

LESSONS FROM MOZAMBIQUE: THE MAPUTO WATER CONCESSION

By

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ABBREVIATIONS

AdM	Aguas de Moçambique
BAs	Beneficiary Assessments
CRA	Council for the Regulation of Water Supply
DNA	National Directorate of Water
ESAF	Enhanced Structural Adjustment Facility
FAO	Food Agricultural Organisation
FIPAG	Asset and Investment Water Fund
GOM	Government of Mozambique
IDA	International Development Agency
IMF	International Monetary Fund
INE	National Institute of Statistics
HQ	Head Quarter
MOPH	Ministry of Public Work and Housing
MNA	Mozambique News Agency
MT	Metical
NGO	Non Governmental Organisation
OMS	World Health Organisation
OTM	Mozambican National Labour Organisation
PANA	Panafrican News Agency
PRE	Economic Rehabilitation Programme
PRES	Economic and Social Rehabilitation Programme
WB	World Bank

EXECUTIVE SUMMARY

The company Aguas de Moçambique is not proficient and does not have an efficient answer to manage the irregularities on the invoices and on cut-off notices. ... for water supply and water quality there is investment, but until the water reaches our residential areas it will be an authentic illusion and odyssey. ... it is time to demand a rigorous control of invoice payment, and a public explanation of how it is possible that such uncontrolled service ... is possible, and especially now that it is a privatised company (Aguas de Moçambique). ... do not oblige consumers to pay twice because of your faults (Savana, 2001, March 23).

This paper summarises the findings of a research project on a private water contract undertaken in Maputo following the international trend of exercising public private partnerships on water service delivery. This public private partnership trend was also followed by internal authorities as the best way to deal with water provision in Mozambique. This paper summarises what probably is the first major independent English-language study on water concession in Mozambique.

There are specific reasons for conducting this research on Maputo water contracts. The first reason is that Maputo, the capital of Mozambique, accounting for almost a million people of the Mozambican population, experienced the first water concession in the country. Maputo has the major concentration of consumers in both urban and peri-urban settlements, who experience low or even non-existent levels of water service delivery. It is a city with great potential conditions for securing some revenue to help its development.

The second reason flows from some specific experiences of the privatisation process in Mozambique, which were as a consequence of the structural adjustment programmes that regarded by workers, consumers and the public in general unsatisfactory, although it was pointed out by the main Mozambique's financial donors that the economic figures indicate a good performance by the Mozambican economy as well as the privatisation process. So it is important to follow up this particular area as relates to one of the most important basic needs, the provision of water. This is to avoid situations like, for instance, the cashew nut industry that was destroyed following some irrational conditionalities imposed from the World Bank (WB).

The third reason stems from international experience on water contracts. There are a number of similar international projects, for instance the privatisation of water in Buenos Aires and South Africa. It is important to monitor and evaluate the Maputo case to understand the extent to which private intervention is producing the expected outcomes for better water provision and/or producing accountability and responsiveness of the water contract. The private intervention of the water service may provide some lessons to the debate around private sector intervention in general and, in particular, with regard to the water sector in Mozambique.

The report, based on research undertaken mainly in the first quarter of this year, provides a general overview of the situation and an analysis of the development of the water contracts and their impact or potential impact on poor households that form a significant number of consumers in Maputo city.

The main findings presented, although general, focus on accountability, efficiency and labour.

This is because it is understood that these areas are critical in the Maputo contract. The reflections presented in this paper are just a step in a long exercise towards a better understanding and analysis of several aspects of the implementation of the water policy in Mozambique. There is an awareness that this is a very complex issue, with new and particular features, and with limited information and experience, even around the world. It calls, therefore, for careful analysis and an openness to critical views from all stakeholders on water provision.

Accountability

It has been argued that public accountability is more successful with private intervention than with public management intervention. From the results and assessment obtained from the Maputo contract it cannot be proved that is indeed the case. The reason behind the water concession in Maputo was that it was a precondition imposed by donors on Mozambique to qualify for grants to deal with the water supply systems. According to the people interviewed as part of the study, the main aspect that determined the extent and scope of the water concession was decided without the participation of all stakeholders. The union were informed about what was going on rather than invited to contribute to debating the issue of private intervention.

In fact the staff involved in the process that led to private intervention was convinced that the better way to deal with the problem of water supply and the water system was through general private intervention in the sector, and, therefore, discouraged debate around the issue.

The representatives of the union claimed not to have had detailed information on the privatisation process so that even at the time the research interviews were undertaken did not have access to the water contract. The National Privatisation Commission in the Ministry of Public Works and Housing, that deals with the privatisation processes, was also not involved in this process of water contracts, apparently because the case was not about privatisation but about concession and management contracts.

The findings clearly point to a situation that lacked accountability to the public, rather involving a secretive decision process. This is a matter of concern because the process did impact negatively on staff/workers' behaviour, so that instead of lending their experience and knowledge to the new working process, they became conservative in attitude and sceptical of the role of the new management. Therefore it comes up that with such kind of process more loss than gain/benefit can be expected, and it is believed that an open process gives more potential for better inclusiveness and understanding of the process by the staff/workers who are the daily driving motor for success.

Efficiency

Efficiency is another argument that is raised in support of private intervention as opposed to public sector management. It is pointed out that efficiency will lead to the reduction of costs for the consumers and enable resources to be diverted to the state for other development objectives. The results of the research did not reveal that such efficiency had come about through private intervention. Consumers are experiencing and constitute a motivation for argument is the increase in the cost of water and frequent disruptions in the water supply and irregularities in terms of invoices that sometimes have double entries, leading to cut-offs.

In general terms, although there has been a reduction in the irregularities in water supply, the price of water has increased along with the number of cut-offs. This has affected particularly, the low-income people with the negative health consequences that accompany such cut-offs.

Although it can be argued that it is still too early to pass judgement, what is of most concern is the continuing low level of water provision and, in some cases, a deterioration in water services that some consumers are experiencing after the private intervention. This may be cause to question the vision that led to the concession contract.

Labour

Another argument in favour of privatisation is the efficient use of resources, including human resources. However, the main issue that is dealt with in practice is the reliance on the reduction of the staff to get more labour productivity. In Maputo up to now, the company may be forced by the clause in the employee contract that does not allow any kind of retrenchment in the first year of activities, to retain employees, nobody were retrenched. In addition statement from some elements within management indicate no intention to retrench immediately. However, it is not very clear what the future position of the workers/staff is. The fear of retrenchment is exacerbated by the implementation of aggressive measures to contain some irregularities like robbery. These measures are bound to fail if they employ a discriminatory manner distinguishing between expatriate and national, and assuming in general that the old staff are all involved in robbery. Additionally, the fact that the human resource development plan of the company stipulated in the contract is not yet finalised gives motivation for uncertainty among the workers. The lack of internal communication particularly on labour matters creates a situation that is not conducive to a good working environment. Although certain irregular habits or behaviour of some workers/staff have been experienced particularly illegal water connection addressing these problems, it can become a reactive rather than proactive process because of the lack of consultation with local unions at the beginning of the private intervention process. In general the workers are sceptical and insecure about their future and, therefore, this may affect their productivity and the company may experience some kind of resistance to change. In fact, what is likely to happen, if inclusiveness measures are not observed, is a polarisation between the parts that are responsible for change.

Withdrawal of SAUR International

Recent information indicates the withdrawal in December 2001 of the French company SAUR International from the then consortium awarded the contract in 1999 to manage the water supply systems in Maputo, Matola, Beira, Dondo, Quelimane, Nampula and Pemba cities. This reality only came to the attention of the public very recently this year (2002). The reasons for withdrawal, after 2 years of activities, have not been made public. The current scenario indicates that there are negotiations taking place with the remaining partners/holders of the consortium lead by IPE- Aguas de Portugal, and the Mozambican Government and the World Bank to ensure the entry of a new partner that would acquire the SAUR International position/shares.

Although the chairperson of the board of directors of Aguas de Portugal, now the consortium's majority shareholder accounting for about 70% of the shares, indicate that they will honour the commitments agreed to in the contract, there is a great deal of scepticism from the union

representatives and some workers about the future of the company. They argue that if the major shareholders, who had well known experience in water service delivery, failed to lead the company and decided to quit, it is unlikely that the remaining holders with less experience and less capital will succeed. The union presents too much scepticism and too little hope and sees the rhythm activity of the company to be decreased soon. They also see the link/negotiations with the World Bank as something that will result in the same failure as the cashew nut industry in Mozambique.

More information is required to ascertain the real motives for the withdrawal of SAUR International. However, some assertions from the union point to the failure of the strategy used to manage the company. One critical issue seems to be the failure of human resources management that led to the management becoming isolated from the workers and losing the track of leading the management of the company.

1. INTRODUCTION

As a result of the terrible economic situation in the country as a consequence of drought and the negative actions of external forces, in 1986 Mozambique embarked on a structural adjustment programme as a condition for obtaining donor funds particularly from the Bretton Wood institutions. Following that, and as one of the consequences of the structural adjustment programme, the privatisation process in Mozambique began in 1989. Consequently, the majority of the public enterprises were sold or given over to the private sector management. Following the National Water policy adopted in 1995, and in line with the structural adjustment programme framework, it was decided for private intervention in supplying water. This resulted in the first water concession in the country as from 30 November 1999, under a contract signed on 27 September 1999. The results of a workshop held early in 2001 pointed to great efforts from the company in its first year of activity. However, the results also showed great dissatisfaction on the part of the public about the negative level of services they were experiencing.

The findings of the study reported on here are the result of a six-week period of primary research in Maputo between January and February 2001 (and of later occasional visits) and on secondary sources. The primary research consisted of semi-structured interviews with representatives from national and local government, the private company, the independent regulator, World Bank and representatives from the main-sector unions. Secondary sources were gathered from government documents and academic articles.

This paper presents the overall socio-political-economic context of Mozambique and then follows by describing the privatisation process and its outcomes.

2. THE SOCIO-POLITICAL AND ECONOMIC CONTEXT

2.1 General Information

Mozambique is a southern African country with an area of 799 380 sq divided into 10 provinces: Maputo, Gaza, Inhambane, Sofala, Manica, Tete, Zambezia, Nampula, Niassa and Cabo Delgado and Maputo City, which has provincial status. It borders with Malawi, Zambia, Zimbabwe and South Africa in the west, Swaziland and South Africa in the south and Tanzania in the north. On the east, there is the coast of the Indian Ocean. The capital of Mozambique is Maputo. The official language is Portuguese.

The total population according to the 1997 general census is 15,278,334, of whom 7,957,386 are women. Women represent 52,08% of the population and have the social and practical responsibility of ensuring that water is available at any cost to satisfy basic needs, such as cleaning and drinking.

2.2 The Urban Scenario

The urban scenario has changed rapidly in Mozambique. As indicated by Landau,

“rapid urbanisation in recent decades, much of it a response to the protracted civil conflict, has placed a significant burden on Mozambique's urban infrastructure, housing, and institutional capacity. Close to 40 percent of the population now live in cities, about one-third of them in absolute poverty.

Poor urban neighbourhoods lack access to water, sanitation, and adequate health care, and crime is rampant. Environmental degradation is a serious problem" (Landau, 1998, p.17).

This urban challenges faced by Mozambique are similar to those described by Castells in the Urban Futures 2000 conference in Johannesburg:

the problem is not overpopulation but intense concentration of poor people in megacities ... concentration of urban without mechanisms of social integration ... with the structures adapting to global forces by playing a game of competitiveness rather than heeding real concerns of citizens (Business Day, 2000, July 13 in Bond and Ruiters 2000).

This situation has particular relevance for the water issue in Mozambique. As indicated by the World Bank:

"only 32 % of Mozambicans in a population of 16.9 million inhabitants have access to safe water. Access to water is limited to a few hours per day. In addition, many receive irregular, low-pressure water supply that is of poor microbiological quality" (WB, 1999 (a), p.1).

In addition to this situation "only 13 percent have piped or well water at home" IMF (1999, p.9).

This situation has justified strong arguments for changing the role of the government in water supply. These arguments are well synthesised by the following

"the use of the private sector will be an essential tool in enabling the government to improve and expand urban services in an accelerated and efficient manner" (WB, 1999 (b), p.1).

To understand the above scenario the historical context in which Mozambican development took place needs to be understood.

2.3 The Colonial Legacy

The first stage of development is the colonial period where all development processes were dominated by the metropolis. This colonial scenario is not very different from many other African countries. However, some particularities can be spelled out. The main difference is that Portuguese colonialism was characterised by the 'incorporation' of the territory which the boundaries of the satellite country, Portugal. This colonialist type of intervention spread Portuguese communities around many strategic, rural, rich areas of the country. Abrahamsson & Nilsson (1998, p.212) indicate that the Mozambican citizens were forced to be a labour reserve for these Portuguese farmers. Hanlon writes that the allocation of Portuguese communities was possible by the expropriation of land by force as well as the use of a seasonal workforce (1984, p.96). This was part of the general policy of Portugal in relation to its colonies. The general result of this was the perpetuation of poverty so that by the time Mozambique became independent, in 1975, it was one of the poorest and most backward countries in the world. This scenario also dictated the urban development in the colonial period where the infrastructure of the water system was concentrated in the capital city and in the

provincial capitals, which aimed to serve mainly the colonialist elite living there. The surrounding areas of the cities were mainly served by wells and stand pipes as they are in most of the country today. These wells and pipes produce water of a questionable quality.

2.4 The options for Mozambique after Independence

After independence, the country established a specific strategy of development. This strategy was rooted in an understanding of the necessity to develop rapidly and to change the prevailing social-economic structural power. Therefore, a socialist approach was undertaken to drive the economic development. This approach was based on the experience of Frelimo during the struggle for independence. Dolny stresses that the peasants in the liberated zones organised plots on which they worked collectively part of the time. This practical experience of working together to create surplus for collective disposal provided the foundation for the more far-reaching policy formulated after independence (Dolny, 1985, p.224).

After independence, the government took over all the properties that the colonialists had abandoned. The properties were transformed into state farms whose main task was to produce food products for cities, although some also produced for exportation. Additionally, some big properties, also abandoned, were appropriated by the state. The idea was to get income to use for the total transformation of the countryside. The concern was to improve the life conditions of the majority of the population, the peasants, and to reorganise the countryside. This reorganisation was focused on two basic goals: firstly to stimulate the dispersed families to live together in communal villages so that it would be easier to offer basic services — education, health care and potable water; and, secondly, to abandon the peasant traditional way of harvesting to increase the productivity in favour of building co-operatives as a way forward. It was intended that these co-operatives would be financed and helped by state farmers (Abrahamsson & Nilsson, 1998, p.212). However, this political will faced practical problems.¹

In this matter Hanlon's concern is that although Frelimo encouraged private business, it followed the then-fashionable view that the main engine of growth was a large-scale modern state sector – big state farms, big state-owned textile mills, etc. – and new capital was largely channelled to those projects (1996, p.12). In urban areas, there was a formation of public water companies to manage the water system heritage from the colonial period that gives the foundation of the current private intervention.

What was the result of this development strategy described above? The strategy did not achieve the expected result. Abrahamsson & Nilsson explain that "today, 18 years later, Mozambique is literally in ruin ... Mozambique is today one of the poorest and most indebted countries around the world" (1998, p.2). The explanations of the origins of the difficulties of Mozambican development are various. Some studies tend to account for external factors, but some studies point to internal factors that limited the development related to sub-national limitations for strategies of development.

The scenario in the country became very complicated. As Saul contests Mozambique was an inherently classically distorted colonial-capitalist society. Frelimo found itself confronting all those inequalities — class, racial, sexual, territorial — that define the structure of any such society and comprise a central part of the overall syndrome of underdevelopment (Saul, 1985,

¹ For details see Horacio Zandamela PhD proposal (2000).

p.19-20).

2.5 Mozambique and the Future

Looking to the future Mozambican authorities endorsed a shift in the development approach. Mozambique had to join the WB and IMF as alternative partners to finance the needs for credit and food assistance as the normal partners from the eastern countries were no longer in any condition to provide assistance. In January 1987, the Mozambican Parliament approved the Economic Rehabilitation Programme (PRE), an adjustment programme in terms of the IMF. The government liberalised the prices, practically ended its market management, cut the budget for social sectors, and introduced important changes in health and education policies, where a system was established that allotted access through income. Up until 1987, universal access to social services (like education, health, and water etc.) had constituted an essential element in the official speech of Frelimo about development (Adam, 1997, p.9). Hanlon writes that the free market phase began with liberalisation in 1985, moved to the Economic Rehabilitation Programme (PRE) in 1987 with its mix of growth and adjustment, and on to the neoliberal Economic and Social Rehabilitation Programme (PRES) in 1990 (1996, p.96).

By then Mozambique, strained by the financiers, had started a new market-oriented era of development. The structural adjustment programme was underway. Then, what was the result? Abrahamsson & Nilsson discussing this explain that although the government had sometimes taken more stringent savings measures than the ones required by the international creditors, the programme did not produce the expected results (1998, p.279-80). On the contrary, the analyses of the results of the programme up to the time led to it being reconsidered. The positive development of the programme during the first years of independence was obstructed by drought and war and followed by a negative growth path. The population's living standard did not improve, neither did the macro-economic balance, whose deficit was partially covered by increased international inflows of capital.

Adam states that the PRE was implemented during three years, from 1987 to 1989. The first evaluation by the WB and the IMF indicated diverse results. In terms of macro-economic indicators and policy changes, a more coherent approach to economic problems and policies was attempted but poverty was increasing. In addition, the external debt of the country had increased, and the country dependence on external sources made it necessary to respond to their external financial requirements (Adam, 1997, p.9).

Mozambican NGOs have claimed that the improvement in the country's macro-economic indicators since the end of the civil war in 1992 has not translated into improvements in the well being of ordinary citizens. They presented their views in a paper delivered at the World Bank's Consultative Group on Mozambique. Positive macro-economic results "are not reflected in the lives of the most vulnerable low income strata, the people in the more remote rural areas, and even in urban zones, particularly women, children, old people and the disabled". As a result of this scenario "in the cities, mothers of poor families are obliged to leave young children without care so that they can earn their daily bread by selling in the informal markets and on street corners" (PANA, 1998). Following that, the NGOs have urged both the government and the international partners to reconsider their policies in order to benefit and improve the conditions of the poorest communities.

The above scenario can be illustrated by several pictures of the daily life of Mozambicans that

underpin a resistance to prevailing structural adjustments policies. For instance to celebrate May Day, in year 2000, thousands of workers marched through the streets of Maputo on the traditional parade, demanding that the government set up the long-promised labour tribunals. Labour tribunals are specialised courts set up to deal with labour disputes, established under a law of 1992, not functioning now by apparent reason of lack of legal staff. As a result, some cases submitted in 1992 have not yet been heard. Another point of dissatisfaction for the workers is the problem of non-paid wages for months or even years. Workers are also demanding increase in the statutory minimum wage (currently 450 meticals = 30 US dollars a month) and a return to price controls. The problem of the cashew industry was also an issue. The workers marched celebrating the May Day denouncing the government and the World Bank for ravaging their industry (PANA, 2000).

The above section has presented a brief history of a contradictory process of development where aspects of political, social, and economic power relations were exacerbated. This helps to understand how the decision to privatise the water systems arose following the national water policy approved in 1995.

It is a fundamental belief that water is a basic need, which encompasses social and economic dimensions among others that emerge from the environment depending on one's viewpoint on water rights and accessibility. The water issue is a matter that really hits everyone but certainly in different ways and, therefore, specific positions and attitudes are assumed by different people.

It is not a slogan to stress that the majority of Mozambican population is poor, and that about 70% live below the poverty line (62 % in urban areas and 71 % in rural areas, using the cost of basic needs approach)². This results in organic limitations for the Mozambican people to access water, mainly because they cannot afford it.

3. THE PRIVATISATION PROCESS IN MOZAMBIQUE

3.1 General Aspects

One of the core elements of the structural adjustment programme is the privatisation of public assets. This is clearly indicated by the Enhanced Structural Adjustment Facility Policy Framework Paper (ESAF) documents amongst others. For instance, the ESAF Policy Framework Paper for April 1998 - March 2000 on Mozambique, point 10 for investment conditions, states:

Given the likely decline of foreign assistance for investment purposes in the medium to long term, the government will continue to take steps to raise the

² In this approach the "the total poverty line is constructed as the sum of a food and non-food poverty line. The food and non-food poverty lines embody value judgements on basic food and non-food needs. The poverty lines are set in terms of a level of per capita consumption expenditure that is deemed consistent with meeting these basic needs" (MPF, 1998, p. 16).

"The 1996-97 Mozambique National Household Survey on Living Conditions (IAF) data indicate that real mean monthly consumption in Mozambique is 160.780MT per person. This is equal to about US\$170 per person per year at the average exchange rate prevailing during the survey period" (MPF, 1998, p. 57)

productivity of investment. Its strategy to achieve this objective is to gradually replace public with private sector investment, to carefully select investment projects, to review the existing project portfolio, and to implement sector-wide approach programs formulated in collaboration with donors (IMF, 1998, p.2).

Following these principles from 1989 to 1998, "the Mozambican enterprise restructuring program, supported by the restructured IERP (Industrial Enterprise Restructuring Project), has resulted in the privatisation of over 800 of 1,250 public enterprises, including 70 large companies" (Landau, 1998, p.11).

However, experience has enabled us to think more carefully about the private intervention process as a means to enable better service in water supply in particular. The reflections in this paper focus on the Maputo water contracts. The situation of the cashew nut industry, where almost ten thousand workers lost their jobs and almost the whole cashew industrial sector closed down, provides the worst example of the privatisation process in Mozambique. The example of 'Banco Austral' also requires a closer analysis.

This concern is shared by the United Nations Agencies, which join civic groups in warning that rapid structural adjustment could be counter-productive. The UN IRIN (2000) explains that the IMF has responded positively, slowing some aspects of the programme. In December 2000, for example, the IMF agreed to let the government retain some protectionism in the sugar industry. The concession came after FAO warned that the planned lifting of surtax on imported sugar would harm the industry by chasing away investors. The UN agency warned that the sugar industry could collapse in the same way that the cashew nut industry did after liberalisation several years ago. Some 10 000 jobs were lost after major cashew nut producers relocated to India following the lifting of government protection. While the IMF concession on retaining protectionism in the sugar industry has cheered civic organisations, they want to see the adjustment programme – one of the most ambitious on the continent – relaxed further.

Amelia Zambeze, the national coordinator of AMRU a rural development NGO, following the same line of critical argumentation, warns that the impressive growth rates resulting from the adjustment programme have not translated into better lives for most Mozambicans and, on the contrary, the programme has left them poorer (UN IRIN, 2000).

It seems that the overall criticism from various sectors of society have lead the Government to attempt some palliative measures. The announcement from the Prime Minister Pascoal Mocumbi that the Mozambican government intends to sell off the state's minority shareholdings in privatised companies may follow the criticisms. Mocumbi said that the privatisation programme that began in late 1980s is now practically concluded and that what remains is the question of the percentage of shares in privatised companies (usually 20 percent) that the state has been holding on behalf of workers and managers of these companies. He indicated that the workers should set up groups "that will acquire the shares, influence decisions to be taken by boards of directors, and even appoint board members". He also indicated that "the state doesn't privatise companies only when they are in crisis ... the objective was to turn more Mozambicans into entrepreneurs ... the state would maintain the public ownership of those companies that provide 'services of public utility' and those that lease out state property to private management (PANA, 2001). Although this announcement sounded positive public comments pointed out that more clear measures needed to be developed and updated to enable an effective use of the 20% shares.

Even though the privatisation process has been heralded as a success, it should be acknowledged (as the above presentation has shown) that there is a widespread conviction that the privatisation programme has been imperfect. For Halcrow, this may in part be due to the resulting high unemployment but other problems have included: poor solutions of buyers, insufficient management capacity from the successful bidders, inadequate capitalisation and over ambitious pricing (Halcrow, 1997, p.2). These lessons should be taken in consideration when assessing the private intervention in the water sector.

3.2 The Water Contracts

General Aspects

"The Government will encourage the participation of the private sector in the construction of improved water sources. However, the State will retain a certain implementation capacity to intervene in the areas where private participation is shown to be no-viable" (DNA, 1995, p.5).

The above quotation summarises the basis for the decision to encourage private intervention in the water sector. This follows the core principle of structural adjustment that the ESAP Policy Framework Paper for April 1998 - March 2000 spells out in relation to the need for private management of the urban water system in Mozambique:

"The government is examining the status of the remaining companies under majority government ownership to ensure good management and financial performance. Most of the companies in which the government still retains majority ownership are utilities and public services, which require close regulatory follow-up. ... In 1998-2000, the performance of the remaining public enterprises will be strengthened through several mechanisms, such as performance-based management contracts (in the case of water companies), ... the objective is to ensure that these enterprises operate strictly along commercial lines, with greater management autonomy, subject to greater financial accountability, and with no explicit or implicit subsidisation" (IMF, 1998, p.7).

The above conditions seem to follow the case study in enterprise restructuring presented by Landau (1998) that suggests a need to implement private intervention. Basically, the case points to the overall failure of 'Água de Maputo' a publicly owned and managed company that provided services to almost 50 percent of the registered household consumers in Maputo. Landau, points to:

- the problem of short availability of water supply mostly confined to 10-12 hours a day;
- the problem of operation of meters and the low level of the tariffs for the residential consumers (which account for over 90 percent of the revenue) that is kept at about 50 percent of the cost recovery rate leading to inability of the company to generate enough revenue to cover the operations costs and, therefore, such situation calls for government subsidies;
- subsidies as inappropriate as they create budget disturbances amongst other problems.

Then Landau suggests tariff increases at least equal to the cost recovery level so that it can attract new investment for extending the service coverage and improving the quality of service. In conclusion, he indicates, "it is clear that the problems of a politically controlled tariff-setting mechanism and poorly enforceable collection can only be addressed through more private participation in these sectors" (Landau, 1998, p.13).

The case study has indicated what was already observed by the World Bank:

"only about 30 to 35 percent of the population have convenient access to safe water. Access to adequate sanitation facilities is also low. Therefore, levels of morbidity and mortality due to water-borne diseases are among the highest in the world. Substantial parts of the water systems are either inoperative at present, or at risk of further deterioration and collapse. Most water supply institutions are weak and skilled personnel are rare" (World Bank, 1996, p.1).

However, a senior member of the National Directorate of Water has indicated during the interviews that the design of the National Water Policy had assistance from the World Bank, and that to some extent some contradictions and imposed attitudes tended to mark the debate about the conceptual framework of the water policy. But the fact that the national staff had initiated the elaboration of water policy prior to World Bank participation, contributed to some kind of apparent balance of power relations on the debate. Nevertheless, the power that arises from the donor in putting preconditions to finance investment in water systems was recognised by the senior staff of national water department and from FIPAG.

As a corollary of this situation and following the decision to accede private intervention, funds were made available for the process. This followed what Halcrow a consultant company, advanced, that "in recent years, the Government has not been able to put together a consistent funding strategy for the water sector as a whole and has been obliged to follow a piecemeal approach reacting to individual donor preferences and conditions. In addition, the existing water companies have had no access to private loans' (Halcrow, 1997, p.27). From this assertion the problem seems to centre on the principle of private participation *per se* in that it requires bigger incentives than does public participation.

Following the above understanding, the World Bank approved US\$36 million equivalent credits to assist the Government of Mozambique in its efforts to improve water supply and sanitation in rural and urban areas. This loan was approved to take effect ahead of schedule in order to mobilise funds for chlorine treatment of urban water supplies in Maputo and Beira, where cases of cholera had reached over 10 000, including more than 400 dead (WB, 1998).

An additional funding grant was approved in 1999. The World Bank approved a US\$ 75 million credit to help support the Republic of Mozambique improve the quality, reliability, and sustainability of its water services. The project was designed initially to target the capital cities of Maputo and four others – Beira, Quelimane, Nampula and Pemba, where in all five, the quality of water services is poor. The project was designed to be addressed in the following ways, through:

- restructuring the institutional and regulatory framework within the urban water sector by introducing commercial principles in the operation and management of water

service;

- using a private sector operator that would engage in a lease contract for Maputo and a management contract for each of the remaining four cities;
- providing an institutional framework that would seek to improve the quality and sustainability of water services, as these began to be decentralised to municipal based management (WB, 1999).

In fact, this finance follows the conditions of the Bretton Wood institutions under the ESAP Policy Framework Paper for April 1999 - March 2002 in its point 10:

“under its national water policy approved in 1995, the Government is undertaking a broad reform of water supply provision aimed at moving toward delegated management, and improving its regulation and financial planning. In addition, it indicates that in December 1998, the legal framework for private sector participation, a regulatory board for water, and a water tariff policy was all approved. With respect to urban water provision, the government will complete the contracting out to full private sector management the water supply services in five major cities (Maputo, Beira, Quelimane, Nampula, and Pemba). The government has commenced tariff adjustments to ensure the improvement and sustainability of water provision (IMF, 1999, p.10).

The Bidding Process and Awarding of the Contract

A preliminary marketing stage was developed and approximately 12 water companies were visited or directly approached by the consultants involved in the process.

Like other experiences in bidding procedures, a tendering process was set up that included four stages namely: i) pre-qualification tender ii) tender for the qualified operators iii) evaluation of the proposal iv) technical discussion with the consortium with a better offer.

In the pre-qualification stage, that ended in August 1999, eight bidders were involved (see table above) and only three of the four bidders chosen submitted their proposal for the second stage of the process. These bidders were Lyonnaise des Eaus, Compagnie General des Eaux and Saur International.

Table 1: Participants in the Pre-Qualification Bid

Competitor	Consortium Presented	Origin
Compagnie General des Eaux	VIVENDI	France
SAUR International	SAUR International Aguas de Portugal Mazi of Mozambique	France Portugal Mozambique
AB-Gostar Shargh	AB-Gostar Shargh	Iran
Berliner Wasserbetriebe	Berliner Wasserbetriebe	German
Biwater	Biwater	Great Britain
COPASA MG	COPASA MG	Brazil
Lyonnaise des Eaux	Lyonnaise des Eaux Northumbrian Lusagua Credicoop	France Great Britain Portugal Mozambique
Severn Trent Water International	Severn Trent	Great Britain

Source: DNA (1999).

After the pre-qualification two-stage bidding process, technical bids and financial bids were considered (this stage only opened for three successful bidders in the initial technical stage). In the bidding process, the companies were encouraged to associate with Mozambican partners and (eventually) this constituted part of the final criterion in the evaluation of technical bids. This was viewed as being politically sound in terms of helping local companies but some questioned possible obscure linkages that may have been behind the selection of the winner.

After all procedures had taken place a consortium named 'Aguas de Mocambique' (AdM) led by SAUR International won the tender for the management of the water systems of Maputo, Matola, Beira, Dondo, Quelimane Nampula and Pemba. This award was granted after fierce bidding for the international tender prescribing a single operator option to run the five cities since it was understood to be simpler, more marketable and cheaper. Therefore, on September 27, 1999, 'Aguas de Mocambique' signed the contract with effect from 30 November 1999. According to the contract AdM would be responsible for collecting water usage tariffs from residents in the cities and would also be expected to radically upgrade and extend the water supply infrastructure in all seven cities (Santos, 1999, p.2).

The private management of urban water supply was one of the conditions imposed by donors and funding agencies for the provision of US\$117 million to improve the services. Among the sources of this funding was the World Bank, the African Development Bank, the Dutch government and the European Union. Of this money, US\$25 million was earmarked for running the services, while the remaining US\$92 million was to be used to rehabilitate and expand the water supply network in all seven cities.

For Maputo and Matola the contract consisted of a 'Lease Contract' valid for 15 years,

under the 'Lease Contract' the private operator will be responsible for operating and maintaining FIPAG facilities, billing customers and collecting the customer tariff, at its own commercial risk. The private operator will retain part of the Customer Tariff, the 'Operator tariff' and use the difference to pay a 'Rental Fee' to FIPAG and a 'Regulator Fee' to the CRA. The Operator Tariff will be fixed for five years, but regularly adjusted according to a contractual cost index formula during this period (WB, 1999, Annex 2, p.2).

Whereas for the other cities is 'Management Contracts' were valid for five years.

under the five year 'Management Contracts', the operator will be responsible for operating and maintaining FIPAG facilities, billing customers and collecting the Customer Tariff, on behalf of FPAG. Customers will be under contract with FIPAG, not the Private operator. FIPAG will pay the private operator a Management Fee, part of which will be linked to the Private Operator's collection performance (WB, 1999, Annex 2, p.2).

According to the contract, the Mozambican government remains the owner of all infrastructures and water assets (MNA, 1999: Santos, 1999, p.1-2).

The capital stock breakdown of the company AdM is shown in the following table:

Investor	Percentage of Stock Ownership	Origin
Saur International	38,5%	France
IPE-Aguas de Portugal	31,5%	Portugal
Mazi-Mozambique ³	30%	Mozambique

Source: DNA, 1999; MNA, 1999; PANA, 1999; WB, 1999

SAUR International is one of the leaders in the private management of public utilities operating world-wide, employing over 2000 people and providing services to over 34 million people (IMIESA, February, 1999 in Hemson & Batidzirai, 2001, p.23).

SAUR is a subsidiary of Bouygues a French transnational corporation (one of the top ten water companies in the world) operating world-wide. Based in France SAUR in 1998 accounted for US\$ 2.2 billion water revenue from a total revenue of US\$ 2.92 billion with total profit of US\$ 0.21 billion (The Council of Canadians, March, 2000).

Research linked to the trade union movements presents a critical view to SAUR operations and highlights breakdown in contractual relations and issues of corruption (The Council of Canadians, March, 2000).

According to Hemson & Batidzirai (2001) a report by the Public Service International revealed that French Fair Trade Council had fined SAUR in 1997 for an illegal agreement with other company to secretly share a public works contract. They quote Weeks (2000) who points to Gdansk, Poland, where SAUR negotiated a secret contract within two years of operation in water services, after problems in water provision.

Factors in Evaluating Options

The basic principle that guided the evaluation of options was tied to the need to transform the water companies into well-financing business entities based on private intervention. Therefore, a critical aspect to be considered was the removal of subsidies and link water business in economic terms.

Following that and understanding that “the shortcomings in the existing water companies were related principally to the lack of management and technical capability of the previous public operator combined with severe funding constraints, the solution then was seen to lie in attracting good quality, competitive bidding from world-class operators with the expertise to transform the companies”(Halcrow, 1997, i).

According to Halcrow, the evaluation options were undertaken considering a wide range of different options with a view to:

- balancing risk and reward in a way that will attract bidders and therefore maximise benefits to the Government and people of Mozambique;
- progressively removing external subsidy to the sector;
- setting tariffs at levels, that remain affordable (Halcrow, 1997, p.i-ii)

³ MAZI OF MOZAMBIQUE comprises the following Mozambican entities: SCI-Sociedade de Controlo e Gestão de Participações Financeiras, SARL; MG-Moçambique Gestores, Lda; FDC-Community Development Foundation (NGO); Norte Investimentos, SARL; Flotur-Florestas e Turismo, Lda

It became clear at the beginning that it was assumed that private participation was a condition in the long run.

Size of the Population Served and Coverage Area

From the INE (1999), the estimated population of Maputo city is 987 943 while for Matola city is 424 662 (INE, 1997). However the release of the figure for Matola has probably grown, particularly because of the influx of people into the city because of the floods. The annual population growth rate is 2,6% (although this may be lower because of the effect of floods and for other reasons).

Unfortunately, the real situation indicates that there is a deficit in water provision that may be worse because of the population inflow into Maputo and Matola cities. Halcrow's (1997, p.6) study indicates that 45% of the population received piped water in Maputo for 1996. This is slightly different from the INE (1997) data that point to 49% (22.1% inside house and 26.9% outside house).

The table below lists the contracts for water supply in Maputo with different levels of consumers, at the time the contract was signed.

Table 3: List of Current Contracts for Water Supply in Maputo and Matola

Delegation	Domestic	Commercial	Industrial	Public taps	Total
Matola	20.026	443	379	23	20.871
"Foreign Currency"	285	85	0	0	370
Big Consumers	0	2.816	611	198	3.625
Central	51.267	2.509	41	40	53.857
Total	71.578	5.853	1.031	261	78.723

Source: MOPH-FIPAG, Maputo Water Concession Contract (1999).

Maputo comprises District N°1 to N°5 plus Catembe and Inhaca while Matola includes District N°1 Matola HQ, District N°2 Machava and District N°3.

The tables below present the population breakdown according Maputo and Matola districts when the company AdM took over.

Table 4: Settlements Inside Maputo Area: Cidade de Maputo

District N°1	District N°2	District N°3	District N°4	District N°5	Catembe	Inhaca
Central A	Aeroporto A	Maxaquene A	Hulene A	Luís Cabral	Gwachene	Ingwane
Alto-Maé A	Chamanculo A	Maxaquene B	Laulane	Inhagoia A	Ingude	Nhaquene
Central B	Aeroporto B	Maxaquene C	Hulene B	Jardim	Chale	Rilewene
Alto-Maé B	Chamanculo B	Maxaquene D	Mahotas	Inhagoia B	Ncassane	
Malhagalene A	Chamanculo C	Polana Caniço A	Albazine	25 de Junho A	Xamissava	
Malhagalene B	Chamanculo D	Polana Caniço B	Mavalane A	25 de Junho B		
Polana Cimento A	Xipamanine	Mafalala	Mavalane B	Bagamoyo		
Coop	Malanga	Urbanização	FPLM	George Dimitrove		
Sommersfield	Munhuana		3 de Fevereiro	Magoanine		
Polana Cimento B	Minkadjuine		Ferroviano	Malhazine		
	Unidade 7		Costa do Sol	Nsalene		
				Zimpeto		

Source: MOPH-FIPAG, Maputo Water Concession Contract Annex A (1999)

Table 5: Settlements Inside Matola City

District N° 1: Matola HQ	District N° 2: Machava	District N° 3
Matola A	Bunhica	Acordos de Lusaka
Matola B	Trevo	Boquisso

Matola C	Cingatela	Vale do Infulene
Matola D	Patrice Lumumba	Zona T3
Matola E	Unidade A	Unidade d
Matola F	Damaso	Khongolote
Matola G	Tsalala	Zona Verde
Matola H	Umatibjane	Ndlavele
Matola J	Machava sede	1° de Maio
Liberdade	Cobe	Golhosa
Fomento	Km 15	Intaca
Mussumbuluko	Matola Gare	Macatine
Nahlampsere	Matlhemele	Mali
Sikwama		Muhalaze

Source: MOPH-FIPAG, Maputo Water Concession Contract – Annex A (1999)

Expansion of the System

The following are the target numbers of connections according to the contract signed with the private operator.

Table 6: Number of New Connections

	Year 1	Year 2	Year 3	Year 4	Year 5	Total
Area 1	1800	3749	3900	4045	4277	17771
Area 2	600	1251	1300	1349	1423	5923
Total	2400	5000	5200	5394	5700	23694

Source: MOPH-FIPAG, Maputo Water Concession Contract (1999)

Area 1: Area without Pavement; Area 2: Area with Pavement.

This projection indicates that priority was given to areas without pavements.

Expansion measures have been undertaken although these have been slow. According to PANA, the Mozambican privatised water supply company AdM is to increase its distribution capacity in Maputo city by 30 per cent. The project, estimated to cost 66 billion Meticaís (about \$4.2 million), is to be funded by the French Development Agency. According to the Mozambican Government's Water Supply Investment and Assets Fund, the company's current production capacity is 145,000 cubic metres a day, at the Umbeluzi water treatment station. The extension project includes the network to the suburbs of Hulene and Mahotas, some of the most populated of Maputo. A separate contract for an additional pipeline, 8.4 kilometres long, from the city of Matola to the inner Maputo suburb of Chamanculo, where the largest of the city's water distribution deposits are located, has been awarded to a consortium formed by the French company SAUR-International, and the Mozambican firm CETA (PANA, 2000). The effects of this additional pipeline seem not to have yet been felt by the consumer because most of the network system is not in good condition. Apparently the company is concerned about the situation and measures to deal with the problem are being implemented.

More recently, the consortium claims to have invested six million US\$ dollars during the first two years of activities and plans to invest 20 million in 2002. The contract with the consortium is worth 25 million US\$ dollars.

Institutional and Implementation Arrangements

- **Regulatory Framework**

Following a consultant report by Halcrow (1997), three regulatory options were considered initially during the process that led to private sector participation, namely option 1 –Local Government, option 2 - Independent regulator, and option 3 - DNA (National Directorate of Water) as a regulator.

Option 1 was considered not practical because the municipalities were not yet sufficiently developed to take the role of contracting party and regulator.

Option 3 also failed mainly because it was assumed that potential bidders would be concerned that political pressures would influence DNA when adjustments to the levels of tariff were required.

Option 2 was the option that succeeded. It was considered the one that would give confidence that the contract would be administered impartially and that tariff levels would be set at commercial rates. Therefore, appropriate legislation was set up for it to be effected.

The government of Mozambique, in December 1998, established the frame for delegated management through decree n°72,73 and 74/9 of 23 December from which FIPAG (Water Supply Investment and Assets Fund) and CRA (Council for the Regulation of Water Supply) were created.

- **CRA**

CRA was created as a public corporation under Decree N° 74/98, dated December 23, 1998. This institution is composed of three members proposed from the public and nominated by the minister (MOPH). CRA has the responsibility to regulate water supply operations and issue instructions for FIPAG and the Private Operator Company, in particular, with regard to consumer tariffs, quality of services and the network expansion programmes. New tariffs proposed by FIPAG are only effective after approval by CRA. CRA also acts as a forum for hearing of views and complaints from customers and municipalities, and for pre-arbitration between FIPAG and the Operating Company (World Bank, 1999, p.9; Decree N°73/98).

- **FIPAG**

The government body that signed the contract with the consortium that won the tender was FIPAG, created by decree N° 73/98 dated December 23, 1998. This institution is composed of two bodies: the Administrative Council and the Executive Directorate. The council is presided by a representative of the Minister of Public Works and Housing (MOPH), who acts as President of the Administrative Council, which also includes four members of the board. The Executive Directorate includes a professional chief executive officer, assisted by a professional group of managers for utility management, investment-programme management and financial management. The authority and responsibilities of FIPAG consist of i) investment and financial management for rehabilitation and expansion of water supply assets; ii) maximisation of efficiency and return on existing assets; and iii) contract management, monitoring and enforcement of the contractual obligations of the selected private operator (World Bank, 1999, p.8; Decree N°73/98).

From the interviews, conducted as part of the present study it was possible to detect a sense of particular caution from the government in order to ensure that the contracts succeeded. Although there are not enough elements to assess the above institutions, it seems that at this early stage their role had not yet been made clear and that they were not enough marketable

for the public in general and for particular institutions such as unions. Therefore, there is some scepticism about their role of protecting the interests of the public. It suggests a strong need for them to find ways to make themselves well known to the public in general.

3.3 The Outcomes of the Water Contracts

General Aspects

There are consumers who have faced a real deterioration of water services since the signing of the contract. These consumers claim decreasing levels of services offered in contrast with increased bills. In some cases, they have experienced periods without a supply of water, and have had increasing water supply cut-offs due to irregularities in the invoice system and due to an inability to pay, because of the double-month bill scheme. This scheme has led consumers, now with the private intervention, to pay bills for two months instead of paying monthly, causing disturbances to family budget.

Because of similar kinds of irregularities, like cut-offs, greatly increased bills despite a lack of water from May 2000 to 2001, a public march 'going naked' was planned earlier in year 2001 at the Matola office of Aguas de Moçambique by about 20 ladies living in Matola area as a protest for many irregularities in water services. The protagonists of the march argued that they were tired of complaining without results and if the company did not solve their problems they would go ahead with the march. Because of this pressure, a representative of the management arranged to discuss the issue to find a solution (Savana, 2001, March 9).

More concern about water supply is also presented by a local newspaper:

In Maputo, where the situation seems to be more extreme, the problem of lack of safe drinking water it is particularly observed in Chamanculo, Mavalane, Maxaquene, Costa do Sol, Pescadores, Polana-Canico among others areas where the population are obliged to look for alternatives sources to obtain water. Ferreira, Director of Health in Maputo City said that after a relative decrease of level of number of cases that were registered until the last week in some hospitals, the situation turn to be worst as a result of rains that occurred and because of lack of safe drink water. She indicated that if the problem of water supply is not solved it will be likely to registered more cases of cholera and more deaths. ... she also indicated that in the past week it was registered 26 death from 1246 cases of diseases that different hospital have encountered (Noticias, 2000, p.20).

The same newspaper pointed to a particular situation that AdM faced at the beginning of its activities. The cities of Maputo and Matola were without water from 29 March as a result of a breakdown of the stock of basic chemistry products required for water treatment. However, the product had already been acquired and, as a result, the water started to flow, but with restrictions and the water supply was only to be normalise from 2 April (Noticias, 2000, p.1).

As a consequence of this situation the shareholders of the privately owned water company, 'Aguas de Mocambique', have sacked two of the company's directors the managing director, and the technical director, who were blamed for the company running out of water treatment chemicals, aluminium sulphate, at the Umbeluzi water treatment station (PANA, 2000). In turn,

the managers contributed to cholera outbreak. A worker interviewed pointed that one of the major reasons behind the breakdown of stock of chemicals was not only a matter of bad planning but was also part of the arrogance and lack of communication between the new officers and the old staff/workers who were experienced to deal with those issues in Mozambique.

Indeed, in Maputo, the prescribed/intended results of private water intervention, as mentioned earlier, seems not yet to have been achieved. It can be argued, as some members of the staff are doing, that the new company is still in its early stage of activities, concentrating efforts on institutional capacity building, as well as on investment actions, and as a consequence the results cannot be seen immediately. They suggest that there is a need to give time to the company to perform. But the point is, should the consumer suffer in the present to justify the expectation of better services later? All evidence from the water sector points to opposite conclusion. It is important at least to maintain the previous level of services.

One of the consumers interviewed stated:

"I do not understand what is going on. What we are seeing is a huge increase of tariff charge since the private company took over while the services are not improving. Sometimes we fell that the level of service were better before. Sometimes we are failing to pay our bills because they do not correspond to our complains and when we go to the company to present ours claims the answer we got is 'if the invoice (bill) is like that it comes from your consumption and there is no way unless to pay your bill'".

The above picture reinforces what the National Water Policy (DNA, 1995) had already acknowledged, and that continues to be a challenge up to now:

"the majority of the population still does not have access to regular supply of safe drinking water. The urban population with access to piped water suffers an irregular and poor quality services" (DNA, 1995, p.1).

Low Income Consumers

There is not much in the contract in relation to low-income consumers. It clearly follows the principle that underlines a full cost-recovery operation that would provide a cost-effective and efficient water service. It is assumed that there is no problem of ability to pay but the problem lies in the capability of the water system to serve the consumers as it is indicated to some extent in the National Water Policy:

"the more vulnerable sectors of the population, especially those in peri-urban areas, in fact pay more than the well off. Beneficiaries have demonstrated their willingness and capacity to pay for the services provided by the water sector, provided that the service is regular and reliable and that the appropriate level of service is provided" (DNA, 1995, p.3).

The World Bank also raises the social issue in relation to this process of private sector participation, underlining that "in general, the Beneficiary Assessments (BAs) concluded that if the proposed project results in greater volumes of water delivered as planned, this will reduce

informal market water prices which the poor are most likely to pay. At the same time, the proposed tariff increases typically fell well below the current informal market prices and therefore would only cause undue hardship if there were no improvements in service level and informal vendors therefore increased prices. The BAs also demonstrated that the poor were most likely to suffer higher prices and lower service levels as a result of the current low tariffs and poor management” (World Bank, 1999, p.17).

Additionally the World Bank document points out that BAs and consultations so far have highlighted the diversity of communities in terms of the strength or weakness of social networks and community organisations, income levels, and cultural preferences for organisation of water management, even within peri-urban areas, and, therefore, the need for a demand-driven, menu-based approach to the provision of water supply investments and management schemes. The BAs have also consistently shown a high level of willingness to pay for improved service levels and better management from the water companies, even among low-income groups, largely because of the comparatively high cost of informal market alternatives (World Bank, 1999, p.17).

One should be careful of endorsing the above arguments because they may place one in a position of supporting poverty in Mozambique. It should be understood that the willingness to pay is the result of an absence of alternatives to get water as a basic need. It should be borne in mind that “without water there is no life”. The rural people are in a situation where they have to devote a significant part of their income, when income exists, to have at least a bit of water even if it means less food and fewer of other necessities. So poor populations are concerned about costs and their implications.

If we look at the relationship of expenses versus income, the average monthly expenses per household in the country in 1998 account for 735 521 MT, the equivalent to 151 948 MT per capita, while the average income per household was 598 530 MT the equivalent to 123 647 MT per capita (INE-IAF, 1998). This indicates that there is a deficit of almost 29 000 MT per capita. Although it may not be the real scenario because of a possible sub valorisation of incomes, it shows at least that the levels of income are low and that this negatively affects the living standard and the capability of some households to pay their water bills.

Water Quality

The contract agreed give the responsibility to the operator to monitor continually water quality following specific parameter set up. The contractor has the responsibility to follow an audit approach to monitor the compliance with the drinking water standards. In that context, the contract can perform regular tests to ensure that the operator is producing the agreed levels of water quality. The quality control, according to the contract, should be carried out at the treatment point and at the distribution and supply points randomly.

Although there is not enough evidence to comment specifically on water quality *per se* (see table 7 below), after the private intervention, (although some apparent consent from the National Laboratory of Hygiene Water and Food – LNHA points out that the water quality has improved), it is understood that the interruption of water supply has a significant impact on water quality. In this sense it can be argued that there is a problem with water quality as the interruptions are still very common in most of the concession areas. In addition to that, the workshop undertaken in December 2000, to access the level of performance of the private

operator, for the first year, concluded that the objectives agreed to in the contract for water quality control had not yet been achieved.

Following these arguments, it is relevant to cite Manguela, National Director of Health who blamed the spread of cholera on poor hygiene and basic sanitation. He pointed out “normally, where we find cholera cases we also find, associated to it, a slackening of quality of sanitation and a reduction of water supply, both in quality and in quantity” he also stresses that “the places where there are more serious cholera problems are those where water supply is poorer” (MNA, 9 January 2001).

The demand for piped water is higher and, inevitably, the concessionaire will be compelled to increase the areas of concession. This may require higher infrastructure and investment for the Maputo concession. In most of the areas of Maputo the ordinary wells do not suffice as a mid-term solution for water supply as the density of the population is very high and as the number of latrines increases and the level of contamination has gone up. For instance, in Inhagoia, a settlement part of Maputo City chemistry pollution is widespread in all areas and we can not point to any particular area that does not have pollution (Nguenha, 19986, p.2). As a result we have information such that of the Infulene (River) Water Control River, that Inhagoia settlement in 1981/82, 22% of the population was affected by malaria, bilharziose, oxtail infection and others diseases (Nguenha, 1986, p.13).

Hauengue’s research points to 92,5% of water samples as being not adequate for human consumption following international patterns of quality (OMS, 1986, in Hauengue 1992). This research in Hulene settlement, one of the biggest in the Maputo area, revealed the existence of faecal pollution in a proportion of 17% of samples with *Salmonella* spp and 29.2% of samples with *E.Coli* enteropatogenica. For Hauengue, this should be the reason that water consumption constitutes one of the causes of diarrhoea for the population of Hulene (Hauengue, 1992, p.34).

Taking into consideration that latrines and wells are needed it is important to take Nguenha’s (1986) advice to adopt a system that does not prejudice any of the cases and can establish a system of piped water and open eventually deep wells.

To our understanding, the issue of water quality relies mainly on straight linkages between the appropriate channels of the Ministry of Health, Ministry of Public Works and Housing and the Operator.

Table 7: Percentage of Improper Water in Maputo

Year	Number of Samples Done on Treated Water	% of Improper Samples on Treated Water
1982	146	14
1983	409	16
1984	319	30
1985	489	15
1986	389	7
1987	428	30
1988	488	22
1989	584	24
1990	516	28
1991	1634	16
1992	1185	21

1993	916	29.6
1994	699	33.9
1995	1613	22.3
1996	1287	10.4
1997	888	10.6
1998	1629	33.4
1999	1360	?
2000	1086	?

Source: Maputo Provincial Laboratory for Water (2000)

Cost of Services

Under its National Water Policy adopted in 1995, the government is preparing for the privatisation of management of the five major urban water companies before June 1999. To ensure the future sustainability of these water systems, the government will reform tariff structures and raise their levels, both for urban water supply and bulk water provided from major reservoirs. Tariffs will be increased in real terms prior to the signing of the management contracts (IMF, 1998, p.10).

Under the project development objective the outcome/impact indicators among other aspects point for "tariff policy that water pricing will be based on principles of full cost recovery (WB, 1999, p.2).

In fact, prior to privatisation the Ministry of Public Works and Housing approved a new tariff scheme with the ministerial diploma N° 26/99 of April 1 presented below:

Table 8 Tariff Structures in Maputo

Block	Band per month	Year 1996	Year 1999
	Average Tariff	2320MT (\$0.20)	
Block I	From 0 to 10 m ³	640MT (\$0.06)	2350MT
Block II	From 10 to 20 m ³	1270MT (\$0.11)	3750MT
Block III	From 20 to 30 m ³	1910MT (\$0.17)	5450MT
Block IV	Over 30 m ³	3180MT (\$0.28)	6900MT
General	Minimum 25 m ³ for Commercial and public, 50 m ³ for Industrial	4350MT (\$0.38)	6900MT
Stand Pipe		640MT (\$0.20)	1800MT

Source: Halcrow (1997, p.37); MOPH (1999).

However, the operator tariff agreed on the contract subject to adjustment according the economical and technical conditions in the market and to ensuring that the tariff covered all operational and maintenance costs, is as follows:

Table 9: Operator Tariff Schedule for Maputo

Year	Year 1	Year 2	Year 3	Year 4	Year 15
MZM/m ³	2,750	2,650	2,560	2,560	2,735

Source: MOPH-FIPAG, Maputo Water Concession Contract (1999).

The proposed new tariff adjustment approved with effect from September-October 2001, is as follows:

Table 10: New Tariff Adjustment

Block	Band per month	Year 1999	Year 2001	Average Tariff
	Average Tariff			
Block I	From 0 to 10 m3	2350MT	3250 MT	2800MT
Block II	From 10 to 20 m3	3750MT	5200MT	4475MT
Block III	From 20 to 30 m3	5450MT	7100MT	6275MT
Block IV	Over 30 m3	6900MT	7700MT	7300MT
General	Minimum 25 m3 for Commercial and public, 50 m3 for Industrial	6900MT	8800MT	7850MT
Stand Pipe		1800MT	2600MT	2200MT

Source: AdM (2001)

1US\$ = 22500MT

This tariff does not include VAT. The price charge is made up of a volumetric charge based on consumption charge through the meter plus site-metered charge and 17% of VAT deducted from 75% of the volumetric charge plus site-metered charge.

According to the contract, chapter 2 article 40, point 5, in the determination of the operator tariff structure, no kind of cross –subsidies are considered. So there is no differentiation between those who can afford to pay and those who cannot as done in some countries, to establish a lifeline tariff to protect the access of the low-income people to a minimal amount of water. The structure above underlines the principle of cost recovery mentioned earlier.

Although the figures presented above, after applying to a specific case, do not seem a marked increase, in real terms they do affect most household served by piped water significantly. Charges on commercial and industrial consumers are lower than domestic charges. Consumers would like to see no changes in their tariff (to help their budgets) in contrast with the new one with effect from September-October as they find the current one already expensive. As the situation stands to date many consumers would prefer the previous company, as they do not see any improvement in the services to justify the increases in tariffs.

Customer Services and Management

Although apparently the company has been making efforts to ensure a positive relationship with consumers by establishing claim channels, the practice has not yet shown positive results. The consumers are not happy. They continue to complain that approaching the company has the same effect as not approaching them.

3.4 The Labour Issue

General aspects

Although the figures may have changed the general profile of the workers is presented below. Unskilled work represents almost 69% of the staff profile.

Table 11: Staff Profile

Type of Staff	Maputo
Skilled	217
Unskilled	478
Total	695

Source: Halcrow (1997, p.71)

The contract gives protection to workers not to be retrenched within the first year of the contract. It encourages the operator to find alternative ways to reintegrate workers via training in other activities within the scope of the company. Understanding that part of the investment programme comprises much work on network rehabilitation and expansion, it is likely that there is a scope for work reintegration without forcing retrenchment. The interviews reveal confidently that the result of the evaluation of the staff in the company is very satisfactory. In addition to that a technical study from Halcrow (1997, p.72) following international comparison in terms of numbers of staff per thousand connections suggests that in Maputo the numbers are only slightly above the norm. This scenario suggests that there would be limited space for retrenchment at least now, and this provides time for the company to exercise alternative ways of reallocation of labour. However, during the interviews a senior member of the staff indicated some possibilities of retrenchment, following an understanding that there may be a labour surplus.

From the interviews and from the media, the findings for Maputo-Matola are far from satisfactory in general terms. They present a workforce that is disappointed with the way the privatisation took place, that lacks good information, and that is extremely concerned about job security. There is scepticism that things will improve. There was insufficient communication and consultation with workers around restructuring and reorganisation of work at the outset. The way it went created space for some arguments, according to some interviewees, including some kind of racial discrimination.

A public letter in Savana (2001, August 25) attests to the above kinds of problems resulting in a potential strike in a company. The human resource development plan has not been done or least not has been finally elaborated, although there is some informal training going on. The workers claim not to receive appropriate communication about their career development. This situation is exacerbated by apparent weak work organisation (trade union) in the sector, according to some workers. However, a representative of the trade union pointed out that they are trying to do their best to perform well and fight for workers' interests. Although the union recognises that the company has made great efforts in terms of uniform, insurance and equipment safety and health, the general result is not yet satisfactory. The result is a highly disillusioned and demoralised workforce, which is beginning to question how the company got the contract.

Indeed, a particular characterisation of the workers' sentiment point to the fact that although some few feel that things have changed for the better and some think the situation is static, the majority feel that the situation is even worse. Those who think that the situation is better justify some complaints by saying that the problem is related to too high expectations that were created with private intervention. They believe that it is not possible to correspond immediately now but that there is a positive move. Those who think that the situation is worse argue that the company was not yet able to take course of the work. The level of service has decreased. Some workers point out that there is too much centralisation and bureaucracy in decision making that creates difficulties for quick response, to breakdowns, for instance. They contest that it is not just a matter of investment but it is also a matter of sound environment with proper relationship, clear job descriptions, work conditions (particularly for meter readers), responsibilities and trust.

Labour organisation

White (Ministry of Public Works and Housing) said that all rights currently enjoyed by the workers would be upheld by the new operators. He also pledged that no worker would be laid off during the first year of operation, and said that anyone who was dismissed thereafter would be absorbed into the planned rehabilitation projects linked with the main contract. White added the government had already set up a watchdog board to guarantee that consumers' interest were respected, to practically regulate the massive contract and to set minimum service standards (UN IRIN, 2000).

White's announcement followed an attempt to head off looming labour union protests by promising that not a single one of the country's current 850 workers would be retrenched or otherwise dismissed because of the private intervention. The assurance, according to UN IRIN, follows concerted labour union protests in neighbouring South Africa that have effectively hobbled similar smaller commercialisation schemes there for over two years. The protests form part of a global labour union campaign to halt water privatisation, spreading from Malaysia to Britain.

Apart of that reason, it follows the general experience with the privatisation process in Mozambique that had negative effects on the workers. In fact, the privatisation programme the country embarked on in 1987 combined with the effects of liberalisation have seen the loss of an estimated 116000 jobs. "Only 20 percent of the people that lost their jobs have found alternative employment. ... for many people, structural adjustment has meant nothing more than the loss of employment. The whole exercise must be reviewed" Estevão Mabumo head of International Department of OTM, Country's umbrella trade union organisation, UN IRIN, 2000).

The union warns that the company should establish a better relationship with the union as a way to deal more adequately with human resources. They argue that the company should realise that its success relies on good participation and engagement of the workers, otherwise success will be difficult to achieve. Therefore, appropriate ways should be established to deal with irregularities and it should not discriminate against anybody.

The union is concerned about the need of changing behaviour to enable a new work environment in the company. They are concerned about some irregularities from the work side like robbery, but they stress that if there is some kind of resistance to transformation it may be accounted for by the way the private intervention took place, which excluded worker participation.

3.5 The Environmental Issue

Immediate environmental impact strategies have been identified within the project to mitigate possible environmental concerns with regard to increased water supply volumes – mainly the provision of adequate drainage and rehabilitation of certain sewage facilities – on a site specific basis. The main thrust of the GOM and IDA's strategy to deal comprehensively with urban sanitation, wastewater and sewerage problems is housed in the follow-on Municipal Development Project. The main reason for this split in responsibilities

is too fold. Firstly is the lack of institutional capacity at the municipal level that the Urban Projects intend to take. The building up of capacity in a 'piecemeal' approach for certain urban services, in this case sanitation and drainage, may not be as effective or efficient as the more inclusive approach that is currently in preparation (WB, 1999, p. 21)

The above information and argument points to the need for an awareness of environmental aspects and suggests that the privatisation will enable the required investment in the environment that will result in increased water supply and linking to Municipal Development Project. The interviews conducted with senior member of the company and from the National directorate of Water indicated that such investment will take time to be implemented because it needs specific studies and projects. In reality, not much has been done on the environmental side, although some reports point to certain environmental problems. For instance, a sector study of urban local government and the environment identified water quality, waste disposal, erosion, deforestation, soil fertility loss, and degradation of coastal and water resources as the main problems needing to be addressed (Landau, 1988, p.20).

Although there is awareness of the need to tackle environmental issues in practical terms, it seems that it was relegated to second term. Although it is complex because of other implications and the linkages needed to be undertaken, in the context where the water provision process is out of the municipality mechanism it is important that measures to deal with sewage situation would go along with the current process of investment in water network expansion. The real implication of this is the systematic flooding of the many homes, affecting more intensively the poorest household and the contamination of the water supply systems.

3.6 The Risks

Although the contract tried to set up many rules to protect the concession, some risks should be pointed out:

- Non-payment of services that will lead to cut-offs as people fail to pay for services. Most consumers are poor and unemployed, relying sometimes on sources of income not guaranteed.
- For various reasons, unions are opposed to private sector participation particularly in utility services traditionally provided by the state. This gives the potential to exacerbate relations with workers who question the development of concession to the rest of the country;
- Civil society also does not see as good thing private intervention in utility sector, therefore, there will be a sensitive situation in relation to any kind of irregularity in service delivery.

4. CONCLUSIONS

There were no alternatives put forward at the time to question the private intervention because there was some awareness at least from the people involved in the process that privatisation is the best way to go about finding solutions to water provision. In addition, the labour/trade

unions, although they were not happy with the option and the process, did not have the capacity to formulate and present alternative options and, therefore, to pursue an active resistance to the process.

Additionally, it appeared that the process of the private intervention was undertaken in such a way that did not allow for other options. Nobody presented consistent alternative options to private intervention, may be because it was understood that at least there would not be any kind of prejudice to individual interests, following the general trends towards privatising almost everything in the country.

It is not easy at this point to present a fair judgement on the performance of the concession. Some investment in infrastructure has been made, although this has not resulted in significant changes for the consumers. In general terms, the consumers sentiment of the activities of the companies so far is not satisfactory. A workshop undertaken in Maputo to assess the company performance in the first year of activities concluded that many of the target objectives were not achieved. Certain levels of service were not achieved, namely the level of reduction of water leaks as well as the level of water quality control. The human resource development plan, still not yet concluded, is in its early stage. The communication with the public is still poor.

Should be questioned the level of engagement of the private company (SAUR International) that succeeded in obtaining the tender because of its international reputation in urban water management? The evidence allows to presume that they are not using enough resources and engagement to convince the public that they are doing good work. It appears that they are mostly using their international name rather than the potential capacity they have to manage the water company. It should be claimed better services as it is acknowledged by the National Water Policy which states

the satisfaction of basic needs is a high priority and will require an increased coverage of water supply and sanitation, in particular to low income groups (DNA, 1995, p.1)

Everyone agrees that investment, is important but consumers do not agree to the decreasing of the level of services. The company can blame the unfortunate floods that happened in 2000, which may have created some obstacles to better work, but the issue seems to be more profound than that. It is a matter of the model of intervention that discriminates against the local workers who have accumulated much experience over time that would be very useful for the company. The company Aguas de Mozambique should prove that they are able to function well at least by not decreasing the quality of services. They have not yet proved that. On the contrary, the evidence tends more to question their quality of service. Indeed, what seems to transpire is that consumers are mistreated may be because of limited competition in this specialised market, resulting in consumers suffering, particularly those who are more vulnerable.

The recent withdrawal of SAUR International seems to testify to one of the predictions being put forward earlier in this paper of some kind of polarisation of workers and management that resulted in the inability of the management to proceed successfully. The withdrawal of SAUR, in December 2001, only came to the public knowledge very recently this year (2002). Negotiations are taking place with remaining partners of the consortium lead by IPE – Aguas

de Portugal, and the Mozambican Government and the World Bank to find a new partner that would acquire the SAUR position.

The union are sceptical about the future of the company. They do not see the link with World Bank as something good. They predict a potential collapse of the company as happened with the cashew nut industry in Mozambique.

However more information should be gathered to better assess the reasons behind the withdrawal of SAUR from the consortium in December 2001 and the legislative arrangement that allow the IPE to lead the consortium currently.

Finally it can be pointed that if there is a space for the company to succeed, at least the following should be considered:

- a consistent legal and regulatory framework that enables an effective participation of all stakeholders, including labour and consumers;
- more information about the role of the FIFAG and CRA, including some kind of representation of the interested parties;
- accessibility to the terms of the concession contract by all stakeholders;
- profound interest to learn from the available internal experience in the company;
- communication with the public to explain the evolutionary process of the company;
- the need for the consumers to understand how to read the meters so that they are in a better position to interact with the company;
- particular measures to ensure that low-level income groups are able to access piped water through lifeline tariff.

Important government commitment is essential to achieve this recommendations and it cannot just be assumed that private intervention *per se* is going to lead immediately to success.

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