

Cochabamba: A Case of Bad Privatization or a Case Against Privatization?

Chris Durrant

Approximately 1.1 billion people do not have proper access to water, according to a 2002 WHO estimate.^[1] This is a massive obstacle to development, and to life itself. International organizations and governments are aware of this situation and have vowed action. These institutions, however, disagree substantially on how to act to solve the problem. On one side are those who view water as a human right, and believe it should not be controlled by private corporations. Others seek to apply Adam Smith's ideas to the problem; Smith recognized it was not through the benevolence of the butcher or baker that we get our dinner, but through each individual's self-interest. Neoliberals have made the not-so-large leap from food to water, and are proposing a free market solution to many states' water problems. The two solutions are almost diametrically opposed, and have come to a head in South America; the continent torn between left-wing elements based on the likes of Bolivar and Castro, and governments forced to embrace right-wing solutions to cope with large international debts. These two political attitudes recently erupted in a dramatic conflict in the Bolivian city of Cochabamba.

The events in Cochabamba could be called a water war. In April 2000, only two months after the privatization of the city's water system, large scale protests

began. Four days into the city-wide demonstration, which included not only union workers, but also housewives and the middle class, the government declared martial law. In the ensuing clashes between protestors and the army, a seventeen-year-old boy was killed. The executives of the Aguas de Tunari water company fled the city, the Bolivian government decided to abandon its contract, and an agreement was signed with the protestors. Cochabamba's water is now being managed by the group that organized the protests.

The reason for the failure of privatization is clear: the people would not stand for price hikes that led to water costing families a quarter of their income. However, the experience in Cochabamba does raise some questions. According to pro-privatization author Fredrik Segerfeldt, "many privatizations have been troublesome. But mistakes do not make strong arguments against privatization as such, but against bad privatization."^[2] Was Bolivia a case of bad privatization, or an example of why privatization is bad? This essay will explore these questions, using the case of Cochachamba.

To evaluate Cochabamba's privatization, we must first understand the neoliberal belief that privatization benefits a country. Pro-privatization theory argues that goods such as water are better managed when someone has a

financial stake in them. Governments are at best well-intentioned bureaucracies and at worst corrupt and incompetent, but in either case, they cannot manage natural resources as efficiently as a well-run business. This is not a jab at the competence of officials in the developing world, as generally privatization is recommended for even the prominent nations of the developed world. Segerfeldt claims companies are better equipped with skills, capital, and technology than governments, and that the benefits gained by efficient businesses will outweigh any potential drawbacks.[3] One particular drawback is foreign ownership of corporations, as foreign owners' profits are less likely to be reinvested in the host country. In the case of Cochachamba, Aguas de Tunari was only the local name for the British company International Waters Limited, which itself is a subsidiary of the American Bechtel Corporation.

More specifically to water, neo-liberal theory states that companies will not only handle the resource more efficiently, but also naturally expand access to water for millions of citizens in the rapidly expanding cities of the developing world. By nature, business is looking to expand its market, and consequently it uses profits to expand a city's water infrastructure. As a result, the company gains a new customer, and someone has access to water who previously did not. Secondary positive effects also benefit development; the child who walked each day to collect water is now be able to attend school. Furthermore, a family no longer needs to buy water from tankers that make their business from reselling water at a price on average twelve times higher than that of network water.[4] The savings for previously unconnected families justify a price increase for other (and presumably

richer) homeowners. It also seems that an injustice has been corrected: if the unconnected family had been paying taxes, but the government was unable to expand water services to their house, then the family was essentially subsidizing others' access to cheap water. The contract between the Bolivian government and Aguas de Tunari specified that services would be improved, which meant a brighter future for the 50 per cent of Cochabamba's population that was not connected to the water network.

With such potential, it seems a wonder that the people of Cochabamba rejected the privatization so quickly. The massive price increase is the most cited reason for the almost unanimous outcry against Aguas de Tunari. Other factors, however, have also been recognized and should be explored if any judgment on the quality of the privatization is to be made. First, the contract gave Aguas de Tunari ownership over all water resources, including the aquifer under the city. This obliged the government to pass laws making the collection of any water illegal, be it from rivers, lagoons or rain water.[5] It is possible that this was done to stop any potential competitors from finding ways to undercut the company; considering the amount of money the company agreed to pay (2.5 billion dollars over the 40 year contract), it seems natural that it demanded some protection for its investment. The fact that this protection made it illegal to use a rain barrel, however, was deeply problematic for the public. The government failed to detect this perceived attack on the personal freedoms of the public.

Another way in which the company alienated its customers quickly was by seizing wells that had been dug without the help of the government.

These wells were often the product of large amounts of labour and investment by some of the city's poorer communities. The company was not required to reward the communities for their initiatives. This is because the independent wells were still tapping Aguas de Tunari's resources, namely, the company-owned aquifer. The company did not compensate the wells' owners for the small pieces of infrastructure they had provided; it simply seized the wells and fitted them with water meters. Undoubtedly this behavior was viewed as malicious and unfair by all affected communities. As well, it caused the alienation of those not connected to the main water grid – the very people privatization was meant to help.

Another factor leading to the unfavorable reception was fatigue over privatization. Óscar Olivera, the union leader and head of protests, made speeches commenting that “people resent that foreign actors are influencing their country's policies. We once owned the mines, the railroads, the oil wells, but they've been taking it all from us brothers.”[6] He is correct in his implication: the government sold off many public industries, basic utilities, telecommunications and transport. It is estimated that the privatization of manufacturing industries has helped Bolivia; the country raised GDP on average four per cent each year of the 1990s and poverty rates fell.[7] Studies have found that while salaries of employees of the privatized companies doubled, 15 per cent of the work force was laid off in the process.[8] Despite some success, Bolivia continues to have the lowest Human Development Index (HDI) in South America. Even former president and advisor to the International Monetary Fund (IMF), Jorge Quiroga, doubts the effectiveness

of the neoliberal reforms: “Bolivia is the most open economy in Latin America. Meanwhile, American and European farm subsidies, along with tariffs on textiles and agricultural products, make it impossible for Bolivia to sell its exports in the Global North. They tell us to be competitive while tying our arms behind our backs.”[9] Quiroga learned that the population had certainly turned its back on the neo-liberal reforms when he was defeated by Evo Morales in the 2005 election. Morales is the head of the Movement for Socialism party, and is certainly no friend of privatization. Thus, despite any help privatization has given to the country, in the perception of the public it has not helped enough.

While Aguas de Tunari entered a market that was already tired of privatization, and immediately generated hostility by seizing communities' wells and charging homeowners for the installation of water meters, the backlash it caused was incredible. The price increase implemented two months into Aguas de Tunari's contract meant a 200 per cent cost increase for some customers.[10] The residents affected by the increase must have wondered why Aguas de Tunari needed to raise fees to that level. Was the company using the revenue to expand the water infrastructure so as to reach the city's unconnected residents, as neo-liberal theories suggest? Perhaps an examination of Aguas de Tunari's plans for the money for could justify the price increase.

Unfortunately, the planned expenditures started off on shaky ground. The contract signed with the Bolivian government required a massive dam project, to be completed within two years. The Misicuni Dam was to be built on the other side of the mountains surrounding Cochabamba, so that

rainwater could be collected and piped to the city. The two-year requirement as a term of the contract between the city and Aguas de Tunari immediately raised eyebrows in local and international circles. The World Bank had previously released a report concluding that the project was uneconomic. Locals pointed to the pre-existing Corani reservoir, which was not being tapped by the city. A document on the website of Aguas de Tunari's parent company Bechtel explains that the company tried to convince the government that it would be more productive to fix the existing infrastructure (the document says over 60 per cent of the city's water was either "leaked or pilfered"[11]) but the Bolivian officials insisted on the dam project. While it is easy to assume Bechtel is trying to cover for the mistake of taking on the project, further reading makes it seem as if they had no choice. Bolivia had tried to lease Cochabamba's water in 1997, but the deal was nixed by Cochabamba's mayor. The deal did not include the Misicuni dam in its terms, and the project has been linked to the mayor's top financial backers. Considering the mayor's veto power and reputation for corruption, the dam's inclusion in any contract was certain.[12] Clearly, Aguas de Tunari was obligated to take on an expensive project from the start.

Another constraint on the company was a requirement by contract to take on the 35 million dollar debt of the city's water corporation. On top of this, Aguas de Tunari inherited a system that had been 5 million dollars in debt the previous year. Obviously, no corporate efficiency could have spared the residents of Cochabamba a price hike. If the 5 million dollar deficit had been divided among Cochabamba's 800,000

residences, it would have required each citizen to pay an extra \$6.25 a year.

A clause in the contract to which Aguas de Tunari probably did not have any objections stated that the company was guaranteed a 15 per cent return on its investment each year. This arrangement is quite contrary to the idea that a country benefits from a foreign corporation's capital. Ideally, foreign capital replaces the need to seek loans to build infrastructure. In this case, however, the capital from Aguas de Tunari had to be paid for in exactly the same way as high interest loans. Considering the company's investment was going to require financing the Misicuni dam, a water treatment plant[13], general infrastructure improvements, and paying off the debt, a fifteen per cent return represented a hefty sum to be repaid by the people.

The costs of the project created in huge increases in people's water bills, and it appears Aguas de Tunari passed on the costs in a calculated manner. There was nothing explicitly unscrupulous in what the company did; the company followed its contract with Bolivian officials. The question remains, however, if company officials saw any problem with charging people one-quarter of their monthly income. The company underestimated the power of the people to change their reality. Perhaps Aguas de Tunari expected that the residents of Cochabamba who could afford the price hikes would not get involved, and that they could weather the other protests. The Misicuni dam project was required by contract to be finished in two years, and its completion would have probably marked a large reduction in costs for the company and its customers. However, it seems Aguas de Tunari 'learned the hard way' what customers will and will not take.

In the end, blame falls on the shoulder of both Aguas de Tunari and the Bolivian government. Aguas de Tunari was far too eager to make a profit in its first year. The situation left many wondering why the company could not have taken a loss in its first couple of years of a forty year contract. Maintaining the terms of the contract and running a profit, in retrospect, was clearly too large a financial burden for Aguas de Tunari to impose on the city. Why the Bolivian government proceeded with the deal, which seemed flawed by the start^[14], is a mystery. Even the World Bank advised against the deal. The benefits received by Cochabamba's mayor from the dam project should be seen as the first of many signs that officials were not always considering what was best for the people of Cochabamba.

The verdict is clearly that Cochabamba was a case of bad privatization. People looking to discredit privatization wholly may be able to find some fodder in Aguas de Tunari's slavish dedication to profits at the consumers' expense and the restrictive nature of business contracts, but Cochabamba is not an example of why privatization would never work. It should also be noted that the project had a distinct lack of innovation. Chile has had success with water privatization; the companies involved have won over some critics with "innovative price structures, including water vouchers, that assure poor residents of an adequate supply of clean water."^[15] The lessons from Cochabamba include that corporations need to be more careful about the contracts they sign, less eager to profit immediately, and better at relating with local populations if they aim to privatize something as essential as water. The people of Cochabamba have proven that

even if their government does not recognize a bad deal; they do.

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Endnotes

^[1] World Health Organization, "Water, sanitation, and hygiene"

^[2] Fredrik Segerfeldt, "Privatize Water and let it flow, links to health," Updated November 2004. *Business Day*, South African Edition, August 26, 2005, p.13. http://www.who.int/water_sanitation_health/publications/facts2004/en/index.html

[3] It should be noted that Segerfeldt writes for the Cato Institute, which has a distinctly Libertarian bent

[4] Segerfeldt, *Business Day*, South African Edition, August 26, 2005, p.13.

[5] Joel Bakan, *The Corporation* (Toronto: Viking Canada, 2004), 166.

[6] David Murdock, "Leasing the Rain," *Now with Bill Moyers*, Aired on PBS June 2002. <http://www.pbs.org/frontlineworld/stories/bolivia/>

[7] United States of America. Central Intelligence Agency. *World Factbook 2007: Bolivia*,

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[8] Alberto Chong, "Privatization in Latin America: What does the Evidence Say?" *Economia* 4 no. 2 (Spring 2004): 47.

[9] William Finnegan, "Letter from Bolivia: Leasing the Rain," *The New Yorker*, April 8, 2002, p. 45.

[10] Murdock, "Leasing the Rain."

[11] Bechtel, Cochabamba and the Aguas de Tunari Consortium, released March 2005,

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[12] Finnegan, "Letter From Bolivia: Leasing the Rain," 47.

[13] Bechtel claims it argued against this project, but this issue was a sticking point for the Bolivian negotiations team.

[14] Aguas de Tunari was the only bidder for the contract.

[15] Finnegan, "Letter From Bolivia: Leasing the Rain," 51.