

# Rethinking Privatisation



## Towards a critical theoretical perspective

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**What is the privatisation of public services and why is it happening? This chapter addresses these central questions. In answering them, the authors hope to lay the groundwork for a critical theoretical perspective on the driving forces of privatisation. The central argument is that marketisation is being driven primarily by the structural demands of local and international capital and the continuing fiscal crisis of the state.**

One of the biggest conceptual hurdles in this debate, particularly for first-time observers, is the definition of the term. We therefore start with this question and argue that privatisation must be seen as a social intensification of capitalism and a shift in state-society relationships, rather than a mere collection of particular corporations taking over, or partnering in, public services delivery. We look at the growing emphasis on public-private partnerships but also at the larger trend toward the commercialisation of services (with a focus on water), and how these concepts relate to one another. The conceptual apparatus used to pull this discussion together is that of commodification – a process integral to capitalist expansion and central to the marketisation of all aspects of life.

We then examine who is promoting it and why. The central argument here is that the marketisation of public services is both widespread and influential and is being driven primarily by the structural demands of local and international capital and the continuing fiscal crisis of the state.

But this is a partial transformation – one that has been uneven across space and time and one that continues to be riddled with legislative, discursive and practical tensions. Nevertheless, the trend is clearly toward

increasing privatisation and commercialisation, particularly in the form of public sector corporatisation where publicly owned and operated utilities and services are managed like private businesses, leading to harsh cost recovery measures such as repossessing houses, cut-offs, prepaid meters, and drip-valves that restrict supply to the poor; all of which has spurred widespread civil insurgency and citizen disengagement.

### What is privatisation?

In its narrowest sense, privatisation happens when the state sells its assets to a private company, along with all of the maintenance, planning and operational responsibilities that these assets entail. Over the past 30 years states have divested themselves of airlines, railroads, telephone services, health facilities and other services, thereby unlocking a new phase of capitalist expansion and innovation. Divestiture, as this form of privatisation is formally known, was the model of privatisation adopted in the United Kingdom (UK) under Margaret Thatcher in the late 1980s, with entire systems of public services delivery being sold to private firms (Ernst, 1994; Schofield and Shaoul, 1997; Bakker, 2003). Monitoring and regulatory

oversight in this model of privatisation remain a responsibility of the state, however, or a parastatal regulatory body.

The privatisation of services in other parts of the world does not necessarily follow the UK model though. Most municipal privatisation schemes today do not involve any transfer of state assets, focusing instead on the transfer of operational and managerial functions to private companies (e.g. meter reading, personnel management, strategic planning, maintenance). Infrastructure and equipment typically remain in public hands – or are transferred back to public ownership after a specified period – and there may be joint responsibilities between the state and a private firm in managing operational functions. This model is used across the world by leading water firms such as Suez and Veolia (formerly known as Vivendi Environnement), which operate this way in over 12,000 towns and cities (Goubert, 1986; Hanke, 1987; Lorrain, 1991; Kerf, 1998).

More properly known as ‘private sector participation’ (PSP) or, as will be used in this chapter, ‘public-private partnerships’ (PPPs), these institutional arrangements are nevertheless a form of privatisation. There is a clear transfer of crucial decision making responsibilities from the public to the private sector and an effective transfer of power over assets to a private company, with qualitatively and quantitatively different rules and regulations guiding the decisions that are made and how citizens are able to access information. This broader definition of privatisation is also accepted by leading international agencies such as the World Bank, the World Health Organisation, the Water Supply and Sanitation Collaborative Council and various United Nations-related agencies who have actively promoted PPPs in public services in the South, such as the United Nations Development Programme, UN-HABITAT and UNICEF (see, for example, Lorrain and Stoker, 1997; Kerf, 1998; World Bank, 1994, 1997, 2003; WHO and UNICEF, 2000; UNDP-World Bank, 1998).

It is also important to note that PPPs can range from small operations, such as one-person contractors who repair pipes in an informal urban settlement, to a large multinational company hired to manage the provision of bulk water and sanitation for an entire city. The size and types of contracts can vary as well, from short-term, fee-for-service contracts, to 30-year licenses. Although large water service multinationals like Suez, Veolia, RWE Thames, and (until recently) Bechtel tend to attract the

most attention when it comes to water privatisation debates, small firms and ‘entrepreneurs’ represent a large part of the privatisation thrust, with these micro-enterprise deals often going unnoticed by the public. This smaller, ‘creeping’ form of privatisation is as much a topic of interest as the large multinational efforts to take over entire water systems.

Less easy to classify are forms of privatisation that involve the downloading of service responsibilities to individuals, communities and nongovernmental organisations. Represented in the neo-liberal literature as ‘active citizenship’ (Burrows and Loader, 1994) and ‘community empowerment’ – a counter to welfare dependency (Wolch and Dear, 1989) – this transfer of decision making and responsibility also constitutes a move from the public (i.e. the state) to the private (in this case an individual or community). Although not necessarily acting with the same institutional or economic incentives and frameworks as a private company, the transfer of decision making power to individuals and communities nevertheless constitutes an abdication of responsibilities on the part of the state.

Table 1 provides a typology of privatisation arrangements. Most agreements are hybrids of these categories, of course, tailored to suit the specific situation of individual governments and companies, but it should be clear from the table that all privatisation schemes involve some form of public and private sector participation.

Privatisation, in other words, is not an either/or situation (*either* the state owns and runs a service *or* the private/community sector does). Privatisation must be seen as a continuum of public and private mixes, with varying degrees of involvement and exposure to risks by the two sectors (see Starr, 1988). It is a conceptual and political mistake to pose the market (private) and the state (public) as binary opposites on this issue.

Moreover, as Bakker (2003:4-36) has argued in the case of the UK, even the outright divestiture of state assets can, ironically, mean greater state involvement in services, prompting her to employ the term ‘re-regulation’ rather than ‘deregulation’ in regards to legislative changes that allow for greater private sector involvement in public services: “*a process in which the state has reconfigured its role, and in some instances expanded its powers and administrative reach (...) the state does not necessarily withdraw, but rather changes the nature of its interaction with citizens and corporations.*”

The term privatisation is therefore used here as a



**Table 1. Different Forms of Privatisation**

<b>Full Divestiture</b>	Divestiture refers to a situation where a public utility or service has been fully privatised. Ownership rests with the private operator. The private operator is responsible for operation and maintenance, investments and tariff collection. The private utilities operate under the supervision of an independent public regulatory authority.
<b>Service Contract</b>	This is the least risky of all partnership types. The public authority retains responsibility for operation and maintenance of the service, but specific components of the service (for example operating water treatment works or billing) are contracted out to the private sector. Service contracts usually have a duration of one to two years, due to the fact that the problems they address may be unique and short-lived. The local authority does not relinquish any managerial functions
<b>Management Contract</b>	The management contractor operates and maintains the service or parts of the service and may also undertake to reshape the system. The public authority monitors the private agent, but remains responsible for new investment. Management contracts tend to cover a time-span of two to ten years.
<b>Lease or Affermage</b>	The lessor rents the facility from the public authority, which transfers complete managerial responsibility for operating and maintaining the system to a private company. Such contracts generally have a duration in excess of ten years. The contract specifies reporting requirements and service standards. Payments are split into fixed and volume related amounts. (Affermage is the French term for 'farming out.')
<b>Concession</b>	In this investment-linked contract the concessionaire has overall responsibility for the services, including operation, maintenance, and management as well as capital investments during the concession period. The concessionaire is also responsible for tariff collection and 'customer management.' The ownership of fixed assets is assigned to the local authority at the end of the contract. The contract, usually signed after competitive bidding, covers a period of 25 to 30 years. Regulation is by contract.
<b>BOOT</b>	Build, Own, Operate and Transfer contracts are generally used to construct new parts of a service system. The private operator builds the facility and assumes responsibility for operation and maintenance. After a predetermined time the facility is transferred to the public authority. The length of a BOOT contract is typically 25 years.
<b>Community / NGO provision</b>	Community and nongovernmental organisation (NGO) provision - an often neglected form of privatisation - involves the transfer of some or all of the responsibility for service provision to the end user or a not-for-profit intermediary body. This is particularly common in low income, urban settlements in the South where local governments have asked community members and community organisations to supplement weak or nonexistent facilities or resources with their own labour (e.g. digging wells, laying or repairing pipes). Women tend to carry the burden of this form of privatisation. NGOs play a key role as well, often taking on management and allocation responsibilities.

generic expression for a range of private sector involvements in service delivery rather than a single state of being. This is done in part because the term privatisation is widely recognised in popular discourse (as opposed to 'public-private partnerships') and in part because it highlights the fact that assets and/or decision making responsibilities have passed from public to private hands.

But we cannot limit our discussion of privatisation to direct private sector participation and control. Equally important is the question of private sector operating principles and mechanisms. The 'commercialisation' of services in the formally designated public sector is critical to our understanding of public services reforms. The next section describes commercialisation (and its most common institutional variant, 'corporatisation') and discusses its links – mechanically and conceptually – to privatisation.

### The meanings of commercialisation and corporatisation

Commercialisation refers to a process by which market mechanisms and market practices are introduced into the operational decision making of a public service – e.g. profit maximisation, cost recovery, competitive bidding, cost-benefit analysis, performance targeted salaries, ringfenced decision making, demand-driven investments, etc. (Stoker, 1989; Pendleton and Winterton, 1993; Dunsire, 1999; Leys, 2001; Olcay-Unver et al, 2003). This is in opposition to the more traditional public sector operating principles of integrated planning, (cross) subsidisation, supply-driven decision making, equity orientation, and so on (keeping in mind that there are no ideal or absolute types here – i.e. commercial principles and more traditional public sector management principles can run concurrently, to varying degrees).

A popular institutional form of commercialisation is corporatisation, where services are ringfenced into stand-alone 'business units' owned and operated by the state but run on market principles. Corporatisation involves two major organisational shifts. The first entails financial ringfencing, whereby all resources *directly* involved in the delivery of a service are separated from all other service functions (e.g. personnel in water are separated out for accounting purposes from personnel in waste management and are not allowed to do work for the other unit). Where resources are shared by more than one department (e.g. information technology, vehicles)

the ringfenced entity pays the other unit a full-cost fee for the use of those resources (see Shirley, 1999; PWC, 1999; PDG, 2001; Whincop, 2003; Bollier, 2003).

The purpose of this financial ringfencing is to create a transparent form of accounting where all costs and revenues related to the service can be identified, along with any subsidies in and out of the ringfenced unit. This is intended to reveal the real costs/surpluses of running a service and allows managers to identify areas of financial loss/gain that may have otherwise been hidden in the intricate accounting systems and cross-subsidisation mechanisms of an integrated service delivery scheme with centralised accounting. Financial ringfencing also creates an opportunity to introduce financially driven performance targets for managers (i.e. managers are rewarded for meeting loss/profit targets). This approach introduces market-based salaries for managers with the aim of attracting 'world class' executives who are expected to pay their way by ensuring that the bottom line is positive.

The second aspect of corporatisation is managerial ringfencing – the creation of separate business units managed by appointed officials operating at arms length from the public authority. Elected officials still set standards and service delivery goals for a corporatised service unit, as well as monitor and evaluate its activities, but the daily management and long-term planning of the unit are done by the ringfenced management team.

What is the link between corporatisation and privatisation? First and foremost is the change in management ethos with a focus on a narrow and increasingly short-term financial bottom line. So complete can this shift in management culture be that utilities and services which are fully owned and operated by the state (i.e. considered to be fully 'public') can be more commercial than their 'privatised' counterparts, with managers aggressively promoting and enforcing cost recovery and other market principles.

Second, corporatisation often promotes outsourcing as an operating strategy and discreet form of cost-cutting. A competitive operating environment, in turn, requires deregulating (or re-regulating) monopolistic control of the service and allowing multiple service providers to compete with the ringfenced unit to provide a particular service at cost-effective prices (e.g. meter reading). The removal of subsidies, for instance, forces state-owned enterprises to compete for finance on an equal basis with private firms or other corporatised enti-



ties. In some cases, the corporatised entity may have to compete with a private firm for the management of a service.

Third, corporatisation can act as a gateway for direct private sector investment, ownership or control by making public services more attractive to the private sector. Private companies, after all, are not interested in buying into services with intricate and/or hidden cross-subsidisation structures, inflexible and politically integrated decision making procedures, or anti-market management cultures. Public services that have been delineated from other service functions with clearly defined costs and revenue structures, with some form of managerial autonomy, and with market oriented managers are much more likely to attract interest from private firms.

Not all corporatisation efforts are mere preparation for bigger privatisation plans, but this is a real – and growing – motivation for governments that are adopting the corporatisation model. As one senior manager interviewed in Cape Town about that city's plans to corporatise its water services remarked (McDonald and Smith 2002:32):

*Lyonnais des Eaux has come knocking on my door on two occasions. These French water companies have become too powerful to resist. The takeover is inevitable. I want to run our services like solid business units to make sure that we negotiate from a position of strength when it does happen.*

Commercialisation therefore paves the way for private sector involvement in public services and/or creates publicly owned and operated systems that behave, for all intents and purposes, like a private sector provider, mimicking business discourses and practices and serving to 'hollow out' the state (Stoker, 1989; Clarke and Newman, 1997; Dunsire, 1999; Taylor-Gooby, 2000).

### Commodification of services

Tying all of this together are the underlying processes of commodification. Only when public services are treated as a commodity can they be effectively commercialised and, eventually, privatised. It is at this politico-economic juncture that we see the full significance of such a transformation emerge: e.g. water stripped of its image as an abundant, nature-provided good for public benefit, to water as a scarce, monetised entity subject to the same

laws and principles of the market as shoes, lampshades, or computers.

Only by examining these processes of commodification can we go beyond the narrow institutional and operational definitions of privatisation and commercialisation described above and more fully appreciate the transformative effects of treating public services as a private good. Privatisation and commercialisation must be seen as part of this wider process of intensified and extensified capitalism.

We start by examining neoclassical definitions of commodity and commodification, partly because these definitions have been so influential and dominate public discourse on the topic but also because they are now being used to justify privatisation and commercialisation of public services.

A commodity, in neoclassical economic terms, is anything that can be bought and sold in the marketplace in exchange for another commodity or for money. 'Commodification,' therefore, is any act, practice or policy that promotes or treats a good or service as an article of commerce to be bought, sold, or traded through market transactions (Watts, 1999; Brown, 2003; Williams and Windebank, 2003). According to neoclassical theory, to be commodified, a good or service must have the characteristics of a 'private good': it must be rival in its consumption (i.e. one person's consumption of that good denies consumption by another person – for example, a chocolate bar) and it must be excludable (people can be denied access if they do not pay – for example, admission to a movie). Private goods can therefore be priced for individual consumption and respond well to market signals.

'Public goods,' on the other hand, resist commodification because they are non-excludable (i.e. people cannot be prevented from using a good or service because they did not pay for it – e.g. clean air) and non-rival (i.e. consumption by one person does not diminish the amount available for the next person – e.g. street lighting). According to neoclassical theory public goods and services are unlikely to be provided by a private firm under market conditions because they are prone to 'free riders,' making it too risky for a private firm to invest in producing them.

Services such as water, in neoclassical theory, lie between these two poles, being neither a pure private good nor a pure public good, sometimes referred to in the neoclassical literature as a 'merit good' (Neutze,

1997). Merit goods and services are things that would almost certainly be underprovided if left solely to market forces (e.g. education for the poor). In the case of water, if there were no public sector provision it is likely that there would be some private sector providers offering services to those who could afford them (as was the case in Britain, for example, in the 1800s). But since private firms only take into account their own costs and benefits it is unlikely that a socially optimal level of services would be provided to all. The response of some economists to this dilemma has been to argue that the state should encourage private firms to produce more of a particular public good (e.g. by subsidising its production) or that the state should provide the good or service itself. Neoclassical theory would therefore argue that water, as a quasi-commodity, only partially responsive to market forces, would be underprovided from a public goods point of view if left entirely to market forces.

But since the late 1970s this notion of public services as merit goods has increasingly come under attack by neo-liberals who argue that water provision, for instance, must be seen as a private good like any other: responsive to market indicators, flexible in its demand, and rival and excludable in its consumption. *The Economist* (1992) has gone so far as to call water the “first commodity,” arguing that it is “a tradable commodity like coal and oil and timber and should be treated as such.... Only by accepting that water is a tradable commodity” it argues, “will sensible decisions be possible.”

Herein lies the key analytical twist in neo-liberal writing on privatisation and the commercialisation of public services. Neo-liberals not only argue that it is theoretically sound to regard public services as private goods, but go so far as to consider it an economic, social and environmental imperative to treat them this way. Subsidising water as a public/merit good, or having the state provide water without competitive pressures, leads to inefficient and unaccountable water provision, undermining its public good characteristics through waste, unresponsive behaviours and corruption. Treating water as a private good, on the other hand, creates efficient and accountable water delivery systems and therefore more desirable public good outcomes (Hanke and Walters, 1987; Bauman et al, 1998).

The policy upshot of this line of argument is that privatisation and commercialisation are deemed both acceptable and necessary. To do anything else would be irresponsible. This forms the basis for a newly emerging

moral discourse on privatisation, which argues that market competition and the commercialisation of services is a ‘pro-poor’ policy choice (see, for example, Foster and Araujo, 2001; Estache et al, 2002).

To avoid this analytical trap we must see the commodification of goods and services historically (in the *longue durée*), as part of a larger, dynamic process of change. This process is unique to capitalism and central to an understanding of capital accumulation and the contradictions within a market economy. We also need to situate the state and class struggles within shifting state-market mixes.

Commodification entails the transformation of relationships formerly untouched by commerce into commercial relationships. Under capitalism, many goods and services which previously had no market value or were self-provided within households have been brought into the market fold and mass production. New commodities are created with the expansion of markets to new geographic areas and new sectors that may not yet have been marketised, while a deepening of commodification is accomplished through the deregulation of exchange mechanisms, allowing further penetration of market principles into under-marketised spheres.

Capital, as Kovel (2002:42) argues, sees “each boundary/barrier as a site for commodity formation,” but this process is not always consciously pursued since some opportunities arise perversely. Examples of this are the business of cleaning up pollution, or making drugs to fight the effects of overeating and new diseases unleashed by ecological decay. Bottled water is another good example: a response to the (perceived) contamination and unreliability of (public) water supplies. The wide range of services that now make up the ‘service sector’ – from bereavement and psychological services to private security firms to child-care to fast food – attests to capital’s ‘reckless addiction’ to growth and its uncontrollability. Firms compete with each other to get faster and newer services and gadgets to the ever receptive, ideal consumer.

There can also be political and cultural differences across countries/regions which affect what gets commodified, where things are commodified and the rate at which commodification takes place. ‘Cultures of resistance’ and tensions inherent to the shift to commodification can slow the commodification process down and make it uneven (Williams, 2002; Williams and Windebank, 2003). Thus, although there are powerful



pressures to commodify (Harvey, 1990, 2003), commodification is not necessarily a linear or inevitable process. Nevertheless, we have seen a steady expansion of market relations and commodification around the world over the past few centuries, with remarkable acceleration in the past few decades. Commodification may not be complete, and it may not be inescapable, but *“the reality of capitalism is that ever more of social life is mediated through and by the market”* (Watts, 1999:312).

Here we see corporatisation as the logic of commodification *par excellence*: the compartmentalisation of all hitherto integrated service functions into stand-alone, cost recovery units; the homogenisation of measurement and reward structures; and the increasingly narrow focus on a financial bottom line. Corporatisation may not be the same as privatisation in the narrow, ownership sense described at the outset of this chapter, but it does serve to embed market logics into all aspects of the decision making process about public services delivery, and results in many of the same outcomes.

There are several lessons to be drawn from this line of argument. First, goods and services are not inherently ‘public’ or ‘private’ according to some innate set of physical characteristics (as neoclassical theorists would have us believe). The commodification of a good or service is a socially and historically constructed phenomenon that cannot be understood outside of its relationship to a given set of social relations of production.

Second, commodification is not – as some critics earnestly but mistakenly infer – simply an act of attaching a price to a good or service that used to be provided for free. Commodification is a systemic and comprehensive transformation of our material lives; price is merely its external appearance.

Third, to call for the ‘decommodification’ of services such as water – as many anti-privatisation critics do by arguing that they should be provided for free – is to call for nothing less than the rupturing of the social relations that contributed to its commodification in the first place, a radical (and commendable) idea but one that is sometimes unintended by its proponents.

The last and most important point is that commodification is the driver of privatisation, commercialisation and corporatisation. It is, ultimately, the process that facilitates a transfer of ownership and control of resources from public to private hands. At the very least, commodification creates the conditions for goods and services to be captured by the logic of the market, with all

of the concomitant inequities and multi-tiered standards that this entails. These are the cascading effects of commodification and they are inherent to all capitalist economies.

Nevertheless, we must distinguish between different institutional forms of marketisation and acknowledge that ownership of assets does matter. In other words, a publicly owned, corporatised system is different than a privately owned system, if not in the fundamentals of its practice then at least in terms of the potential public control over their operation. But we cannot ignore the fact that the commodification process slowly erodes the differences. Whether, and how long, public services can resist these broader commodification pressures, and stay in public hands, remains to be seen.

### Why is it happening?

The question of why privatisation and commercialisation of public services is taking place is a hotly contested one. Neoliberal analysts have argued that privatisation occurs because states fail: state officials are rent-seeking, inefficient, unaccountable, inflexible and unimaginative. Privatisation is seen as a rational and pro-poor policy choice, obvious to anyone willing to look at the track record of public versus private sector delivery: *“Privatisation really works,”* says the World Bank (2000:5). *“Consumers are not bothered about economic philosophy – they just want better service at lower prices.”*

Hodge (2000:35–46), in his review of the privatisation literature, identifies five core theories that have been used to explain the privatisation phenomenon (internationally and across all sectors): public choice theory, agency theory, transaction cost analysis, new public management, and property rights theory. Although different in their individual foci, all have at their core the belief that people respond best to market incentives and that market-based systems are inherently more efficient and more transparent than traditional public sector arrangements. *“[W]e have witnessed a renewed cultural enthusiasm for private enterprise,”* he argues, spurred on by *“a deficit-induced imperative to limit government spending”* (Hodge, 2000:35).

We argue, by contrast, that the privatisation of public services has not happened because it has been inspired by some renewed sense of cultural enthusiasm for the market, but rather that it has become a necessity imposed on the state by economic circumstances (Meszaros, 1998):

reduced public borrowing; cuts in state spending; liberalisation; and the opening up of new economic fields for intensified capital accumulation.

It is possible to trace this shift historically in the water sector. As economies and the construction of new dams shrank in the 1970s, competition for opportunities in the water sector intensified. This happened at the same time as the state, under fiscal pressure, could no longer keep up spending levels on new infrastructure or in maintaining the old. The privatisation of downstream activities – traditionally done by the state – offered new business options, and even if these were risky, contracts could be designed to make them less so. For the water and engineering-construction industry, privatisation was seen as a way to absorb idle productive capacity and excess commodities (see Harvey, 1982).

The strongest states have now made privatisation and opening up markets to their companies a condition of foreign aid. When the US bailed out Mexico in 1994 one of the conditions for the loan was more rapid privatisation – i.e. Mexico had to absorb even more exports of US capital (Moody, 1997). Similar conditionalities are being applied by the US to Iraq, with a USD 680 billion contract having been awarded to American-owned Bechtel in 2003 for service delivery management and upgrades in that country.

Nowhere in the mainstream literature on privatisation is there recognition of the argument that privatisation and commercialisation are a response to the pressures of an ever-expanding marketisation of social relations under capitalism. Nor is there any discussion in mainstream debates of the radical thesis that capitalists must constantly seek new geographic and sectoral areas of investment as a response to capital overaccumulation, or that capitalists are constantly forced to (re)create the physical means of production through the creation (and destruction) of built environments that facilitate market expansion. Privatisation, argues David Harvey (2003:149–50), *“has, in recent years, opened up vast fields for overaccumulated capital to seize upon (...) The neo-liberal project of privatisation of everything makes a lot of sense as one way to solve the problem.”*

For global capital seeking new areas to commodify, and new sectors in which to invest overaccumulated capital, the public sector provides an enticing opportunity. With the water sector alone worth an estimated USD 1 trillion in annual revenue (with only five to ten percent of the global water sector currently ‘privatised’), it is little

wonder that the services sector has attracted so much attention from private capital. Water is particularly attractive in this regard. As a non-substitutable good with low elasticity of demand, and with the potential for rapid growth through network expansion, population increases and the creation of boutique products such as bottled water (now the second largest bottled beverage by sales in the United States and growing rapidly internationally), water offers many advantages to oligarchic capital.

The downside for capital is that this market in many emerging economies has lost some of its sheen as private firms realize the risks of nonpayment in poor communities and the difficulties and expenses of building service infrastructure in informal urban settlements and remote rural areas. In January 2003, Suez management issued a press statement saying that the company would have a *“reduction of exposure to emerging countries by more than one third as measured by capital employed [and would instead be] focused on the most profitable and recurrent activities within the global businesses.”* In September 2005, Suez announced its intention to pull out of its Aguas Argentinas concession, arguing that the company was no longer in a position to assume the risks and responsibilities linked to the water and waste services operations provided to the city of Buenos Aires.

### Who is promoting privatisation?

Not surprisingly, some of the biggest boosters of privatisation are the private companies themselves, which have spent considerable time and effort trying to secure new market opportunities. The large private firms have actively sought contracts around the world by ‘knocking on doors’, flying bureaucrats to visit privatised concessions in other countries, hosting workshops, producing glossy brochures, and sponsoring pro-privatisation research.

But it is not just the international companies focused on public services that stand to gain. Consultancy firms such as PriceWaterhouseCoopers and KPMG have been actively promoting privatisation efforts, often acting as consultants to local governments investigating their service delivery options (see, for example, McDonald and Smith, 2004). These same firms are also part of large privatisation consortia in Europe and the United States lobbying for the expansion and acceleration of GATS.

Local firms have also been promoters of privatisation. National and local Chambers of Commerce have been



actively lobbying local governments in the South to privatise services because they are perceived to reduce tax burdens and/or offer contract opportunities for local entrepreneurs.

Another set of privatisation promoters are the international financial institutions, most notably the World Bank, which has been active in the South for decades and is arguably the single most influential body in the world promoting privatisation. Bond (2000) provides an in depth look at the role of the World Bank in promoting the privatisation of water and other essential services in South Africa, from its first Mission Teams in the early 1990s to its ongoing use of conferences and policy support to win the ‘hearts and minds’ of policymakers. Similar efforts have been made by officials of the World Bank and other development banks in other parts of the South. Most recently these development banks have been heavily criticised for attaching conditionalities to their lending, with direct and indirect pressures to commercialise and/or privatise services (Grusky, 2001; Zandamela, 2001; ICIJ, 2003).

The World Bank has also teamed up with the United Nations Development Programme (UNDP) to create the Urban Management Programme (now situated within UN-HABITAT) which promotes private sector involvement in services. The UNDP has, in turn, established the Public-Private Partnerships for the Urban Environment programme, with an office in Namibia, mandated to introduce the PPP idea into ongoing environmental and local governance programmes.

Bilateral development agencies have also been a factor. USAID, for example, sponsored the formation of the Municipal Infrastructure Investment Unit (MIIU) in South Africa in 1997, with the stated mission of “*encourag[ing] and optimis[ing] private sector investment in local authority services*” (MIIU, 2000). Activities involve assistance to local authorities in the process of hiring private sector consultants and the management of contracts with the private sector and ‘developing project proposals involving private sector investment, including contracting out of the management of ongoing services; concessions to operate the local authority’s assets over a defined period; contracts requiring the private sector to Design, Build, Finance and Operate assets to deliver services for the local authority; privatisation of assets and services. The MIIU has provided advice and funding to dozens of municipalities in the country, including the controversial 30-year concession to run the water and sanitation sys-

tems in Nelspruit and the five-year management contract in Johannesburg.

Britain’s aid agency, DFID, has been actively promoting PPPs and private investment in public services as well, through its Infrastructure and Urban Development Department. DFID’s total expenditure on water-related projects was GBP 87 million in 2001–02, about half of which is channelled through pro-privatisation multilateral institutions such as the World Bank (Hansard, 2004). DFID has also hired what George Monbiot calls the “*ultra-right wing*” Adam Smith Institute to act as a consultant on privatisation, tasked with “*telling countries like South Africa how to flog off the family silver*” (*The Guardian*, January 6, 2004). Monbiot goes on to point out that DFID spent GBP 56 million on assisting the government of Zambia to privatise its copper mines in 2003 but just GBP 700,000 on improving nutrition in the country, and that in Ghana, DFID made its aid payments for upgrading the water system conditional on partial privatisation.

Northern donor agencies are important actor supporting privatisation. Germany’s aid agency, GTZ, has been active in the promotion of water commercialisation, as has the Canadian International Development Agency (CIDA); the latter spending USD 4.2 million Southern Africa in 2003 to develop public-private partnership training programs that will be taught in local institutions throughout the region, arguing that “*public-private partnerships are an important part of encouraging foreign investment in the region and promoting greater social and economic equity*” (CIDA, 2002). Most, if not all, donor agencies operating in the South are supporting PPP efforts, either directly through bilateral funding or indirectly through support for multilateral agencies such as the World Bank or pro-privatisation coalitions such as the World Water Council.

National and local governments and individual politicians and bureaucrats have been active promoters of privatisation as well. Legislative developments provide a formal indication of this ideological orientation at the national level but there are less formal expressions of this hegemony in the way of speeches, attendances at pro-privatisation conferences and openings of privately run services. No less an authority than Nelson Mandela has publicly endorsed prepaid water and electricity meters and the creation of public-private partnerships, going so far as to say that “*privatisation is the fundamental policy of our government*” (as quoted in Pilger, 1998:606).

Local governments, as the ‘hands and feet’ of service delivery, play a critical ideological and implementational role here. With decentralisation a defining feature of most political systems, local governments are increasingly choosing some form of commercialisation or privatisation. National legislative frameworks and/or fiscal squeezes often force local governments to opt for commercialisation or privatisation, but it is evident that local politicians and bureaucrats (not to mention local Chambers of Commerce and small-scale entrepreneurs) are also ideologically committed to the marketisation of services. Local authorities are also active promoters of commercialisation, often working to convince their colleagues in other municipalities that commercialisation is the best policy choice, and organising regular pro-commercialisation workshops and conferences.

Local NGOs have been active promoters of privatisation too – such as Mvula Trust in South Africa – but there are large international organisations that must be considered here as well. The World Water Council (WWC) – the self-proclaimed ‘International Water Policy Think Tank’ – is an umbrella organisation that develops pro-privatisation policy directions for water resources management, and advises on policy matters for decision making bodies. Organisations involved in founding the Council include the World Bank, the United Nations Development Program (UNDP), the United Nations Educational Scientific and Cultural Organisation (UNESCO), the World Conservation Union (IUCN) and the Water Supply and Sanitation Collaborative Council

(WSSCC).

Finally, there is the role of the media. Although no systematic studies of the media’s attitude toward privatisation have been published, since mid-2000 the Municipal Services Project has produced a regular monthly compilation of English-language print media in Southern Africa, which suggests an overall newspaper bias toward privatisation. Pro-privatisation positions are particularly strong in the financial press, not surprisingly, but these attitudes appear to dominate the print media as a whole. Newspaper articles that are critical of privatisation do exist but these tend to be opinion pieces (op-eds) written by activists and academics rather than coverage by regular columnists.

Privatisation debates are very much like a David and Goliath battle, with the World Bank, the IMF, bilateral funding agencies, regional development banks, the vast majority of politicians and bureaucrats, and the neo-liberal press and mainstream academia lined up to promote privatisation/commercialisation on one side, against a determined, but largely dispersed and underfunded network of anti-privatisation groups and individuals on the other.

Whether the anti-privatisation movement can sustain itself in the face of this fierce and deep-pocketed neo-liberal offensive – let alone be able to contribute constructively to the development of more public-oriented services policies – remains to be seen. Suffice it to say that it will be a difficult and lengthy site of struggle.

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