

WATER AND DEVELOPMENT AND THE GATS PERSPECTIVE: A DEVELOPING COUNTRY'S VIEW

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To begin, I am not here as part of SA's trade negotiating team and what I am going to say is not part of our negotiating position although I do not think it is contradictory to it. Rather, I am commenting as a sectoral outsider, on what is in the public domain about the unfolding process and interpreting it through sectoral eyes.

I am also not here to talk specifically about GATS and the trade negotiations but to talk about water in the context of broad international development policy, particularly in terms of the Millennium Development Goals (MDGs), and to discuss how the various specialised processes impinge on us. Hopefully, the perspective from the water sector will be useful to those who are engaged in them.

What I would like to do is to

- describe some elements of the South African water programme including how we are achieving the MDGs in our country;
- outline what this means for the achievement of the MDGs globally; and
- consider the impact of placing water services on the GATS agenda.

A World in One Country Experience

We sometimes refer to South Africa's "world in one country" experience. In 1994 we inherited a grossly unequal society. The divisions in wealth closely reflected the global picture - hence the "world in one country". We are engaged in a major process of national reconstruction and development to address the inequities of the past and to build what will be a more prosperous nation because it will draw on the strengths of all our people not just protect the affluence of a minority.

The challenges faced by South African society were reflected in the water sector where the majority of the poor were without basic services. One third of the population were without a safe water supply, a half without adequate sanitation.

Fortunately, while still burdened by great inequality we are able, as a middle income developing country, to fund programmes to provide basic services ourselves - although additional funds from donors such as the EU are most welcome, not just because they help to speed up the programme but, as important, because they promote exchanges of knowledge of which this presentation is a part.

In 8 years, the Department of Water Affairs and Forestry has provided (very) basic water supplies to 9 million people and government as a whole (through housing and related urban programmes) to substantially more than that. While the recovery of costs from users is a vital element of water supply financing, we do not allow affordability to bar access to the basic services which are needed for health and dignity and are rights in terms of the South African Constitution. So local government is funded to provide a free basic water supply, 25 litres per person per day. Using such straightforward public finance approaches and institutional reforms, it is proving possible to bridge the divides in our society and we hope by 2008 to

have largely eliminated the water supply backlog with a 2010 target for sanitation.

We also have a substantial economy and an affluent population to provide for. In addition to the provision of basic services to the poor, the water sector also services economic activity and provides higher levels of service in our urban areas. Looked at overall, at least 70% of the sector's annual cash flow of over a billion Euro is funded from user charges. The financing of long-term infrastructure projects (the largest of which, the Lesotho Highlands Water Project, has cost about E2 billion) now comes almost entirely from our internal markets. From government, there is an investment flow of around E200 million annually and an operating subsidy of E100 million.

What does this have to do with the trade and development issues, which bring us here today? The obvious question, what the GATS is about, is who provides the services ?

Putting infrastructure in the ground is only the first step in service provision. Managing it efficiently, to provide services equitably and sustainably is now the responsibility of 280 local governments whose election in December 2000 effectively marked the completion of the political transition.

In terms of legislation, communities can choose the service providers they want, through their local governments. Experience is showing that there is a role for a variety of partners, public and private, domestic and foreign, as well as for government and civil society. South Africa's programmes are promoted by national government and implemented by local government but involve the private sector in various guises, as well as NGOs and the beneficiary communities themselves.

The choices are complex because the communities are so different. At one extreme, there is a range of "public-public" partnerships using small Community Based Organisations (CBOs) to undertake service management on behalf of local government, particularly in small, isolated rural communities. At the other extreme, some areas receive bulk services from regional public utilities, the "water boards" the largest of which is comparable to equivalent operations in Europe.

While the handful of private sector concessions which serve less than 2% of the population have met with mixed success, the private sector dominates the more traditional fields of design, construction as well as project management while functions such as billing and collection and plant management are also often outsourced. The new public utility for Johannesburg, which puts together five formerly separate organisations, is being established with management support from a European multinational.

Care has to be taken in regulation not to block policy options unintentionally. Thus attempts to use CBOs as service providers to promote community participation have been challenged. Potential providers have complained in terms of government's procurement policies that they are being excluded even though the policy objective is to encourage community participation not to promote commercial service provision an issue with obvious resonance in this meeting.

A final, very important role for the private sector is the provision of finance. Much of the finance for infrastructure development is raised from the markets against the revenue streams derived from users, complemented by the government grants which are used to fund basic services for the poor.

There are of course many challenges. Government has been castigated for allowing water providers to restrict water supply for credit control purposes to households who do not pay for consumption above the - still small - free basic allowance that government subsidises for the poor. (This is despite widespread evidence that the quickest way to prejudice the poor is to allow a free-for-all in water services since it is the rich who buy the pumps to suck water from the pipes and the poor whose taps run dry.)

These challenges do however highlight a vital point. We know, as operators, that water services can only work effectively if there is sufficient consensus in the society to support their

operation. By their nature, they are so widely distributed that it is impossible for them to be controlled by police methods. So decisions about how services are provided must be taken in a way which ensures the concurrence of users, whether it is on tariffs, or service levels, or the institutions responsible for running the services.

The Global Goals For Water And Sanitation Can Be Met

The South African experience suggests that with motivation, money and management, the global water and sanitation goals can be met in a divided world. It also demonstrates that business as usual will not achieve the goals. What relevance does this experience have for the broader global community?

Globally, there is more than enough money to meet basic minimum needs in water and sanitation. Just the wealth destroyed in the recent IT / telcom bubble would have been more than enough. The additional investment needed to meet the basic needs of the poor by 2015 is a perfectly feasible amount, perhaps US\$10 billion annually. But most of the global water backlog does not occur in middle-income countries which are able to redistribute between rich and poor within their countries. How do we mobilise the funds that are needed ?

What South Africa does is straightforward in public finance terms. Given the inherited inequalities, the redistributive use of national tax revenues to fund investment in basic needs infrastructure and its operation is appropriate and efficient. Our Constitution provides a framework within which local government has the duty to provide basic services and national government to provide the financial and other support and to monitor progress.

But what is the framework and what are the options at a global scale ? During WSSD President Thabo Mbeki repeatedly referred to "global apartheid" and we need to ask, what is the global public finance equivalent of ending apartheid in South Africa ?

Here, the EU's constructive approach to funding of the water sector in South Africa and elsewhere is encouraging. Budget support approaches are an appropriate mechanism which recognise that the asymmetry of subsidiarity must go both ways. So while operational management of water services is best decentralised, the funding of basic water supplies in poor communities must also be placed at the appropriate level which, in a world deeply divided between rich and poor nations, means to regional and global institutions.

In Kyoto later this month, Michel Camdessus will report the results of his Panel's review of how the financing needs of the sector can be met and we hope to learn more about the various initiatives promised at WSSD, from Japan and the USA as well as more detail about the EU's own initiative.

If we are to achieve the Millennium goals - which by definition means targeting the poor - the iron rule that the poor must pay for their services will have to be reviewed. This rule was adopted because it reflected the best that could be achieved with the resources available in the circumstances of the past decades. The dismal global progress during that period suggests that this is an area where we will have to change the way we do business.

GATS And The Role Of The Private Sector

The role of the private sector in water service provision is contentious and closely related to the availability of resources to meet the needs of the poor. Indeed, one reason for the widespread opposition is that the aggressive push for private sector engagement in developing country water services came in the absence of a framework for meeting the needs of the poor. As already noted, we cannot provide water services effectively without sufficient social consensus.

This brings us to the current question of the GATS.

It is arguably inappropriate to introduce the private sector in social policy areas such as water solely for ideological reasons. The justification must be that their engagement will best serve

to address public objectives. Advocates of private engagement must therefore demonstrate that their recommendations are the product of rational institutional decisions designed to achieve those public objectives.

Two initiatives might help them in the developing world water sector. The first would be for donors and lending agencies to cease making private sector involvement a pre-condition for water sector support. They need to respect the commitment of most governments and communities to meet their water service needs and help them to make sound choices. In particular, they should be allowed to make their own decisions on service provision options and helped to put policies in place to address the needs of the poor.

The question of finances is critical in this. If the water services challenges cannot be solved within the current development funding framework, efforts to engage the multinational private sector in service provision without appropriate financial arrangements in place will simply create more conflict.

If on the other hand programmes were in place which focused on meeting the basic water and sanitation needs of the poor, we could create conditions in which more appropriate - and more successful - private interventions could be developed.

In the absence of such arrangements, a second important initiative would be for the countries concerned - as well as their companies - to take water services off the table in the GATS and related trade negotiations. This would emphasise that they are serious about achieving the global objectives and are not just pursuing trade objectives under a benevolent guise.

Conclusions - Demonstrate Commitment to Developmental Outcomes

Acts of good faith are not usually included in the rules of the arcane game of trade negotiations. But if we are serious about the MDGs, if we are serious about making the Doha round a developmental one, we need to be guided by more than the current rules of the game, rules which are necessarily skewed against the poorer and more dependent players.

If this is indeed to be a developmental round, part of a broader process of achieving the goals set by the Heads of State, it cannot be business as usual. I am told that the importance of including an item in the GATS agreement is as much its symbolism for the investor community as its commercial substance, a point that is well understood, a point that makes my intervention here rather delicate since I do not seek to antagonise this community.

But if investors are to avoid the kind of unpleasant surprises that Bechtel has experienced in Bolivia, Lyonnaise in Manila and Buenos Aires, Saur in Maputo, it is important to remind them that there are other communities, the communities of the developing countries concerned, the communities of the poor. For these communities, the inclusion of water services in trade agreements is also hugely symbolic. In the absence of initiatives to meet their needs, it will reinforce all their fears (and will understandably be used by many elements of civil society as evidence of bad faith).

Thus Barry Coates, head of the World Development Movement commented about the inclusion of water services in GATS: "It reveals why they keep these demands secret - their agenda isn't pro-development. This is what they regard as their goodies from the new trade round."

So, in a small way, the status of water services in GATS could well be seen as a test of commitment to the developmental nature of the Doha agenda, to the Monterrey decisions, to the Millennium Development Goals, because they are all interrelated.

Here is the problem of perception. Here is also the challenge to make good on the bigger commitments and imbue our specialised international activities with the new spirit that is demanded if the Millennium Development Goals are to be achieved. And until that new spirit is evident in the recesses of the trade negotiations, we must forgive those who take the bold statements of commitment to the global good with some scepticism.