in the Spring of 2005, the German-English company Biwater Gauff Ltd has taken the country's government to the court for compensation claims. The delegation of the service to the private service provider-consortium "City Water", a joint venture between Biwater Gauff Ltd. and the Tanzanian company Superdoll, had been abrogated after only two years because promised investments of the companies into the infrastructure were not realised.

In *Uganda*, the PRSP implemented by the World Bank aims also at addressing the very bad water and sanitation access in the country. In the same way as many other sectors of the public service, the sector was obliged to privatisation as a condition for the allocation of the proposed loans. Here, this condition was further specified by the obligation to conclude the respective contracts with foreign companies, thereby banning any local companies or improved



public management options. First, a contract was concluded with Azurix, a company affiliated to ENRON. The World Bank then withdrew the \$100m subsidies of the project because the contract had been attributed in "less than transparent" circumstances. As a result, the state of Ghana had to pay \$800,000 for the cancellation of the project preparation (Hall et al. 2002).

An assessment was made in 2001 of the results of water privatisation in *Côte d'Ivoire, Guinea and Senegal*. The contractual arrangements varied from medium-term leases to long-term concession contracts. In all three countries, the connection rates had increased, and there were also tangible improvements for billing and collection of revenue. "However, increased tariffs had made water supplies unaffordable for many of the poorest sections of society, which led to people getting disconnected from water supply due to inability to pay. (...) Experiences confirmed that very poor sections normally tend to be excluded from being a part of privatised service extension" (UNDP/IFAD 2006: 70).

3.2 Modes of Interaction

3.2.1 Institutional Arrangements of Water Governance and Current Blockades

Within the analytical framework introduced above, this chapter explores the missing link between the actors involved and the outcome of water governance, in order to understand why the latter is currently so prone to conflict and inefficient. The polarisation of the modes of interaction, as we suppose, contribute to a large degree to the current blockades on water governance. The players of the water game are embedded in a framework of formal and informal institutions that orient their behaviour and their communication. Water governance is actually an institutional arrangement balancing the regulation of social, environmental, economic and political issues rooted in a history of ongoing negotiations. These arrangements are built on a specific local institutional context, a modifiable normative set of rules of social relations. Where this institutional framework does not or no longer corresponds to the actor's constellations

and priorities, contradictions emerge and management fails to be efficient – be it public or private.

Such contradictions may exist between old and new formal or informal institutions, as well as within these. In the water sector, formal institutions may be conditions imposed by the IFIs on recipient countries, property rights for water, contracts with private providers etc. Informal rules refer to social arrangements for the use of common pool resources, rituals, etc. that are usually not written but socially sanctioned. The opposition between the proponents and the opponents is then caused by the subsequent parallel existence of differing sets of references. Due to the monopolisation of normative frameworks and rules of action within each of the groups, common references between them are lacking and institutional contradiction prevails, and conflicts emerge.

Alford and Friedland (1991) point to the dangers of institutional contradictions as they are often politicised and lead to the escalation of tension. Interestingly, the authors consider at the same time that this



momentum is a chance for the (re)negotiation of common sets of rules and institutions. Changes in the rules of water governance are highly sensitive because they often imply a shift in power relations. But this aspect also implies "a contribution to a new social order, which includes both an instrumental and an institutional dimension" (Allain 2003: 4). Other scientists, be they from the background of institutional analysis, water management or conflict research, equally point to this window of opportunity for institutional change (Ostrom 1990; Alford and Friedland 1991; Coser 1965; Bächler 2002; Powell /DiMaggio 1991). These assumptions will guide the following reflection on the reasons for the current disputes over water governance and on possible new avenues of cooperative arrangements.

The water sector currently faces a fundamental struggle about its re-composition, expressed in the renegotiation of formal and informal arrangements over water governance. Many of the PPP failed to fit into the existing institutional arrangements, as they were implemented without consideration for the specific social, political, economic and symbolic meaning of water resources for different stakeholders and thereby caused a disruption. Lacking concern for existing decision-making processes, be they formal in established, bureaucratised bodies and procedures, or informal, developed in parallel structures and negotiation systems of the actors involved (Merkel et al. 2003: 192; Mayntz 1998: 59), is a frequent reason for institutional contradiction. Especially in water governance in developing countries, informal rules and decision making processes are very decisive (Sokile et al. 2005).

Out of this incompatibility of institutions, conflicts over the rules as such arise and enhance the symbolic meaning of the polarisation. As Alford and Friedland put it: "some of the most important struggles between groups, organizations, and classes are over the appropriate relationships between institutions, and by which institutional logic different activities should be regulated and to which categories of persons they apply" (Alford/Friedland 1991: 256). The polarisation actually reflects a fundamental negotiation of the modes of interaction themselves, so that "conflict has been as much over rules for engagement and who will control the procedures as over substantive issues" (Hermann 2002: 4). The struggle over water management is essentially the one over a fundamental choice over the governance rules referred to and the norms and values they entail. Either water governance is submitted to the rules of the market (privatisation), or to the ones of collective decision-making (decentralised public management).

Any new creation of institutions is supposedly not sustainable, if these aspects of existing formal or informal arrangements and the symbolic value of rules are neglected. The process of the creation of institutions itself involves normative frameworks and is a result of negotiations over power relations. Regarding the large number of institutions created for water management within the last decade, be it at the local, regional or international level, the current confusion about the rules of the game and the values at stake is not surprising. At the international level, a number of institutions have emerged and try to shape the rules of water management, mostly through a top-down approach. As these organisations assemble a



large number of well-established policy makers, scientists and entrepreneurs, they can exert an important influence on water policies. The following chapter analyses the functioning and the impact of these platforms on cooperation and conflict in water governance.

3.2.2 Institutional Monopolisation: Private Global Platforms of Water Governance

Water governance at the international and global level is, of course, often implemented by the various UN and donor organisations. Yet, global platforms initiated by the water industry increasingly influence other international forums of exchange and project implementation and will therefore be at the centre of the present focus on institutional monopolisation.

Two international networks are particularly relevant: the Global Water Partnership (GWP) and the World Water Council (WWC). Both were created with the scope of more participative institutions for the implementation of sustainable water governance and the easing of stakeholder dialogue, but obviously obey other rules.

The World Water Council (WWC) was created in 1996 by the World Bank and the managing boards of some transnational corporations, and is nowadays one of the main international think tanks, influencing policy discourses via various sub-organisations. It is composed of 322 representatives of ministries, UN organisations, research institutions, international financial institutions, the industry and local governments (http://www.uneterre.net/wwc/visu_membre_w.php, 12.06.2006).

Primarily financed by membership fees, it also implements projects with the help of grants from governments, international organizations and NGOs.

The WB, the UNDP and the Swedish International Development Agency (Sida) created the GWP in the same year. Committed to the principle that "water is an economic good in all of its uses" (Dublin principle), it is composed of the same type of members. Several European governments (among them Germany), the European Union, the United States, Japan, Canada, WB and UNDP finance the GWP" (see website of the Global Water Partnership: <http://gwpforum.org> and Fritz 2006: 28).

These two institutions have a significant influence in shaping discourses and policies. Two techniques were particularly successful in this regard: the adoption of the developmental discourse and the diffusion of rules and subsequent norms and values promoting privatisation.

The adoption of the developmental discourse by the water industry as well as by the platforms they steer appeared literally to be a fruitful decision. The assessments of the investment needs for the Millennium Development Goals (MDG) in the water sector show the close links between the developmental discourse adopted by private companies, which is spread through global platforms, and the commercial interest of these same actors. While the GWP's assessment of 100 billion US-\$ is the one most frequently referred to by international institutions, the Water Supply and Sanitation Collaboration Council (WSSCC) assumes instead that 10 billion US-\$ annually would suffice for the satisfaction of basic



human needs. But the influence on water governance reaches beyond these policy-relevant estimations, as the GWP assessment subsequently became the basic reference of the Camdessus-Panel "Financing Water for All". Commissioned and financed by the WWC and GWP, the panel was presented at the 2003 World Water Forum in Kyoto. It highly recommends the investment of transnational cooperations (TNC) in developing countries and calls for the facilitation thereof by development assistance, through funds for the compensation of currency fluctuations, the financing of contract preparation and consulting or long-term loans of the recipient country (Fritz 2006: 28). The Camdessus-report became a key reference for development cooperation in the water sector, as the policy papers of the European Water Facility or the Organisation for Economic Co-operation and Development (OECD) show (European Commission 2005; OECD 2003).

Via the global platforms referred to above, water governance is presently shifting from democratically legitimised leaders to intransparent global forums, closely tied to the water industry and increasingly well established in international development agencies. The latter, instead of realising the missing link between local needs and the financing of adequate solutions, pave the way for private sector involvement and large-scale, technically-oriented and top-down implemented solutions of water management, discrediting any locally implemented alternatives. Another influential platform working in the same direction by elaborating "creative financial tools" is the Public-Private Infrastructure Advisory Facility (PPIAF), composed of donor coun-

tries, the WB, the Asian Development Bank (ADB) and the UNDP.

The WWC successfully imposed its "World Water Forum", a worldwide conference on water issues taking place every three years around the World Water Day. Since the first Forum in 1997 the number of participants has been rising, so much that participation can now be considered to be an obligatory ritual practice for organisations involved in water governance or the water business. The WWC presents privatisation as a pro-developmental policy, and appeals for more investment guarantees by the public sector, donors or IFI in order to maximise their benefits, as one of its reports expresses: "Great hopes have been expressed for major investments by the international private sector: a recent stockbroker report suggested that an increase to \$100–165 billion is achievable. If governments accept the World Water Commission's recommendation of full-cost pricing for water services, this will be a great incentive not only for local investors but also for international private investment." (World Water Council 2000: 61). Many of the 85 authors of the report apparently work for transnational cooperations (Barlow/Clarke 2003: 198).

Via their public relations, the increased production of pseudo-scientific debates, conferences and publications, these global platforms increasingly succeed in imposing rules as quasi-juridical norms. Repeating and re-affirming these throughout the network of their different sub-institutions contributes to the acceptance as shared norms (for a scientific reflection on this psychological process see also Olson 1985 and Ostrom 1990). Water pricing as the only solution for water economy, private sector



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involvement as the only solution for state deficits in service providing are some these Mantras.

In their theoretical approach on the “institutionalisation of an institution”, Lacroix and Lagroye rightly point to the necessary justification of its existence in the overall institutional framework (Lacroix and Lagroye 1992). Getting back to our analytical approach, it is obvious that the external environment as well as the institutional context is today largely influenced by these platforms, which subsequently dominate the scope of action and resources available for other actors of water governance. Furthermore, they increasingly succeed in becoming a quasi-indispensable part of the framework, especially through the now well-established World Water Forum.

Even if this is neither a UN conference nor an intergovernmental

panel, its reports are presented in the media as the ultimate reference of global water policy. The participation of political leaders conferred international legitimacy to the Forum and further established it as a functional entity of the decision-making and discourse-shaping processes of water governance.

Even if new institutions have been created at the international and global level, water governance at this level has not become more participative. The excessive number of different organisations claiming to design policies and integrate stakeholders' concerns renders accountability of specific institutions difficult. Furthermore, decentralisation processes are often limited to the delegation of responsibility without adequate financial and substantial means of action.



4. The Desirable Output: Sustainable Water Supply

The different intervening variables analysed in the previous chapters shape the output of what finally constitutes water governance. As a response to the aforementioned policy problem of water supply and regarding the high importance of access to water for human and ecological needs, water governance needs to be sustainable. The term of course needs further clarification and cannot be reduced to its ecological or to its mere economic dimension, because “to equate ‘benefit to the society’ with the highest return per unit of water is often too simplistic” (Molle/Berkoff 2006: 35). We therefore propose a larger understanding of the term, before actually addressing the scope of action of development policy in water governance regarding the conflicts over privatisation.

As the above-mentioned experiences have shown, privatisation strategies in development policy have not led to the expected outcomes of poverty reduction and better water delivery and sanitary conditions for middle and low-income groups. The major expectation of the last 15 years, namely that investments of the private sector would be able to compensate public deficits, has been largely disappointed. Instead, public subsidies enabled the creation of markets in domains where no market would have evolved through purely market-based mechanisms – because the clients in focus do not have the necessary purchasing power. The social upheavals observed in many

of the cities subject to water service privatisation are the expression of a deeper dissatisfaction over social cleavages and the increasing marginalisation of urban and rural low-income groups. During the industrial revolution in Europe, water and sanitary conditions of the poor were only improved when European urban elites were threatened by epidemics and social unrest of labour force (Molle/Berkoff 2006: 32). Is a similar scenario developing in the present context? Equitable water provision is clearly not only a policy of water management, but rather a social and health-related issue, very closely tied to political stability and conflict prevention. Development policies in the water sector have undergone changes and strive towards enhancing national water governance and the coherence of its institutions, but the paradigm of large-scale and often inadequate infrastructure as well as privatised supply still needs to be reconsidered in the light of the experiences made.

4.1 Balancing Ecologic, Economic and Socio-political Sustainability

Failures in water governance are often caused by the neglect of fundamental, locally specific social and ecologic factors. As the examples mentioned in this report and many others show, privatisation of water service often even amplifies these effects when disregarding long-term interests of the concerned stakeholders. The far-



reaching impacts of water management practices on the economic, the socio-political and the ecologic conditions of human development confirm the need for a broader understanding of sustainability in water governance, namely as a careful balance between these different dimensions. Trade-offs do not necessarily need to be radical when compromises are negotiated between the different stakeholders. The UN proposes a set of water governance criteria derived from the "good governance" approach, which explicitly refers to its democratic, equity-oriented and legal dimensions

(<http://www.unsgab.org>). The impressive catalogue is convincing, but remains nevertheless on quite an abstract level. The key challenges policy makers face when designing and implementing sustainable water governance are therefore summarised in the overviews below. Conflicts over privatisation are presently more obvious at the local and national level and reveal specific challenges regarding the scope of action of national governments and local private suppliers. While these are summarised in figure 3, the decisive conditions at the international and global level are referred to in figure 4.

At the national and local level, sustainable water supply thus needs economic support for local private and public providers in order to permit long-term investment strategies and the implementation of locally adequate solutions. Concerning the ecologic challenges, local and national policymakers and suppliers urgently need long-term strategies concerning water quality and quantity. Governments

need to make key choices with regard to the priorities of allocation to different sectors and provide alternatives for disadvantaged sectors and population groups. This is where the connection between economic, ecologic and social sustainability is particularly obvious. The increasing allocation of water to the tourism sector to the detriment of agriculture, for example, needs to be accompanied by adequate measures for alternative income generation and rural development. Furthermore, the design of future scenarios of available water supply often needs to be corrected regarding important regional disparities and the impact of climate change.

At the international and global level, ecologic sustainability needs better integration into economic and social strategies, not least because these ultimately depend on the status of the resource. The phenomena of urbanisation, desertification, climate change, and overuse of the resource for agricultural production all impact on the status of water resources and need global approaches. The challenges in economic sustainability of water mobilisation and service provision are equally too much left to national governments and lack global approaches. Considering their impact, the globally operating private companies and financial institutions as well as financing conditions for national governments, public firms or local private companies in the water sector equally need international regulation, based on the imperative of the threefold sustainability mentioned above.



Figure 3: The Challenges of Sustainable Water Management at the Local and National Level

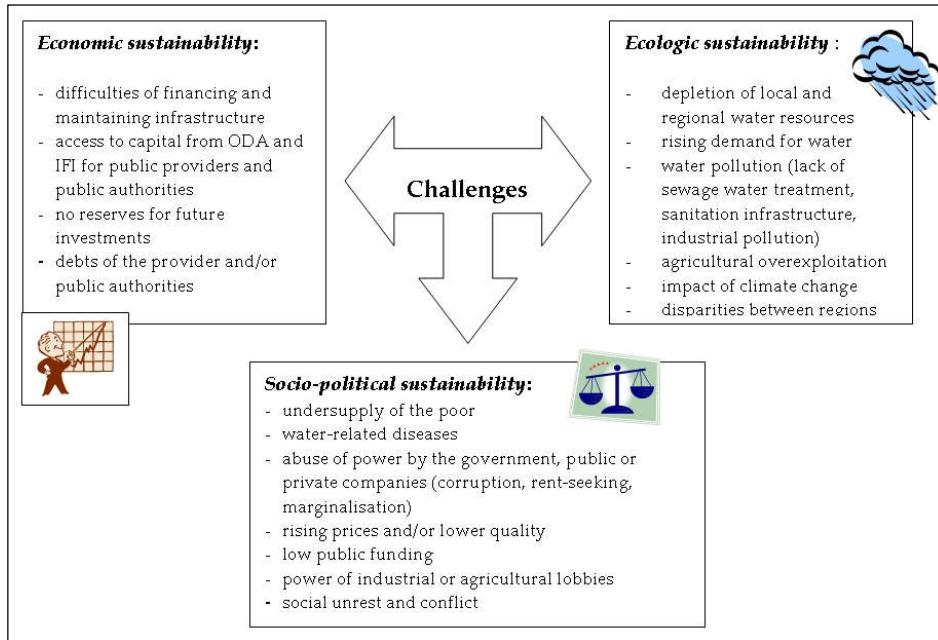
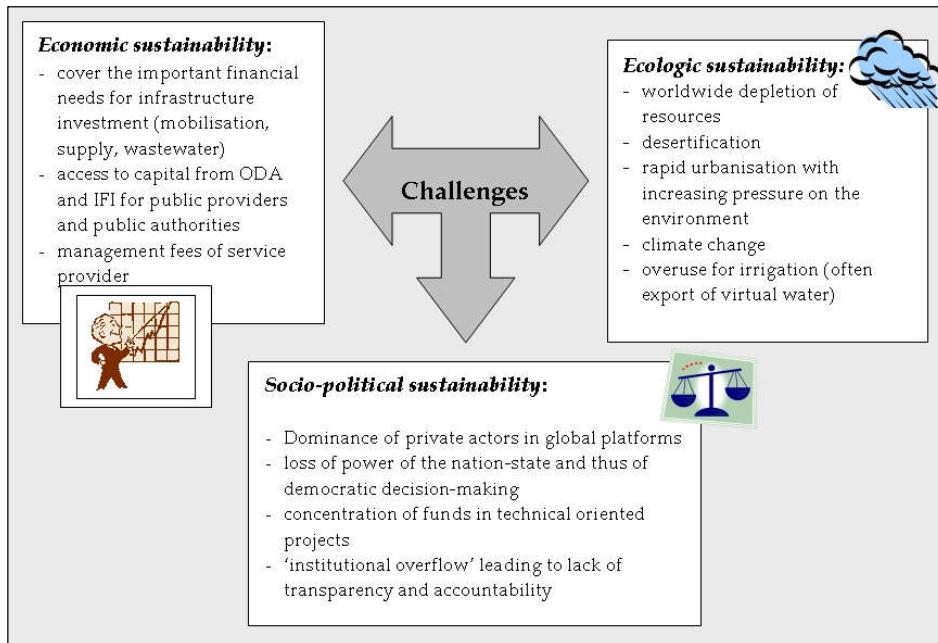


Figure 4: The Challenges of Sustainable Water Management at the International and Global Level





Socio-political sustainability, finally, is very much neglected at the level of international and global policy making. Although referred to in almost each and every brochure and programme, equity in access to drinking water and sanitation infrastructure, but also to water resources for economic needs as in agriculture, is far from being implemented. Good governance criteria such as transparency and accountability are so far little put into practice in existing global institutions. Global platforms, development projects and water governance institutions further need an explicit focus on the social impact of their policies and a reform in their institutional design for a better integration of all stakeholders.

This summary of the main challenges in every field of sustainable water governance at the international and local/national level points to key issues of long-term strategies in the economic, ecologic and socio-political fields. The close links between all three dimensions are obvious, especially when designing lasting policies. Economic sustainability cannot be guaranteed when ecologic degradation and social inequity or political turmoil exist. It is equally quite unfeasible to implement ecologically sustainable resource management without regard for its socio-economic implications.

The room for manoeuvre of development policies is not as restrained as it might appear from the summary of these interrelated effects. On the contrary, many development agencies and financial institutions are involved in such a large range of projects and policies that a coherent approach on the part of these actors might have an important impact. The following last chapter points towards selected ave-

nues for new approaches in this regard.

4.2 Conclusion: Options for Development Cooperation

Development cooperation in the water sector increasingly reflects the general orientation of multilateral donor policies towards a stronger conditioning of aid and the increase of incentives for private sector investments such as reflected in the Poverty Reduction Strategy Papers (PRSP) or the publications of the Development Assistance Committee of the OECD (Hall/de la Motte 2004: 6f). The specific problem of water supply has been mentioned: it is a service all human beings need and at the same time not always a profitable business, which is why state regulation is indispensable. Considering the wide implications at stake for human development, the implementation of socially, ecologically and economically sustainable water management further promises positive impacts on social stability and well-being. Therefore, PPPs need to be reformulated in the light of past experiences and of overall policy shaping power constellations. German bi-lateral development assistance in the water sector is worldwide, after Japan, the second most important one (Fritz 2006: 32). German companies are very active in the different industries related to the resource's management and still expect a considerable growth potential (BMWA 2005: 98). The potential scope of action for redesigning water governance is thus given and inversely, the danger of a complete delegitimisation of development cooperation threatens when only private sector interests are sustained contrary to development goals.



Based on the analysis of the policy problem, of the overall institutional and actor-specific context and the dominating power relations, the conclusion briefly points to two essential fields of possible action for development cooperation: the implementation of political regulation and the equilibration of power relations at the institutional level.

Regarding the impact of presently often unsustainable water policies on human development, social equity and ecological sustainability, new approaches are needed. The dynamics provoked by many of the water service privatisation projects further urge political decision-making, but the challenges summarized above are not the object of any overall binding political regulation. Especially regarding the impact of present financial practices (such as access to funds and credits for developing countries or water pricing) on social well-being, no guideline has yet been formulated. The criteria and principles on good water governance proposed by different UN institutions may be applied in specific programmes and projects, but do not address the specific issue of privatisation and its potential effects. At the international level, the pre-eminence of private actors destabilising national and local water governance equally needs political regulation. Development policies do have a significant scope of action in this regard and can especially make use of their ever-closer ties with the business sector. Evaluations of the private sector involvement show, that in the few cases where they had an explicit developmental assignment, they have significantly contributed towards enlarging distribution networks, even if they did not improve water access for the poor (Barungi et al. 2003: 6). Concrete and binding guidelines on

private sector involvement at the different levels are needed. As in other branches, ethically correct investments could not only be promoted but could be compulsory for the access to IFI's or bi- and multilateral credits and investment guarantees. Evidently, this also entails a harmonisation of external evaluation procedures in this regard.

The present polarisation in the negotiations over water governance also results from the monopolisation of discourse by some key institutions. The non-functioning of existing institutions has been analysed above: an essential asymmetry of power and an extreme self-reference of each of the collective actors involved has contributed to the rise of an institutional deadlock, a contradiction in the essential functioning. Reforms of these institutions, if possible, need to integrate all concerned stakeholders and include the real delegation of decision-making capacities and resources. Where this is not possible given the existing power relations, new institutions need to replace existing ones. In order to overcome the gap of institutional contradiction referred to above, communication structures between the self-referring actors need to be created and mutual obligations on a common code of conduct agreed upon. The "institutional overflow" of past experiences in redesigning water governance has to be avoided, and clear competences, duties and respective budgets allocated. Equal participation of public and private stakeholders in institutions needs equal conditions in the access, but also equal competences. This might require specific capacity building for employees of the public sector, local private companies or user associations. Furthermore, clear and commonly developed rules for the interac-



tion of the different stakeholders might prevent the danger of institutional contradiction.

Privatisation is in deep water regarding its impact on human development. Obviously, the technical and economic feasibility of water service privatisation does not say much about

its social viability. Development co-operation needs to respond to the present challenges referred to and seize the opportunities as long as it can still act as a credible player between private sector interests and local developmental needs.



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Abbreviations

BMZ	Bundesministerium für Wirtschaftliche Zusammenarbeit und Entwicklung
BOT	Build-Operate-Transfer
DAC	Development Assistance Committee
EU	European Union
EUWI	European Water Initiative
GATS	General Agreement on Trades in Services
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
GWP	Global Water Partnership
HIPC	Highly Indebted Poor Countries
IFC	International Finance Corporation
IFI	International Financial Institutions
KfW	Kreditanstalt für Wiederaufbau
NGO	Non-Governmental Organisation
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public Private Partnerships
PPPI	Public-Private Partnerships in Infrastructure
PRSP	Poverty Reduction Strategy Paper
PSP	Private Sector Participation
RWE	Rheinisch-Westfälische Elektrizitätswerke
SAUR	Société d'Aménagement Urbain et Rural
UN	United Nations
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
WB	World Bank
WHO	World Health Organisation
WSP	Water and Sanitation Programme
WTO	World Trade Organisation
WWC	World Water Council
WWDR	World Water Development Report

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