

The pandemic of capital in the water supply sector

A pandemia do capital no saneamento

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DOI: 10.1590/0103-11042022133141

ABSTRACT This paper aims to show that the recent changes in the framework of water-related services represent, on a national scale, the effect of a recent structural change in the dynamics of global capitalism. The purpose is to clarify readers in the field of health on the process of financialization that is taking place in the sanitation sector in Brazil, which threatens public health. Therefore, we intend to show, from the perspective of the critical geography theory, how the new sanitation framework and the creation of a water market in Brazil meet the interests of the international elites who, in the face of cyclical crises in the productive field, seek for opportunities to profit from common goods and nature. It also discusses the role of the State in this entire process and the likely effects that have already been pointed out by the literature on the subject.

KEYWORD Sanitation policy. Basic sanitation. Environment and health.

RESUMO Este texto tem o propósito de mostrar que as novas alterações na regulação dos serviços ligados à água são o efeito, em escala nacional, de uma transformação estrutural recente na dinâmica de acumulação capitalista mundial. O objetivo é situar os leitores do campo da saúde no processo de financeirização que avança no setor do saneamento no Brasil e ameaça o direito ao acesso. Para tanto, pretende-se mostrar, a partir da perspectiva da geografia crítica e da ecologia política, como a nova lei do saneamento aprovada durante a pandemia e a proposta de criação de um mercado de águas no Brasil vão ao encontro do movimento das elites internacionais que, diante das crises cíclicas do setor produtivo, buscam nos bens comuns e na natureza novas oportunidades de lucro. Discutem-se, também, o papel do Estado nesse processo e os efeitos mapeados pela literatura que investiga esse assunto.

PALAVRAS-CHAVE Política de saneamento. Saneamento básico. Saúde ambiental.

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Introduction

In recent years, the Brazilian federal government has proposed several initiatives to open space for private groups interested in exploring water and sewage services in the country. The last of one, which was approved last year amid the first wave of the pandemic in the country, has made significant changes to the regulation of the sector. The reasons given emphasized the fiscal crisis and the inefficiency of public management. This text intends to show that, on a national scale, this movement is the effect of a recent structural transformation in the dynamics of capitalist accumulation worldwide. The objective is to understand, in light of the contributions of political ecology, the real reasons and interests that guided the changes in the country's water and sanitation sector.

Throughout the text, it will be seen that this reform, as well as the proposal to create a water market in Brazil (Bill No. 495/2017), expresses, on a national scale, the global movement of international elites that, in the face of cyclical crises of the productive sector, have been looking for new profit opportunities in common goods and in nature. This poses serious social implications as, in the process of commodifying these goods, it is the production of scarcity that makes room for their economic exploitation, with tragic effects on the most vulnerable populations. Increased prices, investment selectivity, waste, and lack of transparency were some of the consequences observed in the literature worldwide, which were completely ignored by Brazilian authorities in the name of a supposed 'modernization' of the sector in the country.

The hydrosocial cycle: theoretical-methodological contributions of political ecology

In recent decades, the reinsertion of the environmental issue on the world's political

agenda has redefined the contours and agenda of studies in water resources, to which various approaches to political economy and the political ecology of water and water circulation were added. Originating in the field of critical geography, the political-ecological perspectives on water claim that there is a close correlation between the transformations of the hydrological cycle at local, regional, and global levels on the one hand, and the social, political, economic, and cultural power relations of the society on the other. When the water collected at a given location is directed to another, it breaks the hydrological cycle of its original hydrographic basin to be integrated into a new hydrological cycle that is spatially disconnected from the first. These transpositions between basins would not happen spontaneously if it were not for human action in the context of life in society. For this reason, political-ecological perspectives state that water circulation does not only respond to chemical-physical dynamics (hydrological cycle), but also to social, political, and cultural dynamics that condition its movement, in what is called the hydrosocial cycle¹.

The notion of hydrosocial cycle surpasses the modern binary understanding that separates nature and society based on a new category: socio-nature, the result of natural and social transformations in themselves. Hydrosocial research perceives water circulation as a combined physical and social process, as a hybridized socio-natural flow that fuses nature and society in inseparable ways, thus leading to particular hydrosocial characteristics. In this sense, hydraulic environments can be seen as sociophysical constructions actively and historically produced by human beings, both in terms of social content and in terms of physical-environmental qualities².

This perspective opens up new research questions and proposes a transformation in the way water resources policies are designed, formulated, and implemented. By determining one another, changes in the use, management, and sociopolitical organization of the water

cycle, as well as social changes, would produce distinct forms of hydrosocial circulation and new relationships between local water circulations and global hydrological circuits. The way power is distributed in society is evidenced by the mobilization of water for certain places and uses, and not others, by showing who benefits from and who is harmed by socio-environmental changes, which are never ecologically or socially neutral. Built environments would, therefore, be the historical result of socio-biophysical processes and, as such, subject to the same power arrangements that govern the access/control of environmental resources in society.

The political-ecological examination of the hydrosocial process is aimed at revealing the inherently conflictual nature of the process of socio-environmental change, as well as the social conflicts underlying it. Therefore, these analyses give special attention to social power relations (whether material, economic, political, or cultural) through which hydrosocial transformations occur. These analyses emphasize the social production of unfair hydrosocial configurations and seek to empirically substantiate the processes through which unfair conditions are produced. This also includes analyzing the discourses and arguments used to defend or legitimize certain strategies².

Historical-geographical materialism is the preferred methodological approach in these analyses and the one that will be used here as well, as it makes it possible to clarify the intrinsically social and, mainly, political nature of the water resources management and organization. It also allows us to bring to light the political and economic power relations through which water access, control, and distribution have been organized and reformulated in Brazil. This approach considers that time and space act decisively in the production of the social being; and this, in turn, dialectically interacts with reality and the discourses that political-ecological analyses intend to unveil. The choice of this method emphasizes

the conflicts and contradictions of society, assuming a position that is not intended to be neutral in the face of social conflict³. Thus, the following sections intend to show the political conflict in the sanitation sector based on the interests and movement of the main actors in the face of the international political and economic situation in recent decades.

The sanitation sector in Brazil: actors and interests

Worldwide, 90% of sanitation services are conducted by public authorities. In Brazil, state public companies currently serve approximately 70% of the country's cities. This provision model dates back to the 1970s, when the National Sanitation Plan (Planasa) was created to manage and integrate local and regional Brazilian networks. The plan was aimed at creating state public companies in each unit of the federation and linked the provision of services to a logic of economic self-sufficiency, via tariff collection.

To make the operation of providers viable, the municipalities granted the exploitation of services to state companies, and the mechanism of cross-subsidies was adopted, according to which the income of rich municipalities would finance the expansion of coverage in poor municipalities. The main effect of this policy was the strengthening of state providers and the atrophy of local governance. This arrangement remained untouched for two decades and increased the general coverage of water and sewage in the country, with important distortions of access related to income and regions. Industrial metropolises in the Southeast were a priority and, within them, the richest areas, concentrating the deficit of access in the urban peripheries and poorer regions of Brazil⁴.

The model expressed a Fordist-Keynesian view after the World War II, in which the State was responsible for providing and regulating goods and services of collective interest such

as health, education, and sanitation. The global economic crisis of the 1970s ended up affecting this model in the central countries of capitalism, opening the way for the liberal reforms of the 1980s and 1990s. In Latin America, international financial institutions, such as the International Monetary Fund (IMF) and the World Bank, proposed measures to liberalize markets and open up capital flows, as well as to reduce the presence of the state in the productive sectors as a counterpart to the concession of credit to indebted countries or in full crisis, as was the case in Brazil at the time.

In this context, former President Fernando Henrique Cardoso (FHC) committed to privatize state sanitation companies, among other sectors, as a counterpart to the World Bank's loan taken out as a result of the 1998 crisis. To do so, it throttled the supply of resources to state providers (Resolution No. 2,521/1998 of the National Monetary Council) and created the Financing Program for Private Sanitation Concessionaires (FCP/SAN), which allowed for the use of resources from the Length of Service Guarantee Fund (FGTS) by the private sector. He also presented a Bill of Law (PL No. 4,147/2001) that sought to transfer municipal ownership to states in regions where there was a common interest (metropolitan regions, for example). The World Bank considered that the transfer of municipal ownership to the states was essential to proceed with the transfer of control of state companies, as this would avoid the division of the customer portfolio of these companies and the evasion of rich municipalities that would not agree with the transaction⁵.

However, mayors who did not agree with the proposal joined unions of workers in the sector and social movements linked to urban rights, managing to bury the referred bill in Congress. Thus, the main obstacle to the entry of foreign capital in the sector, the municipal ownership, remained. The most discreet and effortless way out found by foreign capital to circumvent this obstacle was the acquisition of

companies in the stock market in which governors more adherent to the liberal agenda were inclined to go public⁶. On the other hand, the national capital, composed of a few Brazilian family-owned construction companies, targeted smaller municipalities willing to privatize and offer services to state companies in metropolitan regions⁷.

The strengthening of private groups in the sanitation sector

The liberal reforms of the 1990s aggravated inequality and poverty in Latin America. This paved the way for the election of center-left leaders with a nationalist and pro-Keynesian orientation across the continent in the early 2000s, the so-called 'pink tide'. In Brazil, it was the same: the victory of the Workers' Party, in 2002, interrupted the cycle of privatizations of the previous government and resumed public investment in the country.

The international scenario of appreciation of commodities abroad provided record revenue. The country no longer depended on loans from the IMF and the World Bank. Furthermore, to assert sovereignty, the government paid off the external debt with these agencies, so as to free itself from their direct interference with the national macroeconomic agenda. The upturn in the economy, based on the real increase in the minimum wage and the resumption of public investment, favored the population's consumption, enabling the national bourgeoisie linked to infrastructure, which was already hegemonic in the domestic civil construction market, to internationalize its activities in other continents⁸. Large Brazilian construction companies have created branches to specifically operate in the country's sanitation sector, joining others with national capital that were already operating in this market because of the so-called *Lei de Concessões* (Concessions

Law) (Águas do Brasil, Aegea and GS Inima). This was the case for the companies Foz do Brasil, Odebrecht, and Companhia Águas do Brasil (CAB Ambiental), from the Queiroz Galvão group.

To maintain hegemony, state companies sought incentives in the new government. The creation of program contracts in 2005 provided them with an instrument of federative cooperation that allowed for the automatic renewal of contracts in the municipalities, with no mandatory bidding process (Law No. 11,107/05). After a wide debate with sector entities and civil society, the new government also approved the new legislation for the sector (Law No. 11,445/07) and announced the largest infrastructure financing program in the country, the Growth Acceleration Program (Sanitation PAC)⁹. Interested in PAC funds, the private sector pressured the government to obtain permission to access them in 2013. Ordinance No. 280, of June 25, 2013, of the Ministry of Cities, indirectly authorized the public financing of private agents in the sector, which provoked great rejection by groups against privatization allied with the government.

It was not the first time that private concessionaires were finding opportunities to capture public resources for their businesses. Resources from city halls, the FGTS (FI-FGTS Investment Fund), Caixa Econômica Federal (Participações Saneamento Investment Fund), and the Brazilian Development Bank (BNDES), among others, have been financing the private sector in several Brazilian cities. At the end of the term of the government, five state capitals were already fully or partially privatized, three state companies were consolidating the process of going public and two were preparing to go public. Between 2011 and 2015, considering the different forms of agreements (total concession, partial concession, Public-Private Partnerships – PPP, etc.), there was an increase in the number of private concessions in the country, especially in small and medium-sized cities¹⁰.

The increase in private participation, however, did not bring the injection of private resources into the sector, as announced. This occurred because all the investment made by private operators came from resources from government funds, basically from the Worker's Assistance Fund (FAT) and FGTS, from the payroll (workers). These resources were offered with interest rates and charges lower than those in the market, and more than half of them (60%) were used by companies that had private capital participation, without any relationship with strategies to reduce access deficit¹¹.

In the end, the workers were the ones who financed the capital valuation of companies, allowing for investors to gain money and dividends, including from abroad. In this sense, it is worth noting that, although the Workers' Party has sought to restructure the sector by valuing public management as stated by law, the policy of incentives to national businesses and financial capital created conditions that indirectly strengthened the position of private companies in the sector.

The foreign offensive and the advance of sanitation financing

The main Brazilian infrastructure companies were brutally affected by the Lava Jato Investigation (2014). Punished in court for participating in the corruption schemes that was denounced, Odebrecht had to sell the assets and restructure the capital in search of cash, and Galvão Participações (Galpar) was pressured to relinquish control of the CAB company.

This situation was favorable to advance foreign capital in the sector via the market. One of the largest investment groups in the world, Canadian fund Brookfield, bought 70% of Odebrecht Ambiental, giving rise to BRK Ambiental S.A. In the following year, the

Japanese group Itochu bought part of Queiroz Galvão in the company Águas do Brasil. In 2018, it was the turn of Iguá Saneamento (former-CAB) to definitively expel Grupo Galvão from the company with the contribution of the Canadian fund Alberta Investment Management Corporation^{12,13}.

The International Finance Corporation (IFC) is a sister organization of the World Bank for various investments, with a special role in sanitation. From 2012 to 2019, the organization participated in Aegea, which increased its portfolio from 29 municipalities (2 million people) to 50 (7 million) when it left the company. In addition, the World Bank is the organizer of the Water Resources Group, known as WRG 2030. The group is composed of several companies, such as Coca-Cola, Nestlé, and Ambev, and usually settles in countries, states, and municipalities where privatization is imminent to help create the regulatory model that will be adopted.

After the legal-parliamentary coup in 2016, then-President Michel Temer made the renegotiation of state debts conditional on adherence to the BNDES privatization program, which included the sanitation sector. With this, the expectation of private water and sewage concessionaires was to triple their market share. Eighteen states expressed interest in participating in the process, but privatizations did not advance. The government also proposed other initiatives aimed at definitely ending program contracts and removing the obstacle to municipal ownership (Provisional Measures No. 848 and No. 878/2018). Realizing the maneuver, the governors did not agree and prevented the vote, and this task was transferred to the next government.

In 2018, the presidential election of Jair Bolsonaro represented the victory of the most conservative sectors in the country. With a majority in Congress, the government brought together the interests of agribusiness, the arms industry, and the Evangelical Church (known as the Beef, Bullet, and Bible bloc) under the aegis of economic liberalism,

now re-edited with a conservative social discourse. The plan to privatize sanitation was submitted to Congress, now no longer through provisional measures, but through a bill with the same content: PL No. 4,219/2019. The designated rapporteur was senator Tasso Jereissati (PSDB-CE), from the governing base and member of a shareholder group of the second-largest manufacturer of Coca-Cola (a giant in the water business) in Brazil¹⁴.

The PL was voted on and approved in mid-2020, amidst the first wave of the pandemic. Law No. 1,4026/20 has strengthened state ownership in areas of common interest, has ended program contracts, and provided incentives for federal entities that opted for privatization. In addition, it removed the protection of vulnerable communities until then safeguarded by law, such as subnormal urban agglomerations, quilombola territories, and rural communities, and drastically restricted the period of adaptation to the new rules by state companies¹⁵. Undoubtedly, its approval consolidated the legal framework for sanitation services and signaled the government's commitment to investors in this sector (Concession Law – Law No. 8,987/1995; PPP – Law No. 11,079/2004; Incentive Debentures – Law No. 12,431/2011; Investment Partnership Program/PPI – Law No. 13,334/2015).

Another similar project is PL No. 495/2017, which creates the water market. Senator Jereissati is the author of this project. This project targets regions with a 'high incidence of conflicts over the use of water resources' and proposes to change the conception of the law currently in force, which understands water as a public good. It provides that holders of certain water concessions, such as agribusiness sectors and soft drink producers, may negotiate their excess water with other concession holders of the same hydrographic basin. Currently, the states are responsible for authorizing the use of water resources, their control, and inspection (grant). They do not charge for the grant, but only for the documents necessary for its issuance (reports,

fees, and records). The aforementioned PL changes this and provides that the management committee of each basin can keep 5% of the value of the onerous assignment as remuneration for the assignment of exploration rights by individuals.

With the creation of the water market, whoever buys the concession will gain priority in the use of water from a river or lake during the period of concession (approximately 30 years) and will hold marketing rights over it. In this arrangement, smaller consumers, such as peasant communities and smaller users, will lose. The likely effect of this is the increase in conflicts over water, which, last year alone, rose 77%¹⁶. The proposal to create a water market in Brazil is an attempt to reproduce a trade that has been implemented in other places in the world, such as Australia, South Africa, the United States, Costa Rica, Spain and Chile¹⁷.

The water market facilitates the creation of other asset classes that can be traded without any guarantee of fairer or more rational allocation or management of this good. These measures express and also welcome a greater transformation in the world, which drives the country to a process of 'commodification' of natural assets and threatens human rights, such as access to water and sanitation.

Commodification of water and its implications in Brazil

This transformation began with the global recession of 1973, when the predominant form of accumulation, based on the Fordist model, was undermined by increasing international competition, low rates of corporate profits, and an accelerated inflationary process, in what made the Capitalist economy plunge into an overaccumulation crisis. The search for competitiveness and gains in efficiency and productivity to overcome the situation

led to the proliferation of projects and business strategies marked by quick returns, early obsolescence of investments and assets and intense spatial adjustments involving the reallocation of industrial plants on a global scale, with flexibility of financial flows¹⁸.

The answer of the capitalist class and the governments of the central countries generated a new 'flexible' accumulation regime, in which capital expanded its room for maneuver by intensifying the flexibility of labor markets, manufacturing processes, and the production of goods. Unlike the Fordist model, the new 'flexible' way of accumulation basically consisted of controlling production according to demand, avoiding stockpiling of products. Furthermore, capital transfer to the financial sphere was aimed at reallocating surpluses for quick profit generation, even if virtual or fictitious¹⁸.

Fictitious capital is the result of speculative valorization from the interest rates, and not from work. This money, converted into interest-bearing capital, generates an income that is seen as revenue and interacts with the market. Its material basis derives from the company's assets but detaches itself from it when exposed to speculation in the markets and stock exchanges¹⁹.

Financialization is the process that transforms any stable financial flow into a bond/security that can be traded and speculated on in a secondary market. The circulation of capital in this built environment (secondary circuit), in fact, dampens the successive accumulation crises in the industrial-productive system (primary circuit). This fact has brought a temporary exit for capitalists who were suffering from a 10% drop in industrial production (primary or productive circuit). Speculative wealth management has made the financial system one of the main centers of redistributive activities. This, in turn, created instruments of speculation and increased pressure on the appropriation of wealth from the South by the North. In this dynamic, the action of the State proved to be strategic, as it took

control of crises and made accumulation possible. Neoliberal policies would be responsible for transferring goods previously conceived as public to private domains with the aim of ensuring the rate of profitability in a new type of accumulation that would be re-editing the conditions of primitive capital accumulation in the so-called accumulation by usurpation²⁰. Particularly regarding water and sanitation, usurpation basically involves the transfer of ownership or collective ownership of water to private sanitation companies or globally organized financial groups.

Some of the main effects of sanitation privatization in the world have already been listed in the available international literature. The first one is the oligopolization of markets. Large water companies have internationalized their activities through mergers and acquisitions of smaller water companies, with four companies at the helm of virtually every privatization scheme in the world. In 2004, two of them, the French Ondeo-Suez and Vivendi, accounted for almost 70% of the water market on the planet. In addition, it is also noteworthy that large foreign investment funds in the field in search of quick rates of return have jeopardized the sustainability of contracts in the long term, leading the State to have to resume the infrastructure network or subsidize private operators indirectly, in the so-called 'French model'²¹.

Public sanitation companies have been increasingly required in terms of strategic managerial and operational action according to the model of private companies, which has been inhibiting investments that are not directly profitable, such as, for instance, the control of distribution losses (waste). Several accusations against water giants, such as Enron, Vivendi, and Suez, reveal that these companies finance parties and politicians in exchange for favors. Therefore, the public resources that were intended to be saved with privatization end up being used by the State to organize and regulate the provision by private

agents (legislation, regulation, inspection, and prevention of abusive practices). Other aspects mentioned in the literature were the lack of transparency because of the power asymmetry of actors and private companies with regard to strategic decisions related to investments and the difficulty of integrating the sanitation policy with other broader public policies or socially stratified policies²¹.

Underinvestment, disputes over operating costs, price and tariff increases, difficulty in monitoring private operators, lack of financial transparency, layoffs, and poor overall quality of service have been the reason hundreds of cities are resuming services around the world²². Although initially, it is already possible to identify some of the effects listed in the literature. PPPs have been adopting the 'French model', and waste has increased among private providers²³. In addition, international funds have contributed to the sector, acquiring large shares or controlling national companies. Publicly traded regional sanitation companies showed the highest profitability and distribution of dividends in the entire productive sector in the country, losing only to the financial sector (banks). The preferential option for the payment of dividends to shareholders may have even constrained the investment in expanding coverage²⁴.

It must always be kept in mind that private companies seek the best market share, as they aim for profit. However, unequal countries like Brazil usually do not offer many profitable urban water systems, which can leave uncovered – or rather, covered by the State – unattractive or unprofitable systems. The privatization of the system in the states of Tocantins and Amazonas illustrates this very well. In the first case, the company kept only the most profitable municipalities in the state, and in Amazonas, the buyer was only interested in the capital, Manaus. In the legislation that was just voted on during the pandemic, the provision that protected the access of rural populations and informal urban agglomerations was partially removed.

Some argue that good contracts with precise targets can prevent economic abuse by private operators. This view ignores the unequal power relationship between business corporations and civil society, which is also expressed regarding the regulatory agents. The mere setting of goals does not guarantee, by itself, their fulfillment, as companies impose contracts that subordinate all goals to their 'economic-financial balance'. This opens the door for renegotiations and, consequently, new goals, allowing not only for their *ad infinitum* review but also a long and expensive judicialization process, which is not an issue for the private sector.

There are certainly many reasons to be dissatisfied with the public provision of sanitation services in Brazil, and this demands a solution. However, this text tries to show that such dissatisfactions have been used and capitalized on by interests that, in fact, do not seek the public asset as they show in discourse. The risks of betting on privatization include a high reversal cost, such as hefty indemnities arising from the interruption of long-term contracts in the sector (20-30 years), and a general rise in tariffs. In public management, correction is considerably less costly, because the adjustment can be made every four years during municipal and state elections²⁵.

Final considerations

According to the United Nations, difficult access to water affects more than 40% of the world's population, a number that tends to increase with climate change and inadequate management of natural resources. However, in rich or poor countries, rich people are not those affected by it. Although Brazil is the country with the largest reserves of fresh water on the planet, large cities are already in a situation of water stress. Coveted by the food, mining, and agribusiness sectors in the productive sector, water has become an attractive business for international financial

funds interested in quick and hassle-free profits. Their gateway has been the stock exchange, and public and private companies have been the vehicle to explore water and sewage services.

The construction of a narrative of water 'scarcity' in the country, which holds the largest freshwater reserve on the planet, is concerning. As far as we know, the hydrological cycle guarantees water availability. However, it is in the hydrosocial cycle that one must seek an explanation of access. Poverty is what is killing people with thirst, not lack of water. The political ecology perspective points out that the apocalyptic climate of scarcity provides a powerful instrument for the social legitimation of market-oriented policies because, in general, people understand prices as the main mechanism for managing demand. Scarcity would therefore be a 'produced' and socially projected reality in the interest of those who stand to gain from it, especially with tariffs and other usage charges, such as grants.

The structural transformations of capitalism changed the way in which capitalists began to seek profit. The search for new opportunities explains the increased demand from large economic groups and investment funds for acquisitions, concessions and PPPs in the water and basic sanitation sector in Brazil. The strategy is to transform water and other natural goods into money to insert them in the transnational circuits of capital accumulation and circulation. Private investment, in this case, is linked to the idea that scarcity will add value to the product and enrich its owners and/or suppliers. Discourses that emphasize the risk of scarcity and managerial solutions aim to hide the very political nature of 'scarcity', that is, something that is socially and politically produced.

In Brazil, the isolation resulting from the pandemic inhibited the traditional forms of resistance of opposition groups and facilitated the path of national and international groups that had been seeking to liberalize the

sanitation sector in the country for decades. With this text, we hope to have contributed to explaining the groups and interests that guided the changes in the regulation of the sanitation sector and the proposal for a water market in Brazil, as well as the consequences of its implementation. The State has coordinated this process on a national scale, ensuring the conditions of profit and accumulation for private groups, even when it has hosted developmental governments. The advance of financialization, which has also been expressed

in the use of public sources and funds to indirectly remunerate investors and value capital, is an aspect that is still little explored in the available literature and can contribute to a better understanding of the subject.

Collaborator

Sousa ACA (0000-0002-5288-2274)* is responsible for preparing the manuscript. ■

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Received on 08/01/2021

Approved on 10/31/2021

Conflict of interests: non-existent

Financial support: This work was carried out with the support of the Coordination for the Improvement of Higher Education Personnel – Brazil (CAPES) – Financing Code 001