

The Cochabamba “Water War”: An Anti-Privatisation Poster Child?

By David Bonnardeaux

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About the Author

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INTRODUCTION

Back in 2002, when I was a young, wet-behind-the-ears Water Management Masters Student, I was of the mind that privatisation was wrong, or at the very least discriminatory. When applied to water utilities in developing countries – where lack of water and sanitation accounts for a high percentage of infant mortality – it was tantamount to immorality.¹ How could poor communities be forced to decide between putting food on the table and having access to water for their families? As the course progressed, I and my fellow classmates listened to some very persuasive arguments as to why private-public partnerships in the water industry are beneficial and should be encouraged. Greater investment, more efficiency, better management; the reasons were many and legitimate. We were, however, also provided with very divergent views on the issue of social unrest and conflict that arise from privatisation of water utilities. The extreme views reflected the polarity which has come to define “privatisation”. Privatisation of water: you’re either for it or against it. Seemingly, there is no middle ground.

The outcome of a failed water privatisation in Cochabamba, Bolivia, has become a mantra for a variety of groups (academics, ideologues, trade unions) who oppose privatisation as a matter of course. In most media discussions and academic tomes, the cause of this failure is portrayed as unambiguous: foreign, multinational, profit-driven companies. Further analysis reveals that privatisation has become a scapegoat for the very complex origins of the conflict, involving local corruption, problems with regulatory enforcement, and lack of public engagement.

COCHABAMBA, BOLIVIA: 1997-2000

In Bolivia’s third largest city of Cochabamba, the majority of residents were vociferously against plans to privatise the public water utility, and took their fight to the streets in the beginning of 2000 when exorbitant rate hikes took effect. Peri-urban and rural neighbours joined the cause and international interest groups weighed in, all of which fanned the flames of discontent. The end result was the cancellation of the contract with the international consortium and the transfer of the utility and its assets back to the public domain. But it also catapulted the Cochabamba “Water War” onto the international stage, with many citing it as a justification for opposing (and fighting) water privatisation around the world.

In 1997, the World Bank provided Bolivia with US\$20 million in technical assistance for regulatory reform and privatisation, including preparation of laws and regulations for the financial, infrastructure and business sectors. Some of this funding was earmarked for the ‘Major Cities Water and Sewerage Rehabilitation Project’, which aimed to provide full coverage to Santa Cruz, Cochabamba and La Paz in the most efficient and sustainable manner. One of the Bank’s conditions for the extension of the loan was the privatisation of the La Paz and Cochabamba water and sewerage utilities.

¹ The World Health Organization estimates that “diarrhoeal disease alone amounts to an estimated 4.1 % of the total global burden of disease [measured according to Disability-Adjusted Life Years] and the deaths of 1.8 million people every year. It was estimated that 88% of that burden is attributable to unsafe water supply, sanitation and hygiene and is mostly concentrated on children in developing countries.”

At the time in Cochabamba, only 60 percent of the population was connected to the public water supply network SEMAPA, and only 50% benefited from sewerage services. Those who were connected paid an estimated US\$0.60/m³, while those not connected (which invariably included the poorest citizens) relied on water from vendors estimated to cost between US\$1.75/m³ and US\$3/m³.²

Industries and wealthy residents benefited from the highest rates of connection and state subsidies; in the area of Casco Viejo, for example, connection rates were nearly universal at 99 per cent. Meanwhile, the highly residential northern and southern suburbs of Cochabamba showed a connection rate of less than four per cent in 1992.³ Numerous reports confirm that the city of Cochabamba suffered from chronic water shortages, with the majority of its inhabitants having inadequate access to water and sanitation.⁴ More than a decade of underinvestment in the network had rendered the system highly inefficient, with water only being supplied up to four hours a day and losses due to leakages estimated at 43 percent. Unsustainable groundwater pumping for urban and agricultural supplies in the area also necessitated the urgent development of a new surface water supply source. The Bolivian government turned to the private sector as a result, but not without some coercion from the World Bank and International Monetary Fund (IMF).

The previous Government sought to resolve the situation by privatizing the public water utility SEMAPA and using an existing hydroelectric dam project (the Corani Project) – under World Bank guidance – to supply the much needed extra water to the city. The privately owned Corani Project was planned to supply four m³/second at a total cost of US\$70 million (obtained solely from private funds, without any public expenditure or subsidy), mostly for the construction of the 20km tunnel from the existing dam to the city. However, the Bolivian Supreme Court declared the bidding process void in response to a legal challenge by the Mayor of Cochabamba, Manfred Reyes Villa, and local organizations who objected to the implementation of the Corani Project.

Instead, they favoured an alternative water supply source, the Misicuni Project. This project entailed the initial provision of 3.9 m³/second at a cost of US\$75-85 million (from a public subsidy which was not yet secured at the time) plus a further US\$100 million of the company's own resources, therefore totalling US\$175-185 million. The World Bank still contended that the relatively cheaper Corani project was a better alternative than the Misicuni Project. Its rationale was that although Misicuni would in theory supply more water (6.6 m³/second) when completed, it would require more than two and a half times more investment (although some estimated at six times) and would take twice as long to bring online compared to Corani. The result was the expiration of International Development Association (IDA) credit in December 1997, precluding any further World Bank funds for the project.

In 1999, the concession bid was rekindled, although this time the coalition of municipal and regional interests had prevailed, and the Misicuni Project was included in the contract. Initially, no bids were received, although later an unsolicited bid was received by a consortium called Aguas del Tunari (AdT). Lengthy negotiations followed, leading up to the

² (Bechtel Corporation, 2002)

³ (UN-Habitat, 2003)

⁴ (Baer, 2008) and (Finnegan, 2002)

successful signing of the contract in September 1999. The negotiations were led by the government, represented by members from the Ministry of Foreign Commerce and Investment, the Superintendency of Water (later renamed “Basic Sanitation”), the Superintendency of Electricity, and the Prefect of the Province. Also present were the Mayor of the municipality, the president of SEMAPA, and the president of the Misicuni Company.

Many compromises were made to accommodate all the vested interests, including the immediate go-ahead with the building of the controversial Misicuni dam, the transfer of SEMAPA debt (totalling US\$35 million) to the consortium as well as payment for the construction of the aqueduct from Misicuni to the city. The 40-year contract granted AdT exclusive control over all industrial, agricultural and residential systems, as well as an exclusive right to water in the natural aquifer.⁵

The disproportionately high costs of the Misicuni dam would require an immediate tariff increase of 38 percent, followed by an extra 20 percent after it came online. By the beginning of January 2000, the tariff was indeed increased to the authorized level of 35 percent (on average). However, AdT had implemented a socially progressive tariff structure which allegedly conveyed increases of 10 percent for poorer households and 106 percent for industries and wealthier households (others contend that water tariffs increased by up to 100-300 percent). Water bills were described as leaping from US\$12 per month to US\$30 within a month.

However, in many instances these increases were due to greater quantities of water being utilized by households as a result of improved services by the new private utility, and likewise, the reduced need for water rationing.⁶ Tariff increases were required in order to fund the badly needed maintenance on existing infrastructure and extend service to new areas. The new tariff reflected the true cost of water provision and sanitation, which until then was not recouped by the public utility.⁷

Regardless, the people of Cochabamba had had enough, and protests broke out soon thereafter, causing the government water superintendent to roll back the higher rates. Protests spread into other parts of the country and ultimately escalated to warrant military intervention and martial law. The result was the death of seven Bolivian protestors and the hasty retreat of AdT personnel, followed by the cancellation of the contract on April 10, 2000. The city’s water system, including its \$35 million debt, was turned over to the Coordinadora de Defensa del Agua y la Vida (the Coalition for the Defense of Water and Life), led by Oscar Olivera, a staunch critic of the concession.⁸

COCHABAMBA: INHERENTLY UNIQUE

⁵ (Baer, 2008)

⁶ This was the view defended by Bechtel spokesperson Gail Apps who argued that “it is important to understand the difference between water rates (the unit rate paid for water) and water bills, which depend on the amount of water actually used. For the poorest people in Cochabamba rates went up little, barely 10 percent.” Referenced in (Finnegan *et al.*, 2002)

⁷ There is ongoing disagreement as to how much water bills actually increased. Franz Chavez, in his article “Bolivia: Cochabamba’s ‘Water War’”, contends that water rates went up as much as 200 per cent, meaning that water bills amounted to 20 or 30 percent of the income of poor households. Fredrik Segerfeldt in his book *Water for Sale* argues that the more realistic increase of 43 per cent in prices “meant that the cost of water equalled 1.6 percent of an average household’s income. For the poorest 5 percent of the population, the corresponding figure was 5.4 percent.”

⁸ (Finnegan *et al.*, 2002)

To detractors of privatisation writ large, this case study embodied all that was wrong with privatisation and was used as a poster child for the various ill-fated attempts to privatise water utilities around the developing world. It is easy to vilify the private consortium and the World Bank; water is an emotive subject and the words 'privatisation' and 'World Bank' draw heated debate throughout the world.

There is no doubt that Cochabamba was a failed attempt to privatise the city's public water utility, but there were myriad *reasons* for the failure and the subsequent conflict. The failure cannot be wholly attributed to the consortium, the World Bank or privatisation *per se*. There were inherent antecedent issues with the Cochabamba water privatisation that obfuscated matters – yet these issues are rarely mentioned by anti-privatisation groups when talking about the failure of the Cochabamba contract:

- Nearly a year before the signing of the contract, the regulator approved a 20 percent tariff increase that was designed to improve financial viability of the future concession, thereby making a smoother transition and potentially alleviating the impact on customers.⁹ But legal imprecision nullified the enforcement of this regulatory decision. SEMAPA refused to apply the increase, and the regulator was powerless to sanction the company. Once the contract came into force and the tariffs were increased, the people did not see a corresponding and immediate improvement in the service, so this added to their sense of disillusionment with the situation.
- The Bolivian government made great strides through the adoption of a Water Supply and Sanitation Law and the establishment of a regulatory body, the Superintendencia de Saneamiento Basico. The reforms were not sustainable in the short-term, however, and probably required more time and money to be truly effective in the future. Ultimately the economic and social environment in which the regulator was working worked to its disadvantage. Budget constraints and lack of human resources hampered the effectiveness of the regulator throughout the conflict. Decisions taken by the regulator during the concession contract were governed by the conflict and thus, it was limited to solving problems within the context of the conflict. Although the main portions of the contract were published in the press, AdT strongly recommended to the municipality that it launch an information campaign to inform the public of the terms of the concession and what to expect in the future. Neither the municipality nor the regulator endeavoured to engage the public in the process, which as shown, was a fatal mistake.
- The eradication of coca plantations (part of a US-sponsored program) had forced many rural coca-leaf farmers to migrate to Cochabamba, thereby fuelling already existing resentment against the central government. This also added to an already high unemployment rate and informal sector in the city. In addition to this, the Water Services Law of 1999 posed a threat to irrigators, private well owners and water cooperatives, as it would effectively entitle the concessionaire to a monopoly of water service provision in its service area. Any communal entity or association made up of neighbours, farmers and indigenous groups that owned and managed

⁹ This stands in direct contrast to the tariff adjustment put in place by the Chilean government prior to launching the privatization of water companies in 1998. For more information, see (de la Luz Domper, 2009).

their mutual assets for water abstraction within this area would therefore be operating outside the law. There was a real risk that any infrastructure and works owned by the community – including wells installed and managed by cooperatives – would be expropriated by the concessionaire, and water meters would be installed at the user’s expense. Ultimately, this situation was an affront to powerful vested interests in Cochabamba and galvanised the already incensed populace. Though this law was never implemented (as the consortium pulled out), it was effectively the last straw for the public.

- The two main groups which represented Cochabamba’s consumers (the Coordinadora del Agua y de la Vida, and the Civic Committee) were not just battling against foreign/external interests, as popular belief might suggest, but also against powerful local interests. Aguas del Tunari was a joint venture between International Water Ltd. (55 percent – and a subsidiary, 50 percent owned by Bechtel of the USA, and 50 by Edison of Italy), Abengoa Servicios Urbanos of Spain (25 percent) and four Bolivian companies (5 percent each) including Constructora Petricevic, Sociedad Boliviana de Cemento, Compania Boliviana de Ingenieria and ICE Agua y Energia S.A., all involved with the construction and engineering industry.¹⁰ Even though it was stated on the record that the Mayor of Cochabamba called for the cancellation of the original contract (with the Corani Project) due to non-compliance with the procurement law, it is widely viewed that these four politically influential Bolivian firms – which stood to win lucrative contracts from the Misicuni Project – used their leverage to pressure the Mayor.

In retrospect, Menahem Libhaber, the Principal Water and Sanitary Engineer for the World Bank, has labelled Cochabamba as a “forecasted failure” due to the “corruption (or ignorance) of the Mayor and the Government, with cooperation of the private sector”. In his opinion, the main lesson from Cochabamba is that corruption – whether instigated by politicians or the private sector (in this case, it was politicians) – is the major enemy of development.

THE FINAL WORD(S)

Ultimately, there were many problems that were exclusively inherent to Cochabamba – including the vested interests surrounding the Misicuni Project, the flawed Water Services Law, the coca-leaf growers’ involvement in and contribution to social unrest, and the hastily negotiated contract behind closed doors. The fact that Bolivia was a veritable playground of IMF, World Bank and Inter-American Development Bank (IADB) policies in the past had engendered a vehement anti-western and anti-privatisation sentiment. Bolivians and their social movements have been very adept at pushing out private oil and gas companies recently, not to mention the once successful water utility in La Paz.¹¹

Using the failed case of Cochabamba as an anti-privatisation “poster child” is not only misguided but counterproductive. It has discouraged private investors, and continues to do so. They have shied away from working in regions which truly need technical assistance

¹⁰ (Nickson & Vargas, 2002)

¹¹ La Paz and El Alto water utility, SAMAPA, was privatised in August 1997. The only bid came from Aguas de Illimani, a consortium 34% owned by Suez Lyonnaise des Eaux (now Ondeo) and the rest owned by Bolivian and Argentine investors. It was largely successful until 2005 when residents of the poorer El Alto took to the streets in protest of the fact that over 200,000 residents were excluded from the official “served area” while another 70,000 were excluded from service because they could not afford a connection.

and investment in order to afford essential basic services for the poor. If we are to collectively reach the goal of universal water provision and sanitation coverage, it is time to set aside ideological rhetoric, put the Cochabamba case to rest, and assume a more pragmatic stance.

PRESENT DAY COCHABAMBA

SEMAPA is still woefully underfunded and the water supply network is in disarray. Leakage rates are thought to be over 50%.¹² It is estimated that around half of Cochabamba's 600,000 inhabitants remain without connection to water mains.¹³ For others, service is intermittent at best, with water running for only three to four hours a day. As a result, the people of Cochabamba still pay exorbitant prices for water from vendors, or fend for themselves using poor quality water. Meanwhile, the rich and politically-well-connected continue to receive preferential treatment. In Zona Sur, the impoverished southern section of the city, about one-quarter of the inhabitants have access to tank systems or wells that are run independently, or they depend on poor service from SEMAPA. Another quarter relies on infrequent container deliveries, which can cost up to six times more than SEMAPA's tariffs. The remaining inhabitants live in hard-to-reach areas and must walk great distances to acquire water.¹⁴

Small cooperatives are cropping up, which is a promising development. And SEMAPA is now run by "the People", although there is a lack of commitment by citizens to take part in the administration of the municipal company. Many people involved in the 'Water War' demanded a job in the company, meaning that its administration is costly and inefficient as a result of having 700 employees rather than the 270 that were previously needed. Coupled with this, the team of citizen directors that was set up to run the company has been hit by one corruption scandal after another, with two directors removed from office in the last three years due to nepotism. "Whatever the reason for the failure of the SEMAPA reform project, the results are clear." After eight years, the levels of corruption are intolerable once again," admits SEMAPA's Camargo.¹⁵

The Misicuni Project is being revived again although, ominously, only one of five interested companies presented an offer, of US\$79.9 million. Work was expected to begin early 2009. However, an additional US\$100 million is required to construct the aqueducts and hydroelectric portion of the project. So far only US\$32.4 million has been pledged by the government of Italy.

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¹² (Chavez, 2006)

¹³ (Forero, 2005)

¹⁴ (Friedman-Rudovsky, 2008)

¹⁵ (Friedman-Rudovsky, 2008)

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