The Privatization of Water in Latin America

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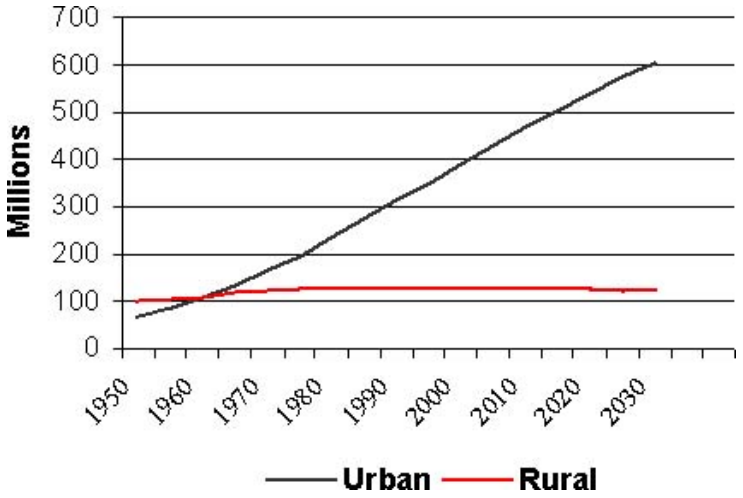
With about 24,000 cubic meters of water per person, Latin America and the Caribbean have the highest average water availability of all regions (The World Bank Group 2010). For this reason, one might fail to consider access to potable water in Latin America as a problem. However, according to the World Bank's Water and Sanitation Program, 30% of Latin America's urban population lacks adequate water: that is 120 million people (2007). Some have proposed that this can only be fixed by privatization of water utilities. To the contrary, using the cases of Buenos Aires, Argentina, Bogotá, Colombia and Cochabamba, Bolivia, this paper argues that the privatization of water utilities results in excessively high tariffs, poor service, and even social unrest.

Over the past 60 years, the urban population of Latin America has exploded (See Figure 1). In 1950, 42% of the population was urban, whereas now it is 79% urban. The result is urban slums, called pueblos jovenes, barriadas, or favelas (2007 "Water for Informal Settlements in

Figure 1. Historical and projected population in rural and urban Latin America



Source: FAOSTAT (http://www.fao.org/docrep/007/y5271e/y5271e05.htm)

Latin American Cities"; Fernández-Maldonado 2007). Unlike in the United States, these Latin American slums are squatter communities on the outskirts of urban areas and are growing constantly due to migration (Fernandez-Maldonado 2007; Ruiz Rosado 2008). These areas lack utility infrastructure and adequate services. For example, in Sao Paulo, Brazil, 45.9% of households in the urban periphery have inadequate services compared to 22.1% in the central city (See table 1)(Mirandola Bichir 2009).

Table 1
Synthetic Indicator of Access to Urban Services and Built Environment, by Macroregion (%)
Municipality of São Paulo, 2004

	Macroregions			
	Peripheral	Intermediary	Central	
Inadequate Services	45.90	27.10	22.10	38.90
Deficient Services	33.70	33.90	27.60	33.30
Adequate Services	20.40	39.10	50.30	27.80
Total	100.00	100.00	100.00	100.00

Source: CEM-Cebrap/Ibope. *Survey* de acesso da população mais pobre de São Paulo a services públicos, nov. 2004, cited in Mirandola Bichir 2009, translated by Karen Brummond

Different solutions have been proposed to improve infrastructure. Major players include the International Monetary Fund and the World Bank. Reacting to debt crises, the International Monetary Fund and the World Bank imposed structural adjustment programs on debtor nations. These neoliberal reforms required debtor nations to, in addition to reallocating resources toward paying off debt, privatize public utilities (Korten 2001). The World Bank argues that in order to improve infrastructure, public entities must be privatized because governments do not have enough money to invest in infrastructure (de la Fuente 2003). To the contrary, the case of Bogota's water utility demonstrates that continued public ownership can be quite successful (Gilbert 2006). In the same way, the cases of Buenos Aires and Cochabamba's water utilities demonstrate that privatization often goes awry (Vilas 2004; de la Fuente 2003).

Table 2: Average Buenos Aires Water Bill

Date	Price in Pesos ($1peso=US$1)
May 1993	$14.56
June 1994	$16.53
Nov. 1997	$20.55
May 1998	$21.65
Jan. 1999	$23.73
Jan. 2001	$26.25
Jan. 2002	$27.40

Source: Vilas 2004.

Buenos Aires's water utility was owned and operated by the state-run National Sanitation Service (OSN) until 1993. Before privatization, the government of President Carlos Menem incrementally raised water tariffs by over 100% in two years. The government did this for two reasons. First, they wanted to attract potential bidders. Second, according to the Inter-American Development Bank, they did this because the thought it would be "a useful strategy for stemming possible opposition to the privatization process" (cited in Vilas 2004, 35). This privatization was a concession, as opposed to a complete privatization: the state remained owner of the infrastructure that was already in place. A multinational consortium, Aguas Argentinas S.A. (AASA), took over the utility with the stated purpose to "universalize the delivery of quality service by renovating existing and constructing new infrastructure" (Vilas 2004, 35). The World Bank was actively involved in the purchase, with 5% of the consortium being owned by the Bank's International Finance Corporation. The largest shareholder in AASA was Suez Lyonnaise des Eaux-Dumez, a French company that ranked 99th in the Fortune 500 in 2002. AASA won the bid by promising to reduce prices more than any other bidder, by 26.9%, and maintain these price cuts for ten years. Eight months into its contract, AASA petitioned for the right to raise tariffs and was granted the right to do so under the condition that they would improve service access quicker than originally agreed to. Despite this breach in contract, the second-placed bidder did not voice disapproval, suggestion that collusion may have occurred in the bidding process. After the first renegotiation of the contract, many others occured, allowing AASA to raised rates, again and again. Within ten years the average AASA water bill rose by 88%. These rates increased without inflation in the general economy

during the first nine years. At the same time, AASA raked in huge profits. Between 1994 and 2000, their annual net profit as a percentage of sales ranged from 8% to 17%, averaging 13%. AASA's first ten years running Buenos Aires's water utility was not a complete failure, but it was not a success. Access to water improved, but nowhere near to the amount that was promised. Of larger concern was the failure to improve wastewater treatment. They had promised in the original contract to expand primary wastewater treatment to 74%, but in 2001, it was only at 7%. Due to the failure to improve the sewage system while water service expanded contributed to 95% of the sewage in Buenos Aires being dumped into the River Plate. At the time of the completion of Vilas's article in 2004, Kirchner's new presidential administration was negotiating a new contract with AASA, keeping the consumer in mind and giving better benefits to consumers receiving the "social tariff" (Vilas 2004). This is a perfect example of why privatizing water is harmful to citizens. Corporations that buy water utilities do so under the guise of being better able to help the community than their public predecessors. In this case, the actuality was AASA failed to build what they said they would, this failure led to massive environmental damage to the River Plate, and despite it all, the company reaped huge profits.

The water utility in Bogota has a drastically different story. In 1996, the World Bank loaned $145 million to Bogota to save its water utility. Despite the World Bank's hopes of privatization, Bogota kept its water utility public. The population of Bogota has grown rapidly, from 5 million people in 1993 to 6.5 million in 2001. Even with this large population growth, this public utility increased water service from 78% of households to 95% of households in the same period. Bogota's poor and middle classes have access to water because their usage is heavily subsidized. The company remains profitable because it charges the rich up to twice the real cost of water and up to five times as much as the poor. Because it is a profitable company, it has the

opportunity to make infrastructure improvement investments. Because it is a public company, concerned with the well being of the people, it actually does invest in improvements unlike AASA of Buenos Aires. In fact, 40% of Colombia's water-sector investments were in not only Bogota, but Bogota's low-income neighborhoods. Regardless of the challenges it faced with the growing population, Bogota's was rated Colombia's best water utility in 2002. At the same time that Bogota's water utility improved service, they also successfully campaigned to reduce water use. In 1990, the average person used 42 gallons of water per day, compared to 29 gallons per person in 2004. Unfortunately, Bogota's water utility has begun to fall to the pressures of neoliberalism. Cross-subsidization has been attacked by the national legislature. Subsidies for the poor have decreased and various functions have been subcontracted to private transnational companies. While Bogota's water utility is not perfect, it has made leaps and bounds in its expansion of service, while making a worthy effort at keeping tariffs affordable for the poorest consumers. The main complaint that consumers have regarding the company is its prices, and for the poor this may be justified. The richest 10% receive 49 times more than poorest 10%, yet only pay three times as much (Gilbert 2007). It is disheartening to hear that with such inequality, the government is leaning towards cutting the subsidies that make Bogota's water utility affordable for the poor, yet successful in serving everyone. It is unclear if the government is imposing these changes for political reason or if they believe that the people will benefit. Either way, before changing too much, Bogota's government should examine what it had been doing right with water, and how it can keep water affordable and accessible for everyone.

While Buenos Aires's water company problematically privatized and that of Bogota had significant successes staying publicly owned, the story of Cochabamba's water war is much more dramatic. In 1999, Cochabamba's public water utility was bought by a Cayman Islands consortium Named Aguas del Tunari, corrupt Bolivian elites negotiated the purchase and they would also become partial owners. Immediately tariffs increased by 100%. The law required that water services be a monopoly. This forced water cooperatives and peasant irrigation systems to be connected to Aguas del Tunari. One third of the population was not connected to water services, and even they had to pay Aguas del Tunari. As one might expect, this led to immediate uprisings. An alliance formed between peasants and the urban population and called itself the Coordinadora en Defensa del Agua y de la Vida. This group was relatively simple to form because it used existing social capital found in professional societies, neighborhood associations, enterprises, manufacturing unions, and peasant associations. The protests that occurred from January through March 2000 were relatively peaceful, but in April the protests took over the streets. A "state of siege" was declared, inciting more protests. The government imprisoned the leaders of the Coordinadora en Defensa del Agua y de la Vida. Violence ensued. The government was left with few options and decided to give into all of the Coordinadora's demands to return

the water utility to public ownership (de la Fuente 2003). There was more to come when Bechtel, the parent company of Aguas del Tunari, sued Bolivia for $50 million in lost future profits in the International Centre for the Settlement of Investment Disputes. They ended up settling for an amount equivalent to about 30 U.S. cents ("Bechtel"). Cochabamba's water war demonstrates the power of social capital versus multinational corporations in the fight for justice.

The future of water in Latin America is somewhat problematic. Climate change will have a major effect on this issue. Glaciers in the Andes Mountains are a major source of water. With climate change, the ice caps are melting faster than previously predicted. La Paz, Bolivia is facing not only decreased water from glaciers, but also reduced rainfall. The combination of these factors is forcing the governor to consider moving people out of the area to make it more sustainable (Spiciarich, 2009).

While total access to water is being threatened by climate change, there are methods that have been devised to assist in bringing water to neighborhoods where there is currently no access. Mara and Alabaster suggest that underserved urban areas form, either by choice or by mandate, water cooperatives. They recommend that community members who live within a "block" purchase the supplies needed and fund the labor to build the type of cooperative water supply appropriate for the "block," and collectively pay the water company through the cooperative. There are standpipe cooperatives for the poorest, shared by multiple households and billed on a per person basis. There are yard-tap cooperatives for those with slightly more, with one tap per household and billed per person, but at a slightly higher rate. For the more advantaged, there are in-house multiple-tap cooperatives, with full connections and billed by use. This method has been employed in Parauapebas, Pará, Brazil. There the cost per connection

using water cooperatives was $44 compared to $167 using conventional methods (2008). By being part of a water cooperative, individuals feel like they have control over their access to water, which builds civic pride. They also get to know their neighbors because they will work together to build and pay for the water cooperative. Arguments that may break out in the process are worth the outcome of gaining a reliable source of water.

Privatization of public property is a serious issue, whether it is a water company, public land, or something else being purchased. Whenever privatization occurs, the citizens should have the right to know the details of the proposed sale and the right to voice their opinions before the sale, because they are the owners of the property being sold

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