

Privatization and Renationalization: What Went Wrong in Bolivia's Water Sector?

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Summary. — This paper investigates the impact of water service privatization in Bolivia. It compares the performance of cities in which the service was privatized (La Paz and El Alto) with a city in which it is managed as a cooperative (Santa Cruz de la Sierra) and one where the service is publicly provided (Cochabamba). We find that access to water by low-income consumers increased under private provision. However, the concessionaire failed to meet the targets stipulated in the contract. The tariff increases required for full cost recovery eventually led to public outrage that forced the government to renationalize the company.

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1. INTRODUCTION

This paper attempts to answer three questions. Did privatization increase access to safe water for the poor in Bolivia? How affordable was water during the period of privatization? And why were the private contracts terminated early? These questions are relevant given the international concerns about access to water. One of the Millennium Development Goals (MDGs), for instance, aims to halve the proportion of people without access to safe drinking water by 2015.¹

Recent good news comes from the joint monitoring program of the World Health Organization and the UN's Children's Fund (UNICEF) that the world has met the drinking water target of the MDGs. However, the achievement is at the global level. There are still challenges in meeting the target in individual countries (WHO/UNICEF, 2012).

According to the Human Development Report 2006 by the United Nations Development Programme (UNDP), over 1 billion people in the world live in extreme water deprivation. The report also stated that “not having access to water and sanitation is a polite euphemism for a form of deprivation that threatens life, destroys opportunity, and undermines human dignity” (UNDP, 2006, p. 5).

Access to water is a right in itself and also contributes to the achievement of the seven other MDGs. It reduces child mortality and combats disease. It empowers women by freeing them from the burden and dangers of carrying water, and it brings about higher schooling rates: children often skip classes because of illness or because they are helping their mothers to fetch water. In rural areas access to water can help eradicate hunger by improving crop irrigation.

From a human development perspective, having access to improved water sources is the most favorable objective. “Improved” means water in enough quantity, of reasonable

quality, and as close to the dwelling as possible. Piped water, through in-house connections, is the sort of access that best fulfils the improved water requirements. The quality of the water from a utility provider is the most reliable, and per unit price from utility companies is cheaper than that from alternative private providers (Hailu, Rendtorff-smith, & Tsukada, 2011; Israel, 2007; UNDP, 2006). For the water utility, the marginal cost of delivering water to an additional household is also minimal. Usually, where a water grid exists, the greatest barrier for the poor is the connection fee.

Water privatization is one delivery model which is said to enhance access to water. But, it has been a polemical topic in Latin America, leading to a series of political debates, protests and even riots. This paper aims to contribute to the growing literature by evaluating the performance of the water sector under private concession in Bolivia. We chose Bolivia because of the early termination of privatization contracts and the renationalization of the water sector in the cities of La Paz and El Alto.² In other large Bolivian cities, water utilities operate differently: as a cooperative in Santa Cruz, and by means of public provision in Cochabamba. We therefore find an interesting case to study where the four largest Bolivian cities operate three very distinct models of water provision.

Overall, we find that the post-privatization period is associated with expanded access to water in the cities where

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privatization took place, especially among the low-income households. The distribution of water has also become relatively equitable. In terms of affordability, the results are mixed—we find both an improvement and deterioration in privatized as well as non-privatized cities.

The paper is structured as follows. Section 2 describes the water sector in Bolivia. Section 3 outlines the methodology and data used in the empirical analysis. The results in Section 4 are split into three parts: analysis of coverage expansion along the income distribution curve; the concentration of access to water; and trends in water expenditure after privatization. The renationalization of the Bolivian water sector is discussed in the concluding remarks of Section 5.

2. THE WATER SECTOR IN BOLIVIA

During the 1990s, with the support of the World Bank and foreign donors, privatization was regarded as a convenient solution in contexts of deteriorated infrastructure and unbalanced public finances. Privatization of the water sector was attempted in La Paz, El Alto, and Cochabamba, three large Bolivian cities.³ The first private sector participation contract in the water sector was signed in July 1997. The world's largest water consortium, Lyonnaise des Eaux, won the concession for water and sewerage provision in La Paz and El Alto through the company Aguas del Illimani S.A. (AISA). According to the concession contract, ownership of the assets remained public. The form of private participation was a concession contract for 30 years.⁴ The concession bid was based on the highest number of new connections to be installed.

La Paz, the country's capital, and its rapidly growing neighbor El Alto, comprise the largest metropolitan center in Bolivia, with over 1.6 million people. In 2005, the population in La Paz was 839,169 while El Alto's population was 800,273.⁵ The wealthiest households live in the valley region of southern La Paz, while lower-income households are in El Alto and on the *laderas* (steep slopes) of La Paz. The landscape, as well as residential segregation by income, determines the provision of basic utilities. Poor neighborhoods, often located on hills or close to other geographical barriers, are harder to reach, and thus the costs of water infrastructure installation and maintenance are higher.

The concession contract in La Paz and El Alto stipulated that in-house connection was the only accepted type of water provision. The government tried to maximize network expansion to the lower-income areas of La Paz and El Alto, as stipulated in the concession agreement. The contract included expansion targets for every 5 years, which were monitored at the end of each period. The Bolivian regulator was responsible for monitoring the targets, allowing tariff revisions and setting the maximum connection fees at the end of each 5 years (Komives, 1999).⁶

The expansion requirements on the private company involved targets such as absolute number of connections, overall percentage coverage, and coverage according to neighborhood criteria (for instance, demographic density). In absolute number of connections, the contract stipulated installing 78,252 new water connections for the period 1997–2001; 1,500 new connections in La Paz to be served by the Achachicala subsystem; 5,000 to be served by La Paz's Pampahasi subsystem; and 71,752 new water connections to poor households in Ladeas de La Paz and El Alto/Tilata's subsystem (IDB, 1998; Komives, 1999).⁷ This would have entailed 100% water coverage in La Paz and 82% coverage in El Alto (where 50% should have been new connections).⁸

Close inspection of the household surveys reveals that, under private concessions, low-income consumers' access to water increased. Coverage has significantly expanded, particularly for the bottom quintiles of the population. We certainly see an improvement in equitable access to water. These findings suggest a successful privatization. But there is more to the story. When the concession contracts were drafted, the government and the private company agreed on targets for wider coverage.

The private company successfully increased coverage in the poorest areas, mainly because high-income areas already had high coverage rates. It made sense to expand services in the poorest areas in order to meet the targets set in the contract. But the private company failed to meet the targets. The limits of cost recovery had been reached. Those who could afford the tariffs and connection fees had already been covered, and there was no longer an opportunity to exploit further provision on a cost-recovery basis. When the company pushed against the limits, the result was public outrage. Eventually, failure to meet the legally binding targets and public anger prompted the government to terminate the contract and renationalize the utilities.

The concession company has failed to fully reach the targets established in the concession contract. According to an independent auditing carried out in 2005 by the regulator SISAB (Superintendencia de Saneamiento Básico)⁹, AISA had installed a total of 46,438 new water connections by 2001, out of the 71,752 agreed targets in El Alto: an achievement of just 64.7% of the target (Lobina & Hall, 2007). Discontentment among the population rose with water tariff adjustments in 2001. SISAB allowed a 12% increase in tariffs against a 24.6% request made by AISA at the time of the first tariff review. AISA was allowed to increase the fixed cost on billing from US\$0.1 to US\$0.22 per bill per month. In addition, connection fees increased from US\$155 to US\$196 for water and US\$180 to US\$249 for sewerage (World Bank, 2006). In addition, during the concession period, tariffs were virtually fixed to the US dollars. This made prices of water rise. All of these together led the population in La Paz and El Alto to perceive their situation similar to the recent "water war" events in Cochabamba.

Besides the higher tariffs under the new service provision arrangements in Cochabamba, other factors added to the political upheaval. First, the price structure in Cochabamba set different tariffs for four types of housing and the reclassification of houses brought even higher prices for some properties (Barja & Urquiola, 2003; Israel, 2007). Second, negotiations between the government and the concessionaire took place behind closed-doors, highlighting transparency issues (Hailu & Hunt, 2008). Third, in its Public Expenditure Review, the World Bank stipulated that "no subsidies should be given to ameliorate the increase in water tariffs" (World Bank, 1999).¹⁰ Finally, the government passed the Drinking Water and Sanitation Law, which transferred the full water provision costs to consumers (Hailu & Hunt, 2008).

Therefore, a combination of the above factors (underperformance of the private utility regarding the targets, rise in water tariffs, and severed political climate brought by the recent "water war" in Cochabamba) led to public outrage. In 2005, public discontent led to the early termination of the concession contract. The water (and sewerage) utility was renationalized and Aguas del Illimani was replaced by Empresa Pública Social de Agua y Saneamiento (EPSAS), a municipal public provider. La Paz and El Alto thus followed the same fate as several water concession contracts in Latin America. Table 1

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