

Governmentalizing water privatization: the case of Khartoum

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Abstract

Since 2001, privatization trends were introduced to Khartoum governmental water management. Consequently, several parts of the governmental water supply system, such as water fee collection, water network construction and water treatment plant operation, were in recent years outsourced to private companies. The process of outsourcing was thereby accompanied by political, economic and/or clientele relationships between some members of the responsible governmental staff and the newly established private companies, which were in most cases closely affiliated to the government. Instead of enhancing the efficiency of governmental water supply in Khartoum, an uncontrolled implementation of privatization thus led to an increase of corruptive practices and mismanagement in governmental water supply. Rather than leading to a retreat of the state or to an advance of the market, privatization at Khartoum governmental water management was 'governmentalized' and led to what might be called 'governmental-private-continuum'. Furthermore, arguing that water is essential for life, privatization trends in water management were at the same time not appreciated by several governmental employees and thus remained generally contested. In sum, the case of Khartoum demonstrates that the relationships between 'the public' and the 'private' are continuously reshuffled according to political, economic and clientele dynamics and therefore need to be reconsidered in an integrated manner.

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Introduction: the rise of water privatization

In the framework of a global neoliberal agenda which assumed that “less government is good government” (Moore 1986a: 93) and that the free play of market forces constitutes the solution to government failures, various privatization programs have been enhanced in most sectors – including the water sector – since the 1980s (Pitelis/Clarke 1993: 1). Water sector privatization can be defined as “transfer of ownership of water supply systems to private companies” (Bakker 2007: 437). Such a transfer of ownership can thereby be carried out at different degrees, ranging from full privatization to public-private partnerships, which play a particularly important role in outsourcing specific parts of water management (Castro 2008: 65).² In the 1990s, water privatization was increasingly regarded as a means to enhance water supply as it was regarded to be client-oriented, to facilitate private capital, to dispose of fundraising and investment mechanisms into water infrastructure despite public deficits, to increase the connection rates and to thus particularly benefits the poorer water consumers who are otherwise furnished by expensive private water vendors, and to enhance cost-recovery water prices³ which enhance the consciousness of water scarcity and which stimulate an ecologically sound water use (Dobner 2010: 135 ff.; Hemson 2008: 33). Consequently, starting with England and Wales in 1989⁴, the privatization of urban governmental water management has become a global phenomenon which is enhanced by development cooperation, international organizations and globally acting companies (Bakker 2003b: 7).

² Contract forms of public-private partnerships in water supply are for example (McDonald/Ruiters 2005b: 16): service contracts (public authority remains responsible for operation and maintenance, but outsources specific services, such as billing), management contracts (public authority remains responsible for monitoring new investment, contractor operates and maintains the water infrastructure), lease (public authority transfers complete responsibility for operation and maintenance to the lessor, who rents the facility), different characteristics of “BOO/BOOT/BOTT (Build, Own, Operate, Train, Transfer: the contractor builds, owns and/or operates a new water system, such as a water treatment plant, and then transfers the facility after a predetermined time to the public authority), concession contracts (public authority transfers complete water service system, including operation, maintenance, management, capital investments, tariff collection, and customer service, to the concessionaire for the concession period), or divestiture (private operator has full ownership of the water utility).

³ Although cost recovery pricing does not inevitably entail privatization, privatization on the other hand necessarily entails cost recovery (or profit) pricing, as water services are only profitable for the private sector if they are fully paid (Dobner 2010: 136).

⁴ In the British model of water privatization, entire governmental water systems (water collection, water treatment, water networks) were sold to private firms. Monitoring and regulation thereby remained a responsibility of the state. Thus, the British “Office of Water Services” (Ofwat) is responsible for a good quality service of water provision at a fair price. Ofwat therefore monitors water companies and economically regulates the water industry in England and Wales. See <http://www.ofwat.gov.uk/>, accessed on 14/1/11.

At the same time, the promotion of water privatization has also provoked many criticisms. It is thus argued that instead of considering water as a private commodity and basic need which is best provided by private sector investment, water should rather be considered as a public service and basic human right, which has to be supplied without concession (Dubash 2004: 220; Vincent 2003: 133; Hemson 2008: 30). Critical views on water privatization further argue that private water providers are not necessarily more efficient; that through cherry-picking, international water companies benefit most of water privatization, while remote water consumers do not get access to improved water provision; that private water contracts are governmentally secured and that in consequence, investment risks are not taken by the private water company, but by the public expenditure; that private water providers deteriorate water services due to the primacy of profitability; that water prices excessively rise due to private sector involvement; that the staffing level of private water provision is inadequate (Dobner 2010: 135 ff.; Swyngedouw 2005: 95; Castro 2008: 67; Bakker 2009: 95; Bouguerra 2006: 105; 120). In this direction, numerous academic works highlight the negative impacts of privatizing water management (see for example: Bond 2003; Kaika 2003; Mansfield 2004a; Mansfield 2004b; Dubash 2004; Loftus 2006; Castro 2008; Hall et al. 2005; Hall/Lobina 2007; Hall/Lobina 2008; Jaglin 2002; Jaglin 2005; Page 2005; Leitner et al. 2007; Jaglin/Zérah 2010; McDonald/Ruiters 2005; Swyngedouw 2004a; Swyngedouw 2004b; Swyngedouw 2005; Loftus 2006; Davis 2005; Prasad 2006; Bakker 2003a; Bakker 2003b; Bakker 2005; Bakker 2007).⁵

⁵ Thus, Bond (2003: 37) states that through water privatization, most benefits of public water supply are generally lost. Kaika (2003) analyzes how water scarcity was discursively constructed by the Greek government in order to assert privatization policies. Mansfield (2004a) examines contradictions of neoliberal regulation in North Pacific fisheries. Loftus (2006: 1023) conceptualizes the introduction of water meters as a "dictatorship". Castro (2008: 67; 74-75) notices that "the poor have been adversely affected" by neoliberal water and sanitation policies, which have contributed to "the already worsening patterns of socio-economic inequality" and to "the mushrooming of public protest, civil disobedience, and even open violence against these policies". In a similar perspective, Hall et al. (2005), Hall/Lobina (2007), Jaglin (2002; 2005), Page (2005) and Leitner et al. (2007) highlight movements of public resistance against the "neoliberalization" of water supply. Furthermore, Hall/Lobina (2008: 97) emphasize the advantages of public sector water supply in comparison to the private sector, which is prone to produce an "inefficient network around a monopolistic hub" and to thus exert control over knowledge distribution. In addition, Jaglin/Zérah (2010: 12) notice that public-private partnerships are "failed models" in water supply. Moreover, McDonald/Ruiters (2005b: 31) consider water privatization as a global "response to the pressures of an ever-expanding marketization of social relations under capitalism".⁵ Likewise, Swyngedouw (2004a: 14; 24) regards water privatization as a tool for turning water into capital and profit which exclusively serves the promoters of privatization. Referring to the British case, Swyngedouw (2004a: 16) thus states that while non-paying

In line with these growing critiques on privatization, nearly half of the private sector contracts in water supply were in recent years either recalled or faced serious operational problems (Lobina/Hall 2008: 88; Dobner 2010: 142). After a period of global investment, activities of the major international water companies, such as SUEZ Environment and Veolia Environment, have thus recently again diminished in most development countries (Lobina et al. 2003: 2; Bakker 2009: 94). With less than ten percent in the last decade, private sector involvement in water provision has remained relatively low, and private sector water companies have currently got rather less than more interested in being involved (Mitlin 2008: 33; Lobina/Hall 2008: 88; Verdeil 2010: 101). However, despite a recent decline of private company involvement in water provision, privatization policies continue to play an extraordinary important role for the water sector. Thus, as Castro (2008: 74) outlines, the “transformations set in motion since the 1980s underpin the continuation of the neoliberal [privatization] programme (...) either openly and unchanged, or refashioned and renamed”. Furthermore, England/Ward (2007b: 260) notice that neoliberal concepts continue to “cast a long shadow” and thus pursue to be of particular relevance. Moreover, Dobner (2010: 142) notices that a public securing of investment and currency risks or improvements of the water fee collection rates might soon initiate a renewal of private investments into water supply. Likewise, Hemson (2008: 34) notices that “there are currently attempts to encourage private involvement through bilateral trade negotiations”. Hence, privatization remains a highly important contemporary topic for current water management in most countries.

households were cut off from water supply, the companies and their shareholders “gained considerable profits”.

Privatizing Khartoum governmental water management

Introducing trends towards privatization

In the Sudanese capital of Khartoum, water privatization was introduced in the last decade. Trends towards water privatization were thereby in line with Sudanese privatization policies, which were initiated by the Numeiri Government in the 1980s and which were then further pursued by the current El Bashir Government via the “Sudanese Structural Adjustment Policies” of 1990.⁶ These adjustment policies were part of the new Economic Salvation Program from 1990 to 1993, which was carried out without any involvement of international financial organizations, such as the World Bank and the IMF.⁷ In fact, the Sudanese Structural Adjustment Policies were even harsher than the standard adjustment policies proposed by the IMF and the World Bank in other African countries (Musa 2000a: 46). One major actor of privatization policies in Sudan was the former Sudanese Federal Minister of Finance, who had worked in an international bank in London in the 1980s and who had therefore closely followed the privatization policies of Margaret Thatcher. Coming back to Khartoum in 1990, he carried out privatization policies in Sudan according to the British model. The former Federal Minister of Finance thus states:

M⁸: This [privatization] was my initiative. I was actually in England in the 80ies. And before that I was working in the Arab bank, establishment of the Arab bank there. So I followed experience of privatization and so on.

I: You were in London at that time?

⁶ In the beginning of the 1980s, the Sudanese economy was highly indebted. In order to reduce the debt and to slim down the public sector, the IMF and the World Bank therefore pushed for a “Stabilization Plan” which involved currency devaluation, a removal of governmental subsidies and a liberalization of the economy (Ahmad/El Batthani 1995: 204). The Numeiri government accepted the plan and followed the strategy recommended by the IMF and the World Bank from 1978 to 1985. Accordingly, imports were liberalized, expenditure was cut and the currency was devalued (Musa 2000a: 46). However, the liberalization policy in the 1980s entailed huge differences in income distribution (Ahmad/El Batthani 1995: 204). The World Bank and IMF strategy further involved the enactment of an Encouragement of the Investment Act, which was launched by the Numeiri government in 1980. As a consequence, the private sector grew rapidly (Musa 2000a: 42). Islamic banks which increasingly became operative in Sudan since 1978 were thereby acting as the major organizers of the economy and enjoyed relative autonomy (Simone 1994: 37).

⁷ Interview with the former Federal Minister of Finance, 8/2/10; interview with the former Federal Minister of Irrigation and Water Resources, 1/11/09. In 1990, the World Bank and the IMF had terminated any activities in Sudan and had accorded a noncooperation status to Sudan (Simone 1994: 39). While in 2010, North Sudan was for political reasons not yet fully eligible to any World Bank or IMF lending program, the relationships have in the meantime however been partially normalized.

⁸ Interview with the former Federal Minister of Finance, 8/2/10.

M: Yes, in London I work at Baraka International Bank. Consultant at Baraka International Bank. So when you are in London you are in the centre, you can follow the world, not from this far end of the world here. You are not that planned in Khartoum. In London I closely followed the British privatization. And it shaped me a lot.

Accordingly, the Economic Salvation Program radically promoted privatization, which was considered as the key policy instrument for economic growth and efficiency (O'Ballance 2000: 173).⁹ Furthermore, privatization was regarded as one means to reduce the growing governmental budget shortages and to attract investments and foreign capital, mainly from Arab countries.¹⁰ In the framework of these general policies, trends towards privatization were also introduced to the Khartoum State Water Corporation (KSWC), the main body responsible for water management in Khartoum.

Introducing privatization to KSWC

First voices to introduce privatization to KSWC started to be raised in the 1990s. While the KSWC General Manager at that time was reluctant against the introduction of privatization trends, this changed when a new KSWC General Manager was appointed in 2001.¹¹ This new – and third – KSWC General Manager was among other factors appointed due to his prior work in the private sector in Saudi Arabia in the 1980s, where he had worked after his studies of business administration at an American university. When the third KSWC General Manager came back to Khartoum in the 1990s, he worked until his assignment at KSWC in 2001 as a director of a governmental company for water manufacturing, which was being transformed to a private sector company.¹² The application of new investment strategies enhanced by the third KSWC General Manager made the transformation of

⁹ In 1990, a new Investment Code was launched, which further enhanced privatization in most economic domains (Musa 2000a: 42).

¹⁰ Interview with the former Federal Minister of Finance, 8/2/10. In the beginning of the 1990s, the Sudanese economy faced huge economic problems due to several natural disasters, such as drought and floods, and due to severe political events, such as the continuous war in South Sudan. The former Federal Minister of Finance (interview, 8/2/10) therefore highlights the pragmatic, non-ideological character of Sudanese privatization policies, which were “carried out of dare necessity”.

¹¹ Interview with the second KSWC General Manager, 2/3/10.

¹² This company had before been a department of the Ministry of Irrigation and Water Resources until the beginning of the 1990s. In the framework of the 1994 Water Sector Reform, water manufacturing was outsourced to a governmental company, which should then be transformed to a private sector company.

the company for water manufacturing rather successful.¹³ When the third KSWC General Manager was appointed to KSWC, he thus brought with him experience in transforming public entities to private companies, which he used in order to carry out similar reform processes within KSWC. As the third KSWC General Manager mentions in the following extract, he put strong emphasis on that KSWC employees should shift their focus from the governmental sector to the private sector. Rather than as an employer, the government should be considered as a water consumer who pays for the KSWC services in the same way as other consumers do. This new private sector friendly approach constitutes radical shift within KSWC.

GM¹⁴: The first thing I told the workers [at KSWC]: we are not a governmental. We have to give a service to the consumers. For this the consumers are paying us not the government. Also the government is for us a consumer. Our salary is coming from those who we are giving service. Either the government or commercial or personal, they are paying for us our service. So you have to respect them. Because they are paying you a salary. So we start. This is why when I said this is my idea to the government, they [Khartoum State Government] said ok, I give you full authority.

The private sector friendly attitude of the third KSWC General Manager thereby corresponded with the attitude of the new Khartoum State Government at that time¹⁵, which was rather reluctant to pay money for KSWC water projects and which increasingly expected KSWC to raise the efficiency of water management and to get involved in raising money from private banks. The new Khartoum State Government thus considered KSWC as a private company and which was itself fully responsible for the acquisition of funds for water projects. As the following interview extract outlines:

GM:¹⁶ And I remember in the meeting, (...) at that time [about 2001] they changed the governor. (...) And when we talk about this plan and we need that money, I find in the budget the Khartoum State they are putting that the Minister of Finance will pay 600.000 SDG to change the Moghran water

¹³ Interview with MH, 20/10/09; interview with former Federal Minister of Irrigation and Water Resources, 1/11/09. From three companies which had been outsourced from the Ministry of Irrigation and Water Resources (company for drilling, for surface water development and for water manufacturing), the company for water manufacturing is the only one that is until now operative.

¹⁴ Interview with the third KSWC General Manager, 9/3/10.

¹⁵ The Khartoum State Governor from 2001 to 2009 was generally considered as private sector friendly. In 2009, he became Federal Minister of Agriculture. Interview with Khalid Ali Khalid, 26/1/10; interview with Dr. Ahmad Adam, 28/9/10.

¹⁶ Interview with the third KSWC General Manager, 26/1/10.

pumps. And the new Khartoum State Governor talked to the minister. Do not pay any money to Khartoum State, he said. And they are astonished. All the ministers are astonished. I'm attending that meeting, after they have approved our plan. Then he told them: I have been working in Red Sea State and after they retired me there I came and I stayed in my apartment here. For five years, no one from Khartoum State came and told me: This is your bill, please pay. So, we will not pay anything to them unless they go and find a way to collect their dues and to scatter their invoices and to send out. And so we have no money for them. I said okay, thank you. I left the meeting and directly after the meeting we go to the bank and arrange with the bank how to find out, to change the pumps and we changed the pumps.

This shift from a governmental water corporation headed by the Khartoum State Government to a governmental water corporation which becomes increasingly similar to a private sector company is further highlighted in the KSWC Law of 1995 which was amended in 2002. This law (referred to as 2002 KSWC Law in the following) defines the main objectives of KSWC, which are:¹⁷

- (A) To exploit the drinking water sources available in Khartoum State in order to secure the need for pure drinking water of people, animals and the different other aspects of usage.
- (B) To provide water services to the consumers in all Khartoum State in coordination with the relevant authorities.
- (C) To manage its business and affairs efficiently on the basis of cost recovery in operation and maintenance, rehabilitation and development.

The aspect of cost recovery and efficiency is further outlined in the section about the KSWC authorities, which notices that KSWC is entitled “to invest its funds and assets in any appropriate way of investment in order to enhance and consolidate its financial standing and increase its revenues” and “to borrow any funds from banks, financial institutions or any other body inside the Sudan in order to realize its objects.”¹⁸ The 2002 KSWC Law is thereby in line with the 2005 Khartoum State Interim Constitution, which clearly refers to the “encouragement of the free market”.¹⁹ Furthermore, cost recovery, profit making and competitive commercial activity are directly addressed in the 2009 Khartoum State Corporations Organization Ordinance:²⁰

¹⁷ 2002 KSWC Law, article 5.

¹⁸ 2002 KSWC Law, article 6.

¹⁹ 2005 Khartoum State Interim Constitution, chapter 2, article 8).

²⁰ 2009 Khartoum State Corporations' Organization Ordinance, article 5. According to this ordinance, the Khartoum State Corporations are thus required to generate profit like a private company. In

Each corporation shall have, in addition to the objectives contained in its establishment order, the following objectives:

- a. Confirmation of the prime role of the corporation in supporting the Khartoum State economy;
- b. Work to offer best services and to develop the same along the principle of cost recovery and the achievement of surplus to the Khartoum State's treasury through competitive commercial activity in local and foreign markets.

Equally, different water policies at federal level have in recent years increasingly focused on the role of the private sector in water management. For example, the 2007 Country Strategy on Integrated Water Resources Management²¹ (2007: 7; 16; 28, 38) highlights market-oriented solutions, private sector engagement, the need to consider economic criteria in water supply and the promotion of the "user pays" principle.²² Furthermore, the new 2010 Water and Sanitation Policy which is currently under the process of parliamentary approval states that the "private sector shall be encouraged and facilitated for active involvement in the provision of water supply and sanitation services".²³

In this context, trends towards privatization were introduced to different domains at KSWC. The third General Manager thus changed the accounting system of KSWC from governmental accounting to private sector accounting, employed a private sector auditing office in order to establish a KSWC debit and credit system for profit and losses and applied budget principles of cost recovery and cost effectiveness.²⁴ Furthermore, several water services were successively outsourced to private companies, such as water fee collection in 2001, water network construction in 2004 and water treatment plant operation in 2010. The following section demonstrates selected aspects of how these three aspects were implemented in greater detail.

contrast to private companies, the profit should however not be distributed to the company's shareholders, but to the treasury of Khartoum State.

²¹ The Country Strategy on Integrated Water Resources Management is an internal document of the MIWR which is currently in process of parliamentary approval.

²² 2007 Country Strategy on Integrated Water Resources Management, Federal Ministry of Irrigation and Water Resources, page 7, 16, 28, 38.

²³ 2010 Water and Sanitation Policy, Public Water Corporation, page 8.

²⁴ Interview with the third KSWC General Manager, 26/1/10; 9/3/10; 1/2/10.

Implementing trends towards water privatization

Outsourcing water fee collection

One main reason to outsource water fee collection was to increase the KSWC income through an increase of the collection rates from the water consumers, which only amounted to about 25 percent in 2001.²⁵ The third KSWC General Manager considered the contracted fee collection companies – whose contract could be easily cancelled in case of poor performance – as a flexible solution which made it possible to increase the collection rate without the need to employ new and costly KSWC staff. Furthermore, the third KSWC General Manager regarded the involvement of the private sector in water fee collection as a means to facilitate access to international grants and credits. As he outlines in the following interview extract:

GM²⁶: Also if you have bad employee or something like that, he can cheat us and you cannot dismiss him. Because as a government employee you have to have a very clear way to dismiss him. It is difficult. But the private company, because you know we have this contract with us. And we fire you if you do not get all my money. So through the private companies we collect our dues and we collect it in a very safe way. (...) Also we talked about we are collecting through the private sector and we knew, the people [international donors] depend on the private sector. They believe on the private sector more than the governmental sector, we know. Most of the companies are working private sector. Then I told them that we are now collecting our dues through the private sector. (...) This gives us a credit so that Netherland gives us a 23 million Euro grant. Because we are utilizing private sector.

In order to establish a system of private fee collection, the third KSWC General Manager started to make announcements in the newspapers. As a consequence, an increasing number of private companies applied to KSWC for water fee collection. The newly established fee collection companies were required to present a clear business plan and were then selected by a KSWC committee which distributed different grades according to the quality of the respective business plan. While most companies were founded by small to middle-sized business men, some companies were also involved in other businesses.²⁷ The companies, which are composed of 30 to 100 fee collectors, were then allocated different collection areas which covered between 20 000 and 50 000 water consumers. In 2010, about 24 private water fee

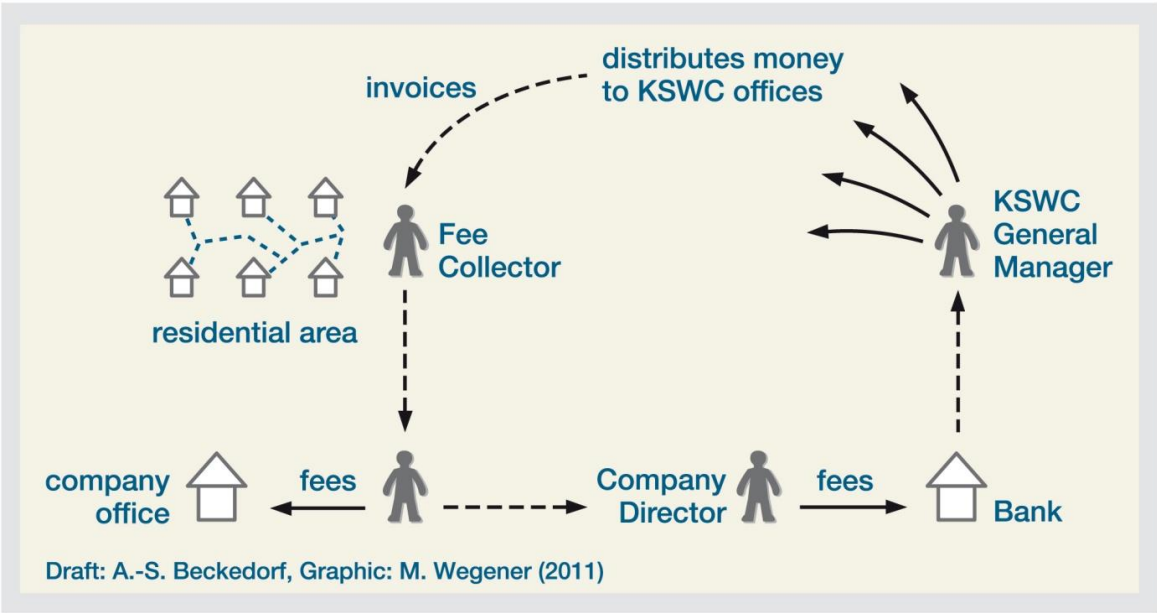
²⁵ Interview with the third KSWC General Manager, 26/1/10.

²⁶ Interview with the third KSWC General Manager, 26/1/10.

²⁷ Interview with water fee collection company, MZ, 13/3/10.

collection companies which collect water fees from about 392 000 houses in the amount of more than 5 million SDG by month existed in Khartoum.²⁸ The invoices of the fee collection are printed at KSWC and are usually collected by the company directors from the local KSWC district offices and then daily distributed to the fee collectors.²⁹ In the end of each collection day, the receipts as well as the collected money is transferred to the company office, which deposits the collected money at a respective bank account of KSWC.

Figure 1: The system of private fee collection



In the end of each month, KSWC pays a certain percentage of the collected money to the private fee collection companies according to a specific key which was several times readjusted.

Outsourcing water network construction

Similarly to water fee collection, water network construction was outsourced to private companies as it was considered as a flexible solution to efficiently construct

²⁸ The companies are thereby located in Umbadda (four), Omdurman (two), Karari (four), Jebel Aulia (three), Khartoum (three), Bahri (three), North Bahri (one) and East Bahri (2). Other water fee collection, such as the governmental collection (ministries, schools, public hospitals, public universities etc.), the commercial collection (restaurants, bakeries, hotels, clubs etc.) or the industrial collection (factories etc.), remains directly at KSWC and can be estimated at about 2.5 million SDG. Interview with KSWC, N, 3/2/10.

²⁹ The invoices comprise the following information: receipt number, name and address of the customer, water tariff, and debts from delayed payments.

new networks without the employment of additional KSWC staff and without the need of KSWC excavation equipment.³⁰ The outsourcing of network construction thus opened the way to enhance network extension at different places simultaneously. Furthermore, as Khartoum State had strongly reduced its financial contributions to water networks, KSWC therefore had to look for new methods of reliable funding.³¹ In this regard, the outsourcing of network construction to private companies offered new funding opportunities as it facilitated negotiations for bank loans. Moreover, as several private investment companies offered KSWC to provide initial funding and to construct new networks at the same time, the outsourcing of network construction thus also served as a means to access private capital for enhancing water networks. The two main companies which were contracted by KSWC – Wsam Company and Leader Technology – were established in 2003 (Wsam) and 2006 (Leader Technology).³² Both companies conclude contracts with KSWC for each single network in a specific area and work on their part with several dozen of smaller sub-contractors in the field of excavation, pipe manufacturing, pipe installation or connection.³³ In order to pay the private companies for the construction of new networks, the third KSWC General Manager started to negotiate loans guaranteed by Khartoum State with different banks in Khartoum. The model of funding which is negotiated with the banks is as follows: The bank should give a loan to KSWC. From this loan, KSWC would at first pay the construction companies. In addition to the regular water fees, the water consumers would then pay back in instalments the construction of the local water networks and household connections to KSWC.³⁴ As the newly connected water consumers would through the payment of their water fees increase the KSWC income, KSWC would then pay back the bank loan and access new bank loans. This bank loan system is summarized by the following figure.

³⁰ Interview with KSWC, AS, 10/4/10, part 1; interview with the third KSWC General Manager, 9/3/10.

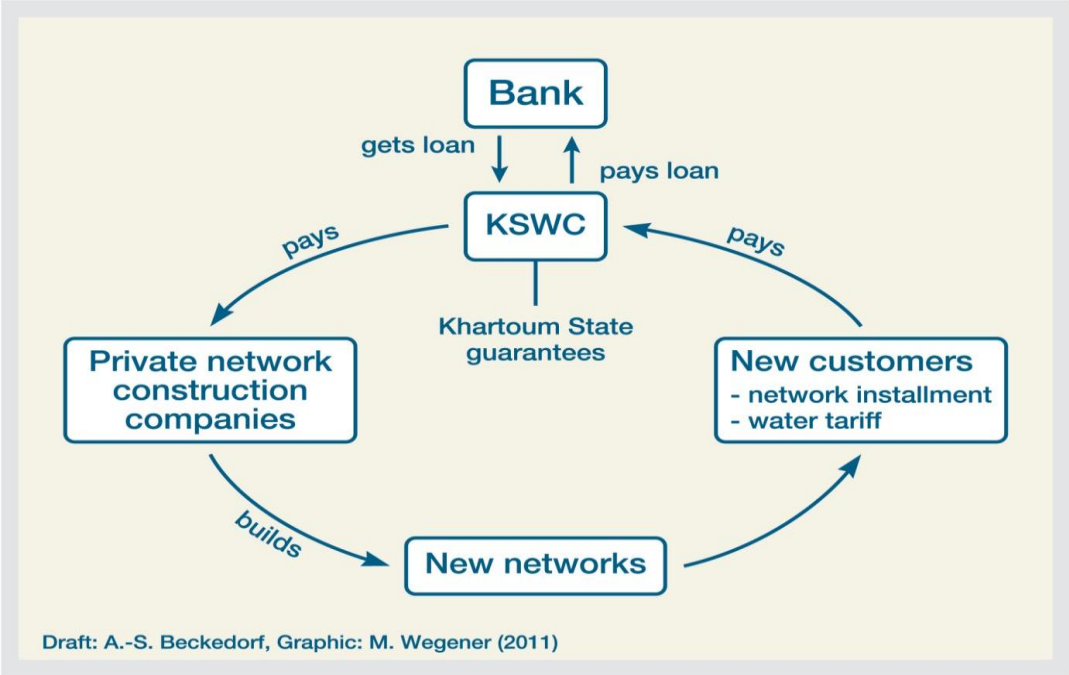
³¹ Interview with third KSWC General Manager, 9/3/10 (27:08). Interview with KSWC, MEH, 7/3/10.

³² When WSAM Company was established in 2003, it was to 51 percent in the hands of a private investor and to 49 percent in the hands of Khartoum State. Interview with KSWC, AS, 10/4/10, part 2.

³³ Areas where new networks were constructed in 2010 are for example: Umbadda, Thoura, (Omdurman), Askari (South Khartoum), Kalagla, Dar Essalam and East Bahri. In April 2010, about 50 new networks were constructed at the same time all over Greater Khartoum. Interview with KSWC, AS, 10/4/10, part 2; 27/9/10.

³⁴ As the amount of the cost of the water consumers is not standardized, it is negotiated according to each particular situation. In many cases, the period of instalments is between three and five years, and the network expenses are added to the monthly water tariff. Interview with the third KSWC General Manager, 9/3/10.

Figure 2: System of bank loans



With an increasing outsourcing of network construction, this initial system of cost sharing between KSWC, the banks and the water consumers was in recent years complemented by an integrated system of investment companies. The investment companies integrate network construction and loan allocation and thus exert the function of banks beyond construction. As in the bank loan system, the company loan plus interest rates should then be paid by the water consumers via KSWC mediation. As due to a huge accumulation of loans which were not paid back, access to bank loans became increasingly difficult, the system of investment companies was mainly enhanced in recent years.³⁵ The involvement of investment companies thus served as a means to get access to “fresh money”.³⁶ Furthermore, several investment companies considered KSWC as a means to increase their business activities. As one KSWC Manager notices:

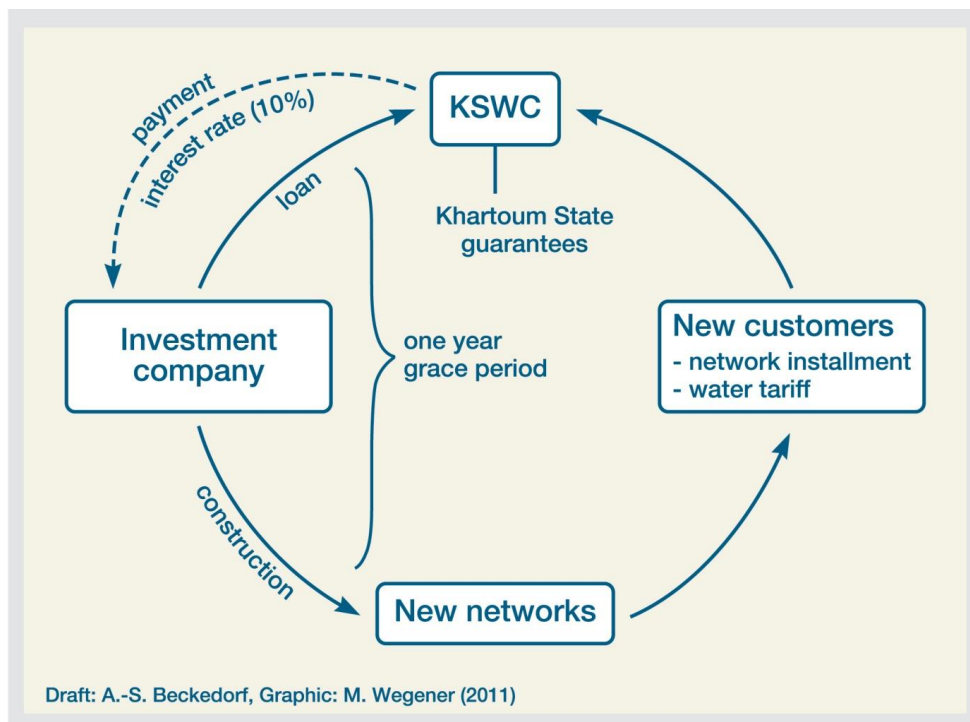
³⁵ According to the KSWC Financial Manager, KSWC is supposed to pay loans amounting to almost three million SDG per month to different banks, which composes more than 30 percent of the KSWC monthly income. Interview with the KSWC Financial Manager, 7/4/10.

³⁶ Interview with KSWC, W, 5/10/10.

W³⁷: There are people in Khartoum who have a lot of money. They do not need the bank to do it. They want to take profit for themselves. Without escape. Why to go to the bank. They directly come to the contract body. They directly come to KSWC.

The system of investment companies is summarized in the following figure and works as follows: The investment company starts to construct a new water network with securities from the Khartoum State Ministry of Finance. This initial investment is carried out during a grace period of one year for water networks. The instalment payments of KSWC with a ten percent interest rate to the investment company – at least theoretically – start after the grace period.

Figure 1: System of investment companies



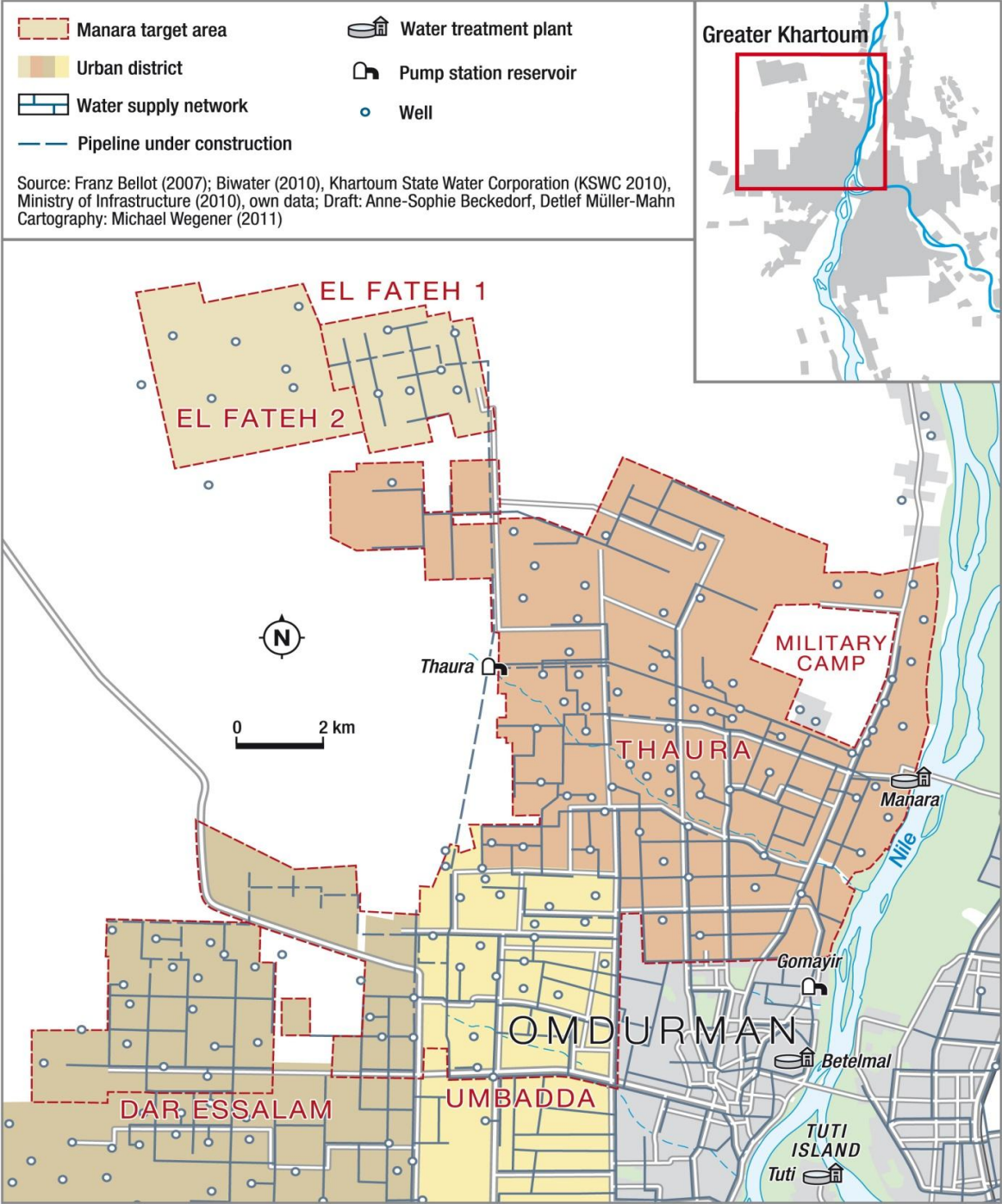
Outsourcing water treatment plants

In addition to water fee collection and water network construction, one third example for recent privatization trends within Khartoum governmental water supply is the funding, construction and operation of the Manara water treatment plant, which was officially opened on the 6th of April 2010. The Manara plant is designed for the production of 200 000 cubic meter of water per day and is supposed to serve more

³⁷ Interview with KSWC, W, 21/2/10.

than 1.5 million people in the North of Omdurman in an area of 55 cubic kilometres. More than half of the people supposed to be connected to Manara water are thereby estimated to be new KSWC customers.³⁸

Figure 2: Map of the Manara project



³⁸ Interview with British water Company, N, 27/3/09.

In contrast to other water plants in Greater Khartoum, the funding of the Manara plant was organized by a British water company which then built the plant from 2007 to 2010. Similar to water network construction, the idea is that the funds for constructing and operating the Manara plant should not be paid by the Khartoum State Government or the Federal Sudanese Government, but by the water sales to the KSWC customers. According to a public-private partnership BOOT³⁹ agreement, the initial capital for the plant construction should thereby come from three year loans and grants of international banks. After completion, the newly established Manara Water Company should sell Manara water to KSWC by 24 Eurocent per cubic meter for a period of ten years. Through the purchase of water from the Manara Water Company, KSWC, which would then again resell the Manara water to the water consumers, would automatically pay back the loans. In comparison to other kinds of contracts, the initial capital which needs to be invested is therefore low (capital light). For its innovative characteristics, this system of financing was awarded the Trade Finance Deal of 2008 and the Global Water Intelligence Water Awards in 2009.⁴⁰ As one manager of a British water company states, this rather capital light funding structure of the Manara plant is therefore “quite comfortable” for the Sudanese government and should equally be applied to other African countries.

S⁴¹: We are building water supply and provide people with water, and we are paid back in the end by the consumers. For the state, here Sudan, this is quite comfortable. It is a method of how to bring about water supply in African cities. This is what we want to continue. Here and elsewhere.

While the Manara plant is the first BOOT agreement in the Khartoum governmental water supply, the BOOT system was introduced to Sudan in the 1990s in the wake of privatization policies. As the third KSWC General Manager explains in the following interview extract, he had already been familiar with BOOT systems before the Manara project was designed. As the system of investment companies, the BOOT system enabled KSWC to extend the water infrastructure without any major initial costs.⁴² The British water company thereby succeeded in attracting funding from international governmental banks which provided loans and grants to the Manara

³⁹ BOOT: Build, Own, Operate, Transfer.

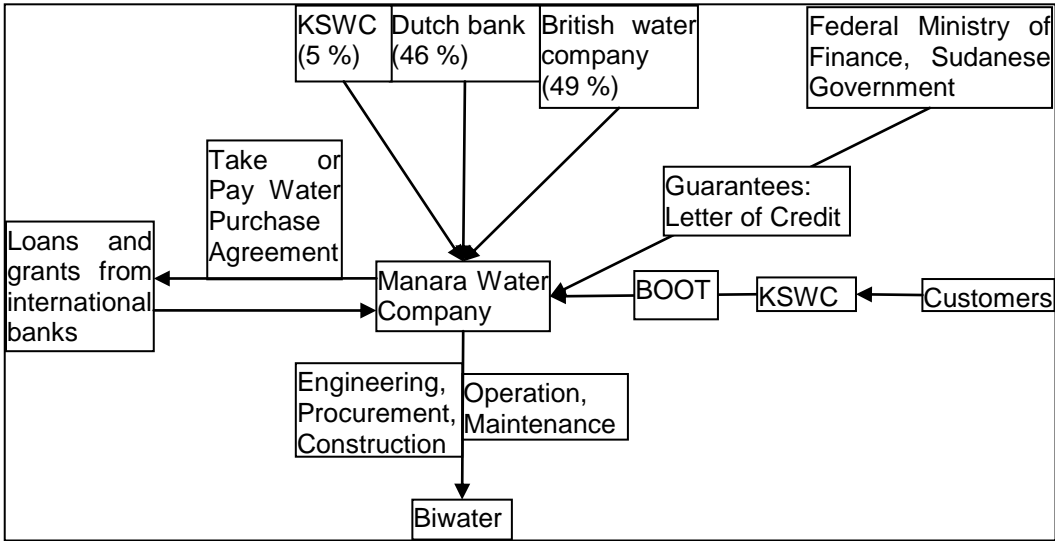
⁴⁰ Interview with British water company, S, 11/2/10.

⁴¹ Interview with British water company, S, 6/4/10, minutes.

⁴² Interview with the third KSWC General Manager, 5/10/10.

water project in the framework of development cooperation. The loans were thereby secured by the Federal Sudanese Government. In the context of declining private-sector investment in water infrastructure in developing countries since the end of the 1990s, the British water company thus consulted governmental banks and governmental guarantees and entered into a ‘development cooperation discourse’ for enhancing new business contracts.⁴³

Figure 3: Funding structure of the Manara water treatment plant⁴⁴



Enhancing water management through privatization

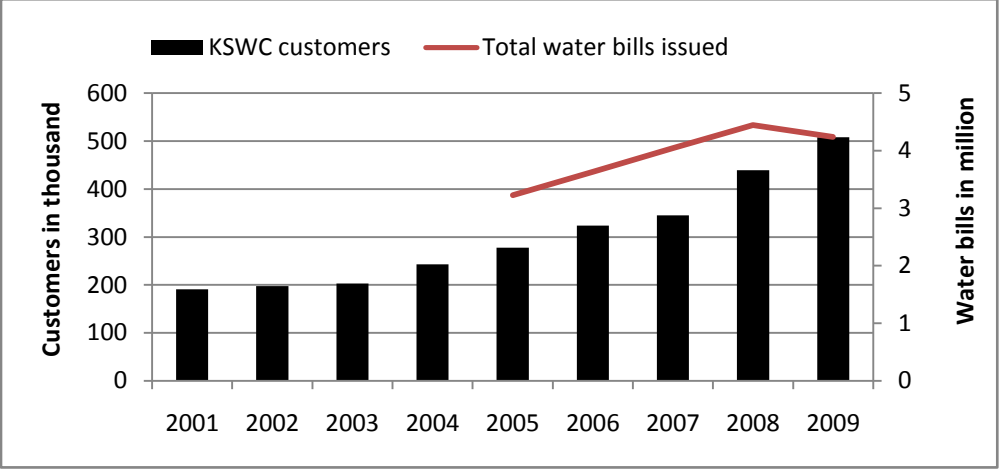
One first result of these privatization trends within Khartoum governmental water management is the enhancement of KSWC income, of new registered KSWC customers and of new water infrastructure. The involvement of private collection companies thus increased water fee collection from about 25 percent to about 65 percent,⁴⁵ and the number of KSWC customers more than doubled from 2001 to 2009.

⁴³ Accordingly, the British water company also considers the Manara project as a development project as it contributes to the Millennium Development Goals. Interview with British water company, N, 27/3/09.

⁴⁴ British water company, Khartoum, internal documents, 11/2/11.

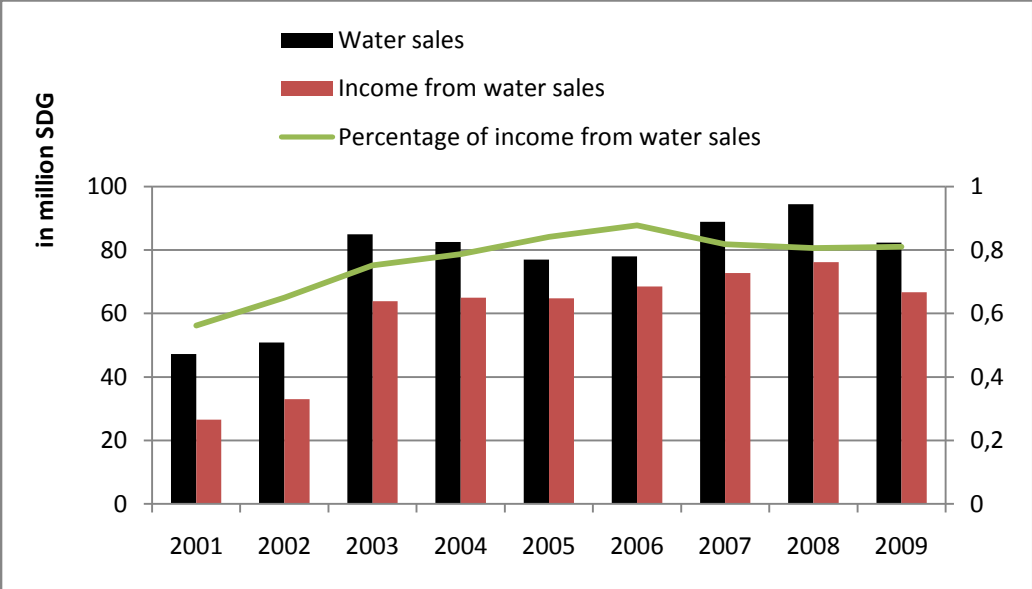
⁴⁵ Interview with third KSWC General Manager, 26/1/10.

Figure 6: Customers and issued water bills, 2001-2009⁴⁶



As the following figure further indicates, an increase of the fee collection rate also entailed an increase of the KSWC water sales, which doubled from 2001 to 2008, and an increase of KSWC income from water sales, which almost tripled from 2001 to 2008.⁴⁷ Accordingly, the percentage of income from water sales increased from about 55 percent in 2001 to 80 percent in 2009.

Figure 7: Water sales and income from water sales, 2001-2009⁴⁸



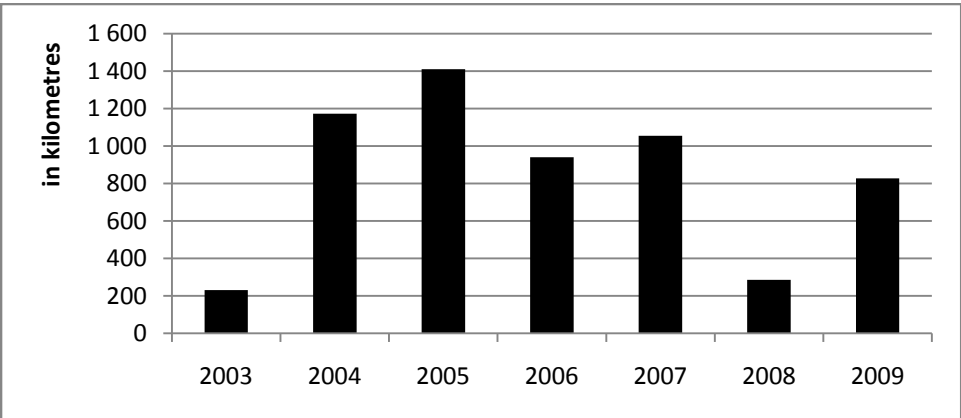
⁴⁶ Source: KSWC annual reports, Khartoum, 2001-2009.

⁴⁷ The difference between water sales and income from water sales are the water bills which are issued but not paid.

⁴⁸ Source: KSWC annual reports, Khartoum, 2001-2009.

Furthermore, the outsourcing of water network funding and construction to banks and investment companies entailed the installation of a huge number of water supply networks. As many pipelines which are newly installed, rehabilitated or replaced are not properly reported, any figures on the water distribution network have to be handled carefully. In general, not every construction work is accurately reflected in the reports. The actual construction work expressed in kilometres might thus be higher than official figures. Official KSWC reports state that from 2003 to 2009, about 6000 kilometres of water supply networks were rehabilitated, replaced or newly installed.⁴⁹ As the following diagram shows, work in the water distribution system ascended steeply in 2004 and remained at a high level with an estimated number of more than 1000 kilometres for four years until it dropped back again in 2008.⁵⁰ In 2009⁵¹, the amount of kilometres of water network which was worked on ascended again by about three quarters in relation to 2008. While fully reliable figures do not exist, it can be estimated that the construction of new water supply networks in the last decade exceeded by far the work on networks which was carried out in the 1990s.⁵²

Figure 8: Rehabilitated, replaced or new water networks in kilometre from 2003 to 2009⁵³



⁴⁹ KSWC annual reports, Khartoum, 2003-2009.

⁵⁰ The drop back in 2008 can be explained through the fact that in 2008, no replacement of water networks is reported (KSWC annual report of 2008). However, this does not mean that no replacement work did actually take place.

⁵¹ For the year 2009, no work on transporting lines is reported (KSWC annual year report 2009).

⁵² Interview with the third KSWC General Manager, 13/2/09.

⁵³ KSWC annual reports, Khartoum, 2003-2009.

Moreover, the Manara water treatment plant as well as one related reservoir (Thoura) and the main transmission lines were successfully completed in April 2010. However, the completion of the primary and in some cases secondary distribution lines from the reservoirs to the households which were under KSWC responsibility was delayed for more than one year.⁵⁴ Due to the lack of primary and secondary distribution pipelines, most parts of the Manara water could not be further distributed to the households. After completion, the Manara plant could therefore only be run at a capacity of 25 percent. However, as more and more primary distribution pipelines are being constructed which will connect the Manara plant to households, the Manara production capacity is continuously increasing.⁵⁵ On the one hand, privatization trends in Khartoum governmental water management have therefore generally contributed to enhance water infrastructure and to increase the number of households which are supplied by the governmental water network.

Impeding water management through privatization

On the other hand, however, privatization trends were also used as a means to increase already existing corruptive practices, which to some extent impeded the enhancement of water management. With regard to water fee collection, for example, it is thus reported that several private collection companies made huge profits. As one company owner told me:

MZ⁵⁶: We were making a hell of money. (...) A lot of profit. Huge profit. But we keep it secret. I cannot tell you. Maybe you will transfer it to KSWC. But we make very good profit. A lot of money. Millions.

In many cases, this profit bypassed KSWC and was privately shared between the company owners and specific KSWC employees who were financially, socially or politically related to the private fee collection companies. In several cases, the private collection companies were also closely linked to high members in the government.

⁵⁴ According to the British water company, the primary distribution lines were about to complete the construction phase in Mai 2011. Interview with British water company, N, 4/5/11.

⁵⁵ While several of these households were before already connected to other plant and well networks, other households have not been supplied by a governmental water network before being connected to Manara water.

⁵⁶ Interview with water fee collection company, MZ, 13/3/10. In the same direction, the former Federal Minister of Finance states that one of the owners of the private fee collection companies told him that this company collected 100 million SDG per month. Interview with the former Federal Minister of Finance, 8/2/10.

The following interview extract with one KSWC employee demonstrates the close links between several KSWC managers and the fee collection companies.

AM⁵⁷: There are some people among us [at KSWC] who support the collections companies. They have close relationships with them. The companies are linked to some people here. That is the main problem. And they put money away. Money which belongs to KSWC. (...) Some people here are stealing. (...) And people here in KSWC know this. But the companies have a lot of authority. Many of them were linked to important people, in the government or elsewhere. So nobody can do anything against them.

A lack of control thus rather entailed a private enrichment of several water fee collection companies rather than an enhancement of KSWC and water supply. In the words of a Sudanese water expert, the collection companies are therefore “eating all the money” which should be used for governmental water management.⁵⁸ Similarly, corruptive practices which were nourished by the involvement of private companies in network construction impeded a better performance in water infrastructure enhancement. While water network construction definitively increased in Khartoum since 2001 in comparison to the 1990s, not all the pipelines which were ordered were actually and timely installed. Thus, at many different places in Greater Khartoum, pipelines have been located in the streets for several months or even years without any installation. Many parts of the money involved in water networks thereby directly flew to the banks and investment companies and were again shared between members of KSWC or the Khartoum State Government and between the managers of the private construction companies, who are in most cases well connected to the government and closely affiliated to the ruling party. As the following interview extracts with KSWC managers and Sudanese water experts outline:

AS⁵⁹: All this network construction is at high price, you see. A lot of money gets lost in the pockets of some people. Also KSWC. See all these companies. Now Leader Technology for example. They are all related to the party. All of them they are related and take money here and there and they are supported by the Khartoum State Governor. The Governor owns parts of them or they are friends and so on. They are all thieves, all of them. They are eating the money. But what shall we do. We cannot do anything. We have to deal with it.

⁵⁷ Interview with KSWC, AM, 9/2/10.

⁵⁸ Interview with Sudanese water expert, ARM, 12/11/09.

⁵⁹ Interview with KSWC, AS, 27/9/10.

AR⁶⁰: I think till now 90 percent of the government money goes either to persons or (...) to private companies (...) or to security.

Z⁶¹: They [Khartoum State Government] say that they do not have enough money for water. But they have money. They have. But where it goes nobody knows. It disappears in the pockets.

That the private construction companies were involved in side businesses was also one main problem for the Manara water plant, which was not timely connected to the households due to the delay of primary and secondary distribution pipelines. Some reasons for this delay were that the private construction companies were neither controlled nor chosen according to their quality. The private construction companies were rather selected according to internal bid-rigging and special agreements. As the following interview extract with one Manara manager highlights:

I⁶²: And how are the private construction companies chosen?

B: You see (pause). There is a lot of corruption involved. On the basis of special agreements, the companies get paid. If they work or if they do not work. There is no difference. No objective monitoring. So their quality of work is very poor.

Conclusion: governmentalizing privatization

In sum, it was shown that a system of close relationships between private sector companies and members of KSWC or the Khartoum State Government was established. This system entailed that huge amounts of money were diverted from water management enhancement into private pockets. As an old engineer at KSWC states, the involvement of private companies in Khartoum water management therefore “opened the door to corruption”.

OK⁶³: You see the third KSWC General Manager he was a very good manager. But he made one mistake. He gave much work to private companies. This was because at that time privatization was everywhere in every country and in conferences and in the international news. And people said privatization will help to improve the management. It is easy to make a contract with a private company. If they do not work well, you can stop the contract. But here for our situation it was bad. (...) The system opened the door to corruption.

⁶⁰ Interview with Sudanese water expert, AR, 12/11/10.

⁶¹ Interview with Sudanese water expert Z, 2/11/09.

⁶² Interview with British water company, B, 25/11/09.

⁶³ Interview with KSWC, OK, 30/9/10.

While corruptive practices had also existed at KSWC before privatization trends were introduced, privatization trends enlarged the circle of those benefiting from corruptive practices and thus facilitated and further enhanced these practices. Accordingly, the case of Khartoum governmental water supply demonstrates that privatization trends did not directly imply a “a transfer of ownership and/or control that changes the operational calculus of a service from ‘public good’ to ‘private profit’” (McDonald/Ruiters 2005a: 3). Neither, privatization trends within Khartoum governmental water management led to a ‘retreat of the state’ and to an advance of the market. Rather, governmental employees, being closely related to private companies, used privatization for personal gain, established own private companies or supported closely connected companies and thus directly influenced private sector activities according to clientele criteria.⁶⁴ Privatization trends therefore led to a kind of ‘governmental-private-continuum’ in Khartoum water management. Privatization was not fully implemented, but rather ‘governmentalized’. The establishment of a ‘governmental-private-continuum’ in Khartoum governmental water management is thereby further in line with general privatization in Sudan. On the example of the privatization of Sudanese telecommunication services, the following interview extract with a Sudanese water expert further demonstrates that privatization actually served as a tool for a specific group of people to gain more economic and political power.⁶⁵ Thus, in the framework of privatization, telecommunication was sold at a very cheap price to specific affiliates which belonged to the same group. Subsequently, a lot of profit was made and shared between the affiliates. This profit was in turn used to control the economy, to generate new followers, to establish a system of affiliates and to finally control the society.

PB⁶⁶: Privatisation is meaning, basically now what is happening is that you have some state assets, companies, and you have your group. And of course this group wants to stay in power as long as they can. Then you have to have the capitalistic resources to produce income, to produce tools for your survival and your staying. From where can you bring this. By starting to have the state assets in cheap prices. And then you give it the monopoly. And this monopoly will produce income. And then you keep

⁶⁴ See also Simone (1994: 36), who states that “alliances have existed between civil servants and some of the major merchants.”

⁶⁵ With regard to the privatization of telecommunication in Sudan, Dagdeviren (2006: 476) also notices that instead of a tender, some “specific personalities were invited to become partners in the joint stock company”.

⁶⁶ Interview with Sudanese water expert, PB, 4/11/09.

the income. And then you can control the bread of the people, the electricity, the water, the medical treatment, the education. All of them are privatized. And you have the money. And I am starving. If I am starving I can be your follower, you can give me just the remains, the left-overs. And I will follow you. (...) So you sell state assets to your people. In cheap prices. If it was 100 million. I will bring one member of my group and give it for him for five million. Then this asset will produce much income. Just like the ministry of communication. (...) It was sold very cheaply. And then they gave it the monopoly. You know how much every year they produce? Three billion dollars plus. That is big money. In such a poor country. Very big money. In the hand of very few people. And they are all members of the group.

I: This means that privatisation is a means of ...

PB: ...of gaining power. More power. Economic power. Political power. Within the same group.

In a similar direction, Suliman/Ghebreysus (2001: 36) state:

In Sudan the public entities have essentially been sold to supporters of the regime, while successful traditional businesses have been overtaken and forced to leave their enterprise to party affiliates.

Accordingly, Suliman (2007: 2-3, 6) summarizes that in the case of Sudan, privatization was narrowly intertwined with the politics of the ruling party, with crony capitalism, clientele structures, the lack of control and the illegal acquirement of (public) resources.⁶⁷

The ruling party in Sudan expediently used privatizing state-owned enterprises (SOEs) to acquire more economic and political power. The consequences of such relation-based (crony) capitalism, of which political patronage is an integral part, were grave on the Sudanese economy. (...) In Sudan a lack of institutional checks against corruption has helped a set of connected people illegally acquire resources and property rights. As their resources and economic power increased, this leadership became capable of blocking subsequent competition-enhancing and redistributive reforms.

In sum, the case of Khartoum governmental water supply therefore further demonstrates that privatization does not necessarily entail a retreat of the state from the economic domain, but that privatization can also entail an advance of the state at an informal level. As Hibou (2004: 46; cf. Nègre 2004: 30) formulates more generally:

Privatization corresponds not so much to a decline of the public to the advantage of the private as to a new combination of the public and private, and continued exercise of state power and of the political.

⁶⁷ See also Simone (1994: 39), who remarks that privatization in Sudan was usually carried out according to the interests of the ruling party.

To consider privatization as a new combination of the public and the private, which Hibou (2004: 46) argues for, is particularly apparent in Khartoum governmental water management. On the one hand, some KSWC employees as well as some members of the Khartoum State Government and their allies benefit from increasing opportunities within the water business in the framework of a “governmental-private-continuum’. On the other hand, several KSWC employees are also opposed to privatization trends in Khartoum governmental water management. As in their view, water is essential for life – a very common statement at KSWC –, they rather emphasize the governmental responsibility for water management and further highlight that inadequate water supply according to purely commercial criteria is likely to result in public unrest. As one KSWC employee notices:

SH⁶⁸: If no water, there will be the parliament shouting, even the national security, directly, they will come and call and they will ask you where is the problem. If no water supply, the government is in a very critical situation. (...) Everybody will ask for the reason. Even the president.

Consequently, privatization trends at Khartoum governmental water management remain generally contested and are less linear than they might seem to be at a first glance. Rather than being opposed to each other, the relationships between the ‘private’ and the ‘public’ are therefore in this case to be considered in an integrated and multidimensional manner which are boundlessly shifting back and forth, and which are continuously being reshuffled according to political, economic and clientele dynamics.

⁶⁸ Interview with KSWC, SH, 8/3/10.

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