From social contract to private contracts: The privatisation of health, education and basic infrastructure

A review of the 2003 Social Watch country reports

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Privatisation is being pushed by international governance institutions, the governments that control them, and the corporations that lobby both groups, even though the dangers that privatisation entails can seriously–and permanently–harm the livelihoods of the world's poorest people. The position of «privatise first and ask questions later» and the naïve confidence in the processes and outcomes of market reform have imposed hardship on precisely the groups those organisations are entrusted to protect. It is time to shift the burden of proof from those who question risky solutions to those who propose them.

The privatisation of basic public services has become a dominant issue in policy discourse in industrialised as well as developing countries. Over the last few years, policies affecting water, electricity, health and education in some countries have generated as much political controversy and social mobilization as taxation, land reform or even trade.

What makes basic services so special? Market-oriented service provision policies have been subject to an unprecedented level of public scrutiny. From the perspective of diverse civil society movements, the issue of basic services cuts across a wide range of issue areas, such as: accountability and transparency of international governance institutions, human rights, poverty reduction, democratization, national sovereignty, gender equality, debt reduction and cancellation, and environmental protection.

Policy-oriented NGOs that advocate for a particular cause are now putting public services on their agenda. For example, a number of citizen organisations with experience in monitoring the Bretton Woods institutions have taken a sudden interest in the General Agreement on Trade in Services, a WTO agreement that could «lock in» privatisation (making it practically irreversible) and undermine the ability of governments to regulate or even finance public services.

There is also a special economic dimension to some basic services. In the case of water and electricity, distribution tends to be a natural monopoly. Physical reliance on a single water pipe network (and often a single water source) or a common power grid leaves little room for competition. The monopolistic dimension of basic infrastructure makes a highly competent, well-funded and politically autonomous government regulator essential for privatisation. Yet in the poorest countries where private provision is promised to bring the greatest benefit, these institutional preconditions are almost always missing. In the absence of effective regulation, private monopolies can charge whatever they wish and can largely ignore customer preferences, thus making a mockery of claims about the benefits of competition.

On one hand, the Bretton Woods institutions and their major shareholder governments tout the benefits of privatising the public sector. A discussion draft of the World Bank's 2004 *World Development Report*, whose theme is services for the poor, states that neither growth nor public spending increases will improve services enough to reach the Millennium Development Goals (MDGs). It then argues that achieving the MDGs requires a rejection of the current government provision model of service delivery and the adoption of reforms that largely bypass the state, including private concessions and sub-contracting.

On the other hand, civil society organisations across the global North and South are increasingly resisting the adoption of policies that put basic services into private hands. Some privatisation measures have led to spontaneous citizen mobilization that threatened the survival of national governments. Given the relevance of basic service provision to reducing poverty and its growing visibility, the authors of the 2003 Social Watch country reports were asked to give special attention to the issue. Their findings are the subject of this essay.

Basic services as a human right

Citizen groups have mobilized resistance to privatisation of essential services not only because they are necessary for survival and human fulfilment, but also because of the undemocratic and indiscriminate manner in which privatisation has been pursued. Although donors and creditors acknowledge the importance of transparency and good governance, it is common for these powerful institutions to require governments to commit to privatisation in secret deal, hidden from public view. Without the knowledge, much less consent, of citizens (and often even parliamentarians), public services are often commercialised and leased for decades.

Privatisers are right to stress the importance of efficiency, especially when it comes to traditional state-owned enterprises, such as airlines, telecommunications or factories. However, equity and universal access are more important than efficiency when it comes to essential services. Efficiency gains through price hikes that end up limiting access may help the balance sheet, but hurt the poor in the process.

Essential services are central to a «social contract» between government and citizens. While social contracts vary considerably across countries, they generally promote equity and universality through redistributive mechanisms that ensure a minimum level of access to goods or services that are necessary for livelihood and dignity. Typical social contracts include sufficient primary education to ensure literacy, basic health care, and access to safe drinking water. More elaborate social contracts (in more developed countries) may also include sanitation services and household electricity.

Essential services are generally viewed as public goods. Unlike private goods, all people benefit from universal access to public goods, regardless of how much they consume. For example, clean water and accessible health care reduce the overall incidence of illness (e.g., epidemics). Similarly, universal education increases economic productivity and forms the foundation of meaningful citizenship, thus benefiting even those without school-age children.

The social contract is based on two related premises: first, that governments should be held accountable for delivery of basic services; and second, that individuals or communities can and should exercise their citizenship rights to ensure those services (at least in democracies). Life-sustaining services such as drinking water are increasingly the subject of national campaigns to guarantee human rights with special legislation or constitutional amendments.

The human rights perspective on basic services has been articulated at a global level. In November 2002, the United Nations Committee on Economic, Social and Cultural Rights declared access to water to be a fundamental right. It also stated that water is a social and cultural good, and not only an economic commodity. The Committee emphasized that the 145 nations that have ratified the International Covenant on Economic, Social and Cultural Rights are now bound by the agreement to promote access to safe water *«equitably and without discrimination»*. Although the UN declaration did not specifically refer to the policy of privatisation—perhaps out of the desire to avoid open conflict with powerful member governments that support it—it implied that state provision was the best option for allocation *«a limited natural resource and a public commodity fundamental to life and health».*

Earlier in the year, the United Nations Commission on Human Rights (UNCHR) laid the analytical and moral foundations for the November declaration, when it released a report[1] that urged WTO member nations to consider the human rights implications of liberalising trade in services, especially health, education and water. The UNCHR report establishes the case that trade is subject to human rights law: «*International trade law and human rights law have grown up more or less in isolation from each other. Yet as trade rules increasingly broaden their scope into areas that affect the enjoyment of human rights, commentators are recognizing the links between the two, seeking to understand how human rights and trade interact, in an attempt to provide greater coherence to international law and policy-making and a more balanced international and social order... The legal basis for adopting human rights approaches to trade liberalisation is clear... A human rights approach sets as entitlements the basic needs necessary to lead a life in dignity and ensures their protection in the processes of economic liberalisation.*»

The Report then focuses specifically on the relationship between services and human rights, and the potential effects of liberalisation: «*Importantly, services act as an essential input into the production of goods and even other services and as a result can facilitate growth and development... Not only can services liberalisation affect economic growth and trade, it can also have an impact on the provision of essential entitlements accepted as human rights such as health care, education and water... However, the liberalisation of trade in services, without adequate governmental regulation and proper assessment of its effects, can also have undesirable effects. Different service sectors require different policies and time frames for liberalisation and some areas are better left under governmental authority.*»

The human rights perspective is far from abstract or theoretical. It is based on experiences in the real world. The case for balancing the values of economic efficiency and fiscal prudence with a human rights framework is supported not only by common sense, but also by evidence. There have been many disappointments with privatisation policies, and more than a few outright disasters. As private provision of services has accelerated over the last five to ten years, more episodes of soaring prices, poor quality and corruption are added to the public record.

Current policy trends suggest that the social contract—or even the potential for a future social contract—is being replaced by private contracts between governments and providers. Citizens with rights to demand accountability are being transformed into mere consumers who are, at best, indirect parties to contracts.

The implications for access and affordability put private provision at the heart of the debate over human rights. When poor households cannot afford access to drinking water, primary education or basic medical attention, the stakes of privatisation policies loom as large as life itself. The impacts can directly result in death, disease, misery, or a stunted life, whereas the impacts of other key policies, such as trade liberalisation or tax increases, while serious, are more indirect.

Surely, public sector provision also has a lamentable record in many countries. However, public services often become viable before they are sold or leased, proving that improvement is possible. In addition, recent experiences with transparency and accountability measures have empowered citizens to demand more responsive services. The immediate and direct connection of basic services to human rights, survival and livelihoods ensures that private sector participation will remain highly a visible and contentious economic issue around the world.

Country experiences

While the Social Watch country reports do not constitute a scientific study of private provision of basic services, they do provide a considerable amount of disturbing evidence about the impacts and processes of privatisation. In country after country we learn about price hikes and social exclusion, poor service quality, and the implementation of policies without even minimal levels of transparency. Privatisation proponents are likely to argue that the stories told in these reports are merely anecdotal. Yet as a body of evidence, the Social Watch reports reveal important patterns that simply cannot be dismissed, and make a compelling case for rethinking privatisation policies and budget austerity.

Process of privatisation

One of the most troubling aspects of the privatisation process identified by Social Watch reports from developing countries is external interference. Private provision policies are often imposed by multilateral lending institutions. During the 1990s, the World Bank, IMF and IDB conditioned major loan packages to Ecuador upon the privatisation of the public water utility. The financial institutions oversaw secret contract negotiations that guaranteed high returns and led to one of the most publicized water price hike disasters, and ultimately to a political crisis that eventually sent the private firm packing.

In Ghana, the World Bank's Country Assistance Strategy (CAS)[2] *«classifies «private sector involvement» in the provision, operation and management of public and social infrastructure as a key institutional reform»,* which, when implemented, will increase levels of Bank financing. Similarly, in its 1998 CAS for Mexico, the World Bank pushed hard for the privatisation of electricity, despite massive popular resistance and a deplorable record of corruption and price hikes following previous sell-offs. (As of this writing, political opposition has stalled that privatisation drive.)

The Morocco report states that World Bank assistance in extending the water network to poor neighbourhoods was conditioned *«to the adoption of a policy adjusted to actual market prices, without considering either the special urban structure of these neighbourhoods or the solvency of their residents.»* The Social Watch report for Bolivia, home to one of the world's most notorious privatisation failures, explains how water policy was dictated from beyond national borders: «*Since the beginning of the 1990s, the World Bank had been demanding privatisation of the municipal water company, SEMAPA, as the only solution to the water problem in Cochabamba. In 1996, the WB conditioned a USD 14 million loan to SEMAPA to its privatisation. And in 1997, the IMF, WB and IDB conditioned debt cancellation of another USD 600 million to the privatisation of SEMAPA. …the WB demanded a rigorous application of full cost recovery; and the company managed to establish a guaranteed high rate of returns during the negotiations. All these costs—reached by consensus during an absolutely secret process between the company, the government and local elites—were to be reflected in the water rates prior to any improvement in the water system.*»

In addition, several Social Watch reports revealed instances of corruption, such as sweetheart deals in which well-connected bidders walked away with valuable assets for a fraction of their worth. In other cases, non-transparency has been a serious problem. In 2002, the Bulgarian government resold the failing International Water Ltd., responsible for serving 1.3 million customers, to a private bidder, but did not reveal to the public who the new owners were. Similarly in Nicaragua, in the late 1990s the government sold 95% of electricity distribution to a single Spanish company without disclosing the contract to its own citizens.

Impacts of private provision

Given its primary commitment, for Social Watch the ultimate consideration for analysis of privatisation, or any other economic policy, is the impact on the

1 United Nations Commission on Human Rights. *Economic, Social and Cultural Rights: Liberalization of Trade in Services and Human Rights. Report of the High Commissioner.* 25 June 2002.

2 The CAS is a multi-year economic planning document that the Bank periodically produces for every borrowing country. It sets forth the main criteria for World Bank funding. The more a country satisfies conditions identified in the CAS, the higher the level of funding it can expect to receive.

poor. It is in this area that the record of private provision causes the greatest cause for concern. By far the most pervasive impact of service privatisation identified in the Social Watch reports is increased prices, which inevitably lead to social exclusion. As the South Africa report wryly put it: *«The real citizens are those with cash.»*

In the case of infrastructure services, privatisation has often combined a profit-maximizing incentive with monopoly power. Examples abound. During the late 1990s, the privatisation of electricity in Brazil led to a 65% increase for residential consumers, far higher than the rate of inflation. In Peru, privatised electricity companies, under no restrictions on setting tariffs, raised real prices by a factor of 14 between 1992 and 2002.

The many faces of privatisation

The narratives on basic services in the Social Watch reports suggest that «privatisation» is experienced through different policies across countries and service sectors. The most direct form of privatisation is divestiture: the permanent sale of public assets to the private sector. This usually involves a formal public auction, with the winner offering the highest bid. Another form of privatisation is a long-term concession, in which the state retains formal ownership but pays a firm (or NGO) to manage its assets, make investments, and deliver specific services. (Certain variations on concessions, such as the lease or affermage, do not require the private operator to finance investments.) A common variation on the lease, especially in energy and water services, is the «Build-Operate-Transfer» arrangement, in which a firm constructs and then manages a utility over a long period of time, before turning the assets over the government.

The word «privatisation» is gradually disappearing from documents produced by development banks. The preferred term for virtually any form of private sector control over services is now «public-private partnership» (PPP).[3] While the term «partnership» evokes ideas of cooperation and mutual interest, PPPs are essentially adversarial relationships in which the state's responsibility is shifted from providing services directly to making sure that someone else does. In health and education, a common type of PPP is «contracting out,» in which the government can sub-contract services with firms or NGOs ranging from school and hospital maintenance, to education and medical care. While there are significant differences between «final sale» privatisation and lease or management forms of PPPs, all require contracts, government monitoring, regulation and enforcement. And most require incentives or public resources in order to serve poor people.

Many Social Watch reports identified commercial pricing as a prelude to privatisation. While the introduction and increase in user fees does not remove the government from direct provision of basic services, many authors conceive of the market logic that requires even the poorest citizens to dedicate more of their private income for these essentials as preparation for private provision. Finally, many identify what one report describes as privatisation «by default». The erosion of public resources needed to maintain quality public services—often accompanied by deregulation allowing private sector participation and investment—has resulted in decreasing quality of public services and a corresponding growth of private provision of services, for those who can pay.

In Bulgaria, the privatised water monopoly raised prices twice within three years despite a contract stipulating stable prices during that period. In Ghana, where water rates increased sharply in the mid 1980s and early 1990s, the Social Watch report cites recent research that concludes: *«The commercialisation of water* [has] *led the poor to see water supply as a key factor in their poverty-striken situation.»*

Private provision of key social services has also resulted in increased costs for public providers, and ultimately to taxpayers. In Malaysia in the mid 1990s, privatisation of essential medical services such as drugs and hospital supplies, led directly to increased costs for government provision of health care without improvements in services. The 1996 privatisation of support services such as maintenance, equipment and cleaning increased operational costs four to five times.

In other cases, while private provision may not yet have been implemented, the price of public services has gone up. In particular, cost-recovering «user fees» on public services have been imposed by governments that lack the budget (or perhaps the political commitment) to deliver universal basic services, especially in health and education. In Colombia, education reforms in the 1990s have forced parents to pay for a wide range of school-related services, including building maintenance, academic materials, phone, water and electricity—even the salaries of janitors and secretaries!

While increased user fees are a great burden to those who can pay them, they can be catastrophic for those who cannot. The South Africa report cited a study, conducted by a prestigious research institute that revealed that almost 10 million people had their water service disconnected between 1994 and 2002, primarily as the result of non-payment. (Private provision was launched in 1997) There were reports that disconnections in poor rural communities and urban squatter settlements have forced some to turn to contaminated water sources, causing cholera outbreaks and resulting in hundreds of deaths.

Another worrisome trend that emerges from the Social Watch reports is gradual privatisation that has resulted not from a deliberate policy choice, but rather from neglect. To borrow a telling phrase from the Uruguay report, privatisation is occurring «by default,» as government fails to either fund adequately or reform essential public services. In country after country, public funding has continually decreased over time, leaving government-run services vastly inferior to private ones. At the same time, deregulation and even special incentives have enabled private providers to enter and expand in the market for basic services. When commercially-priced private alternatives co-exist with under-funded public services, the result is a «two tier» system in which those with sufficient income enjoy improved services, while the poor have access to only those of the low quality.

In Chile, a country with strong institutions and impressive economic growth, education reform has helped channel public subsidies to private schools that are free to select among the most prepared and well-off students. As municipalities with fewer resources are forced to take on more low-income students, quality has suffered, inducing more parents to reject free public education.

In Costa Rica, where quality public education has been a major factor in social equity and high living standards, a private school boom now draws better off students away from public schools with declining resources. As the authors of the country report lament, *«Thus, education has changed from being a mechanism for social mobility to becoming an instrument of status and exclusion.»* The Malaysia report repeats an alarmingly common theme across countries: *«two systems have emerged: higher quality private education for those who can afford it and poorer quality public education for those with low incomes.»* The Nepal and Uganda reports present virtually identical outcomes of income-based social exclusion in health and education.

In some cases, the growth of private service provision is not simply an alternative to the public sector, but can become a direct threat to it. For example, in Germany's health care system, *«The deregulation process… is proceeding with caution, yet it has implications for society as a whole. People with a sufficiently high income are allowed to opt out of the statutory health insurance funds. The private insurers can offer their services to young (and healthy) people far more cheaply. As a result, the statutory health insurance funds are retaining a larger proportion of higher cost members.»* Similarly in the Netherlands, cuts in public health spending have been accompanied by the growth of private insurance whose availability is based upon ability to pay. The United States report sums up a global trend in what economists sometimes call «cherry picking» or «cream-skimming»: *«As the official number of poor* [in the United States] *increases, states have been given greater responsibility, but fewer resources to supply basic services to the poor. Attempts to privatise public services targeted to help the poor have been limited by lack of interest*

3 For a detailed glossary of PPP types, see «Public-Private Partnerships: Terms Related to Building and Facility Partnerships», United States Government Accounting Office, April 1999, available at: http://www.gao.gov/special.pubs/Gg99071.pdf

from the private sector: the services are not lucrative enough. The last two decades have seen an erosion of public sector employment as federal, state and municipal governments grant private contractors the more profitable service investment opportunities, such as transportation to and from wealthy suburbs, while leaving less lucrative markets to be serviced by the public sector.»

Around the world, the quality of public services declines even as citizens pay more for them. While market enthusiasts blame government corruption and incompetence, they cannot explain why many public sector institutions in both the developed and developing world actually deliver high quality and widely accessible services. One obvious reason is resources. As decades of «adjustment» and fiscal austerity have eroded national budgets, governments have fewer funds to satisfy greater needs. In India, for example, public spending on education plummeted from 4.4% of GDP in 1989 to just 2.75% ten years later. While India's public funding of health care was 1.25% of GDP in 1993, it dropped to 0.9% in 1999. Spain's social budget, which has undergone major cutbacks, led the authors of that country's report to issue and impassioned call for equity: «*Therefore, we must discuss not only privatisation, but also commitment and solidarity. A state plan is urgently needed; not only to care for the homeless but to address poverty and exclusion in general, with defined budgets that allocate a higher percentage of the GDP to social expenditure. To defend human, economic and social rights of all citizens based on social interest, not economic profitability, the state needs to increase public expenditure and redirect public resources to areas such as education, health and nutrition, where those resources will be most likely to bring about redistribution of income and opportunity.»*

In addition to addressing the impact on the poor and general performance problems, many Social Watch reports also focused on the effects of privatisation on specific vulnerable groups. A considerable number of reports discussed the impact of service privatisation on women. The Honduras report speaks for many: *«The disappearance of State responsibility for maintaining public services has led to women having to double or treble their workday to take on a greater workload at home, with more hours of voluntary work in the communities and in activities generating income, to the detriment of their health, quality of life and leisure.»*

In Chile, where health insurance is subject to commercial pricing, insurance premiums for women of child-bearing age are three to four times higher that those for men in the same age bracket. Under the logic of market pricing, *«women's reproductive life is penalised»*. Similarly in Colombia, commercialised health insurance has not only reduced significantly the overall percentage of people with coverage, but also discriminated against women, a slight majority that represents only 39% of those with insurance.

Some reports also explored the relationship between privatisation and traditional community approaches to service provision. The Thailand report was particularly emphatic about the role of culture and «local voices of wisdom» in the management of water resources. In discussing planned reform river basin management, the report stated: «*The top-down participation [proposed by] the state will involve an organisation of water user groups and a river basin sub-committee that will oversee the local water resource management and lay down strict rules for all water users, whose management methods are different owing to their communal cultures. Moreover, each river basin is ecologically different and features different irrigation systems that require various management and maintenance techniques.»*

The report went on to argue that water «knowledge» required not only technical know-how, but also an appreciation of sustainability in a given socio-cultural context. From this perspective, natural changes—even those that cause uncertainty in production—are seen as «normal phenomena» that people should not seek to control. Moreover, the traditional community-based approach is not driven by the premise that optimal efficiency maximizes output, but rather that moderation ensures sustainability.

Performance and quality

Privatisation proponents routinely assert that private firms deliver services more efficiently, with higher quality, and pay more attention to customer needs. Sometimes they do. And sometimes they don't. Before being resold in 2002, Bulgaria's private water company routinely overcharged customers, randomly cut off services, and failed to respond to consumer complaints. Between 2000 and 2001, El Salvador's privatised electric companies could do no better than 44,000 power outages and a half million customer complaints. Among customers of the country's main electricity distributor, one in three had a complaint.

For Malaysia's electricity users, frequent outages are still a major problem years after privatisation. Following the privatisation of the urban water systems of Rabat and Tetuan in Morocco, prices increased while service was characterized by unclear, irregular and often extremely inaccurate billing. In the Nicaragua report, the list of complaints resulting from electricity privatisation is breathtaking: «*The monopoly has violated approved regulations, schedules of rates, and scope, conditions and quality of service. The «corporate encouragement» they received allowed them to operate with impunity towards users and pay no attention to claims for collection of unfairly charged rates (errors in invoicing, non-recorded energy, overdue payments, etc.), altered readings of the metres, services paid for but not delivered for public street lighting, voltage failures, damage to small domestic appliances, loss of products by companies, and so on.»*

A future for public services?

The stories presented in the Social Watch reports, as well as extensive evidence gathered from all over the world, reveal the privatisation of basic services to be a risky policy choice that can harm vulnerable groups and rule out the establishment of a social contract that promotes equity. In infrastructure services, transferring a natural monopoly to a private firm often leads to higher prices. This is particularly likely in the absence of a capable and autonomous regulator, which is typically the case in developing countries with weak institutions. In the social services, user fees and the deterioration of public health care and education quality hit the poor hardest. Budget cuts and incentives for private providers to attract better off consumers impose poor quality and limited access upon those without cash in hand.

To assert that private sector participation in services always results in poor performance or social exclusion is certainly an exaggeration. To argue that this reform approach often fails to deliver promised benefits and has hurt the poor is not. Nevertheless, in spite of troubling outcomes in the services that matter most to people's lives, policies that promote private provision are gaining momentum rather than causing circumspection.

Where does this momentum come from? First, it comes from budget crises. In all too many cases, privatisation, whether through increased user fees or sale of assets, is primarily a macroeconomic measure to cut public deficits or reduce debt levels. As Lebanon report argues: *«The main reason for privatisation in Lebanon is fiscal. With 85% of government spending going to fixed expenditures (wages and debt servicing), there is little room for further austerity. Government officials argue that the proceeds from massive privatisation were Lebanon's only way out of the debt trap.»*

For many governments under pressure from the IMF to balance their budgets, privatisation simply means revenue, not poverty reduction. After all, according to the rationale behind fiscal discipline, deficits and debt can only go so high, inflation must be controlled, and government can't pay for everyone's needs. That is true enough. But it begs the question: *What can and should government provide for its citizens, and through what means?* It doesn't seem terribly daring to assert that basic services should be very high on any government's list of priorities.

Yet by pushing for privatisation and commercialisation of these services, powerful countries and global institutions actually make it much easier for governments to neglect their most basic obligations and avoid tough political choices needed to meet them. If citizens must dig deep into their pockets to pay for water and health care, government can spend public resources elsewhere, even if the poor do not benefit. Moreover, when services are available on a «cash only» basis, political leaders need not pursue progressive taxation or cross-subsidy arrangements that might irritate influential groups.

Another reason for the mainstreaming of service privatisation is that in many cases, public services perform very badly or exclude the poor. Many Social Watch reports identify highly inadequate and unreliable government services that often exclude the poor. The need to improve such services is a more defensible position than balancing budgets. The argument is compelling: *If services are already low quality or widely unavailable, how could any reform make things worse?*

Two responses to the privatisers' moralistic argument are in order. First, the problem of bad services simply cannot be isolated from the fiscal constraints described above. Privatisation proponents instinctively blame unsatisfactory public services on incompetence or corruption. While these are certainly factors at times, insufficient resources have seriously eroded public sector capacity over twenty years of budget austerity. Through what has been dubbed the «defund and defame» strategy, as government services become worse or more expensive (or both), citizens become less resistant to private sector alternatives. Second, as so many Social Watch reports demonstrate, privatising a failing public service is no guarantee for serving the poor. While a private firm may increase efficiency, it may do so in part by raising prices beyond the reach of the poor.

(One clever suggestion to solve this problem is to provide a subsidy for poor consumers or directly to a company that serves low-income people who cannot pay market prices. However, longstanding difficulties in targeting subsidies make this approach unworkable in countries with weak institutions for identifying and registering the poor. More to the point, it raises the question: why provide scarce public resources for a profit-maximizing enterprise instead of at least attempting to reform the existing public service first?)

Finally, privatisation is being pushed by international governance institutions, the governments that control them, and the corporations that lobby both groups. As examples from the reports illustrate, the World Bank has used loan conditionalities to promote privatisation of services, commercialisation of prices and liberalisation of foreign investment in basic service sectors. In 2001, the International Finance Corporation, the Bank's private sector arm, targeted infrastructure and social services as «frontier sectors» for privatisation.

The Bank's 2002 Private Sector Development (PSD) strategy, which was strongly promoted by the Bush Administration, envisions the segregation of profit-making from loss-making services. Dividing up customers in this way facilitates «cherry-picking» or «cream-skimming» by businesses that buy up the profitable services (i.e., those catering to those with sufficient cash income, primarily urban and middle class consumers) and leave the unprofitable services (i.e., those used by the poor) to the government or non-governmental organisations. The arrangement could permanently rule out the possibility of public cross-subsidies, in which wealthier consumers help cover costs for low-income consumers. It could institutionalise the two-tier system described in so many Social Watch reports, leaving low quality services for the poor.

The world's premier development organisation recently released a working draft of its 2004 World Development Report (WDR), entitled *Making Services Work for the Poor*. Using highly selective evidence and paying scant attention to downside risks, the document promotes replacing national public services with private firms, NGOs or local government and communities. It largely dismisses the option of increasing public funding, and completely ignores the role of adjustment lending in eroding public service budgets. Given that many properly funded public services work well even in very poor countries, and given a better understanding of how transparency and citizen participation can increase the accountability of public institutions, the WDR's silence on reform of existing government services seems to be based more on ideology than analysis.

The mixed record of private provision of basic services does not justify a categorical rejection of privatisation policies. In the same vein, poor performance among some government-run services hardly justifies the global rollback of the state now being carried out by the leading development institutions. Determining whether reform of services should be undertaken through private provision or under state control should be done through an analysis of social needs and institutional conditions on a case-by-case basis.

However, because the risks of privatisation can seriously—and permanently—harm the livelihoods of the world's poorest people, a cautious approach to reform is appropriate. Today the international lending institutions have taken the position of «privatise first and ask questions later». In too many cases, such naïve confidence in the processes and outcomes of market reform has imposed hardship on precisely the groups those organisations are entrusted to protect. It is time to shift the burden of proof from those who question risky solutions to those who propose them. ■

Citizens' Network on Essential Services (CNES)
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