

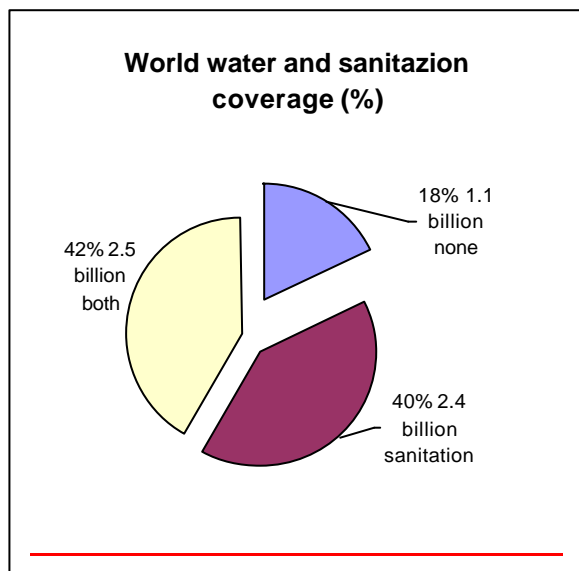
Divergence between Profit and Public Services

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Profit is the purpose of Private Enterprise and gain is the measure of its success in any activity. Profit is legitimate when there is a transparent market – without distortions and open to competition- and is usually beneficial to the general interest. This benefice – that is an externality to the main goal- are lower prices in products and better quality.

In Public Services, success is measured in range and quality. The implicit reason to exist of Public Services is to reach effectively every populated corner, with disregard for profit. This capillary coverage is a requisite for harmonious national development: homogeneous and prosperous. The importance of total coverage is such that if its income doesn't cover the cost it must be subsidized; there is no shame in that: those who criticise subsidies to public services in the name of market rules are the same ones that find subsidies for agriculture agreeable.



The absence or spasmodic access to basic Public Services is what pushes migrants from rural communities to urban centres. They want the health, clean water and education facilities that they are entitled to under International Law and under most constitutions. There are other Public Services – communication, transport, security – whose national reach is also essential for human and economic resources development.

The political importance of services is crucial. The inequality in access and quality increases the maladjustment between social tissue and economic development, which in turn increments insecurity and the precariousness in policies. It has also great strategic importance, because services determine the quality of intellectual and technical development,

besides being essential for production and distribution of goods and private services.

Privatization of Public Services

The problem with the concession of Public Services to private enterprise is that they inherently look for profit and rarely are there in Public Services the conditions for healthy and transparent competition to demonstrate its collateral virtues on a national scale. The most frequent condition is that of a monopoly or -when there are other actors- that of an imperfect market.

It happens that the indispensable infrastructure – aqueducts, electric lines, etc. – cannot be duplicated and is not reasonable that it be so. So in order to compete it is necessary to gain access to use those single installations. It is a remarkable feature that the specialized corporations that submit tenders for managing basic Public Services are few and are all multinationals. In the case of water the allocations is a concentrated between four: Biwater, Suez, Thames Water and Vivendi¹

¹ “Oligopoly on tap”; Oligopoly Watch, September 12, 2004.

The list of scandals in the private management of Public Services is long and covers all sort of countries - developed as well as developing or least developed- in all continents. We will mention only a couple of cases but very transcendent ones, which concern that essential source of life: water.

- When the water service of Kwa-Zulu, in Natal, South Africa was privatized, the 10 million persons who could not pay were left without drinking water; 250 thousand contracted Cholera and 300 died².
- In Bolivia, under pressure of the World Bank³, the municipal water supply and sewage company - Servicio Municipal de Agua Potable y Alcantarillado - SENIAPA- of Cochabamba was privatized. The service was given in concession to a Bechtel subsidiary – a fraud case over San Francisco’s water already on its record – just a few weeks later tariffs rose by 200%! When the company refused to review prices a popular revolt forced Bechtel to cut and run⁴. This incident contributed to the electoral victory of Evo Morales.

The intermediation – imposed by international credit institutions as technical assistance – by well known consulting companies of USA and Europe to evaluate Public Services privatization in indebted developing or least developed countries is also objectionable, so much so that there is talk of a prosperous industry of poverty. Here are some examples⁵.

- In Argentina, Pricewaterhouse-Coopers was the consultant – paid by an Argentinean Government obedient to the IMF- which recommended to allocate the concession of the Postal Service for 30 years to a new company by the name of Correo Argentino. It was the first privatization of a national postal service ever and was supported by \$258 million from the Inter-American Development Bank-BID and the World Bank. The concession had to be revoked due to bad service and mounting debts in November 2003- five years later.
- In Tanzania, through HIPC⁶, the World Bank and the IMF required the Government to engage consultants for the privatization of the Dar es Salaam Water and Sewerage Authority. Severn Trent Water International, a British company, was appointed as leading advisor and the concession was given to the British multinational Biwater, and to Gauff Engineering, from Germany, in August 2003. There is a spicy detail: the British Department For International Development – DFID, paid £430.000 of public money to Adam Smith International – a privatization consultant- for a promotion campaign to sell the virtues of privatization to diffident Tanzanian citizens.
- In Mozambique, an evaluation of Technical Assistance showed that donor countries had paid \$350 millions to consultants, while the total Public Services salaries amounted to only \$74 millions⁷.

Failures and conflict of interest of private enterprise in the management of Public Services are well known. In Europe, civil society already advocates for assistance policies more oriented to social realities. For example, there are objections about the use of public funds to pay PPIAF⁸ consultants and instead recommend the promotion of partnerships among local public services companies and successful European public companies. The Norwegian Government has already prohibited linking privatization with the use of any money it contributes to international development aid agencies.

² “Privatisation – the Poor Can’t afford it”; Public Services, War on Want, www.waronwant.org

³ Bank officials threatened to withdraw \$600 million in debt relief:

⁴ “Bechtel in Cochabamba”; Water Privatisation Conflicts, www.academic.evergreen.edu

⁵ “Profiting from Poverty : Privatisation Consultants”; DFID and War on Want, www.waronwant.org

⁶ For Heavily Indebted Poor Countries; a facility administered by WB & IMF.

⁷ “In the Public Interest: health, education and water and Sanitation for all”; Oxfam & Water Aid, 2006, pag.9.

⁸ (Public-Private Infrastructure Advisory Facility) “Stop financing the PPIAF”; www.world-psi.org

Success in the public management of Public Services

There is much comment about the inefficiencies of Public Sector management of Public Services in developing countries. It is true that there are too many cases of irresponsibility and corruption. Statistics show numerous cases of an abysmal backwardness in essential services such as Health, Water, Sanitation and Education. But these are the realities that private enterprise was not conceived to improve, not because it is intrinsically bad, but because its goal is to make profit. The poor of poor countries do not have the money to pay a profitable price, even if it costs them their life.

In Europe there are examples of successful Public Service performances under a public administration, and in general efficient management extends from national to municipal level. It is not an exclusive model, because the private sector and civil society give very important contributions, such as technology and civic culture, but under a Public System. The population general satisfaction with this standard builds a strong resistance to privatization, like in Holland where there is a law against privatization. But in other countries there are those cases which – with the complicity of governments – push the present tendency to higher prices in water and health insurance. The developed countries example of public management contains a clue: making it a priority with investment to match. OECD countries spend an average of 1.6% of GDP (Austria 2%) on environmental services, while in the Third World we presume the average investment is much lower, since the few records available point in that direction.

There are also successful cases in some developing countries that are already within the “Millennium Development Goals”. Sri Lanka shows how it is not only a matter of money but also one of Government efficiency. With an annual per capita income of \$4000, basic public services coverage is similar to that of far richer countries: 100% primary school enrolment; 15/1000 child mortality; 86% drinking water coverage; 90% sanitation coverage⁹. Other countries with a good record on public management are: Barbados, Costa Rica, Cuba, South Korea, and Malaysia. All have different political climates but with a common policy priority for providing total coverage in basic services. It is the same policy course European countries took following sad results – in the XIX Century – under private management¹⁰

Conclusions

Bad management in every public enterprise is not such a fate as international financial institutions and some aid agencies pretend. Since it is a political goal, the satisfaction of public services needs belongs to public management. Private administration must search for profit and that excludes the population that is not profitable. The important contribution of the private sector lies in providing product development, technology and know-how, which can be sold at a profit without affecting total coverage. Case research, good management criteria identification, promotion of public-public partnerships and a civic cultural awareness is a role for civil society. Public Services should be structured as a coincidence of interest in a social policy within a Public System, each actor performing on its own role.

⁹ “In the Public Interest: health, education and water and Sanitation for all”; Oxfam & Water Aid, 2006, pag 28.

¹⁰ Ibid, pag. 31. Cases mentioned: UK and Germany. Also read Dickens.