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Journal Name:	British Journal of Economics, Management & Trade
Manuscript Number:	2014_BJEMT_9545
Title of the Manuscript:	Should Water Resources be Managed as a Public or as a Private, Economic Good – the Croatian Dilemma
Type of the Article	Short Research Article

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PART 1: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
Compulsory REVISION comments 1. Defining the essence privatization of public companies.	The essence of the privatization of public companies need to be explained further before addressing the “for” or “against” arguments of water privatization (this part should precede section 3.1 of the Manuscript). This involves to have a close look at the different definitions of privatization of public companies (economic, legal, financial, business & investment). This will make complete the paper and give coherence.	The term "privatization" is not unambiguous, as it covers various forms and definitions. Privatization is defined as the process in which the assets or the processes that are the property or under the control of the state are being exposed to the market forces. Privatization can also include the following processes: the transfer of the firms' assets, the transfer of entrepreneurial activity and the transfer of public service from the control of the state to the control of the private sector. Privatization is the entire process of expanding the sphere of the market through a host of regulations that create an enabling environment for free enterprise to operate as a strategy for sustainable economic development.” (Moyo & Njenga, 1998). Privatization is broadly defined as the deliberate sale by a government of stateowned enterprises (SOEs) or assets to private economic agents” (Megginson & Netter, 2001). From the specified definitions, it can be concluded that privatization creates the expansion of private sector in such a manner that it reduces the state interventionism into the economy, enabling thus the private sector to obtain the rights of managing the state property. The experiences of past decades have indicated



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2. Explaining forms of privatization	• There emerge many forms of privatization, each one with diverse implication for the argument. Accordingly, the author is expected to incorporate clarifications regarding forms of privatization.	the limitations of economies constructed on the premise of state property and bureaucratic planning. Similar weak outcomes have been delivered, too, by the economies based on the so called "public ownership". It is evident that the socio-economic crisis of "real-socialism" deepened rapidly, while at the same time the countries with the free enterprise system were experiencing a wide scientific and technological revolution, which was substantially changing the conditions and parameters of economic efficiency and development. This revolution also created a new paradigm of development, which favored knowledge, flexibility, creativity and innovation. The inability of the old fossilized bureaucratic structures of real-socialism to adapt, to provide space for the entrepreneurial activity of firms and individuals and to transmute the accumulated knowledge into economic development and material wealth only accelerated the lag. The elaborated examples of Argentina and United Kingdom are singled out not as direct consequences of the failed model of state management, but as examples of privatization that yielded positive economic effects for the domestic economy. Around the world, the following models of the water supply system privatization are used: ☐ Management without the right of investment (en affermage), in which the local government (the owner) invests in the development of infrastructure. The concessioner (private
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		entrepreneur) manages the operations, covers the maintenance costs and pays the concession fee. This kind of concession is granted for 5 to 20 years. ☐ Management with the right of investment (en concession) - represents the privatization of management and/or infrastructure for the concessionary period and includes the right of investment. In this case, the concessioner invests in the development of infrastructure which is owned by the local government. Upon the expiration of the concession, the infrastructure is transferred to the local government. The concessioner is compensated directly by the city/county or the end consumers and does not pay the concessionary fee. This kind of concession is usually granted for the period of 30 years and sometimes even longer. ☐ Privatization with the repurchase of the utility company – the entrepreneur purchases the shares of the existing water supply/sewerage system utility company, which is, as a rule, the owner of the infrastructure (or if it is not, then it has the scooping rights – the concession of the resource, as well as the rights of water supply and/or drainage and purification). The private entrepreneur has the same legal rights as the previous owner.
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3. Elaboration of best practices and challenges of water privatization.	The author has stated the documented gains of water privatization in Argentina but evade to explain the solid reasons why Suez concession was revoked (section 3.1 of the Manuscript). I think it is advisable to review the Argentines water privatization best practices and challenges and come up with hard facts that are necessary for enriching the argument of the Croatian water privatization. The success stories stated concerning the Great Britain need to be accompanied by practical challenges faced other than labour layoffs and water price rise indicated in the Manuscript. This will give an opportunity for the Croatian water privatization case to share the practical experience on the ground and better prepare themselves for challenge ahead.	The City of Paris refused to extend the contract with the Suez firm because of the excessive profits and water price increases, and delegated the water supply to the local utility company. According to the World bank these reforms delivered an impressive volume of new investment, full compliance with the world's most stringent drinking water standards, a higher quality of river water, and a more transparent water pricing system (Berg, 1997)
4. Clarifying the environmental, legal, social and ethical aspect of water privatization.	Before discussing the details "against" water privatization, (section 3.2 of the Manuscript) it is worthwhile to give an over view of the environmental, ethical, legal and social aspect of the privatization of water supply system. Giving brief account to these points make smooth and coherent of the manuscript.	Deciding for or against the privatization of water is not simple at all. It is necessary to analyze the specified problems from various perspectives, the most important of which are the social, legal and the aspect of sustainable development. The basic question that is being posed: how to protect the natural resources to the highest possible degree, while at the same time ensuring access to water, the basic element of life, to the greatest number of consumers? How is it possible to satisfy the opposing interest groups such as the government, the consumers, the investors and the underprivileged? It is



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5. Best practices and drawbacks of the Croatian public water supply system before privatization is considered.	The author has to indicate the best practices and major drawbacks of the Croatian public water supply system and one must distinguish the state of affairs before the present move of water privatization. What was the state of the infrastructure before water privatization was considered? Was it putrefied and abandoned? How about the management and operational capacity of the public water supply companies?	necessary to analyze the specified problem, so that the interests of the greatest number of stakeholders are satisfied (in other words, it is necessary to enable the access to water to the greatest possible number of citizens). This can not be realized easily, especially when taking into account the high costs of investing in the water supply infrastructure and the high standards of water quality. This places the countries with limited financial means in an unfavorable position. Because of the specified imbalance, a large number of countries in transition have problems with formulating the legal framework which would guarantee a high-quality and transparent management of water supply system. Currently, the issues of water supply are acquiring more and more relevance rapidly, especially in the context of the World Bank's forecasts. Although currently 80% of inhabitants have access to the water supply network, only 40% have sewage disposal available. A small percentage of them collect the waste water and even smaller recycle it with the purifying devices (the main reason for this being the worn-out and outdated devices). In some areas of Croatia, there is a constant danger of water pollution and the reduction of supply of drinkable water for the local population. Although in the past years
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	Did the public water supply and utility companies possess the necessary capital to install or overhaul the infrastructure? How was the efficiency and cost effectiveness of the public companies in terms reaching the community with adequate water for drinking and other household use? These and other related issues surrounding Croatian public water supply system have to be addressed in section 4 of the manuscript where the author has stated about the potential of Croatian water resources.	there have been more investments in the development of the water supply and sewage infrastructure, because of huge losses there exist problems with financing the water supply network, which can influence the expenditures of household and firms. The financial losses of the water supply system can be the result of poor maintenance, illegal connections and the wastage of drinkable water on the way to the end user. In the areas that do not abound with drinkable water, greater investments in the infrastructure are necessary. There is a causal relationship between the increased access to the water supply network by the residents and the average daily water consumption. With the increased access, more residents use water, and thus increase the average daily consumption. In Croatia, only 75% of residents had access to the water supply network in 2005. In the EU countries (except Romania), 85% had access, and in certain countries, such as Italy and Netherlands, even 100% of households had access to the water supply network. In Croatia, the wastage of water is measured as the difference between the scooped and the amount of water delivered to the end user. On average, for a single scooped cubic meter of water, 46% of water becomes wasted. This is a significant percentage, especially in the context of the EU policy which considers acceptable only 15% - 18% of wastage. Therefore, it can be concluded that the water supply system in
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		Croatia is not effective, since with the increase of 1 m³ of the delivered water, there ensues the wastage of 0,89 m³ (Bajo i Filipović, 2008). The wastage within the network is most often the result of poor maintenance and investment in the water supply system. It ranges between the minimal 8% and the outsized 68% in some areas. The reasons for such wastage can be the use of the outdated technologies and the absence of the water purifying systems in some regions. With the specified data, it is justifiable to raise questions about the profitability of the utility companies' operations, which are financed from the revenues collected from the end consumers. It is estimated that the total financial losses in 2005. amounted to 0.9% of the GDP, which indicates an enormous unused potential and poor management of the water supply system. In light of the specified data, there appear to grow ever more significant speculations about the necessity of modifying the existing model of water resource management, since the existing situation generates losses and prevents the modernization of the system. According to some estimates, there is required an investment of approximately EUR 3 billion in order to adjust the water supply system with the standards of the European Union (Liderpres, 2013). The analysis of the current situation indicates that the specified financial resources can not be raised from the budget. It is therefore necessary to consider other models of financing - one of them being the privatization of the utility
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6. Lessons learn from World Bank/IMF imposed water privatization.	- It was well noted that the World Bank and the International Monetary Fund used to have forcing client countries towards privatization of public water supply utilities/systems. In this case the author has to give due emphasis concerning lessons that Croatia need to learn from World Bank imposed water privatization. It is worthwhile to mention and share the experience of Bolivia, Ecuador, Panama, Chile, South Africa, Tanzania and others. I strongly believe that addressing the privatization experience of these countries is very helpful while dealing with the way forward of Croatian water supply system privatization. - It is good to know that the author has stated the	companies in charge of the distribution and maintenance of the water supply system. The second reviewer suggested that it was not appropriate to mention the IMF and WB in the specified context, therefore the cited assertions are paraphrased. Both in the developed and still developing countries, there exist pressures to privatize water resources. However, while in the developed countries these pressures are the result of the internal affairs and lobbying of the powerful corporations, the pressures on the developing countries come from abroad. The institutions with the greatest financial capabilities and negotiating powers are the International Monetary Fund, the World Bank and the European Bank for Reconstruction and Development. Although they use several models of privatization, they all prefer to finance the private projects over the public projects. The fear of public opinion in Croatia is based on the misgiving about the process of privatization. The public fears that the process would not be adequately regulated and monitored, the consequences of which would be the unequal distribution of property, personal enrichment of individuals and the inefficient usage of privatized resources.
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7. Stating other alternative forms of water privatization as a solution.	adoption of the franchising model as a solution for Croatian context. But how about other alternatives that needs to be addressed as potential solutions? I think it is advisable to consider and indicate about these possible alternatives in brief.	In addition to the franchise model, in modern economies there is also often in use the model of private-public partnership, which is based on the management with investment rights (en concession). In this model, the concessioner invests in the development of infrastructure which is owned by the local government. Upon the expiration of the concession, the infrastructure is transferred to the local government. The investor charges directly the city/county or the end consumers, and he does not pay a concession fee. This kind of concessions is usually granted for the period of 30 years and sometimes even longer. However, taking into consideration the scope of the investment, this model currently can not be applied in Croatia.
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<u>Minor</u> REVISION comments 1. Reason out why the city of Paris refuses to sign a contract with Suez and entrusted its water supply to a local utility company?	• The author has to find out and state the reason why the city of Paris refuses to sign a contract with Suez. Because this is helpful to those interested on Croatian water supply privatization to better under conditions surrounding contract arrangement with such company.	The City of Paris refused to extend the contract with the Suez firm because of the excessive profits and water price increases, and delegated the water supply to the local utility company.
<u>Optional/General</u> comments None		