

# WATER, ECONOMICS AND ETHICS

Rossella Monti

*Chief Executive Officer*

HYDROAID

WATER FOR DEVELOPMENT MANAGEMENT INSTITUTE

*rossella.monti@hydroaid.it*

## Summary

The following pages analyze the relationship between water and economics. Although with no overconfidence of being exhaustive, we intend to offer some elements for consideration on the topic of privatization. The issues faced by the developing countries are investigated since no solution to their poverty has been found yet, in spite of the debates in progress in the Western Countries.

## Water, economics and ethics

I wish to recall some data I already mentioned in a previous article: FAO states that the 15,000 m<sup>3</sup> of water that are used – as an average – to irrigate an hectare of rice of the modern high-yield varieties, are sufficient to 100 nomads and 450 heads of livestock for three years; to 100 rural families for three years; to 100 urban families for two years and to supply 100 customers of a luxury hotel for only 55 days.

These figures provide immediate evidence that water plays an essential role in market economy.

When the World Bank set out the water emergency alarm<sup>1</sup> in 1995, they mentioned - amongst the main causes - poor governance (which often meant centralization of the water management systems under the control of the State with little room left to the private sector) and the fact that water was considered an either free or low-cost commodity. Referring to the Dublin Charter of 1992, they legitimated the concept that water should be treated as an “economic good” and pointed out that the solution to the emergency could be found in the definition of “water productivity” criteria, as it was the case in the majority of the Western (or westernized) countries.

Nevertheless, the economic criteria – even though they are legitimate, since we are dealing with economics – are to be weighed up and proposed with great cautiousness, because - if we ignore the fact that water is a right for the human beings – we risk increasing the gap and latent conflict between the developed and underdeveloped countries and creating virtual inflation cycles, since the higher cost will finally have to be covered under other forms by the Governments of the developing countries (where the revenue per head is – as an average – lower than 10 US\$ per day). *Ab absurdo*, this would end up by privileging the use of water for industrial purposes rather than for agriculture, thus triggering conflict processes on the use of the resource, with severe consequences for both man and the environment. Banalizing, and as a

---

<sup>1</sup> In 1995, the World Bank launched an alarm stating that 80 countries, equivalent to 40% of the world population, were facing a condition of water shortage, i.e. less than 1000 m<sup>3</sup> of water per inhabitant per year, and 50% of the world population (i.e. approximately 3 billion individuals) had no availability of appropriate treatment systems or access to drinking water. As a consequence, the mortality connected to epidemics and contagion due to water pollution amounted – according to the WHO – to some 30 million people per year.

mere example, 1000 tons of water used in the fields produce approximately 1 ton of wheat for a value of 200 US\$, whilst they can add value to the industrial production for some 14,000 US\$.

To complete the economic aspects of water, we need to move further into the thorny issue of privatization which identifies – even though wrongly – such issue in the collective debate.

A conflict is witnessed nowadays - at every political level – between those who are in favor of the privatization of water (i.e. committing its distribution to private companies) and those who oppose it. Amongst the different topics, the discussion focuses on whether it is ethical or not that the management of an essential good is entrusted to private enterprises, which make a profit out of it. I sincerely believe the terms are poorly stated and, furthermore, focused on the sole portion allocated to drinking and sanitary purposes at urban scale (even though this fact is rarely stated), whilst the largest share of water consumption goes to agriculture and industry. The discussion focuses on *how*, but not on the *solution* of the problem, which has nowadays reached conditions of extreme severity (1.4 billion people with no access to water!). The issue is complex and its solution is influenced by several variables; therefore, any generalization would be misleading. Every country needs an *ad hoc* solution which may meet the requirements of the country itself on the grounds of its history, hydrological features, political status, infrastructure and economic conditions.

I personally do not believe privatization is a scandal *per se*, provided that the primary rights (drinking, hygienic and sanitary purposes in the appropriate quantity and quality) are guaranteed, cost is controlled (i.e. fair) so that access to water is ensured also to the economically weakest population and to agriculture, and the environmental, social, cultural and food production particularities are safeguarded. On the other hand, numberless other vital goods are held by private enterprises and nobody makes a scandal out of it.

I am nevertheless overwhelmed to learn that privatization is producing bewildering data: in Kenya, one liter of water costs 0.93 US\$, whilst the cost on one liter of gasoline is 0.83US\$; in Burkina Faso, the cost for a connection to the water network (Vivendi management) is 220 Euro against a daily revenue per head of 0.5 Euro; in Bolivia, company Aguas del Illimani (Suez Group) has arranged so that the cost for new connections in El Alto and La Paz is 450 US\$; a figure numerous families - whose monthly revenue was (and is) not exceeding 50 US\$ - cannot afford.

Wanting to propose a kind-hearted vision, I do not believe these are merely harassing actions undertaken by the private providers, but costs they actually afford. Since they are obviously - and legitimately - profit-making companies, they set their own deal so that the invested capital and the management costs are paid back within some decades at the latest and they achieve economic benefits.

It is therefore worth wondering – before even talking about privatization – who is to afford the cost, not only of the ordinary management, but also of the new infrastructures. In our countries, the large investments were made by the State (which – in Italy – is still intervening in the large strategic works) and with no return; the long-term management has been very bad on the economic and financial outlook, but not on the social point of view, since all of us (or almost all of us) have the water supply at home and enjoy water of controlled quality.

Consequently, the commitment to the new private or public providers in our countries concerns aspects of ordinary management, maintenance and refurbishment of the infrastructures. The privatization process was accompanied by a solid legislative basis; systems for the optimization

of the infrastructures were set up also on the juridical and governmental point of view so that the management should be (as stated in law 36/94, with the creation of the ATO) “efficient, effectual and cost effective”.

In the developing countries, on the other hand, such conditions are different: large investments are needed to build dams, networks of supply, drinking water plants, sewers, waste water treatment and desalination plants, artificial reservoirs and the like. The first question is – therefore – who is supporting such investment? The second one is: are those who control the investments and hold the auditing systems trustworthy? The third one is: are the investments non repayable? The fourth one is: is the country where you want to operate provided with the legislative and social mechanisms which will enable it to work? Only once these requirements are met can we talk about a financial and economic plan which should also include management, irrespectively on whom it will be committed to. Doubtlessly, having save water involves costs. The implementation criteria will define if water is a business and who it will be a business for.

I do believe it is not only ethically deplorable, but also senseless, to introduce free market criteria which carry the obvious dangerous consequence of “commodizing” water. The first clear signals of this orientation appeared in the international debate, where water shifted from “fundamental right” to “vital need” (UN Conference, Declaration of Dublin, 1992; IIWWF, The Hague, 2000). The difference does not just lie in the terms. The “right” to water entails for the State and its institutions the obligation to create the conditions required (also on the financial and management points of view) so that all the members of the community have access to the resource in the quantity and quality which are sufficient for life. If we talk of “need” - on the other hand - access to water will derive on the initiative of the individual, whose ability to meet such need depends on his/her purchasing power.

Coherently to this concept, water becomes an “economic good” (and not only a “social” one) whose value is to be determined on the basis of the “fair price”, as established by the market within the international free competition, according to the principle of total cost recovery (Summit of Cancun, 2003).

This is exactly why the strongest protests faced by the WWC Forum in Mexico City were aimed at having water removed from the commercial treaties, and this is again why – in front of a pressing request for a change in the strategy – the organizers of the event proposed to talk about a global challenge to be seized through local actions. In other terms, to overcome the relationship between states (and between companies and states) and create relationships between local communities (and between companies and local communities).

An unprejudiced fact remains: these talks enrich the intellectual debate constructively and find their application when the citizens – in a democratic regime and through their own representatives – have political and social tools to participate to the choices which involve them. These are not the conditions we are facing in the largest part of the developing countries. I believe – therefore - that two approaches should be outlined: one for the “industrialized” countries and a different one for the so-called “developing” countries; moreover, these macro-categories deserve some further distinctions as well.

In the first case, I do believe that – although some experiences show the contrary – the application of economic criteria (and – amongst them – privatization) remains a suitable tool to ensure the efficient management of water, provided this occurs in compliance with modalities and principles which safeguard the rights and needs of the final users. The Public-Private Partnership model outlined by the World Bank – even though its position is influenced by the powerful lobbies of the water companies – which advocates the separation between the governance of water (under the responsibility of the State) and its management (committed

private companies, perhaps with the equity participation of public institutions), is a good starting point which – if appropriately corrected - can ensure on the one hand the right to the access to water and – on the other hand – the efficient management of the resource. Though, an effective, rigorous upstream action by the State authorities will be required. This is why I do believe such model is applicable in the more industrialized countries only, where the State is more efficient and democratic and can therefore focus and regulate the process of privatization in the interest of the collectivity by establishing limits, controls, re-investments of parts of the capital as well as sustainable environmental standards to all the private enterprises which intend to operate in this sector. The latter are to be committed the sole activity of production and management of water in compliance with the principles of "*full cost recovery*", i.e. ensuring the remuneration of the capital invested and consequent greater efficiency in the exploitation of the water resource .

Yet, I do not believe that - unless the local governments secure the interest of the collectivity - such model can be successful in ensuring access to water to the whole populations in the Third World, because of the following:

- political and social environment. Institutional instability, non democratic governments, inefficiency of the state apparatuses are factors which prevent rigorous control and regulating action and facilitate bribery and extortion.

- economic reasons. To enable their intervention to have social value and contribute to the solution of the world water issue, the water supply companies must take water were there is not, i.e. to the rural areas, whose population needs low cost technological solutions. How to conciliate, then, the demands of the people with the one of the private sector, which legitimately thinks in terms of revenue and profit? It is obvious that the investment efforts of the large companies prefer to address the urban and sub-urban areas, where greater profit is on hand. Furthermore, in order to recover the investment for new infrastructures (which often do not exist at all) and the management cost, and to produce profit, they set prices which a very large part of the population cannot afford.

Hence the need to outline – in those regions which witness particular economic, social, political and cultural conditions – a model of governance of the water resources different from privatization, even though it must be cost-effective. Most likely, the only viable solution is in the long run, implementing principles of solidarity-oriented cooperation which would range from non-returnable investments, training of local professionals who can then take up the management of complex systems, up to international policies which can encourage the activities of the local providers when they are threatened by internal policies of their governments which do not foster the social policies and the “well-being” of the collectivity.

Furthermore, any project of cooperation should be permeated with elements which reflect our concept of Man, such as justice, solidarity, development and welfare.

These values embrace social policies, information, participation, and knowledge i.e. factors that – if not present – aggravate the underdevelopment and effectively contribute to the scarcity or – as opposite – to floods. This leads to think that interventions which leave out of consideration the individual and his/her everyday life risk to be ineffective *per se*. A large portion of the issues the Third World is facing are cultural. In a globalized, extremely competitive and fast world, the victims of the progress are those fringes of the population which – by necessity – concentrate in some particular areas of the world where they are submitted to the charm of models of development they can receive only marginally and which – in any case – they cannot sustain to enjoy them. With time and with the world’s techniques and dynamics moving ahead, the already dramatic gap between the rich world and the poor one is bound to increase.

*De facto*, the ruling models are the ones of the West; making a turning point would mean contributing to a participation of the non-Western countries. This calls for – first of all –

training and education and – mainly – a sufficient time span so that the experience we hold manifests into new worldwide dynamics. It also calls for the *a priori* acquisition – by the help givers - of the hierarchy of values above. On the other hand, these same values are to be perceived with the same resolve and determination by the beneficiary governments.

### **Conclusions**

Water is a fundamental, vital right of the human beings. It is also an element of health, environmental balance, social, political and economic development which cannot be set aside. This is why any intervention carried out in the water sector cannot leave out of consideration the essential ethical values.