

La Lucha por el Agua, la Lucha por la Vida: *The Political Economy of Water Privatization in Cochabamba, Bolivia*



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Preface

“The Water Wars changed the politics of Bolivia dramatically. Why? Because, Bolivia is in the middle of complete renegotiation of power between an elite that has run it for centuries and a majority that is indigenous and poor that is not going to let it happen anymore. The Water Wars was the moment in which the balance of power changed. From that has come everything that has happened since” (Shultz 2005a).

The election of indigenous leader Evo Morales in December of 2005 has brought a great deal of attention to Bolivian politics. Morales’ ascent to power represents a significant paradigm shift, in which a traditionally ruling elite minority was replaced by a popularly elected indigenous president. At this time, many are watching to see what this change means for the Bolivian populace. Understanding the historical framework that led up to the 2005 presidential elections offers an important window into Bolivia’s contemporary experience. In general, the subject of this thesis – the Water Wars – marks a significant event within that historical framework. In turn an investigation of Cochabamba City’s conflicts over water privatization provides an analytical tool to comprehend the challenges and opportunities that face the country today.

Map 1: Bolivia



(Source: <http://www.worldatlas.com/webimage/countrys/samerica/ciamaps/bo.htm>)

Cochabamba City



(Source: www.pitt.edu/~heinisch/File0202.j)

Chapter I

Introduction

In January of 2000, the people of Cochabamba flooded the plazas and streets of Bolivia's third largest city. For three days the city was paralyzed by a *paro*, a public strike that shut down the airport and blocked the two main highways leading in and out of the city, effectively halting all movement throughout the urban area. This was the start of a wave of massive demonstrations that were organized in reaction to the privatization¹ of Cochabamba's water utilities that took place through April of 2000. Over a period of four months, thousands of people from a variety of sectors of society – middleclass and poor, urban and rural – took to the streets in protest against increasing water tariffs and a loss of access to water (Shultz 2003).

For much time, the condition of water supply in Bolivia's rural and urban areas has been among the poorest in all of Latin America. A census taken in 1992 revealed that of urban populations, only 75 percent of households had connections to a water system and 36 percent had sewerage connections; and the conditions of rural populations were deemed to be even worse. The quality of water has also been identified as a serious problem in Bolivia. Despite adopting the Panamerican Health Organization's quality standards for drinking water, the country has continued to fall short of the minimum quality parameters (Nickson and Vargas 2002).

The conditions of water access and quality in Cochabamba have been in no better state than in Bolivia as a whole. Prior to privatization, the city's public water provider, *Servicio Municipal de Agua Potable y Alcantarillado Sanitario* (SEMAPA), struggled not only with

¹ Throughout this paper I will use the term "privatization," which technically means the complete transfer of management and ownership from the public to private sector. However, I use the term in a broad sense to signify the process of transferring some or all levels of management and ownership to the private sector, including the granting of concessions and licenses. Some literature also refers to this process as private sector participation. I use these terms interchangeably throughout the thesis.

meeting consumer demand but the company was running a substantial fiscal deficit. Due to water shortages, many households connected to the system had water available for use only during certain hours of the day, and some with water access no more than certain days of the week. Further, 43 percent of the city's population received no service from SEMAPA, as they were located beyond the company's piped network. Overall, due to a lack of financial means compounded by water scarcity problems in Cochabamba valley, SEMAPA had been unable to meet the water needs of its residents for some time (Nickson and Vargas 2002).

In response to Cochabamba's water coverage shortcomings, various external forces, namely the World Bank, urged Bolivia to privatize its water utilities. According to one Bank official, "Many countries' public sectors do not have the money or the expertise needed to deliver safe water to all their citizens" (Christopher Neal, letter to Jim Shultz and Tom Kruse, 6 June 2000). Further, it is the belief of the World Bank that "shutting the private sector out of water services altogether will prevent the poor from gaining access to the water they need. That's why the Bank is working with governments to involve the private sector in water delivery" (Christopher Neal, letter to Jim Shultz and Tom Kruse, 6 June 2000). In the case of Bolivia, the Bank encouraged private participation in the water sector by making privatization of Cochabamba's water utilities a pre-condition for a \$40 million dollar loan to the government (Clarke and McDonald 2003, 10).

In compliance with the requirements made by the Bank, in 1999 the Bolivian government quickly began the process of privatizing Cochabamba's water services. First, the government passed the Law 2029, the "Water Supply and Sanitation Law," which created the legal framework necessary for private sector participation (PSP) and eliminated all government subsidies (Slattery 2003). Soon after, Cochabamba shifted its water utilities to private ownership

by granting a 40-year concession² to a transnational consortium,³ *Aguas del Tunari* (AdT) (Nickson and Vargas 2002).

Following the transfer to private ownership, *Aguas del Tunari* raised the rates for water utilities. Within the first month, the water tariff increased by an average of 35 percent (Nickson and Vargas 2002), while some households experienced increases of up to 200 percent (Shultz 2003, 265). In part, the price increases reflected the elimination of subsidies and “the need for the tariff to reflect the true economic cost of service,” as well as a means to generate the necessary capital for a \$300 million project, the Misicuni Multipurpose Project (MMP), that would increase the water quality and availability in the Cochabamba valley (Slattery 2003). However, others argue that the tariff increases also reflected the guaranteed profit, an average of 16 percent annually, that was included in the concession granted to *Aguas del Tunari* (Shultz 2003).

In the face of tariff increases, huge public protests erupted against the privatization of Cochabamba’s water utilities. What is now known as “*La Guerra del Agua*,” or the “Water War” among Bolivians, lasted for over three months and consisted of strikes, protests, and numerous violent clashes. It has been noted that participants in the protests often consisted of diverse members of the Bolivian social structure, including “young people, old people, poor and middleclass” (Shultz 2003, 267). The protests also sparked a large degree of police brutality, as hundreds were injured and six died during the demonstrations. Yet, despite the oppressive actions taken by the government to subdue public demonstrations against *Aguas del Tunari*, the

² A concession is an investment-linked contract, where the concessionaire has overall responsibility for the services, including operation, maintenance and management as well as capital investments during the concession period. The concessionaire is also responsible for tariff collection and “customer management” (Clarke and McDonald 2003).

³ The consortium members were: International Water Limited (UK) (55%), Abengoa Servicios Urbanos (Spain) (25%), ICE Agua y Energia S.A. (Bolivia) (5%), Sociedad Boliviana de Cemento (Bolivia) (5%), and Compañia Boliviana de Ingeniería (Bolivia) (5%). International Water is a UK-based company, jointly owned by the US company Bechtel (50%) and the UK company, United Utilities (50%). (Nickson and Vargas 2002, 106).

people of Cochabamba persisted in their demands until they achieved their final goal and ended private participation in the water sector. The concession was finally cancelled on the 10th of April 2000, and the city's water utilities were returned to public control (Shultz 2003).

1.1. Paper Design

Stated plainly, the question I seek to answer in this paper is why did water utility privatization fail in the context of Bolivia? Many cities around the world have shifted natural resources, including water, to the private sector with little to no substantial protest from the public. So, why is Bolivia different? What circumstances and conditions ultimately shaped and/or undermined Cochabamba's privatization efforts? While a variety of scholars, policy makers, and activists have sought to address this question, many have focused their answers in predominantly economic terms, reasoning that with the transfer of water ownership to the private sector, tariffs rose, and people consequently protested. For example, in an interview with Jim Shultz (2005a), one of the leading authors on the subject, Shultz argued that,

The third thing⁴ that was the most important, was that the company just raised rates astronomically and immediately. If they had raised rates by much less, I don't think there would have been a Water War, if they had raised rates by as much, but had done it over a period of time, say, a year or two, I don't think there would have been a Water War. So it was all those things combined that sparked the Water War.

Although this paper does not dispute Shultz's logic, as the tariff increases did indeed act as the igniting spark of the Cochabamba conflict, the goal of this thesis is to explore the larger context within which PSP was introduced and to survey the factors beyond rising prices that caused privatization to fail.

⁴ Shultz (2005a) also listed the general sentiment against privatization that existed among the Bolivian populace, and the Law 2029 – which expropriated peoples' water resources as factors in the Water Wars.

The principle causes that will be investigated here are the socio-cultural dynamics of water rights, use and access in the Cochabamba valley as well as the role that economic factors played in generating the Water Wars. More importantly, however, I will consider the political and institutional elements that influenced the design and implementation of Bolivia's water utilities privatization policies. Ultimately, I will argue that Cochabamba's concession failed due to lack of state capacity and good governance. While I consider both the economic and socio-cultural dimensions of the Water Wars to be essential, I further contend that their relevance can only be understood in the context of Bolivia's weak state. Specifically, the government's use of illegitimate and centralized power, as well as its detachment from civil society, fundamentally shaped Cochabamba's privatization reforms and the subsequent protests. Thus the nature of Bolivia's failed privatization of water utilities is multifaceted; however, the context of weak political institutions and poor governance structure that existed at the time ultimately undermined PSP and created the framework upon which the Water Wars were produced.

The design of this paper will be broken into three main focus areas. First, in Chapter II, I will include a broad literature review that will introduce and explore a variety of texts related to the issue at hand. Initially the chapter will examine the basic economic tools and arguments needed to conceptualize water resources as a good and to understand the current debate over utilities privatization. Subsequently, the literature review will take a more expansive character and, reflective of the paper as a whole, explore more scholarly perspectives that incorporate socio-cultural and political lenses for evaluating water resources and the process of privatization. Second, Chapter III will provide a comprehensive account of the events, actors, and trends that comprised Cochabamba's experience before, during, and after privatization. This chapter will essentially tell the story of Cochabamba's failed concession by revealing the context and

characters that ultimately caused, whether directly or indirectly, the conflict. Throughout this section, I will elaborate on the socio-cultural dynamics of Cochabamba city and its politics of water supply and access, while at the same time drawing particular attention to the role of the state in shaping water policy throughout the region. Finally, the general analysis of the Water Wars will be developed in Chapter IV. At this point, both the economic and socio-cultural factors that contributed to the Water Wars will be considered; however, dominant emphasis will be placed on the political and institutional dynamics that ultimately shaped the context within which privatization reforms were implemented. Specifically, this section will focus on three elements of poor governance in Bolivia, including the cleavage between state and civil society, the state's dependence on centralized power, and the state's use of illegitimate power, and how they undermined the success of water utilities privatization reform.

1.2. Methodology

The methodology that I have utilized throughout the research and writing of this thesis is one that is centered on incorporating both diverse sources and voices in the paper, which together offer a holistic understanding of the core subject matter. The variety of resources that were employed to collect the bulk of the data utilized here include a broad survey of scholarly literature written on the theme of Cochabamba's Water Wars, including Carlos Flores Crespo's doctoral dissertation, Oscar Olivera's first hand account, and Crespo and Nina Laurie's PRINWASS research project, a demographic study on Cochabamba done by Maria del Carmen Ledo Garcia, statistics gathered from the World Bank and *Instituto Nacional de Estadística* (INE), interview statistics collected by *Corporación Latinobarómetro*, and interviews I conducted with Crespo, a Bolivian academic, and Jim Shultz, the director of the Democracy

Center and a leading foreign journalist and author based in Cochabamba. Beyond the diversity of types of sources I used to gather information on the subject, I also attempted to incorporate a variety of perspectives on the subject, including a technical and economic analysis by Andrew Nickson and Claudia Vargas and the socio-cultural analyses of Crespo and Laurie. Overall, by including a variance of sources and perspectives, I have sought to produce a well-rounded representation and analysis of the Cochabamba's Water Wars.

Chapter II

Literature Review

The aim of this chapter is to introduce a selection of scholarship that deals with the challenge of understanding both water as a good and the process of water utilities privatization. Throughout the chapter, various perspectives and approaches will be discussed, illustrating the complexity of the issues at hand. First, in Parts 2.1. and 2.2., an emphasis will be placed upon the economic approach to conceptualizing water resources, specifically as an Urban Water Supply (UWS), and its arguments for and against privatization. Second, in Part 2.3., a broader survey of scholarship will be incorporated to explore some of the more diverse perspectives used to analyze water goods and water utilities privatization. In this section, socio-cultural and political angles of analysis and their treatment of the subject matter will be discussed. Overall, the goal of this chapter is to develop a conceptual foundation upon which the events and experiences of Cochabamba's failed concession will be analyzed.

2.1. The Existing Debate over Water Privatization: The Economic and Technical Approach

The debate over water utilities privatization has generally been dominated by the field of economics – the field of study from which it emerged. In this section, I will provide the economic and technical arguments made by scholars on both sides of the debate. By discussing the basic elements of privatization's points of contention, I aim to build a foundation for understanding the debate over PSP that will later be drawn upon in the subsequent analysis of Cochabamba's experiences.

2.1.a. Arguments for Privatization

From an economic perspective, those in favor of PSP claim that overall, private companies are in a better position than states to effectively provide water utilities. Primarily, it is argued that market provision of water leads to improved efficiency, greater financial accountability, and the expansion of services.

Greater Efficiency

Because private companies are subject to the disciplines of the market, they have the necessary incentives to operate the water sector efficiently. In the private sector, owners are considered “residual claimants,” meaning that they have an interest in improving efficiency because any reduction in cost translates into potential profit. Within a private enterprise, the profit incentive proves to be strong because compensation is more directly tied to firm performance (Johnstone and Wood 2001; Hanke and Walters 1987). In contrast, under public ownership, “‘Profits’ generated via enhanced efficiency...could be refunded to taxpayers through tax reductions, but such refunds would be spread over many taxpayers, and any individual’s benefits would be small” (Hanke and Walters 1987, 105-6). As a result, private companies are more likely to focus their energies towards cost reducing activities, such as investment in more advanced technology and better managerial practices (Swyngedouw 2004; Cowen 1999; Harris 2003).

State Incapacity

Supporters of PSP point to the numerous incidences of state failure to maintain and improve water services. For example, public water companies tend to suffer from problems of

overstaffing. Also, the evidence shows that loss of production due to leakages, inadequate collection, and illegal connections is rampant in public water. In effect, most developing countries collect as little as one-third of revenues from water supply. Such problems lead to great inefficiency and in turn undermine the state's financial ability to expand services (Kessides 2004; Cowen 1999).

Furthermore, because states are susceptible to political pressures they frequently adopt policies that are inefficient, namely water subsidies. Although governments often support water subsidies as a means to reduce prices for the poor, many critics point out that they are in effect "anti-poor." For example, price subsidies are often demanded by middle and upper class residents who already have water utilities in their homes. Yet, when water tariffs are placed at below cost, they hinder the necessary capital accumulation for expanding water services. Thus, it is the poorer populations, who live on the periphery and are without formal access to the UWS that are perpetually excluded. In this way, subsidization is both financially damaging to states, as well as harmful to those in need (Harris 2003; Cowen 1999; Haarmeyer and Mody 1997; Nickson and Franceys 2003).

Access to Capital

In most developing countries, water networks have not expanded as quickly as demand has grown. As a result, there is currently a great need for capital to finance extensive new development in urban water systems. Yet, due to price subsidies, as well as common budgetary restraints, governments are often in weak financial standing and are unable to invest in large expansionary projects. In comparison, however, private companies are presumed to be in a better position to access capital both domestically and internationally. In effect, PSP is better able to

mobilize resources to improve water provision and expand service to those outside of the system (Swyngedouw 2004; Johnstone and Wood 2001).

In general, the argument behind PSP is that private companies have the necessary incentives to more effectively provide water services. Market forces induce private providers to operate water systems efficiently. Moreover, because the private sector has greater access to capital they are in a better position to invest in improved and expanded services. The abundant evidence that demonstrates state failures of water provision in developing countries also supports the drive for PSP.

2.1.b. Arguments against Privatization

Within the economic and technical debate, according to critics of privatization, the arguments used for PSP seem reasonable in theory, but are unrealistic and inapplicable in the context of the developing world. First, critics point to the fact that, as a natural monopoly,⁵ there is a strong probability of market failure when UWS is privately provided. The chief benefit of private allocation of goods is the inherent competitive dimension of the market. This competition is what drives companies to dispense resources in a more cost effective manner and to direct services in a way that benefits consumers. However, because this competitive element is absent in UWS, in combination with the fact that the global water industry is a monopoly in itself, private provision produces numerous problems, such as inequitable access and excessive pricing that ultimately harm poor water users. Based on this line of reasoning, private provision does not

⁵ A natural monopoly occurs when levels of production are most efficient if the industry is conducted as a single entity, or “unit costs are declining over the entire relevant range of market demand for a product” (Hanke and Walters 1987, 107). In this way, because of the high fixed cost of setting up a piped network, one firm can supply water at lower cost than numerous competing firms (Hanke and Walters 1987).

necessarily result in efficient allocation, nor does it assure that water access will be expanded for a greater number of consumers.

Lack of Competition

Many critics note that beyond the natural monopoly characteristic of UWS, the global water industry is, to a large extent, an oligopoly. For example, the entire water industry is dominated by only ten corporations, of which two, Vivendi Universal and Suez, control 70 percent of the market (Barlow and Clarke 2002; Hall 2001; Robbins 2003). This lack of competition among water corporations is problematic because it weakens a government's bargaining power during the bidding process. For example, if only one corporation bids, that corporation is then able to demand a contract that works to its own benefit, and not to the benefit of consumers. Thus, the lack of competition in the global water industry can indirectly hurt consumers.

Inequitable Access

Unlike public enterprises, in the private sector there is a need not only to set prices high enough to cover costs, but also to provide a degree of profit. This drive for profit can create two problems in the water industry, unequal access and high prices. First, there is a tendency for corporations to operate in the most profitable areas, such as in wealthy urban neighborhoods where consumers are more likely to pay higher prices and infrastructure costs are lower. In contrast, it is less probable for poor communities to attract corporations because the guarantee for cost recovery and profit is reduced, and there is likely a large investment cost needed to

expand and improve access. In this way, PSP can worsen an already inequitable system of water provision among wealthy and poor communities (Robbins 2003; Swyngedouw 2004).

Exclusivity

As a means to preclude this kind of disproportionate service, concessions often contain an element of exclusivity aimed at reducing revenue risk and assuring a basis of profit for companies. In this way, private providers are encouraged to invest in projects with high capital costs, such expansion of water system, because they will be ensured future returns under their exclusive ownership rights. However, many deem this solution to be very problematic. First, the exclusivity clause allows private providers to effectively expropriate water supplies from individual or community associations who have created their own informal networks of service because they are either beyond the city's supply system or they are underprovided. Moreover, exclusivity prohibits all competition from other small-scale providers, such as truck vendors, who may have also serviced area outside of the city's network (Nickson and Vargas 2002). Thus, by granting a company exclusivity rights, privatization hurts previously established water suppliers.

High Prices

The next chief argument made against PSP is that a water company's need for profit drives up prices above public tariff levels. Due to their financial structures, private companies are required to generate enough revenue to supply owners with profits and dividends. These requirements can effectively increase water prices beyond operating and investment costs (Hall

2001; Swyngedouw 2004). As a result, there is a threat that consumers without the ability to pay increased prices may be excluded from the market.

Overall, those who oppose PSP argue that because UWS is a natural monopoly, the likelihood of market failure is great. Moreover, critics stress that because companies put profit incentives before the needs of consumers, privatization can often negatively impact the welfare of water users. From this perspective, problems such as inequitable access and high prices are often expected to occur when ownership is shifted to the private sector.

Understanding the current debate over privatization helps to build a foundation upon which the experiences of Cochabamba can be analyzed. Various assertions made by scholars – both in support of privatization and in critique of it – illuminate the importance of recognizing the complexity of water sector PSP. Overall, the economic and technical debate provides numerous insights into the benefits and challenges of water utilities privatization. Yet, these analyses cannot be fully understood without noting the way in which water is defined as a private and merit good within this approach. The following section will develop at greater length the economic and technical definitions of water as a good within an UWS.

2.2. What Type of Good Is Water?

In order to understand the previous arguments for and against water privatization, and how they differ from the socio-cultural perspectives that will be developed in the following section, it is necessary to first discuss the defining characteristics of water as a good. Although

water is commonly considered a public good,⁶ according to basic economic principles water in the context of UWS is a private good (See Table 1 below).

Table 1: Samuelson and Musgrave Classification of Goods

Samuelson's Classification

| | | | |
|----------------------------------|---------------------------|---|---|
| <u>Musgrave's Classification</u> | Rivalry: | The person's consumption subtracts from total available to others | One person's consumption does not subtract from total available to others |
| Excludability: | Exclusion is feasible | Pure Private Good | Club Good |
| | Exclusion is not feasible | Common-Pool Good | Pure Public Good |

Because UWS is characterized neither by non-excludability nor non-rivalry, water is defined as a pure private good. More specifically, as a finite substance, water is a private good in part because one person's consumption does subtract from the total sum that is available to others. Moreover, water is a private good because within an urban water supply it is possible to exclude consumers from a piped network (Nickson and Franceys 2003). "It is feasible and common practice both to charge users and to exclude non-payers," from an UWS (Nickson and Franceys 2003, 4).

The definition of water, however, is not limited to the classification of a private good. Within classical economics water is also considered a "merit good"⁷ due to its essential life-giving features. Merit goods are those that, although they have private good characteristics, they also have public good dimensions. For example, merit goods are signified by their "spillover"

⁶ Public goods are restricted to those that are both non-excludable and non-rivalrous, and are often provided at zero direct cost to the consumer (Nickson and Franceys 2003, 3-4)

⁷ Merit good is defined as a privately consumed good, excludable and rivalrous, but "a certain level of consumption is deemed a necessary condition for participation as a citizen" (Wolf 2005, 63).

benefits and costs, meaning that better water quality and availability translates into benefits not only for one individual, but also for all individuals who share in a water supply system. For instance, access to clean water effectively reduces the incidence of water-borne diseases and raises the general health of a population (Gleick et al 2002). Access to clean water, like access to education and healthcare, can be considered an essential component to productive citizenship (Johnstone and Wood 2001; Wolf 2005; McDonald and Ruiters 2005). Additionally, water is characterized as a merit good due to the risk of information failures that exists in UWS.

Information failures arise because quality is an imperative component to water consumption and it is difficult to test for without proper technology. These characteristics set water apart from other pure private goods because they, “imply that there is a significant demand-side potential for the under-provision (both in terms of quantity and quality)” of water resources (Johnstone and Wood 2001, 28). Thus, unlike other nonessential private goods, water is a merit good.

Understanding UWS as both a private and merit good is central to understanding the current debate over privatization. At present, literature on PSP has predominantly been carried out using economic and technical analyses of water privatization. In using this approach, studies have concentrated on the private and merit good qualities of water to support their relative claims either for or against privatization. As noted earlier, most scholars – whether arguing in support of PSP or against it – focus on how different forms of provision lead to efficient allocation and expanded access. By centering on these two concepts, scholars are looking at how as a private good water can be distributed more effectively and how as a merit good water can be assured to a greater amount of the populace.

Overall, while defining water as a private and merit good lends support to the economic and technical analysis of privatization, other perspectives tend to utilize more diverse definitions

of water. Moreover, alternative analyses of the process of privatization also attempt to go beyond the economic and technical approach by looking at more the more contextual features that shape the outcome of PSP. In total, the less conventional approaches to conceptualizing both water and privatization, when offered together, provide a holistic understanding of water privatization in general. In the subsequent section, therefore, a variety of perspectives will be touched upon, including analyses that employ social, cultural and institutional lenses.

2.3. Socio-Cultural and Political Approaches to Understanding Water Privatization

2.3.a. Water as More than an Economic Good

While water, in the field of economics, is considered a private and merit good, in other scholarly fields and communities it is conceptualized in more diverse manners. For example, depending on one's perspective, water is conceived of in terms of universal or "natural rights;" yet other notions of water are shaped through distinct cultural and social processes that are less universal and more local. Although these differing perceptions may generate an ambiguous and fluid definition of water, they represent the varied ways in which people approach issues such as the privatization of water utilities. As will be elaborated upon in the following chapters, some actors involved in Cochabamba's Water Wars put forth conceptions of water that fell in direct tension with the state's efforts to privatize the UWS. For this reason, the following section will grapple with various scholars' treatment and definitions of water.

The notion of water as a "natural right" is one that is often invoked when water becomes the subject of mercantile processes, such as privatization. Through this perception, the defining characteristics of water become its "nature's gift" and "essential to life" qualities that place it

ideologically outside of the commodification domain (Shiva 2002, 35). In other words, putting a price on water is equivalent to using a life-sustaining source that has been produced freely by nature for the purpose of profit-making, which is in itself considered unjust and unnatural. Based on this notion that water is nature's gift of life, Vandana Shiva – an Indian scholar who has been a vociferous denouncer of water privatization – has argued that water is most accurately defined as a “natural right,” like it has been in many customary and ancient societies across the globe.⁸ “Water has traditionally been treated as a natural right – a right arising out of human nature, historic conditions, basic needs, or notions of justice. Water rights as natural rights do not originate with the state; they evolve out of a given ecological context of human existence” (Shiva 2002, 20).

In terms of ownership and organization, Shiva (2002) claims that, “as natural rights, water rights are usufructuary rights (or that) water can be used but not owned” (21). In effect, the treatment of water as a “natural right” therefore requires water to be managed as commons, which – again according to Shiva – allows for the most sustainable and equitable allocation of the good. As opposed to private ownership, Shiva (2002) argues that by treating water as a good of the commons, management is able to take place at a community level where decisions regarding use and allocation can be determined through decentralized and democratic means. Shiva's (2002) definition and prescribed treatment of water is essentially in opposition to the policy of privatization, which argues that the market is the best mechanism for allocating water resources, not community decision making.

⁸ Shiva notes that both traditional Hindu and Muslim societies in India have treated water as a “natural right.” Moreover, Shiva notes the work of historian Donald Worster who claimed that early Spanish settlers in the US based notions of ownership on riparian rights in which water was shared as a common good and not treated as private property (2002, 20-22).

However, in a similar vein as that of PSP, treating water as a natural right assumes a universal quality. In other words, just as privatization proponents argue private ownership to be the most efficient means for water management – no matter the local circumstance – so does the concept of water as a “natural right” take on an element universalism by claiming to be a sort of inalienable right that is best protected through community-level control. In contrast, the subsequent scholars that will be discussed argue for a more localized view of water and water rights, reasoning that conceptualizations of water are resultant of social and cultural dynamics of a community.

According to many scholars in different disciplines and focusing on diverse regions, water – as a life-sustaining resource – has been identified to hold significance beyond ordinary economic good stature. Specifically, water is claimed to be both a product and a source of community values and social structures, and thus has warranted much research on the interaction between societies and water resources. For example, in the work of David Mosse (2003), a scholar on South Asia, the author claims that,

Water – a productive and symbolic resource – is integral to the historical making of regionally-specific institutions. Flows of water across an extensive drainage system, between villages and into rice fields are a part of the construction of social identities and political domains. The connections and interdependencies of hydrology interweave with those of caste-class and kinship, business and politics, and generate distinctive patterns of co-operation and conflict... Water flows have not only shaped social and political institutions, they have also legitimized them (4).

In this way, the author paints a picture, not only of water flows connecting households across the rural Indian landscape, but also of water connecting people through the creation of institutions that govern their social and political lives.

Similarly, the work of Erik Swyngedouw (2004), a scholar of urban water conflicts in Latin America, has focused on the connection between water resources and the power relations and hierarchies that govern individual societies. For example, the author argues that water supply

and distribution occupy an essential role in determining and reinforcing urban power arrangements.

Water circulation is part and parcel of the political economy of power that gives structure and coherence to the urban fabric. Indeed, the water/money nexus combined with H₂O's essential life-giving and life-sustaining use-value inserts water and the hydro-social cycle into the power relationships of everyday life and makes it subject to intense social struggle along class, gender, and ethnic cleavages for access and/or control. Mechanisms of access to and exclusion from water lay bare political economic power relationships and positions of social and cultural power, particularly in cities that lack adequate water supply systems or in environments characterized by heavily contested water usage (Swyngedouw 2004, 2).

Based on this, Swyngedouw (2004) claims that water, especially in the context of scarcity, is a central component to the frameworks of power that give shape and structure to the organization of communities. As a result, water rights and access within a society often reveal the uneven and undemocratic distribution of power. "Systems for controlling resource access and use typically reflect the ways in which society is organized and thus recreate and reproduce the inequities in society" (Johnston and Donahue 1998, 3). Overall, based on these scholars' notions, water resources are tightly woven into the social fabric and political economy of communities, and therefore cannot be conceived of as separate from their local contexts.

Moreover, notions of water and water management are also to a large extent determined and defined by cultural factors. For example, according to Rhodante Ahlers (2005), whose scholarship focuses have largely been centered on water privatization issues in Latin America, "natural resources cannot be understood as separate entities but as interlinked and riddled with multiple cultural, economic, and historic meanings" (58). Ahlers (2005) illustrates this claim by noting the often spiritual element that water resources have in various indigenous communities throughout Latin America. "From this perspective, water is not only essential for material life but also for spiritual sustenance: natural and human resources are regarded as an integral whole" (Alhers 2005, 67).

By linking water resources to cultural identity, changes and challenges to the ownership and management of water therefore becomes the source of cultural tension. For example, “the story of water is all too often a story of conflict and struggle between the forces of self-interest and opportunities associated with ‘progress’ and the community-based values and needs of traditional ways of life” (Johnston and Donahue 1998, 3). Based on this notion, cultural values may come under threat when water resources are rearranged and restructured. Specifically, this tension has been seen to arise in many traditional Latin American societies over the theme of gender and its role in both water management and the creation of cultural identity.

Increasing women’s control is a struggle not just over water as a resource and over the power to phrase water policies and laws but is also a struggle to change ‘water cultures.’ Articulating women’s water needs requires challenging deeply rooted and culturally embedded associations between irrigation and masculinity (Zwarteveen and Bennett 2005, 25).

This example demonstrates a manner in which water may be closely tied to cultural values, consequently creating obstacles and challenges in water ownership and management.

Overall, understanding the socio-cultural dimensions of water is essential to approaching an issue as complex and challenging as that of water utilities privatization. Because, “the social and cultural constellations of power legitimize claims to water as much, if not more, than formal or legal institutions” (Ahlers 2005, 61), analyzing the different notions of water that are in practice in various communities helps to illuminate their responses to changes in water policies. Thus, this thesis will give considerable focus to the social and cultural dynamics of water management in Cochabamba and how these aspects influenced the city’s experience with privatization.

2.3.b. Challenges of Privatization

Similar to how the previous discussion employed different lenses through which water resources and water management could be understood, this section too will go beyond the conventional economic analysis of privatization, and will instead analyze the socio-cultural and institutional challenges of privatization in general. There are two main scholars, Amy L. Chua and Alvaro Vargas Llosa,⁹ whose work will be focused on in order to exemplify the broader contexts and issues that shape privatization policies and outcomes.

First, the work of Chua (1995), who has widely studied the connection between ethnically divided societies and the repeated failure of state privatization strategies, contributes an important perspective to understanding the role of socio-cultural factors in shaping policy frameworks. According to Chua (1995), in an article titled “The Privatization-Nationalization Cycle: The Link between Markets and Ethnicity in Developing Countries,”

Today’s privatizations by no means represent the first efforts to pursue free-market economic policies in Latin America and Southeast Asia. On the contrary, with few exceptions, the countries of both these regions – despite all the differences among them – have been cycling back and forth between privatization and nationalization for as long as they have been independent (225).

Through her discussion of “the privatization and nationalization cycle,” Chua (1995) demonstrates that failed privatization strategies are often “determined by political and cultural as well as economic factors” (226). More specifically, the author argues that these trends can be illuminated and explained through a comprehensive look at the role of nationalism in former colonial regions. In this manner, Chua (1995) links the rejection of privatization, a symbol of

⁹ Within the field of Latin American area studies, Vargas Llosa has proven to be a highly contentious voice, receiving a large degree of peer criticism. The primary source of this controversy is over Vargas Llosa’s (2005) employment of a cultural defense in arguing why contemporary economic policies fail in the Latin America context. In general, Vargas Llosa is criticized for his claim that traditional cultural values and practices in Latin America have inhibited communities from modernizing and developing. However, in this paper I will not be discussing this element of Vargas Llosa’s (2005) work. Instead, I will focus on his claim that Latin American states maintained many of these statist and corporatist structures throughout their implementation of liberalizing reforms during the 1990s, and as a result failed to make the institutional changes needed to improve the lives of the general populace.

foreign ownership, with forces of nationalism that are directed against Western or “imperial” foreigners and figures within a nation who are identified as “foreigners within.”

To support her claim, Chua (1995) argues that many of the “postcolonial nations of the developing world are deeply divided along ethnic and economic lines” (226). These divisions, according to Chua’s (1995) research, are further exacerbated by free-market policies, which “in these countries have historically resulted in the disproportionate prosperity of particular, ethnically identifiable groups” (226). As a result, privatization schemes are often overturned by “disadvantaged” and “ethnically charged” majorities who have successfully led powerful nationalist movements for the rejection of private sector participation and the unequal opportunities it creates. Ultimately Chua (1995) notes that, “the privatization-nationalization cycle cannot be understood without recognizing this fundamental tension between the forces of the marketplace and the force of ethnic division” (226).

In general, Chua’s (1995) work demonstrates the problems that arise when privatization reinforces or agitates the social divides that shape a country. Overall, this analytic approach illustrates the need for ethnic, cultural and social contexts to be understood and evaluated with the implementation of privatization reforms. Specifically, this perspective is essential for recognizing how socio-cultural dynamics are likely to be strong forces in shaping a community’s response to water privatization.

An alternative approach of analyzing privatization efforts and their outcomes is one that incorporates a broader evaluation of the role of institutions in policy development and implementation. For example, various scholars in their examination of the neoliberal era of the 1990s have sought to explain why reforms, like privatization, failed in the context of Latin

America and other regions by re-analyzing and reevaluating the institutional environment within which these reforms were implemented (Vargas Llosa 2005; Fukuyama 2004¹⁰).

Broadly, Vargas Llosa (2005) argues in his work Liberty for Latin America that by looking at state design and implementation of the “liberalizing” reforms of the 1990’s, one can see that these changes were nothing more than what Vargas Llosa (2005) calls a “capitalist mirage.” In other words, although governments implemented liberalizing policies – like privatization, open trade and deregulation – the institutions of state management persisted and the reforms ultimately failed to make tangible improvements in the lives of most citizens. Vargas Llosa (2005) then argues that unless reforms aim to change the social and political arrangements governing individual freedom in Latin America, the outcome of reform, no matter if they are statist or liberal, will be the same.

If reform does not consist of a systematic, all-encompassing assault on the myriad mechanisms through which power allocates opportunity and vests particular individuals and groups with rights the rest of society is barred from, the transition can end up replacing one form of corporatism, state mercantilism, privilege, wealth transfer, and political law with another. In that case, what occurs is a transition from state to private ownership, but not from underdevelopment to liberal capitalism (Vargas Llosa 2005, 164).

In this way, Vargas Llosa (2005) claims that market reforms, particularly privatization, will fail in achieving their intended results – improving water access and quality for the poor – if the social and political institutions that determine the beneficiaries of reform are not directly altered.

More specifically, in Vargas Llosa’s (2005) discussion of privatization policies in Latin America, the author notes a variety of trends that undermined the reforms throughout the region. First, according to Vargas Llosa (2005), privatization policies from the start were dubious in many countries because governments sold their enterprises to the private sector, not as a means

¹⁰ In Fukuyama’s (2004) book State-Building: Governance and World Order in the 21st Century, the author argues that both the “absence of a proper institutional framework” and an insufficient emphasis on state capacity building ensured the failure of the “Washington consensus” and its liberalizing economic reforms.

of transitioning to a liberal, capitalist society, but rather as a mechanism for paying state debt or generating extra capital. “Governments were obsessed with obtaining cash from sales or reducing obligations through debt and equity swaps. They therefore acted as if government assets really belonged to the government and not to the workers who had mixed their labor with them” (Vargas Llosa 2005, 165). The author goes on to argue that privatization reforms would have been sounder had governments transferred the privatized assets to workers or the populace as a whole “letting them, as shareholders, decide whom to sell them to in a market transaction free of government intervention” (Vargas Llosa 2005, 165). Had governments adopted such a policy they would have effectively reduced their own authority in the economy and promoted greater decentralization of power throughout society, which according to Vargas Llosa (2005) are the tenets of privatization.

Second, the author purports that the privatization policies carried out by governments in Latin America were not in fact true capitalist reforms, but rather were acts of “crony capitalism.” Specifically, Vargas Llosa (2005) claims that privatization reforms depended entirely upon government and private interest alliances, which “hinged on the transfer of assets to private parties” (166). Thus, governments assured that state enterprise monopolies would be replaced with new monopolies, and that old powerful elites would be replaced with new powerful elites.

Privatization installed a new class of elites, made up of local and foreign interests, in the place of the old ruling class under economic nationalism. In every country, through the granting of monopolies, the passing of discriminatory regulations, or the use of subsidies, the government facilitated the creation of new groups that came to dominate the economy (Vargas Llosa 2005, 166-167).

Overall, Vargas Llosa (2005) sees the privatizations of the 1990s as nothing more than a superficial transfer of assets. “The transition from economic nationalism to ‘capitalism’ affected ownership but not the treatment of property rights in Latin America. Ownership changed hands while property rights remained in the hands of the government” (Vargas Llosa 2005, 167). In this

way, the author argues that privatization failed because the reforms did not go deep enough to alter the institutions governing the economy and the state-society interactions within the economy.

According to Vargas Llosa (2005), privatization efforts cannot be understood without a serious analysis of the role of the state in designing and implementing them. While liberalizing policies are often assumed to minimize the authority of governments, Vargas Llosa (2005) demonstrates that this is not always the case. Rather, the experiences of Latin America illustrate the ways in which the state can directly undermine and distort those reforms. An evaluation of privatization then, according to Vargas Llosa (2005), must account for the institutional and political environment within which policies are crafted and introduced.

On a whole, both the works of Chua and Vargas Llosa provide alternative angles of analysis to understanding privatization that go beyond the conventional wisdom of economic theory. In contrast, both authors survey privatization from broader perspectives that analyze more than just the mechanics of ownership transfer, and instead attempt to comprehend the larger context within which privatization policies are implemented.

While Parts 2.1. and 2.2. of this chapter, which focus on the economic and technical approach to studying water utilities privatization, are an essential component to my own analysis of Cochabamba's experiences, they function more as the building blocks upon which my research began than an actual representation of my analytic perspective. On the contrary, my work is more reflective of the alternative approaches discussed in Part 2.3., in which scholars attempted to grapple with the more elusive and locally-determined aspects of both water and privatization. Overall, it is my goal to utilize a holistic perspective for understanding the failure

of privatization in Cochabamba, by looking at the economic, socio-cultural, and political dynamics of water rights, use and access before and after privatization. Moreover, I will analyze how these dynamics are and were supported by institutional frameworks of formal and informal arrangements of power in Cochabamba. Ultimately, by using an approach that incorporates the diverse dynamics of water privatization, I hope to more effectively identify the root causes of privatization's failure in the Bolivian context.

Chapter III*The Story of Cochabamba's Water Concession: Background and Chronology*

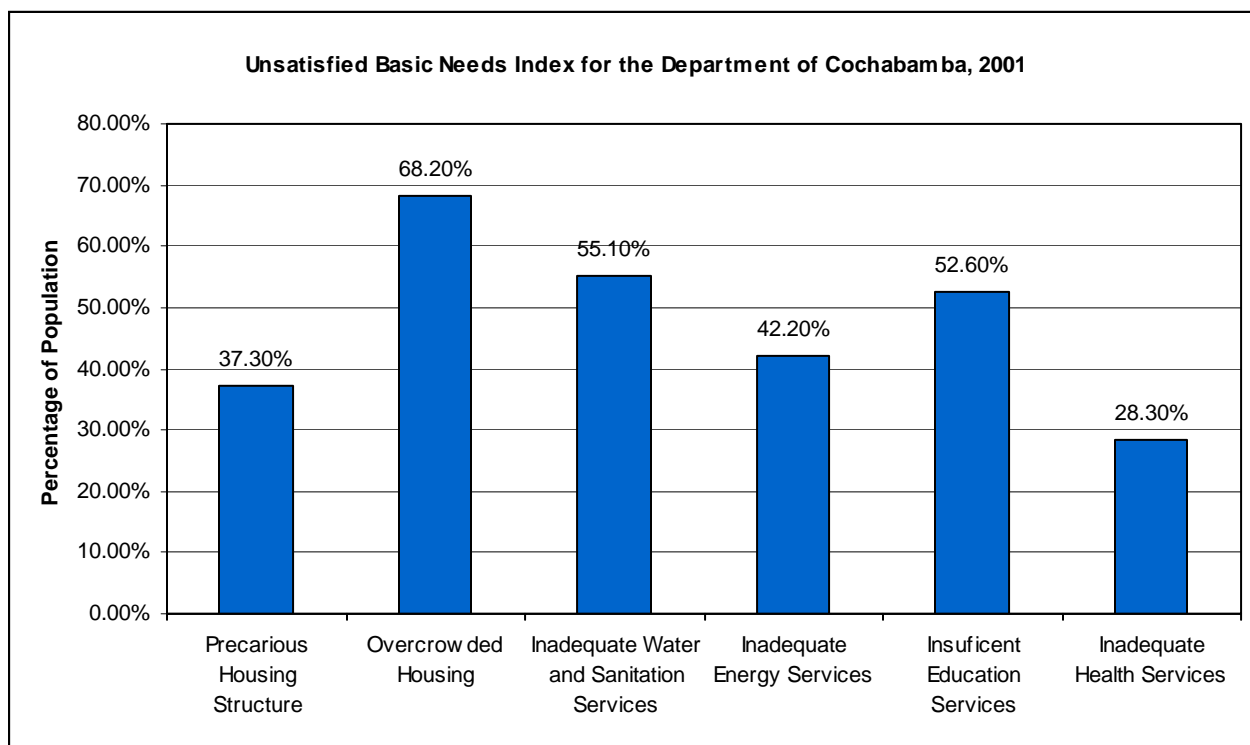
In this chapter, I will provide a comprehensive survey of the details and events that surrounded Cochabamba's water sector privatization reforms. First, in part 3.1. of the chapter, I will begin by discussing the demographics and organization of water rights in the Cochabamba valley prior to privatization. Also, I will focus on the politics of water scarcity in the valley, and how the limited supply ultimately became a source of social segregation between those with access to water and those without. Finally, I will touch on how the characteristics of public water supply before privatization greatly influenced the public's reaction to PSP. In Part 3.2., I will provide an exhaustive review of the creation and implementation of the privatization reforms by the government. Specifically, I will cover the legal and regulatory frameworks that were constructed to facilitate the sale of Cochabamba's water sector. I will also discuss the negotiations that took place between the central government and the private company, and the eventual contract signed between the two bodies that defined the specifics of PSP. In this section, I will highlight the degree to which the general Bolivian populace, as well as key stakeholders, was excluded from the designing and implementation process of the concession. Finally, Part 3.3. will elaborate on the public's negative response to privatization and the violent clashes that followed. My discussion will focus on the state's illegitimate use of force to quell the protests, which ultimately fostered greater support for the demonstrators. Overall, the purpose of this chapter is to provide the contextual foundation of my investigation; however, throughout my review of the information, I will also continuously emphasize the character and significance of the events that comprised Cochabamba's water privatization reforms.

3.1. Cochabamba before Privatization: Issues of Water Scarcity and Urban Growth

3.1.a. Demographics and the Political Economy of Water Scarcity

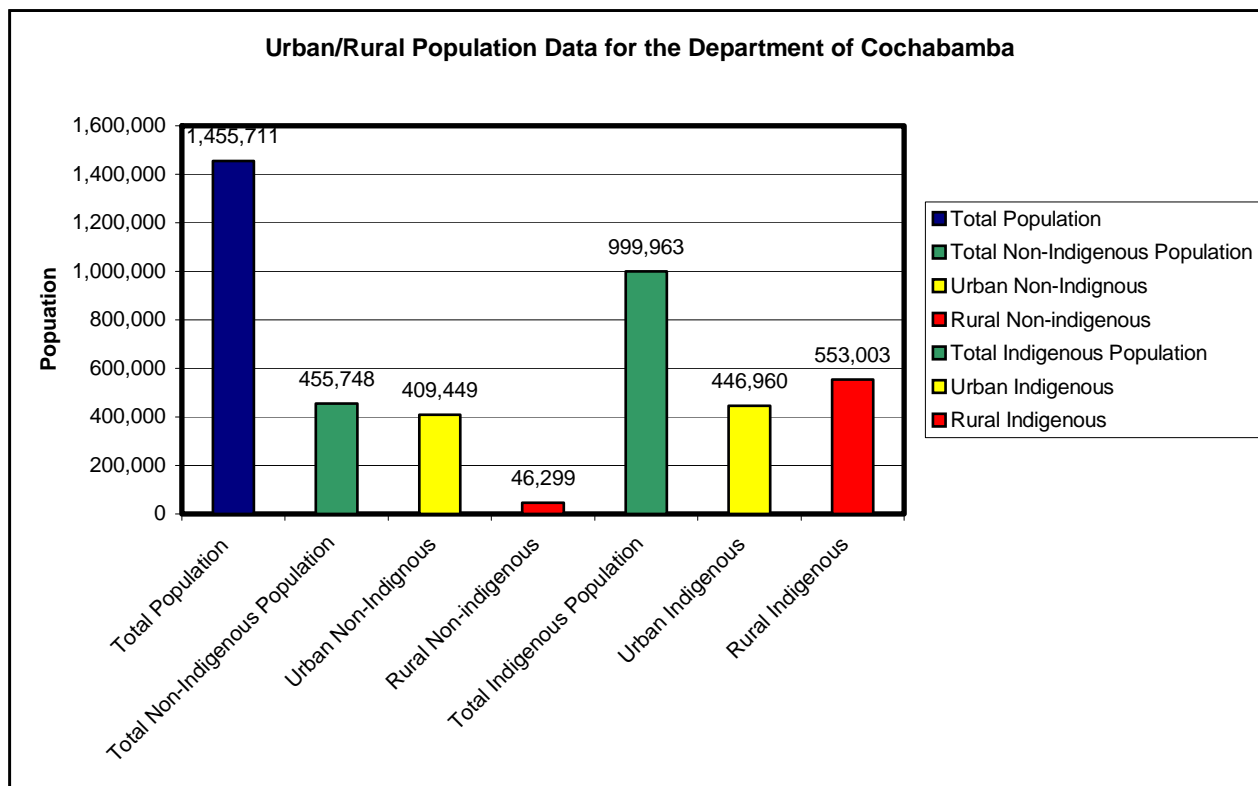
Mirroring the rest of Bolivia, the Department of Cochabamba is populated predominately by impoverished and indigenous people subsisting at low levels of human development (See Tables 2 and 3). According to a 2001 census gathered by the *Instituto Nacional de Estadística*, “55 percent of the populace is poor, equal to 777,820 inhabitants, who lack basic services, reside in dwellings without appropriate conditions, have low levels of education, and/or receive inadequate health services,” (Instituto Nacional de Estadística 2001b, 2, *my translation*). Overall, in both the rural and urban sectors of Cochabamba, the majority of inhabitants are indigenous. However, between the two sectors there is a stark contrast in the populations, with proportionately far more indigenous peoples living in the rural areas than the city. What these statistics indicate then is that the majority of Cochabamba’s population lives in substandard conditions, while the state has been ineffective in providing the necessary basic services to raise the levels of human development. Moreover, it must be recognized that there is a difference and division between the rural and urban sectors. I will now begin to discuss the water situation in Cochabamba – specifically the problem of water scarcity – and how in combination with these trends and demographics, the organization of rights and supply of water represented a serious challenge even before privatization was instituted.

Table 2



(Source: Instituto Nacional Estadística http://www.ine.gov.bo/PDF/PUBLICACIONES/Censo_2001/Pobreza/PCochabamba.pdf)

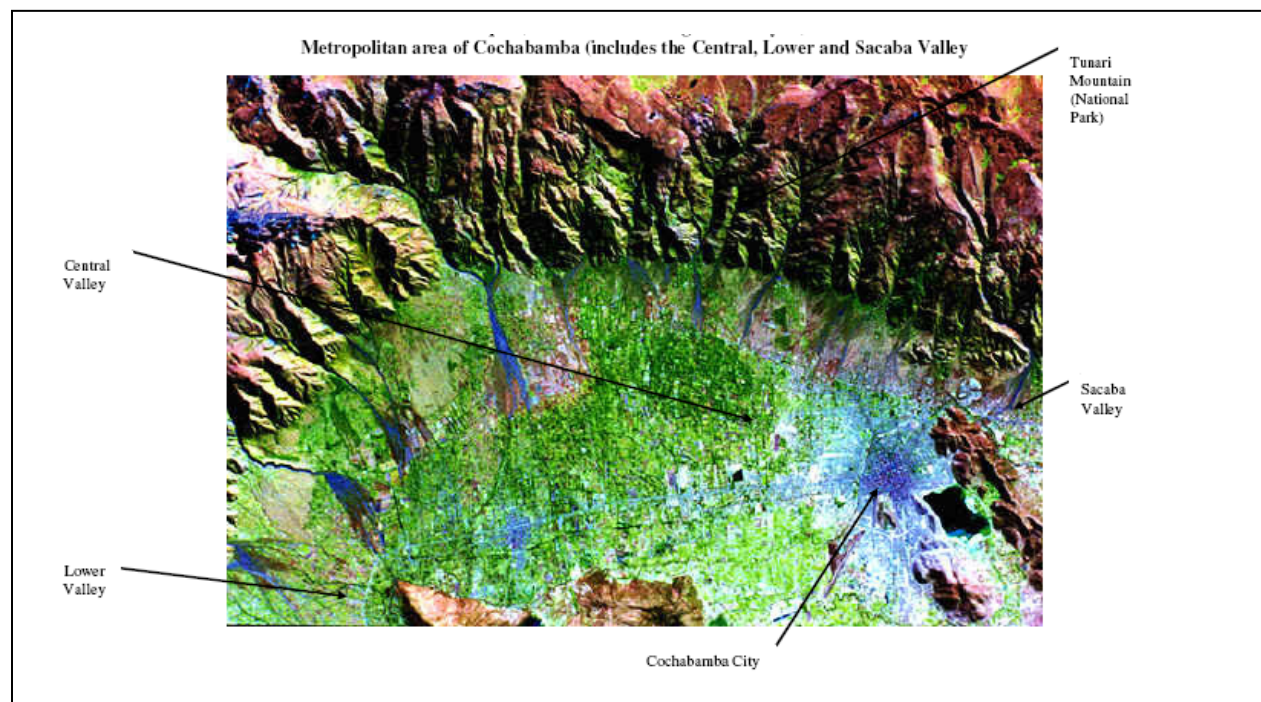
Table 3



(Source: Instituto Nacional de Estadística <http://www.ine.gov.bo/cgi-bin/piwdie1xx.exe/TIPO>)

For over 50 years water scarcity has been a dominant concern in the Cochabamba valley (Olivera 2004, 7).¹¹ In part, shortages have occurred due to the arid climate of the valley; however, the lack of rainfall has been exacerbated by the rapid rate of urbanization that the city of Cochabamba has incurred. For example, while growth rates between 1992 and 2001 subsisted at 1.18 percent in the rural area surrounding the city, the urban area exploded with growth rates of 4.2 percent (Crespo 2002a, 103). Two consequences have resulted from this upsurge in urban migration; first, there has been a growing struggle over water usage and rights between the agricultural demands of the rural sector and the drinking water needs of the urban sector; and second, the rapid rate of population growth in the city has also led to disorganized and unplanned urban development. As a result, many areas remain severely under-serviced by the municipal water sector.

Figure 1
Satellite Image of Cochabamba Valley



(Source: Laurie and Crespo 2004, 27)

¹¹ The rainfall in the region has averaged just 472 mm per year (Laurie and Crespo 2004, 29)

Urban/Rural Rivalry

With approximately 40 percent of the population of the Cochabamba valley living in the rural periphery (Beltrán 2003, 6), and agriculture accounting for 15 percent of the departmental GDP (Crespo 2002a, 103), the demand for water outside of the city has been great. As a result, “the scarcity of water together with the inefficient allocation of the existing water resources¹² [has] generated a rivalry between UWS and agriculture” (Nickson and Vargas 2002, 112). Small farmers in the rural areas have felt threatened by the encroaching needs of urban Cochabamba for two reasons. First, rural water users have feared a depletion of their water sources. Over time, as the city of Cochabamba has grown, farmers have lost water resources both due to an actual reduction in agricultural space as human settlements have expanded, and due to the growing demands on water resources for industrial and human uses. Consequently, tensions have grown between urban and rural users. For example, in 1997, conflicts between farmers associations and the Cochabamba city government arose when SEMAPA decided to drill wells in the surrounding rural municipalities to supply the growing needs in the city (Nickson and Vargas 2002).

Second, farmers have also worried that the expanding urban demands for water in the valley will threaten their established rights over water for irrigation. Although the government legally owned all rights to departmental water resources prior to privatization, it never regulated their use. As a result, in the rural areas water rights have long been organized in an informal market based on a traditional system of property rights, known as “uses and customs.”¹³ In general, these water rights have been autonomous from state management (Laurie and Crespo

¹² With approximately 4,000 wells in the valley extracting groundwater, Cochabamba is extracting water at a higher rate than the natural rate for replenishing the aquifers (Laurie and Crespo 2004, 45-46).

¹³ “‘Uses and customs’ practices in water are part of the reciprocity system and mutual support systems of traditional Andean societies” (Laurie and Crespo 2004, p. 44). The systems are organized through communal and intercommunal relations. “In terms of agricultural production, the uses and customs practices are linked with food security, economic complementarity and productive diversity” (Laurie and Crespo 2004, 44).

2004). However, with the passage of the 1999 Water Supply and Sanitation Law and the increased introduction of capitalist practices¹⁴ into the management of water resources in the valley, many farmers associations felt that their established rights were being disregarded, and they feared eventually being charged for usage of irrigation water (Nickson and Vargas 2002).

Overall, irrigation users in the rural sector “have suffered a reduction in their rights and in areas of access to water resources over the last forty years, because of human settlement encroachments, the drilling of wells, increased use of water for industry and the priorities for human consumption in Cochabamba city” (Crespo 2002a, 156). Due to their waning rights, small farmers – from the outset – felt threatened by the concession of Cochabamba’s water resources to a private company. The contract, granted to *Aguas del Tunari*, gave the company exclusive rights to the water resources in Cochabamba, as well as further rights to sources needed to supply consumers in the city, potentially threatening farmers’ informal rights to irrigation water. As a result, farmers played a key role in the protests against water privatization (Nickson and Vargas 2002). For example, one farmers’ association, the Federation of Irrigators, was of the first groups to stage blockades in and around Cochabamba when the government announced its plans to privatize (Shultz 2003).

In effect, the challenges of water scarcity in the valley prior to privatization influenced the public’s reaction to the reform. Moreover, it is necessary to note that the AdT contract was out of touch with the established system of irrigators’ property rights, which had existed long before the government began the privatization process. This incongruence represents a larger governmental problem, which ultimately played a part in undermining the city’s privatization efforts. The noteworthy issue here is the lack of acknowledgement by the state of how water was

¹⁴ The Water Services Law created an institutional framework for the guidance of rights and duties of water providers and consumers, setting tariff policy, and granting concessions (Nickson and Vargas 2002).

controlled prior to privatization, and the government's failure to consult the relevant stakeholders when negotiating the contract with AdT. In essence, the government's inability to consult and legitimately represent the wants and needs of its citizens, in the end, indirectly fueled the social backlash against privatization.

Unplanned Urbanization and Social Inequity

Cochabamba city's steady rate of population growth, in combination with the valley's water scarcity, created a number of challenges for the public water company to meet the expanding needs of its service area.¹⁵ First, unplanned urbanization has produced unequal spatial distribution of poverty among different sectors of the city (Laurie and Crespo 2004).¹⁶ Poorer populations have tended to congregate in the southern periphery of the municipality, where the housing conditions are of poor quality and without basic service, while houses in the wealthier neighborhoods in the northeast and old sectors tend to have the more modern conveniences (Ledo 2002). As can be seen in Tables 4 and 5, the spatial distribution of poverty and access to services is starkly illustrated by the presence/absence of the piped water network throughout the city's diverse neighborhoods.

¹⁵ "SEMAPA's service area covers the Cercado Province, with its capital in Cochabamba city. In 1996, the (surrounding) municipalities of Quillacollo, Colcapirhua, Sacaba, Vinto and Tiquipaya, were also included in the service area" (Laurie and Crespo 2004, 35).

¹⁶ The city is divided between the poorest neighborhoods in the northwest and southwest of the city, with the richest neighborhoods located in the historic center and the northern area of the city (Laurie and Crespo 2004, 37).

Table 4
Residential Areas in Cochabamba City According to Income, Population, and Piped Water Supply

| Residential Areas | Income Average (\$US/month) 1993 | Population (% of total) | Water Connections (% of total) |
|-------------------|----------------------------------|-------------------------|--------------------------------|
| Northeast | \$245.30 | 24.4% | 28.2% |
| La Cancha | \$142.20 | 19.7% | 16.1% |
| Northwest | \$182.60 | 29.8% | 33.6% |
| South | \$130.10 | 22.9% | 18.2% |
| Historic Center | \$274.40 | 3.1% | 3.9% |

(Source: Laurie and Crespo 2004, 38)

Table 5
Percentage of Households with Piped Water Supply by Quality of Neighborhood of Residence

| | Connected | Not Connected | Total |
|---------------|-----------|---------------|---------|
| High-income | 64.4% | 35.6% | |
| Middle-income | 33.0% | 67.0% | |
| Low-income | 5.2% | 94.8% | |
| Total | 36.2% | 63.8% | |
| Cases | 41,315 | 72,740 | 114,055 |

(Source: Ledo 2002, 139)

The segregation in Cochabamba based on income level has only been exacerbated by SEMAPA's inability to provide full water utilities coverage throughout the city. As a consequence of both water scarcity and inefficient management,¹⁷ the company has only succeeded in providing coverage to 57 percent of the city's population (See Table 6). This limited coverage, as was demonstrated in Tables 4 and 5, is predominantly located in upscale neighborhoods, leaving poorer areas severely under-served. This discrepancy has been caused by a variety of economic and political factors. First, through a system of "full cost recovery,"¹⁸ SEMAPA effectively prioritizes servicing wealthy areas where households can pay higher prices,

¹⁷ SEMAPA has on average 50 percent losses in unaccounted for water because of leakages (Nickson and Vargas 2002 105).

¹⁸ Since the early 1990s, SEMAPA has used a strategy of "full cost recovery" to expand the network only to those areas that can pay the tariff in full (Crespo 2002a, 155). Specifically, in 1992 a Supreme Decree (22627) declared that every investment in the water sector must be recuperated through tariffs structured at levels reflecting the real cost of the services. The decree stated that the companies, most of which were under municipal administration, had to work under a profitability criteria, while in small cities "cost recovery" had to be implemented, to cover administration, operation, maintenance and rehabilitation costs (Laurie and Crespo 2004, 16).

while directly neglecting to expand or improve water services in the poorest sectors of the city where a “payment culture” is considered to be lacking (Crespo 2002a; Laurie and Crespo 2004). Furthermore, an expansion in the public water network into a specific neighborhood usually translates into increases in taxes and housing prices, followed by an increase in the general cost of living. As a result, poor families are often forced to leave these costlier neighborhoods for more peripheral areas without water services.

Beyond economic influences, however, there are also political factors that shape Cochabamba’s water and social inequity problems. Most importantly, SEMAPA itself has been subject to political pressures in two ways. First, the managers of SEMAPA have been nominated under inter-party agreements between the central and municipal government, making them susceptible to the demands and desires of the parties that have put them in power. Moreover, expansion of the piped water network has often been linked to electoral promises, meaning that neighborhoods with more economic and political clout are more likely to receive improved services (Laurie and Crespo 2004; Olivera 2004).¹⁹ Overall, a combination of economic and political factors, as well as water scarcity, has created a stark divide among neighborhoods with and without access to SEMAPA’s services. The significance of this inequity and its influence on the Water Wars will be discussed later in the chapter; however, at this time we will turn to those populations without formal connections to the piped water network, and focus on how they historically have serviced their own needs.

¹⁹ For example, in 1997, even victorious presidential candidate Hugo Banzer ran on a ticket promising to solve Cochabamba’s water problems (Nickson and Vargas 2002, 113). Historically, however, it has been “regional political parties [that] have played one water development project against another in their marketing efforts to get votes” (Olivera 2004, 8). For example, much political manipulation surrounded politicians’ efforts to implement the Misticuni Multipurpose Project, which will be discussed at greater length later in the chapter.

Table 6
Type of Water Supply in Cochabamba City

| Type of supply | Population Covered | Characteristics |
|---|---------------------------|--|
| Public Company | 57% | The Municipal Water Supply Company (SEMAPA) |
| Social Alternative Systems of Water Supply | 15-20% | Water Co-operatives, Associations, and Committees. Mainly in the South and North West area of the city |
| Private Alternative Systems of Water Supply | 15-20% | Buy from informal water sellers ("aguateros") or have their own private small wells. Most are located in the South area of the city. |

(Source: Laurie and Crespo 2004, 32)

With only 57 percent of Cochabamba's population serviced by SEMAPA, over 40 percent have been forced to depend on alternative means of water supply. As is demonstrated in Table 6, these alternative means are broken into two categories, social systems of water supply and private systems of water supply. The former systems are organized as non-profits, neighborhood cooperatives, associations or committees, "where everyone contributes with money or work. They buy materials and contract a local company to install pipes, drill a well and build a central tank" (Laurie, Crespo and Ledo 2004, 7). In general these water resources are managed in a similar manner as communal irrigation networks, in which power resides with traditional authorities who exercise administrative functions, dictate rules and engage in conflict resolution. In Cochabamba alone, there are thought to be over 300 social water systems in operation, thus making this alternative an important element to water provision. In addition, private supply systems are also key in delivering water to Cochabamba residents. First, wealthier neighborhoods in the north of the city that have yet to be connected to the public network often drill private wells for individual households. In poorer neighborhoods, however, where families cannot afford to build private wells and are unable to set up social supply systems, water must be bought from *aguateros*, or informal water sellers transporting water in trucks. Although poorer populations most heavily depend on this water supply system, it is, however, relatively the most

expensive²⁰ (Laurie, Crespo, and Ledo 2004; Laurie and Crespo 2004; Nickson and Vargas 2002).

Overall, because SEMAPA had been unable to service such a significant portion of the city's population, both social and private water supply systems have become essential to Cochabamba's daily operation. As a result, the implementation of privatization did not just impact SEMAPA, but also affected the rest of the city's alternative water providers and consumers, who with the onset of PSP effectively lost all rights to their private water resources and well as the right to sell water. The reason for this was that the concession granted to AdT gave the company exclusive rights to the provision and ownership of all water services (Nickson and Vargas 2002). The details of AdT's contract and exclusivity clause will be discussed at further length in Part 3.2. of this chapter, however, at this time I will begin to discuss how the characteristics of Cochabamba's water service sector, prior to privatization, greatly influenced the public's reaction to the concession.

Some scholars have argued that, "access to water in Cochabamba is an expression of segregation and physical marginality, and an indicator of poverty and inequity" (Laurie and Crespo 2004, 37). In this way, long before privatization was proposed, water in Cochabamba symbolized social exclusion by the state for most of the city's poor and peripheral citizens. Generally, SEMAPA effectively reinforced forms of social segregation by servicing neighborhoods with economic and political power while directly neglecting neighborhoods without the means to pay higher prices. Specifically, by using a "full cost recovery" pricing system, citizens without financial means were denied access to basic water services of the state and were thus forced to fend for themselves. On the other hand, those neighborhoods with

²⁰ 1998 SEMAPA's tariff was at \$0.50 per cubic meter, whereas the *aguateros'* prices were at \$2.85 per cubic meter (Laurie and Crespo 2004, 40).

political and economic clout were likely to receive improved services by utilizing the state's system of patronage-based electoral promises. Ultimately, the context of public water provision in Cochabamba prior to privatization was one in which the state did not act in the best interest of all citizens equitably. Instead, the state served a population that could in turn support it – the elite. As a result, when the state then opted to privatize its services, it is not surprising that most Cochabambinos did not believe that the change would benefit them. Rather, privatization became merely a means of the state realigning itself with another form of elite – International Capital. According to one opposition figure, through privatization “the Bolivian state turned itself, quite simply, into a servant of big capital” (Olivera 2004, 17). Thus, the characteristics of state water provision before privatization founded many of the underlying sentiments that ultimately created a tenuous foundation upon which Cochabamba's water services were shifted to foreign, private hands.

Moreover, the city's reliance on alternative supply systems of water provision was a significant factor in shaping the widespread rejection of privatization. As mentioned above, those who built, owned, dispensed, and depended on a social or private source of water supply lost all rights to sale and ownership of those resources. Consequently, those who lost their water rights opposed privatization flatly. For example, both the *aguateros* and the well drillers opposed PSP, because it ended their commercial rights and ultimately forced them to close their businesses. Also, neighborhoods and households that depended on social and private systems of supply strongly opposed privatization, because it allowed the private company to expropriate their personal resources that they themselves had invested time, money, and work to build. Finally, even the poorest sectors of the city, who under public ownership were forced to pay the higher prices of *aguateros*, opposed PSP as it left them completely un-serviced by both the water

network that did not extend to peripheral neighborhoods as well as the water vendors who lost their rights to sell water (Nickson and Vargas 2002).

Each of the above groups was a significant player in the protests against privatization, and their role ultimately indicates many of the weaknesses in the state's strategy for PSP.

Specifically, it seems that the government either did not recognize or chose to ignore these players as legitimate stakeholders in the decision to privatize. By failing to consult and mediate the diverse interests involved in water privatization, the state essentially set itself up for social discontent, which arose because PSP negatively impacted such a broad cross-section of society.²¹

The failure of the government to adequately survey the stakeholders involved denotes the degree to which the state was out of touch with the desires and sentiments of the populace it was intending to serve, and more importantly that it did not create the necessary formal avenues through which citizens could express their demands and the government could construct a stronger linkage between itself and its civil society. Ultimately, as I will argue in the following chapter, the disconnect between the Bolivian government and its general populace was a significant factor in the general failure of water privatization in Cochabamba.

3.2. How Cochabamba's Water Was Privatized

In this section, I will look at Cochabamba's privatization process in its entirety. First, I will focus on many of the antecedents of water privatization, including the development of the Misicuni Multipurpose Project (MMP) and changes in the country's legal and regulatory framework to allow for PSP. Second, I will cover the actual negotiations and sale of the city's

²¹ The details of the privatization process in which the state failed to fully educate the public on privatization, as well as failed to create formal channels for social expression will be discussed at greater length in Part II of this chapter.

water resources, looking specifically at the bidding process and the design of the contract granted to the concession holder. Finally, I will end the section by discussing the tariff increases implemented by *Aguas del Tunari*, one of the first deeds carried about by the private company.

Box 1

Timeline of Events

- **1967** SEMAPA begins providing water services
 - **1994** National Constitution establishes state ownership over natural resources. No concession can be granted for longer than 40 years. *Sistema de Regulación Sectorial* (SIRESE) was created for public utility regulation.
 - **1997**
 - **March** Government announces need to privatize water resources in Cochabamba. Civic strikes.
 - **April** Government publishes 1st international bid for SEMAPA. Regional strikes.
 - **July** Legislation, *Reglamento de Organización Institucional y de Concesiones del Sector Aguas*, is approved and establishes procedures for awarding a concession.
 - **1998**
 - Government publishes 2nd international bid for SEMAPA.
 - Regulator approves 20% tariff increase, designed to improve financial viability for future concession, however not enforced due to social opposition.
 - **1999**
 - **April** Bidding process for SEMAPA declared null, only AdT submits bid.
 - **September** AdT granted concession.
 - **October** Water Services Law approved. *Superintendencia Sectorial de Saneamiento Básico* (SSSB) created for regulating private company.
 - **November** AdT begins operation. Roadblock by irrigators. *La Coordinadora* is created.
 - **December** Cochabamba municipal elections held, numerous candidates sign petition against proposed tariff increase.
- **2000**
 - **January** AdT raises tariff by an average of 35%. Roadblocks and strikes.
 - **February** Tariff increase reduced to 20%. *Toma de Cochabamba* – shut-down of city, violent clashes between protesters and police.
 - **March** SSSB freezes tariff increase. *Coordinadora* calls for public meeting – 90,000 vote for contract cancellation.
 - **April** “Final Battle” – massive protests occur, central government declares state of emergency, 6 people are killed. SSSB cancels AdT contract, service provision returns to SEMAPA.
- (Sources: Nickson and Vargas, 2002; Crespo, 2002a)

3.2.a. Politics of Water Scarcity: The Misicuni Multipurpose Project (MMP)

Over the years, a variety of projects have been proposed to deal with Cochabamba’s chronic water scarcity problems, including the Misicuni Multipurpose Project (MMP)²² and the

²² Project proposed to build a 120-meter dam that was expected to generate enough water for five municipalities in the Valley, irrigation water for 6,000 hectares of land, and 120 megawatts of electricity (Ingetec S.A. 2004). The *Empresa Misicuni*, which is jointly owned by the departmental government of Cochabamba, the municipality of Cochabamba, SEMAPA and the central government, was established in 1987 to implement the MMP (Nickson and Vargas 2002, 105).

Corani S.A.²³ project. Each of these projects was intended to expand the supply and service area of Cochabamba valley's water system. However, the projected costs of both projects were far too great for the public company SEMAPA to handle (Nickson and Vargas 2002). Privatization, in turn, was considered by many politicians, namely Sanchez de Lozada, as the most viable solution to bring in the necessary outside capital to finance projects like the MMP and the Corani project (Crespo 2002a). As a result, when the government eventually designed the concession of Cochabamba's water resources the MMP was included as a necessary element for companies to carryout (Nickson and Vargas 2002).

In the context of Cochabamba's water problems, however, what is necessary to note about these expansionary projects – specifically the MMP – is the degree of political manipulation that occurred behind the scenes to bring the project to fruition. For example, in 1997 while the privatization was in its most initial stages, Sanchez de Lozada – the president at the time – invited the World Bank to analyze the feasibility of both the MMP and the Corani project (Crespo 2002a). After reviewing the two projects, the Bank concluded that the MMP, at a price of \$300 million, was too expensive, and that the Corani project, costing only \$90 million, was more feasible. According to one of the Bank's papers, "The Bank's Position Regarding the Improvement of Water Supply in Cochabamba,"

"The Corani project can generate the same benefits as the Misicuni project, while requiring a much lower investment. It can be totally financed by the private sector and does not require any subsidies, produces water at a lower price, is more flexible, the risk level associated with it is power, (and) its potential negative environmental impact is lower" (Crespo 2002a, 142).

Ultimately, the World Bank supported the Corani project because it, unlike the MMP, did not require immediate tariff increases, which were seen as potentially dangerous.

²³ Corani S.A., a private hydro-electric company, proposed to build an 11 km tunnel to transport water to Cochabamba from the Corani reservoir. The project also included an expansion of the power generating capacity (Nickson and Vargas 2002, 106).

The Bank advised against proceeding with the Misicuni project, as our analysis was that neither the public nor the government could afford its high price tag. Instead, the Bank favored the alternative project, known as Corani, as offering a lower-cost, fully private-financed option under which no tariff increases would have been permitted for at least five years (Christopher Neal, letter to Jim Shultz and Tom Kruse, 6 June 2000).

However, when Cochabamba's water services were put up for sale by the government, it was not the Corani project – but the MMP – that companies were obligated to incorporate in their bid, despite the recommendations of the World Bank. The reason behind the state's choice to support the MMP over the Corani project is understood to be more a matter of political maneuvering rather than a genuine effort to efficiently provide better services to Cochabamba's public. As was expressed by Sanchez de Lozada, the MMP had long been marred by political manipulation and did not serve as a truly viable solution to Cochabamba's water issues; "During the second half of the century, the project only served a theory, a parasitic company, and the demagogic propaganda of politicians in electoral campaigns" (*quoting Sanchez de Lozada, Beltrán 2003, 11, my translation*).

The story behind the government's requirement of the MMP in the Cochabamba concession, and not the Corani project for expanding the city's services, is one in which powerful political influences and economic interests played a dominant role. First, after the World Bank publicly announced its support for the Corani project over the MMP, the government originally included the Corani project in the concession. Yet, the concession with the project was aborted due to a ruling by the Supreme Court in favor of the municipality based on non-compliance with procurement law. What is widely recognized, however, is that the mayor of Cochabamba, Manfred Reyes Villa, pressured to have the Corani project removed from the concession. Reyes Villa supported the MMP due to the political influences of powerful engineering and construction companies who wanted to see the MMP in the concession, because

they expected to receive more lucrative contracts with the larger, more expensive project. For example, the owner of *ICE Agua y Energía S.A.* – a member of the *Aguas del Tunari* consortium and one of the wealthiest persons in Bolivia – was believed to be influential in the placing of the MMP in the concession for Cochabamba's water supply (Nickson and Vargas 2002; Crespo 2005; Crespo 2002a).

Ultimately the MMP was included in the *Aguas del Tunari* concession, and it in part contributed to the tariff increases that sparked protests in Cochabamba. Reflecting on the conflicts, it is important to understand the motives for the MMP being chosen over the more financially feasible solution. Finally, the story behind the MMP's role in Cochabamba's privatization efforts is illustrative of the degree to which powerful political and economic influences have shaped water policy. Again, as was demonstrated in the previous section, this example demonstrates the government's tendency to represent the interests of select classes over the needs of the general populace.

3.2.b. The Legal and Regulatory Framework of Privatization

In order to formally allow for the introduction of PSP in Cochabamba and in other cities, the Bolivian central government, throughout the 1990s, implemented a variety of legislative changes to the legal and regulatory frameworks governing water utilities provision. A discussion of these changes is essential to understanding the legal and regulatory structures in Bolivia before Cochabamba's water resources were shifted to the private sector. The goal of this section is to address the weaknesses associated with each of these frameworks, and how they impacted and interacted with Cochabamba's political economy. Also, a focus on the public's reaction to these legislative adaptations will help to illustrate the social climate prior to AdT's takeover.

Beginning in 1994, the government took many of the preliminary steps for the transfer of water resources to the private sector. First, it was established in the Constitution that the state had principle ownership over all natural resources, thus giving it the authority to grant concessions to private companies. Second, the *Sistema de Regulación Sectorial* (SIRESE) was created as a new regulatory body to control PSP of national utilities, including water resources (Crespo 2002b; Laurie and Crespo 2004; Nickson and Vargas 2002). These first changes were essential to shaping the country's formal institutions to allow for private sector involvement.

In the early months of 1997, as the government's privatization efforts were in the works, sentiment at the popular level was fairly different. For example, a series of civic strikes were held in the Department of Cochabamba, demanding that the presidency of SEMAPA "be held by the Municipality... [and] that SEMAPA's concession bid would be made with regional representation" (Crespo 2002a, 143). In this way, the Cochabamba populace expressed a desire to maintain public and local elements to the privatization of the city's water. After strikes in both March and April of 1997, the government publicly agreed to carry out the desires of the striking citizens; however, on April 21st the government broke that agreement by publishing an international bid for SEMAPA's concession (Crespo 2002a).²⁴

Later in 1997, the government continued the privatization process issuing Supreme Decree (#24716), *Reglamento de Organización Institucional y de Concesiones del Sector Aguas*, which defined the procedures for awarding concessions. The Decree also established that all public and private entities providing water or sanitation services – including piped networks, *aguatero* distributors, private wells, and social supply systems – were required to obtain a

²⁴ Bid is later repealed due to the inclusion of Corani project, however in 1998 another international bid is published (Crespo 2002a; Nickson and Vargas 2002).

concession from the *Superintendencia de Aguas*.²⁵ After the Supreme Decree, the government passed, through a fast-track process, the Water Supply and Sanitation Law (*Ley de Servicios de Agua Potable y Alcantarillado Sanitario, 2029*). Law 2029 continued to establish the legal framework necessary for instituting private water provision by providing the norms for setting tariff policy, granting of concessions and licenses, and determining rights and duties of water providers and consumers. The law also made changes to the regulatory system of the water sector by creating the *Superintendencia Sectorial de Saneamiento Básico* (SSSB) (Nickson and Vargas 2002; Crespo 2002b).²⁶

While the Water Supply and Sanitation Law was a key element to facilitating the transfer of resources to the private sector, it was also one of the most controversial components to Cochabamba's privatization efforts.

The second reason (for the Water Wars) was that the privatization went hand in hand with a new water law which would have forced rural water users, the irrigators – specifically, and people who built wells to relinquish control over water systems that they had built with their own resources, both physical and not” (Shultz 2005a).

Including the shifting and redrawing of water rights, there were a number of causes that made Law 2029 a contentious issue. First, one of the dominant criticisms of the law was that it was pushed through the Parliament in an accelerated manner, without “consultation or consensus-building with any of the stakeholders involved in water supply, management and consumption” (Crespo 2002b, 197). It was later revealed that the law was fast-tracked due to the fact that Cochabamba concession had already been granted and a necessary legal framework was lacking.

²⁵ Later changed to the *Superintendencia Sectorial de Saneamiento Básico* (SSSB) (Nickson and Vargas 2002, 103-104).

²⁶ The SSSB was empowered to grant, revoke, extend or modify concessions or licenses, to approve tariff structures and price increases, to monitor water services performance, to intervene and sanction water companies, to promote competition and efficiency in the delivery of water services, and to act as a court of appeals in deciding on consumer complaints (Nickson and Vargas 2002, 104).

Second, the regulatory body that the law created, the SSSB, was weak, largely illegitimate, financially constrained, under staffed, and prone to state intervention. The SSSB failed to carry out any kind of public relations campaign to inform citizens of the changes and to publicize the terms of the concession. Instead, due to lack of legal clarity, the regulatory agency was essentially only empowered to confirm agreements with the public and the private company that the government had already made. For example, all decisions and negotiations carried out regarding the company's tariff rates were done so by the government, not the SSSB.²⁷ "As most regulatory decisions were determined by government pressure, consumers did not feel that their interests were being safeguarded by the regulator" (Nickson and Vargas 2002, 116). Thus, although the regulatory body was designed with the intention of monitoring the services of the private water provider on behalf of consumers, it ended up being designed as an extended arm of the central government that failed to make decisions neutrally. In this way, the development of the SSSB ultimately supported the trend of overlooking citizens' interests, as consumer groups were neither consulted before or during the privatization process (Nickson and Vargas 2002).

Finally, the most controversial element of the Water Supply and Sanitation Law is what Bolivian academic Carlos Flores Crespo (2002b) calls the "hierarchical management of diversity and inequity in Law 2029" (197). In a recent article, the author lays out a framework for understanding the design and implementation of the law. First, Crespo (2002b) recognizes that in the juridical sense Law 2029 offers equitable treatment to all water service providers. For example, Article 8 of the law grants the same rights and duties, without distinctions, to all "Water and Sanitation Providers," including municipal public companies, public-private limited companies, private companies, public services cooperatives, civil associations, and indigenous

²⁷ February 2000 tariff reduction, March tariff freezes, and cancellation of the AdT contract were all carried out as negotiations and decisions of the central government (Nickson and Vargas 2002).

and peasant community organizations. In this way, the law was expected to place the same conditions and responsibilities on for-profit private companies as well as non-profit social providers (Crespo 2002b).

However, despite the juridical treatment of diverse water providers, in practice Law 2029 came to represent an asymmetrical ordering of private and public/communal providers, where the former was promoted at the expense of the latter. First, the law distinguished between concession and license zones, where various providers could theoretically compete to supply water in different areas. Eventually, however concession zones came to be associated with potentially profitable areas where private providers were encouraged to supply. For example, in order to obtain a concession, providers were required to present investment programs and financial profitability criteria, meaning that non-profit social water suppliers were unlikely to receive concessions (Crespo 2002b).

On the other hand, social/communal providers were expected to obtain licenses for their services, which were far less attractive than concessions. As can be seen in Table 7, the differences between license and concession zones varied greatly, including concessions could be granted for up to 40 years with market exclusivity, while licenses could be granted for no longer than five years without market exclusivity. In effect concessions were seen as far more secure and stable than licenses because they were granted for longer periods of time and they gave providers sole ownership over resources. Whereas under the non-exclusive licenses, providers held rights for a significantly shorter period of time and could even lose rights to their water sources if those resources turned out to be profitable and/or were needed by a concessionaire to expand its service. In this way, licensed non-profit providers were treated as subordinate to for-profit concession holders. Ultimately, social and community organizations of water providers

“were maintained in a subsistence situation, with minimum rights and financial opportunities in water resource extraction and distribution, while on the other hand the financially most significant water supply opportunities were destined for privatized concessionaires” (Crespo 2002b, 201).

Table 7
Concession vs. License Providers

| Legal Categories | Type of Zone | Type of Provider | Period of Provision | Period for Extraction | Exclusivity |
|-------------------------|---|--|----------------------------|------------------------------------|--------------------|
| Concession | More than 10,000 population and profitable service | Public-private limited companies, private companies | Up to 40 years | Up to 40 years | Yes |
| License | Fewer than 10,000 population and non-profitable service | Municipal public companies, public services cooperatives, civil associations, and indigenous and peasant community organizations | 5 years | Water source access not guaranteed | No |

(Source: Crespo 2002b, 199)

In the end, the Water Supply and Sanitation Law became a significant rallying point around which Cochabambinos came to protest the privatization process due to its inequitable treatment of different stakeholders. For example, irrigators in the surrounding areas of the Cochabamba valley played a key role in opposing the law because it essentially represented to them the real and/or potential loss of resources. This occurred because, although irrigators had informally owned rights to specific water resources for historic periods of time as had many other social and communal water providers, the law required them to obtain mere five-year licenses, of which their resources were subject to expropriation by private companies (Crespo 2002b).

Ultimately, Law 2029 represented an attack on irrigators’ informal water rights and other social/communal water providers’ rights, and in this way privatization’s legal framework was out

of touch with the ground-level reality. In other words, the new law was incongruent with established norms because it disregarded the rights and needs of legitimate stakeholders, like irrigators and social/communal providers, by both encouraging private water provision over alternative models, as well as by undermining the traditional rights of social and communal water providers by treating them as subordinate to private providers (Crespo 2002b). Overall, according to Crespo (2005), Law 2029 “made traditional systems of water rights held by rural irrigators vulnerable, because their rights to access were threatened.” As a result, because the law disadvantaged local stakeholders, it also generated much of the opposition to privatization.²⁸

In general, what the design and implementation of the legal and regulatory framework of privatization can tell us is that the government’s inability to substantially represent its citizens weakened the policy on a whole. First, the government failed to create a legitimate authority to regulate the private water provider and represent the interests of consumers. Rather, the regulator acted as an extension of the central government, which often overlooked citizen’s interests. Second, the legal framework of privatization was weakened by the government’s “hierarchical management” of the diverse stakeholders in water provision. By treating social and communal water providers as subordinate to private, for-profit providers, Law 2029 upset established norms and consequently generated opposition. “Ultimately, the quarrel over Law 2029 had to do with the nature of government decision-making” (Olivera 2004, 11), and reflecting on the 2000 protests it seems that had the government placed greater emphasis on popular participation in designing these frameworks, privatization may have been more easily supported. In other words, as stated by Bolivian scholar René Orellana Halkyer (2000),

In this spirit, it is important that the government open a table of dialog and reach compromises in the development of laws before implementing them, because this is

²⁸ In a poll taken by *La Coordinadora* in March of 2000, 97 percent of the 48,570 Cochabambinos questioned stated that they were against Law 2029 (“Consulta” 2000).

the only manner in which they will be sustainable. If a legal norm is not developed by or does not meet the expectations of the social sectors, the government will have to withstand the social and political costs of emerging conflicts (*my translation*).

3.2.c. The Bid and Concession

Beginning in 1998, an international bid for Cochabamba's water utilities was published by the central government. Despite initial interest from numerous consortiums, the bidding process turned out to be non-competitive as only one company ultimately placed a bid, International Water of the UK,²⁹ the consortium that owns *Aguas del Tunari*. On April 9th of 1999 the bid was declared void by a presidential decree and direct negotiations with AdT ensued. The government's negotiating team included the Deputy Minister of Privatization and Investment, the Departmental Governor of Cochabamba, the mayor of Cochabamba, the electricity and water regulators, the General Manager of SEMAPA, and the president of the Misicuni Company. For the most part, the negotiating process was marked by obscurity from the public's view as well as a lack of participation of any consumer or social rights groups (Laurie and Crespo 2004; Nickson and Vargas 2002, Crespo 2002a).

The Contract

In September of 1999, the contract between *Aguas del Tunari* and the SSSB was signed. The drafting of the concession occurred entirely behind closed doors, and the details of the contract were not made public until after it had been signed. Essentially, the contract simply outlined the main obligations and responsibilities of the private provider, including network coverage and expansion targets (See Tables 8 and 9) (Nickson and Vargas 2002). However, the

²⁹ The consortium members were: International Water Limited (UK) (55%), Abengoa Servicios Urbanos (Spain) (25%), ICE Agua y Energia S.A. (Bolivia) (5%), Sociedad Boliviana de Cemento (Bolivia) (5%), and Compania Boliviana de Ingeniería (Bolivia) (5%). International Water is a UK-based company, jointly owned by the US company Bechtel (50%) and the UK company, United Utilities (50%). (Nickson and Vargas 2002, 106).

contract also contained various controversial elements, which, upon being publicly disclosed, ultimately laid the foundation for the public's rejection of water utilities privatization and the eventual Water Wars. The two main components of the contract that caused the majority of uproar among consumers were the new tariff rates and structures and the exclusivity clause outlined in the concession.

Table 8
AdT's Network Expansion Targets, 2000-2004

| Year-end | 2000 | 2001 | 2002 | 2004 |
|--------------------------|-------|--------|---------|---------|
| New water connections | 3,850 | 11,800 | 33,600* | 57,600* |
| New sewerage connections | 4,150 | 12,150 | 34,150 | 58,200 |

*subject to water availability from Misicuni

(Source: Nickson and Vargas 2002, 107, quoting the *Concession Contract with AdT, Annex 6*)

Table 9
AdT's Network Coverage Targets, 2004-2039

| Year-end | 2004 | 2009 | 2014 | 2019 | 2024 | 2029 | 2034 | 2039 |
|--------------|------|------|-------|------|------|------|------|------|
| Water supply | 90% | 91% | 93% | 95% | 97% | 99% | 100% | 100% |
| Sewerage | 88% | 90% | 91.5% | 93% | 95% | 97% | 100% | 100% |

(Source: Nickson and Vargas 2002, 107, quoting *Concession Contract with AdT, Annex 6*)

First, the contract instituted an initial average tariff increase of 35 percent, followed by a further increase of 20 percent projected for year 2002.³⁰ These increases were to be implemented through an increasing block tariff (IBT) structure. The IBT was considered to be socially progressive because it “incorporated differential rates within the fixed charge, with high-income households paying nearly three times as much as low-income households for the first 12m³” (Nickson and Vargas 2002, 108). In addition the IBT required high-income households to pay around twice the amount per cubic meter for any consumption above 12m³ than low-income households (Nickson and Vargas 2002).³¹ Although the tariff structure was technically known to be socially progressive, the controversy over the increased tariff rates was the major focus of the

³⁰ This increase was projected for the anticipated water delivery of the MMP (Nickson and Vargas 2002, 107).

³¹ In the IBT consumers were classified in nine groups, including four residential consumers groups (ranging from empty lots and houses under litigation, precarious constructions, economic dwellings and functional apartments, to luxury housing) and five non-residential categories (commercial, special commercial, industrial, preferential, and public) (Nickson and Vargas, 2002).

protests against privatization. The details of the tariff increases, as well as the public's reaction to them will be discussed at greater length in the following section.

The contract also contained an exclusivity clause, which granted AdT the exclusive right to all water resources in the Cochabamba municipality. This meant that only *Aguas del Tunari* had the right to own and supply water resources within the urban limits. Moreover, the exclusivity clause also gave the private provider the right to require any potential consumers to connect to its network. Finally, beyond the guaranteed water rights within the city, the clause also granted AdT rights to any future water sources needed beyond the municipal zone for supply of consumer needs in the city (Nickson and Vargas 2002; Crespo 2002a).³²

Although in the case of natural monopolies, like water provision, the impact of exclusivity measures is assumed to be minimal, in the context of Cochabamba the effect was profound. The cause of this disruption was the high concentration of water provision competitors in Cochabamba due to the valley's "longstanding water scarcity [which] had encouraged the development of well-established alternative sources of supply" (Nickson and Vargas 112). In effect, because *Aguas del Tunari* alone had the right to own and sell water in Cochabamba, the contract essentially caused a large-scale expropriation of private, neighborhood and cooperative wells. Moreover, the clause prohibited *aguateros* from selling water within the city limits. Not surprisingly, citizens who stood to lose privately or collectively owned resources and/or their market share were vehemently opposed to the AdT contract (Crespo 2002a). In addition, many of the poorest sectors of the city opposed privatization because it cut off the only water source available to them – the *aguateros*. This demonstrates one of the most significant problems with the concession, because, although one of the goals of privatization was to help poorer citizens by

³² The exclusivity clause was thought to be justified by the need to reduce revenue risks for the private provider in order to encourage expansionary projects. Specifically, exclusivity was granted to offset the high costs of the MMP (Nickson and Vargas 2002).

bringing lower tariffs – relative to *aguatero* prices – and networked water to peripheral neighborhoods, the contract instead was designed in a way that left those citizens without any choice in the matter by cutting out all alternative water options.

Both the tariff increases and the exclusivity clause of the AdT contract were significant factors in instigating the protests against water utilities privatization.³³ In fact, two months after the contract was signed, *La Coordinadora de Defensa del Agua y la Vida* (The Coalition for the Defense of Water and Life)³⁴ – one of the dominant civil society groups to oppose PSP – was formed and public demonstrations quickly followed. However, what is necessary to note about the concession and its effect on the privatization process is that it was negotiated and designed entirely behind closed doors without transparency or stakeholder involvement. These factors greatly reduced the legitimacy and the practicality of the contract, because it did not take into account the needs and interests of much of Cochabamba’s residents. By failing to use a more bottom-up approach to designing the contract, the government negotiated an unsustainable concession that left many citizens in worse conditions than before privatization. Ultimately, the lack of responsiveness to and representation of its own populace significantly undermined the state’s efforts to transfer water utilities to the private sector.

3.2.d. Aguas del Tunari Increases Tariffs



Within two months of beginning operation, *Aguas del Tunari* increased the water tariffs in Cochabamba. While the company claimed to raise prices by an average of 35 percent, the actual rate of increase has been debated by various actors involved. According to an analysis done by SEMAPA after the Water Wars, the aggregate water bill increases in the various

³³ In a poll taken by *La Coordinadora* in March of 2000, 96 percent of the 48,570 Cochabambinos questioned stated that they were against the AdT contract (“Consulta” 2000).

³⁴ A more in-depth discussion of *La Coordinadora* will be included in Part III of this chapter.

residential categories rose by 43 to 57 percent (See Table 10). On the other hand, according to the regulator, SSSB, the rates did in fact increase by an average of 35 percent, however between residents some tariff rates rose by up to 106 percent (Nickson and Vargas 2002). Moreover, AdT claimed that the price increases were not so much reflections of rate increases, but rather were due to the re-categorization of some houses into higher paying brackets and increased consumption rates owing to a fall in network leakages and improved water availability (The Democracy Center 2004a). In Appendix A, copies of four residents' actual water bills can be seen which show rate increases for both Residential 2 and 3 category households.³⁵ Based on these bills – accounting for quantity consumed – both of the Residential 2 households had rate increases of approximately 60 percent, and the Residential 3 households had rate increases of approximately 50 and 90 percent. These water bills demonstrate that even some of the lower-income households saw water tariff increases far above the expected 35 percent (The Democracy Center 2004c).

Table 10
Aggregate Water Bill Totals By User Categories: SEMAPA vs. Aguas del Tunari

| USER CATEGORY |  |  | INCREASE \$ (%) |
|----------------------|---|---|----------------------------|
| (R1) Empty land | \$44,191 | \$64,854 | \$20,663 (47%) |
| (R2) The very poor | \$762,740 | \$1,092,308 | \$329,568 (43%) |
| (R3) The poor | \$1,415,454 | \$1,976,697 | \$561,243 (40%) |
| (R4) Middle class + | \$1,363,547 | \$2,145,621 | \$782,074 (57%) |
| Commercial users | \$1,531,530 | \$2,440,446 | \$908,916 (59%) |
| TOTAL | \$5,117,462 | \$7,719,926 | \$2,602,464 (51%) |

(Source: The Democracy Center, <http://www.democracycctr.org/bechtel/waterbills/waterbills-global.htm>)

(In this analysis SEMAPA used its actual billing records for April-December 2001 for water use and charges and applied the rate hikes imposed by Aguas del Tunari in 2000 based on the same level of water consumption per customer. The water rates charged by SEMAPA during this time are the same used prior to Aguas Del Tunari's price hikes.)

³⁵ Residential 2 category is classified as "precarious constructions" and residential 3 category is classified as "economic dwellings" (Nickson and Vargas 2002, 108).

Despite the debate over the exact amount by which the water rates increased, what is necessary to note is the profound impact of the change. Ultimately, the tariff increases were really the spark that lighted the fire of the protests against Cochabamba's water utilities privatization.

The most important (cause of the Water War), was that the company just raised rates astronomically and immediately. If they had raised rates by much less, I don't think there would have been a Water War. If they had raised rates by as much but had done it over a period of time, say, a year or two, I don't think there would have been a Water War... The company was unbelievably arrogant to raise rates the way they did, and then the government was incredibly arrogant to respond to peoples objections by basically militarizing the city (Shultz 2005a).

Many of the actions taken by *Aguas del Tunari* during the first few months were criticized by residents. First, the company raised rates before any real improvements had been made to the water network, thus making consumers less eager to pay higher prices. Second, many Cochabambinos questioned the motives of the company for raising rates so drastically. For example, a portion of the tariff increases stemmed from the concession's guarantee of 16 percent rate of return on capital for AdT (Shultz 2003). This factor seemed unjust to many Bolivians as they were accustomed to paying a public company without a profit structure.

Moreover, the tariff controversy was further agitated by the lack of transparency that surrounded *Aguas del Tunari*. For example, during the conflict civil society groups demanded to see the criteria used to justify the tariff increases and the guaranteed rate of return, but the company refused to release any "confidential" information. As a result, a growing sentiment emerged that *Aguas del Tunari* was "a business without any profit risk and the secrecy of the financial model was therefore fundamentally about securing cost-benefit goals" (Laurie and Crespo 2004, 11). It then became a common perception that privatization was just a mechanism

to grant unreasonable benefits to a wealthy corporation at the expense of economically constricted Bolivians (Shultz 2003; Lobina 2005).

Yet, despite these controversies over *Aguas del Tunari*, the issue of tariff increases also illustrates the government's and regulator's lack of responsiveness to citizens' concerns. After the tariff increases were instituted, the regulator scheduled a public hearing to address the price changes. However, this hearing was repeatedly delayed and eventually cancelled (Nickson and Vargas 2002), ultimately alienating consumers and fostering distrust of the regulatory body. In this way, citizens were denied a formal venue through which they could have voiced their opinions of privatization and the tariff increases. Without any legitimate means for citizens to make their voices heard, the discontent over privatization was easily able to escalate into massive protests, essentially reflecting a deficiency in the state's managerial capacity.

3.3. Cochabamba's War over Water

From January to April of 2000, the city of Cochabamba was crippled by a stream of protests over the privatization of water utilities. For four months, residents demonstrated against the tariff increases, *Aguas del Tunari*, and the government. At the time, *La Coordinadora* emerged as a dominant player in the conflicts, organizing, educating, and representing the needs and interests of citizens. Moreover, throughout the protests *La Coordinadora* consistently demanded that AdT's contract be cancelled and the network be returned to public ownership. Eventually the protests against privatization escalated into violence, and the collision between the Bolivian state and society became not just symbolical, but physical as well. Overall, this conflict effectively illustrates the sharp disconnect between the government and its constituents.

3.3.a. Creation of *La Coordinadora*

Directly following *Aguas del Tunari's* take over of Cochabamba's water network on November 15th of 1999 *La Coordinadora de Defensa del Agua y la Vida* was formed. While there were other social sector organizations involved in the privatization struggles, namely *Comité Cívico* (Civic Committee) representing local business interests, *La Coordinadora* emerged as the most active and influential organization on the scene (Nickson and Vargas 2002). Because *La Coordinadora* aimed to represent the diverse needs and interests of Cochabamba's society as a whole, the organization was able to fill an essential role of which the government repeatedly had failed to do. According to Olivera (2004), the spokesperson for *La Coordinadora*,

The formation of the *Coordinadora* responded to a political vacuum, uniting peasants, environmental groups, teachers, and blue- and white-collar workers in the manufacturing sector...The *Coordinadora* spoke in the name of people who felt ignored, excluded, and neglected. It spoke in the name of those who, prior to the so-called Water War, could find no space within which to voice their ideas, to express their suffering and hope, or to debate the solutions to the harsh realities of the everyday lives (28).

In the same time that the government was failing to incorporate popular participation into its decisions-making and policy-forming processes, *La Coordinadora* represented a legitimate avenue for citizens to express their grievances. By employing a system of public consultations, the organization was better able to gauge the sentiments of the community, and consequently was more capable in responding to and representing the Cochabamba populace (Nickson and Vargas 2002; Olivera 2004). Despite its popular support base, however, during the conflicts the government attempted to deny the legitimacy of *La Coordinadora* by painting it as a radical group, and even jailing many of its members during the protests. These actions only hastened waning trust in the government and further cemented the authority of *La Coordinadora* (Farthing and Kohl 2001; Crespo 2002a). Ultimately, the ill treatment of the organization by the

government only demonstrated the degree to which the state was out of touch with popular sentiment.

3.3.b. The Government and Conflict Management

The Bolivian president at the time of the Water Wars, General Hugo Banzer – former dictator of the country from 1971 to 1978 – employed many of the same oppressive measures of authority that he had used during his previous period of rule (The Democracy Center 2004b). Throughout the conflicts, the “frequent use [by the government] of the police and army, in an authoritarian way, diminished the possibilities of generating a rational negotiation,” and instead “revived the ‘memory of the Banzer dictatorship’” (Crespo 2002a, 239). For example, during the months of demonstrations, the protests often escalated into violent conflict, pitting rock-throwing citizens against police and soldiers equipped with teargas and rubber bullets. As the numbers of injuries climbed into the hundreds, including two youths blinded, the support for the protesters grew, along with criticisms of the government. Finally in April of 2000, during the last round of demonstrations, know as *La Ultima Batalla* (The Last Battle), the Banzer government declared a state of emergency. During this time thousands of people demonstrated in Cochabamba’s streets, 17 protest leaders were arrested and allegedly flown to remote jungle prisons, and six deaths occurred, including the death of a 17-year-old boy who died from a bullet wound to the head (The Democracy Center 2004b; Nickson and Vargas 2002).

The use of physical repression by the government to quell protesters ultimately cost the state greatly in support and legitimacy. For example, with the mounting violence, many neutral spectators began to sympathize with the protesters,

As the conflicts continued, the doors of middle class homes would open up and bowls of food and water would appear, an offering of support to those standing up

to the government in the streets. Almost all local radio programming converted into phone-in discussions about the battle in the city center, with caller after caller condemning the government and the company (Shultz 2003).

By the end of four months of protests, the people's will finally prevailed upon the government's capacity to repress, and the conflict was brought to an end with the cancellation of *Agua del Tunari's* contract.

What remained evident throughout the conflicts was the severe lack of legitimacy and capacity possessed by the Bolivian state in responding to society's needs and demands. In total, the government's failure to provide a formal avenue for expression of societal discontent, its attitude towards the powerful social organization, *La Coordinadora*, and its use of physical force to restrain demonstrators all illustrated a sharp disconnect between the Bolivian state and society, as well as the government's inability to bridge this divide. On a whole, the eventual eruption of violent conflict between the government and its public ultimately represented the deficiencies of the state that were present throughout the privatization process.

Overall, this chapter has focused on telling the story of Cochabamba's experience with water utilities privatization. Starting even before the privatization process was initiated, the water situation in Cochabamba presented many challenges to PSP. Then, once privatization was instituted many factors contributed to the policy's failure. Ultimately, however, what is necessary to note is the degree to which the state's involvement in privatization strongly undermined the reform. Specifically, the lack of legitimacy and popular participation upon which privatization was designed and implemented made the policy unsustainable. A further analysis of PSP's failure will be developed in the following chapter.

Chapter IV

Understanding the Water Wars

The implementation and failure of the Cochabamba's water sector privatization efforts is an extensive and complicated topic. There were, of course, a variety of factors that undermined and ultimately ended PSP in Cochabamba. The tariff increases were indeed a major influence in bringing people to the streets in protest of *Aguas del Tunari*. Also, there were a variety of socio-cultural factors, including the influence and weight of locally-based conceptualizations of water and water rights, which shaped the society's receptivity of PSP reforms. However, as has been characterized in Chapter III and I have argued in Chapter I, the role of the state in shaping, implementing and managing privatization on a whole was a defining feature of Cochabamba's failed concession. While there were in fact economic and socio-cultural causes of the Water Wars which will be developed at greater lengths here, I argue that they cannot be understood outside of the political context from which these tensions over privatization emerged. A large portion of Chapter IV, therefore, will be dedicated to analyzing the institutional and political framework upon which the Bolivian government carried out privatization.

In the start of this chapter, I will focus on the various perspectives through which Cochabamba's PSP experiences can be analyzed. In particular, I will address the economic and socio-cultural factors that were important components of water privatization's failure in the Bolivian context. In this section, I will be drawing upon many of the analytical perspectives discussed in Chapter II, the literature review, to understand the multifaceted nature of the Cochabamba uprisings. However, the second part of this chapter be centered on the institutions or lack thereof that failed to mediate the privatization process. Specifically, I will look at the institutions of centralized power and illegitimate power through which the Bolivian government

designed and implemented its privatization policies. Additionally, I will discuss the lack of established institutions to manage state and civil society relations. More generally, I will argue that recognizing the political institutional framework governing the Bolivian state and society is essential to offering a complete analysis of Cochabamba's failed concession.

4.1. Varying Perspectives on the Water Wars

4.1.a. Economic Factors

As was observed in Chapter III, there are various tangible economic factors that sparked the protests against privatization in Cochabamba. Principally, the sudden and drastic tariff increase was an elemental cause of the Water Wars. As noted by Shultz (2005b), "While many Bolivians are philosophically opposed to putting the country's natural resources into the hands of private corporations – and not without good reason, given the country's recent experiences with World Bank/IMF-forced reforms – most people here are simply angry at the practical result."

First, the tariff increases were perceived as excessive and intolerable, as they rose at rates that were considered unaffordable for many Bolivians. "The massive tariff hikes hit the people of Cochabamba where the minimum wage was less than US\$100 per month. The average water bill was estimated to equal 22 percent of the monthly pay of a self-employed man and 27 percent of that of a woman" (Lobina and Hall 2000, 15-16). At the time of privatization, countless stories of crippling price increases emerged throughout the city. For example, "One citizen, Tanya Paredes, a clothes knitter and a mother of five, received a monthly increase of US\$15 to her water bill, equivalent to what she spends to feed her family for a week and a half" (Lobina 2000, 3). It was

many emotive stories like these that generated a great deal of impetus to the rising social discontent following privatization.

Second, the tariff increases were opposed because they were implemented immediately when *Aguas del Tunari* began operation. As a result, consumers saw their prices rise without seeing any improvements in their services, let alone any expansion of the network. The new tariffs, therefore, were met with much resistance because the community felt it unjust and unwarranted to pay higher prices for the same service previously offered. “In order to gain the trust of consumers, the increases...should follow visible improvements in service delivery, and not precede them as in the case of Cochabamba” (Nickson and Vargas 2002, 119).

Finally, the source of the tariff increases was a highly controversial topic as well. In part, the increases were attributed to the large investment costs needed to finance expansionary projects. However, the increases were also a result of the 16 percent annual profit that was guaranteed to the private provider, and this factor stirred great controversy among consumers (Nickson and Vargas 2002). Many alleged that profit guarantees were due to the fact that *Aguas del Tunari* won the concession for Cochabamba’s water utilities in a bidding process that was noncompetitive since AdT was the sole bidder. As a result, critics suspected that the company was awarded unreasonable benefits, because it was able to influence the contract in its favor (Shultz 2003; Laurie and Crespo 2004).

For the most part, the new prices were perceived as illegitimate, because they increased at an excessive rate, did not accompany any visual improvements in service, and were recognized as part of the private company’s profit structure. As a result, many Cochabambinos felt that privatization was just a form of exploitation, and that marching for the cancellation of the contract was the only way to bring prices under control. Essentially, once the tariff increases

were implemented, it was consumers who made up the core of the anti-privatization movement that swept across Cochabamba and consequently brought the *Aguas del Tunari* concession to an end.

Although the economics of the Water Wars seem to point to the imminent failure of privatization in Cochabamba, as the tariff increases were a powerful cause of the protests, this analysis is limited in some regards. First, it must be recognized that the conditions of Cochabamba's water system prior to privatization, as was elaborated in Chapter III, Part 3.1., were far from adequate. For example, under public ownership, water availability and quality was among the lowest in Latin America. SEMAPA serviced only 57 percent of the population and failed to supply 39 percent of consumer demand. As a result, many of the residents who lacked access to the piped network had to either sink their own wells or pay exorbitant prices to truck vendors. Further, the situation for those with access to the water system was not much better. For example, in many parts of the city water availability was limited to just a few hours once or twice each week. This forced consumers, even with formal connections, to sink private wells and construct water storage tanks (Nickson and Vargas 2002).

By noting the apparent failures of public provision, the previous argument that the Water Wars were predominantly a consumer revolt is weakened. PSP was implemented as a means to improve water services, a reform from which many were likely to benefit in the long run. However, privatization was opposed even before the private company was in operation long enough to demonstrate whether or not it was going to improve and/or expand the network. Thus, it seems unlikely that the increased prices alone could spark such a powerful and immediate backlash, when PSP at least was an attempt to make advancements in a system that poorly or under-serviced so many people.

In this section, I have provided an economic analysis of water privatization's failure in the context of Cochabamba. While this approach has offered some insight into the matter, it has also revealed the limitations of looking only at economic factors to explain the Water Wars. Now, I will explore an alternative perspective – one that interprets Cochabamba's experiences based on socio-cultural dimensions – to understand the failure of water utilities privatization.

4.1.b. Socio-Cultural Factors

There were a variety socio-cultural factors that shaped Cochabamba's experiences with water privatization. Specifically, in terms of water rights, use and access, privatization upset various traditions and norms in the urban and rural areas of the Cochabamba valley. Moreover, it can be seen that many of the dominant actors in the protests against privatization, including the irrigators, the alternative social/cooperative water providers, and *La Coordinadora* opposed PSP based on socio-cultural characteristics that placed these groups in opposition to the principles of privatization.

First, in examining the “Urban/Rural Rivalry” and the major role that irrigators played in the Water Wars in Chapter III, Part 3.1., it is necessary to note the socio-cultural dimensions that shaped the situation. Water plays an important role in defining the structure and organization of a community. According to Crespo (2005), “in Bolivia, water is tied to social and cultural practices. In the case of rural communities, water is not only a resource, but rather it forms a part of the internal interactions of a community.” In this way water ownership and management cannot be understood without recognizing the larger socio-cultural context within which they operate.

As was demonstrated in the previous chapter, the rural areas of Cochabamba valley are predominantly indigenous and in general their conceptualizations of water resources and water rights diverge from those of PSP. For example, among indigenous societies in Bolivia, some scholars have noted that notions of water remain strongly tied to the belief systems and values of traditional Andean culture.

The concept of cosmovision³⁶ has a strong influence on the organization of water management in Bolivia. Water is not perceived as a mere substance, either public or private, but as a living entity. It is believed to be the origin of life and respected and treasured, accordingly. From this perspective, water is not only essential for material life but also for spiritual sustenance... Indigenous communities throughout Latin America have strongly contested the fragmentation of water resources into individual segments captured in property rights (Ahlers 2006, 67).

Moreover, as was mentioned in Chapter III, rights to water among irrigators in the rural sector of Cochabamba have long been dictated by the traditional Andean concept of “uses and customs,” which is founded in the principles of communal reciprocity and mutual support. At the same time, rights based on “uses and customs” are closely connected to Andean spiritual beliefs,

They are natural rights given to humans by God. Water is *Pachamama* and *Wirakocha*,³⁷ not a person or a spirit, but the land itself that gives us life, and water is its blood, because it’s what gives humanity life. They are also the rights left to us by our grandparents, that is, the ‘originary’ people; (they are) what we have inherited from the patterns for their uses and customs practiced by our parents, grandparents and now by us (quoting an irrigators association in Cochabamba, *translated by Laurie and Crespo* 2004, 13).

At the time of privatization, traditional water rights were already under threat due to the expanding urbanization of Cochabamba city along with the deepening problem of water scarcity. However, PSP, with its foundation in capitalist principles and rearrangement of water rights and ownership, was perceived as a direct threat to the governing norms of water management in the rural sector. In this way, the introduction of privatization – to some degree – represented a

³⁶ This is a broad term used to describe the relationship between the individual and his or her natural environment. It is closely tied to a belief system and set of moral values that governs Andean “traditional” society.

³⁷ These are concepts within Andean Cosmovision

culture clash between traditional and capitalist notions of water. Ultimately, irrigators played a key role in the protests against privatization because they felt their own rights to be threatened; yet, there were cultural dimensions of the conflict over water rights that shaped the irrigators opposition to privatization.

Similar to the story of the irrigators, other stakeholders in the protests, including social alternative water suppliers, also found themselves in opposition to privatization based on conflicting notions of water ownership. For example, traditional Andean beliefs and value systems are strongly present in urban Cochabamba, as in the rural sector, and govern the ways in which neighborhood cooperatives, associations and committees managed water resources in the city. “Most of these alternative systems have their own rules, based on social and non-profit seeking values, with the aim of providing access to water for all their members. Some of these organizations are based on ‘uses and customs’ practices which draw on Andean indigenous social practices dating back many years” (Laurie and Crespo 2004, 12). In general, the alternative supply systems are founded in values such as reciprocity, mutual aid, solidarity and common good, and are generally organized in the fashion of communal democracies where tariffs and bills are paid through community contributions (Laurie and Crespo 2004).

Overall, the treatment of water resources, ownership and management among social alternative water suppliers in the city differs greatly from the treatment of water under private sector participation, which is based on centralized management with a profit structure. While the role of these stakeholders in the protests is linked closely to the fact that under privatization social alternative suppliers were required to relinquish ownership and rights to their resources – as was discussed in Chapter III, Part 3.2. – at the same time it must be recognized that there is a clear cultural distinction between the two systems. The communal management of water

resources is founded in traditional Andean values and practices, and thus the change over to private ownership signals a deviation from culturally rooted norms.

The socio-cultural elements of the anti-privatization movement were vocalized and made prominent by *La Coordinadora*, the principle grassroots organization to oppose privatization. Specifically, the organization constructed a powerful ideology founded in culturally-defined values of communal water management. For example, in the “Cochabamba Declaration,” *La Coordinadora* laid out the ideological framework upon which “the people” were opposing privatization:

1. Water belongs to the earth and all species and is sacred to life.
2. Water is a fundamental human right and a public trust to be guarded by all levels of government, therefore, it should not be commodified, privatized, or traded for commercial purposes. These rights must be enshrined at all levels of government.
3. Water is best protected by local communities and citizens, who must be respected as equal partners with governments in the protection and regulation of water (Olivera 2004, i).³⁸

Based on this doctrine, *La Coordinadora* framed the opposition to privatization in a way that put private ownership in direct contradiction with the cultural values that govern Bolivian traditional society. By criticizing making water the object of profit production at the cost of limiting access and by proclaiming water to be a “human right,” the Declaration decried commercial ownership as a violation of the resource’s natural qualities. Moreover, it claimed that public ownership is the best means by which the “inviolable rights” of water can be protected (Olivera 2004). Thus, by creating culturally founded definitions of water and water rights, *La Coordinadora* was able to form an ideological opposition to privatization.

Overall, privatization agitated the cultural diversity of Cochabamba by threatening to override and change traditional water management norms. As a result, there was indeed a socio-

³⁸ This is not the Cochabamba Declaration in its entirety. I have only included the first couple sentences of each declaration to provide a sense of their meaning. To see the Declaration in whole, refer to Oscar Olivera’s book, [¡Cochabamba! Water War in Bolivia.](#)

cultural dimension to the failure of privatization, as two of the key opposition groups – the irrigators and the social alternative supply providers – feared losing an element of their cultural identity along with rights to their water resources with the onset of PSP. Moreover, this factor is illustrated through *La Coordinadora's* vocal opposition to privatization, which employed a sort of culturally-defined creed that declared private ownership to be in violation of traditional water management practices. In general, these factors demonstrate the degree to which the cultural context of Cochabamba shaped the public's resistance to privatization. Yet, although the cultural dimensions of Cochabamba's concession offer a degree of insight into its failure, they do not provide a complete answer in and of themselves. Rather, it is important to recognize the institutional framework through which the clash between privatization and cultural norms was played out.

On a whole, understanding the role that both economic and socio-cultural factors filled in determining the failure of privatization in Cochabamba is necessary to note the complexity of the Water Wars. However, at the same time, these causes only offer surface explanations for privatization's failure. High prices and threats to cultural norms were indeed the substance of the protests, however, they do not necessarily reveal the root causes to the problem of privatization on a whole in the Bolivian context. From a wider perspective, it must be recognized that water has been successfully privatized in diverse contexts in which tariffs were also increased.³⁹ Therefore, the question remains, what makes Cochabamba different? The following section will examine Bolivia's political and institutional context to ultimately answer this question.

³⁹ Various successful privatizations with tariff increases include: Santiago, Chile; San Pedro Sula, Honduras; Guinea; Senegal; Salta, Argentina (Clarke, Kosec, Wallsten 2004).

4.2. The Water Wars as a Symptom of Broader Political and Institutional Failures

While the economic and socio-cultural factors that shaped Cochabamba's canceled concession are highly telling on one level, on a deeper level they are merely symptoms to a larger problem – of which the failure of privatization was an expression. Overall, I argue that the Water Wars were rooted more deeply in political and institutional failures of the state than any other economic or socio-cultural cause. For example, considering the tariff hikes and the outcry they stirred, although this problem illustrates the irresponsibility of the company that raised the rates, the controversy ultimately resulted from the government's inability to first negotiate a decent contract and to later regulate AdT on behalf of consumers' interests. Moreover, with regards to the role of the irrigators and alternative social supply providers in the Water Wars, I again argue that this is a breakdown in the function of the state. In general, the government failed to involve the necessary stakeholders in designing and carrying out its privatization plan, including the AdT contract and Law 2029; and as a result, the established norms, practices and rights of water users and providers across the valley were disregarded and undermined by the state. These are just a few specific examples of the ways in which political dimensions laid the groundwork upon which economic and socio-cultural tensions were formulated in relation to privatization. Ultimately then, the goal of this chapter is to explore these political element and to understand their role in causing the failure of PSP in Cochabamba.

The organization of this section will follow the general development of my basic argument – that politics matter. First, I will introduce the context of Bolivia's weak political institutions and their bearing on past economic policies. Second, I will review a variety of statistics that provide an important perspective into the performance of the Bolivian state. And

finally, I will discuss the three conceptual paradigms through which Bolivia's poor governance and weak institutions will be developed, including the patterns of centralized state power, the cleavage of state and civil society interaction, and the state's use of illegitimate power.

4.2.a. Privatization Revisited

In the post-colonial history of Latin America, to which Bolivia is no exception, governments have long been struggling to find the right prescription of economic development. In this process, economies have cycled back and forth between periods of privatization and periods of nationalization, each ending with disappointing results⁴⁰ (Chua 1995). While many have treated the recent neoliberal reforms of Bolivia as a new phenomenon, the country has in fact experienced preceding periods of economic liberalism.⁴¹ Therefore, in the context of Bolivia's current neoliberal strategy, the question that many analysts have posed is whether the current experiment with a market-led economy will be any more successful than previous development models.

If Latin America has now finally ended its search, and settled on the right development strategy for the indefinite future, then privatization is a foundational element in the new order. But if the features that gave rise to disillusion with earlier development models have still not been fully overcome, then the Latin American tradition of first promoting and then rescinding alternative patterns of property rights could eventually reassert itself (Whitehead 2000, 263).

⁴⁰ Ownership of Bolivia's most valuable resources, particularly the nation's mines, have shifted back and forth between private ownership and state ownership. The mines were privately owned following independence through the Republican Era. Nationalization occurred in the aftermath of the 1952 revolution and remained publicly owned until their re-privatization in 1985 (Morales 2004). Today, Bolivia's hydrocarbons sector has followed a similar path with the recent "re-nationalization" of the country's oil production that took place on May 1st of 2006.

⁴¹ During the Republican Era (1879-1932), Bolivia's most lucrative natural resources were privately owned, including the silver and tin mines. At this time however, the country was more or less run by an oligarchy of capitalists (Morales 2004).

The key to answering the above question then, relies on identifying in Bolivia which “features” have continually given rise to disillusionment with economic models, and whether those factors remain present in today’s reforms.

While a discussion of the overall success or failure of Bolivia’s present neoliberal agenda will not be pursued here, understanding that historical forces have undermined past development strategies is necessary to grasping the general context within which Cochabamba’s privatization efforts failed. Based on this notion, it is important to recognize that the move to privatize Cochabamba’s water sector was not proposed and implemented in a vacuum, but rather historical forces had already constructed social, political and economic dynamics that shape society’s receptivity to certain reforms and the government’s ability to effectively implement them. Along these lines, scholar Vargas Llosa has argued that,

Defenders of privatization, and of the free-market economy in general, have overlooked the difference between the creation of an open society and the transition to an open society. In advocating reform, they unconsciously assumed that liberal capitalism would be created from nothing. On discovering that the space is neither empty nor virgin and that within it the existing elements undermine, exhaust, or devour the new, Latin America is confronted with a lesson that is nearly as important as the free society itself (2005, 162).

According to my analysis, the environment in which Cochabamba’s water privatization occurred was laden with variety of obstacles impeding the success of reform. Specifically, Bolivia’s weak political institutions and indicators of poor governance⁴² presented a great challenge to the implementation of PSP. At this point, I will explore the contours of Bolivia’s political context by reviewing data collected by the World Bank and *Corporación Latinobarómetro* which

⁴² According to the World Bank, governance indicators, motivated by a broad definition of governance as the traditions and institutions by which authority in a country is exercised, are constructed upon (1) the process by which governments are selected, monitored and replaced, (2) the capacity of the government to effectively formulate and implement sound policies, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them (Kaufmann, Kraay and Mastruzzi 2005).

demonstrate the performance of Bolivia's political institutions in relation to the region as well as through the perception of civil society.

4.2.b. Patterns of Poor Governance

I will begin by looking at a study carried out by the World Bank, titled "Governance Matters," in which researchers surveyed countries across the globe to determine their level and degree of governance. The study focused on six indicators covering different dimensions of governance, including "voice and accountability" which measures the function of the political process, civil liberties, and political and human rights; "political stability and absence of violence" which measures perceptions of the government vulnerability to attempted destabilization or overthrow by another group; "government effectiveness" which measures quality of public service provision, competency of bureaucracy and civil servants, independence and credibility of government commitment and civil service; "regulatory quality" which measures incidence of market-unfriendly policies and excessive regulation; "rule of law" which measures the degree to which citizens have confidence in and abide by the rules of society; and finally, "control of corruption" which measures the incidence of the use of public power for private gain (World Bank Group).

Table 11
Six Governance Indicators for BOLIVIA

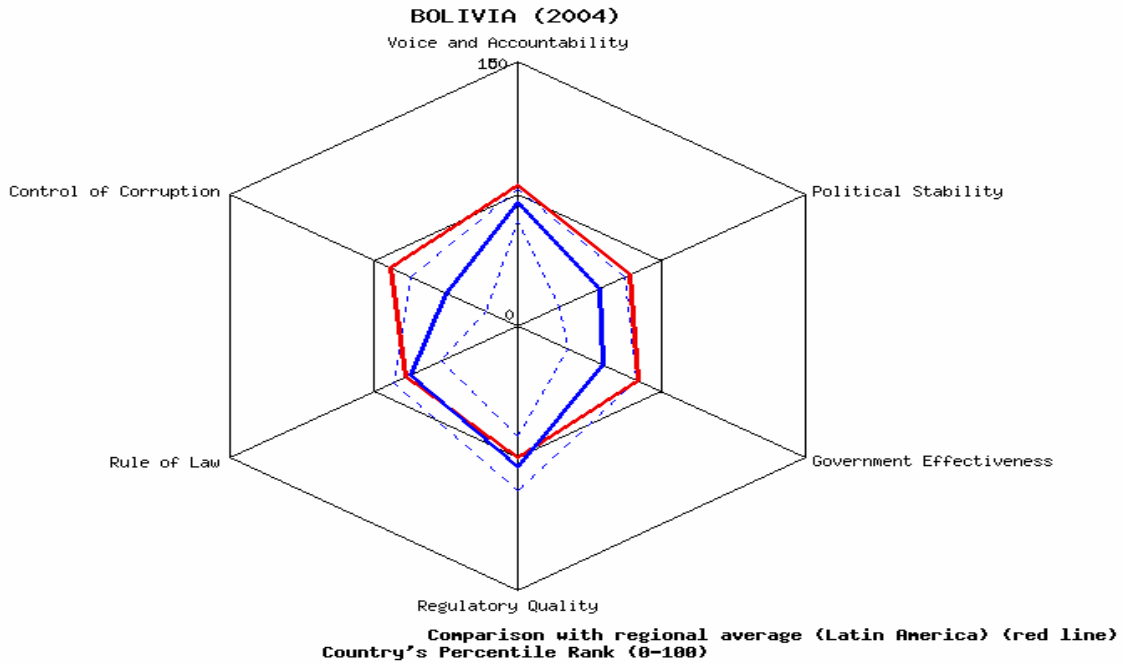
| Governance Indicator | Year | Percentile Rank (0-100) | Estimate (-2.5 to + 2.5) | Standard Deviation | Number of surveys/polls | Sources | Regional Average, Percentile |
|--------------------------|------|-------------------------|--------------------------|--------------------|-------------------------|----------------------|------------------------------|
| Voice and Accountability | 2004 | 47.1 | -0.01 | 0.15 | 10 | List | 53.6 |
| Political Stability | 2004 | 28.6 | -0.65 | 0.22 | 9 | List | 39.2 |
| Government Effectiveness | 2004 | 29.8 | -0.63 | 0.17 | 10 | List | 42.1 |
| Regulatory Quality | 2004 | 53.7 | +0.05 | 0.19 | 9 | List | 49.8 |
| Rule of Law | 2004 | 37.2 | -0.55 | 0.13 | 12 | List | 39.1 |
| Control of Corruption | 2004 | 25.1 | -0.78 | 0.15 | 10 | List | 44.6 |

(Source: [Kaufmann D., A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004.](#))

Note: The governance indicators presented here reflect the statistical compilation of responses on the quality of governance given by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries, as reported by a number of survey institutes, think tanks, non-governmental organizations, and international organizations. The aggregate indicators in no way reflect the official position of the World Bank, its Executive Directors, or the countries they represent. As discussed in detail in the accompanying papers, countries' relative positions on these indicators are subject to margins of error that are clearly indicated.

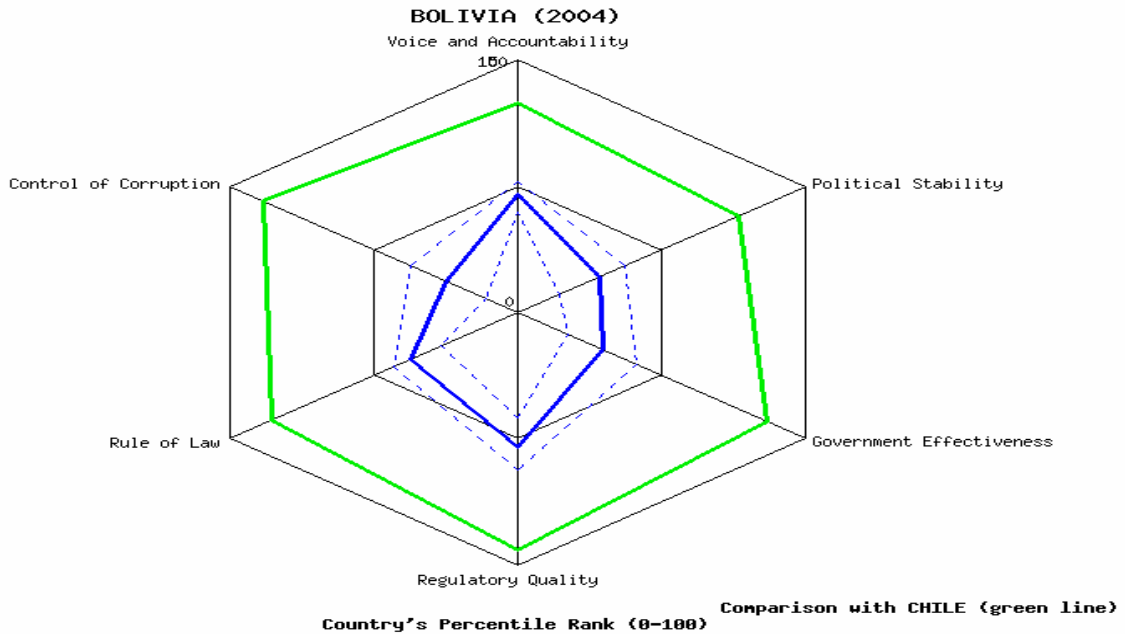
Overall, Bolivia ranks fairly poorly in all of these six indicators. As is demonstrated in Table 11, on a global scale the Bolivian government ranks near the first quarter percentile in political stability, government effectiveness, and control of corruption. Beyond that, its voice and accountability, regulatory quality, and rule of law indicators rank closer to the 50th percentile. On a regional scale, which can be visually noted in Figure 2, Bolivia ranks consistently lower than average in all but one indicator, voice and accountability. In relation to Chile, one of the region's top performers, the picture is even more stark; as is illustrated in Figure 3, the discrepancy in performance between the two countries is considerable. What these statistics represent is a general deficiency in state capacity. On a whole, it seems that the Bolivian government is recognizably unstable and struggles to effectively carry out civic duties – presumably due to high levels of corruption. While the Bolivian government is not as weak as some, these indicators demonstrate the obstacles that policy makers face.

**Figure 2
Regional Comparison**



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

**Figure 3
Comparison to Chile**

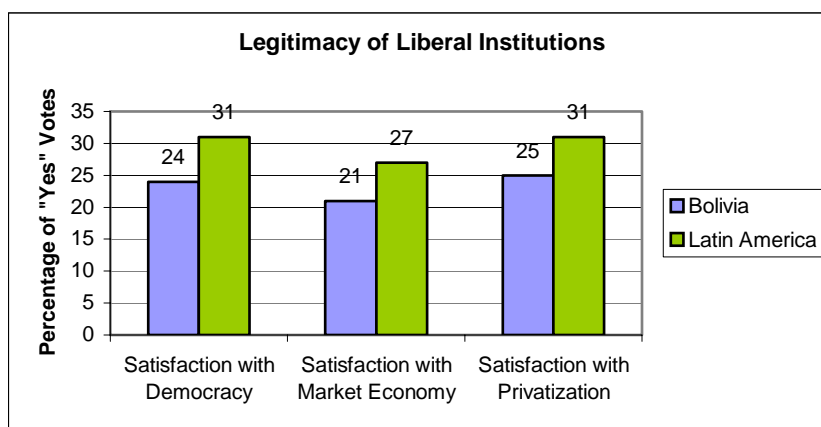


Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (<http://www.worldbank.org/ubi/governance/pubs/govmatters4.html>)

From the perspective of the Bolivian civil society, represented in data collected from a series of surveys and interviews given by the *Corporación Latinobarómetro* from 1995 to 2000,

attitudes towards the government and economy were by and large condemnatory. First, in Table 12 we can see that both in Latin America as a whole, and in Bolivia in particular, the confidence of citizens in liberal institutions, such as democracy, the market economy, and privatization, is on the whole very weak. Based on these results, it seems that the reforms of the 1990 Neoliberal Era failed to deliver the necessary goods, especially in Bolivia where the pillar tenets of liberal doctrine – democracy and open economy – scored less than a quarter percentile of approval.

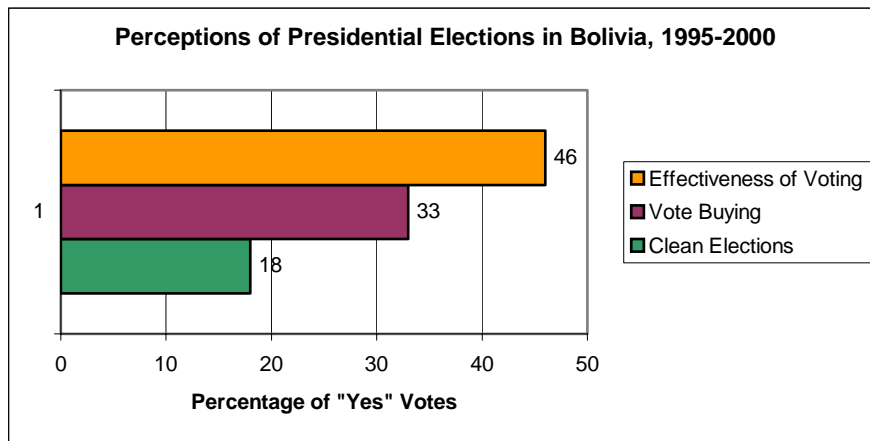
Table 12



(Source: *Corporación Latinobarómetro* http://www.latinobarometro.org/uploads/media/2005_02.pdf)

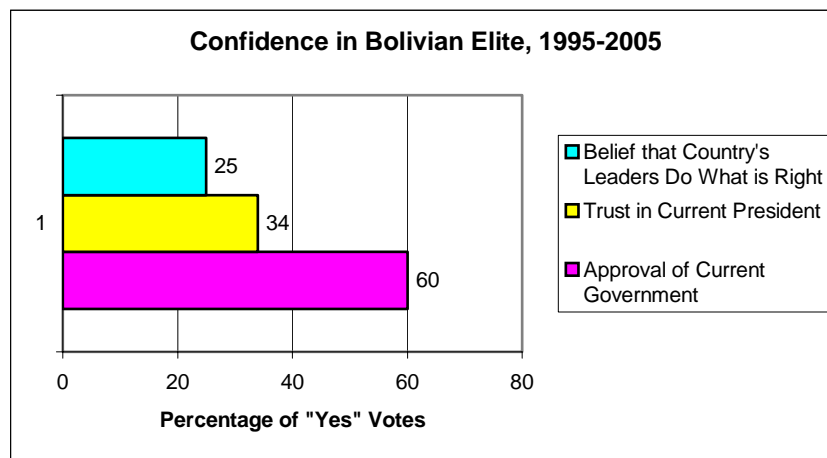
Moreover, Tables 13 and 14 indicate a general skepticism among civil society in the Bolivia's leaders. Specifically, less than half of the citizens surveyed perceived voting to be an effective mechanism for political voice and even fewer believed elections to be clean from coercion and corruption. Not surprisingly, confidence in Bolivia's elected officials is also decidedly low, with only 34 percent of interviewees stating that they trusted in the president, and fewer saying that they believed the country's rulers "do what is right." Overall, these statistics indicate that from the perspective of civil society, Bolivia's political institutions and leaders are lacking in legitimacy.

Table 13



(Source: *Corporación Latinobarómetro* http://www.latinobarometro.org/uploads/media/2005_02.pdf)

Table 14



(Source: *Corporación Latinobarómetro* http://www.latinobarometro.org/uploads/media/2005_02.pdf)

While these statistics paint a rather gloomy picture of the Bolivian state, they offer an important perspective into the country’s political context. Both the governance indicators as well as the perceptions of civil society expose weaknesses in state capacity. This context is essential to understanding the political and institutional dynamics that shaped Cochabamba’s experience with water sector privatization. The following section will discuss specific problems with state governance in Bolivia and their implications for private sector reform.

4.2.c. Political and Institutional Dimensions of Privatization

Bolivia's political framework ultimately created the structure upon which the design, implementation, and outcome of water privatization were formulated. While a general lack of capacity in the country's democratic institutions significantly undermined the reforms, there are specific governance issues that characterize the political context of privatization's failure. At this time, I will focus on three main governance issues, including the centralization of state power, cleavages between the state and civil society, and the illegitimate use of state power.

Centralized Power

Historically, political power in Bolivia has been concentrated at the national level, with major decision-making authority and resource distribution responsibilities dictated predominantly by the central government (Grindle 2000). In the wave of the 1980/90s neoliberal reforms, the Bolivian government introduced decentralization legislation aimed at granting more political power to municipalities. These decentralization efforts, namely the Law of Popular Participation,⁴³ have been widely discussed and researched in the scholarly arena, and therefore will not be analyzed at great length here; however, I will note that numerous reports⁴⁴ on the topic have expressed mixed results for the Law of Popular Participation, and have noted that centralization of state power remains an issue in Bolivia. Overall, "the change from corporatism to pluralism has not resulted in effective representation or responsiveness. Some elements of the

⁴³ Popular Participation was designed and implemented in 1991-1993 by President Sánchez de Lozada and a team of technocrats (Gray-Molina 2001). The law enacted a national redistricting of political-administrative boundaries to create a greater portion of municipalities with rural majorities. The reforms also aimed to allocate a greater portion of the national budget to municipal governments and to reshape local mechanisms for participatory planning (Healy 2001) One criticism of the reforms that has been noted frequently is the fact that, "In Bolivia, political decentralization was the outcome of a centralized design process involving a small number of officials who worked in close collaboration with the president" (Grindle 2000, 125).

⁴⁴ See Barr 2005; Hiskey and Seligson 2003; Kohl "Stabilizing," 2002; Gray-Molina 2001.

former system of representation persist, as do patterns of behavior, such as centralized control and patronage-based politics” (Barr 2005, 85). In terms of Cochabamba’s failed water privatization efforts it is essential to note that the weaknesses in Bolivia’s decentralization strategy were apparent in the state’s management of PSP. For example,

The April 2000 water war underscores the blurred division of authority among the three levels of government. The water pipeline was a national government contract, even though it only affected a single city, Cochabamba. Thus, despite the decentralization efforts, the central government continues to have a large role in local affairs. The effect is that local problems escalate to the national level, and the executive finds itself bombarded with demands that other state institutions are unwilling or unable to handle” (Barr 2005, 82-83).

Overall, the failure of Cochabamba’s water sector privatization efforts was largely defined by the centralized nature of the Bolivian state. Specifically, the political framework at the time of the Water Wars was one in which the majority of power rested in the hands of few elites residing in the capitol city of La Paz. These political power-holders, however, were far from resembling the poor indigenous majority population of Cochabamba, which tends to live in rather autonomous communities outside of the usual reach of the state. In other words, in the context of centralized power there exists a distinct differentiation between the government and the governed. What is more, the elite state tended to be absent in the lives of the majority, specifically in terms of providing basic services, like water networks, and thus its periodic encroachment into historically marginalized populations – such as widespread privatization reforms – presented a potential threat to existing balances. In this way, centralized power constituted the political framework through which PSP policies were introduced, and therefore their failure cannot be understood as separate from this context.

Focusing specifically on the case of the Water Wars, centralization of political power was apparent throughout the privatization process. First, it was the Bolivian government, not the municipality, which negotiated and sold Cochabamba’s water resources. This proved to be

highly problematic because the central government, which is far from the city's general populace both geographically and characteristically, was – and continues to this day to be – out of touch with local sentiment as well as less accountable to the citizens of Cochabamba. Thus, when designing privatization policies and negotiating the AdT contract, the government operated on an elevated level of authority which was largely outside the reach of local actors and influences. Overall, because notions of water and water rights are highly localized concepts, as was noted earlier, the control of water reform at a national level undermined the potential for PSP to be molded by local norms and needs. Therefore, somewhat unsurprisingly, due to the fact that water privatization was ultimately an endeavor of the national state, the policy proved to be incongruent with and unsustainable in the context of Cochabamba.

Second, the pattern of centralized power was also illustrated during the conflicts over privatization. Specifically, when social discontent and protests erupted over high tariffs, the central government itself chose to negotiate with select civic groups rather than delegating power to the municipal and regulatory authorities to manage citizens' complaints.⁴⁵ As a result, while local authorities may have at least had the opportunity to be more receptive of popular demands, the government remained immune to the swelling social movement calling for the end of the AdT contract and instead maintained its loyalty to the concession holder – generating greater frustration and disbelief among citizens. In effect, the national government's management of the privatization protests largely undermined PSP policy by failing to confront and adapt to the challenges of implementation.

Finally, as the protests escalated and the central government's grip began to lose control, the president resorted to using police and military repression, and eventually called for a state of

⁴⁵ While agreeing to negotiate with the Civic Committee, which represented local business interests, the government refused to listen to the demands of the *Coordinadora*, because it considered it an illegitimate voice (Nickson and Vargas, 2002).

emergency to suppress social demands (Nickson and Vargas 2002). The use of force by the government illustrates the deficiencies in centralized power, which was unable to adequately manage the local dispute through democratic institutions, and as a result had to rely on physical force to re-install order. Moreover, the state's dependence on physical mechanisms of governance call attention to the great chasm that exists between the ruling political class and the populace they were attempting to control. Ultimately, once the government called for a state of emergency and deployed military forces to the city, the disintegration of Cochabamba's privatization reform became imminent. In this way, because the state was only able to maintain its policies through force, and not consensus, privatization in this manner proved to be absolutely unsustainable.

These factors all demonstrate the degree to which Bolivia's central state was incapable of effectively designing and implementing sustainable water reform. Overall, I argue that the failure of privatization in the context of Bolivia was fundamentally characterized by the centralization of power, which constituted the government's mismanagement of the privatization process and conflicts. The following two sections, which will focus on cleavages in state-society relations and the state's use of illegitimate power, highlight concepts that are inextricably linked to and in many ways generated from the institution of centralized power prevalent in Bolivia.

Civil Society and the State

In the face of highly centralized power, the overall performance of Bolivia's political institutions is marked by a severe disconnect between the country's governing bodies and civil society. As was seen in the previous statistical charts, the Bolivian populace tends to hold its elected leaders in low regard. This lack of confidence is strongly connected to the government's

inability to fully represent its citizens, as was also illustrated in the previous discussion of centralized state power. According to many scholars,⁴⁶ political power in Bolivia has historically been “unresponsive, urban- and elite-based, and remote from the concerns of most citizens” (Grindle 2000, 7). In general, this breakdown in coordination and communication between Bolivia’s formal political rule and civil society is exemplified by the conflicts over water privatization in Cochabamba. According to one scholar, “The [Water Wars] illustrated the extent to which not only the government but all the political parties were out of touch with popular sentiment, which regarded neither the Congress nor any other institutional forum for the expression and redress of grievances as fully legitimate” (Whitehead 2001b, 12).

A main component of the disconnection between state and civil society is what Laurence Whitehead (2001b) calls the “two levels of Bolivian politics” (10). As identified by Whitehead (2001b), Bolivia has two divergent traditions of political rule – one, which is directed by the governing elite, is a complex system of constitutional rules and precedents that make up the country’s formal legal institutions; the other is a powerful tradition of direct political participation based on the indigenous institutions of egalitarian decision-making that are widely in use at a community level. Due to a general lack of coordination between these traditions, the state’s formal institutions have often been criticized as “ineffective at both representing and responding to societal interests” (Barr 2005, 71). Reflecting on the duality of Bolivian politics, it naturally follows that the Bolivian state, which operates on a level of isolated formal institutions, would fail to realize the popular participation-based expectations and needs of civil society. Thus, because the Bolivian government has traditionally been unable to bridge this divide and incorporate the general populace into its decision-making processes, the clashes over

⁴⁶ See Grindle 2000; Whitehead 2001a/b; Barr 2005.

privatization ultimately were representative of a more fundamental problem in Bolivia's governance structure.

Specifically, the disconnection between state and civil society was illustrated by the government's failure to incorporate the necessary stakeholders in the privatization process. For example, the interests and concerns of the rural irrigators, the alternative social supply providers, and the poor and non-networked neighborhoods should have been represented during the designing of privatization policies, the writing of Law 2029, and the negotiating of the AdT contract. However, because these interests were excluded, PSP ultimately sowed the seeds of its own demise by placing more citizens at a disadvantage rather than improving their services. Policies are only as sound as they are representative of the needs and interests of the citizens that they impact. Yet, the Bolivian government – in part due to its centralized state power – failed to recognize this concept and instead carried out privatization without communicating and connecting with its populace, thus undermining its own reforms.

Moreover, once privatization was in place, discontented consumers and stakeholders had no formal venues to voice their concerns. For example, the regulatory agency SSSB, which was created to regulate the private sector in the interest of consumers, repeatedly failed to hold an open forum for complaints to be made regarding privatization and the operation of *Aguas del Tunari*. As a result, the Bolivian government effectively neglected and alienated a large portion of the Cochabamba populace. In turn, because the government blocked itself from popular sentiment, its actions during and after privatization consistently failed to represent and respond to the needs of its citizens.

Finally, the division between Bolivia's two political arenas is exemplified by the key role played by *La Coordinadora* in the Water Wars. While most of Cochabamba's populace felt

neglected and excluded by the state's management of the privatization process and ensuing conflict, *La Coordinadora* effectively filled the existing vacuum of political expression. By offering local assemblies and direct popular participation forums for citizens to articulate their needs and concerns over water privatization, the organization rooted itself in indigenous institutions of egalitarian decision-making. In effect, *La Coordinadora's* organizational framework was far more reflective of the traditional management mechanisms in place in local communities than the absent system of formal rule occurring at the state level. Ultimately, by recognizing the strength and efficacy of *La Coordinadora*, the weaknesses in the formal institutions governing political expression and consensus building become evident.

Overall, a major source of privatization's failure was founded upon the tenuous relationship between the Bolivian state and society before, during and after the process. In general the government's privatization policies were designed through top-down mechanisms that failed to incorporate the people, norms and culture that were most affected by their implementation. Moreover, once the reforms were in place, the state failed to provide forums for popular expressions and lacked the capacity to legitimately respond to citizens' complaints. As a result, these political failures constituted the unstable framework upon which the Water Wars erupted.

Illegitimate Use of Power

Again, stemming from the institution of centralized power, the authority of the Bolivian state has also long been characterized by its illegitimate use of power. In general, as the previous statistical charts have demonstrated, there exists pervasive skepticism and distrust among Bolivian citizens for their governing figures. Specifically, attitudes towards elections, the

president, and other elites in power have been widely unsatisfactory, as the actions of the government have consistently been interpreted as ineffectual or damaging to the average citizen's livelihood. Furthermore, perceptions of corruption are acute and in typically generate a broad sense of cynicism toward power-holders. Overall, in the context of the 1980/90s neoliberal reforms, the performance of democratic institutions in Bolivia have been met with grave disappointment. Therefore, it was in this environment of distrust and skepticism that the central government implemented its privatization policies. While recognizing general sentiments towards the state, it is necessary to note the ways in which power was employed illegitimately throughout the privatization process.

First, the dominance of patronage-based politics was a key characteristic of government water resource management both before and after privatization. For example, in Cochabamba under the public utilities provider, SEMAPA, the distribution of the water network was linked to election promises, in which neighborhoods with political and economic clout were guaranteed services over poor and marginalized communities. Once privatization policies took effect, the story was not much different. Specifically, the water reform signaled the formation of new alliances between the government and local and international business interests, as was covered in Chapter III's discussion of the MMP. Overall, the lack of transparency that surrounded negotiations and the crafting of the concession generated a great deal of mistrust and skepticism. The common sentiment among Cochabambinos was that the state's privatization efforts were not designed to improve local services, but rather to benefit the private company with whom the government appeared allied. "The state took a position directly in solidarity with the company and defended it until the last moment" (Crespo 2005,). In effect, the state's use of illegitimate

power to bring gain unto itself and its cronies characterized popular opinions of Cochabamba's water privatization.

Second, a great deal of illegitimacy surrounded the presidential seat at the time of the Water Wars, both in terms of how General Banzer ascended to power and employed that power. Banzer, as noted earlier, was a former military dictator, and there was a great deal of controversy surrounding the elections of 1997 that brought him to power. Specifically, suspicion of corruption and behind-the-scenes deal-making was heavily prevalent during the elections (Crespo 2005). Recognizing the distrust and skepticism of the Banzer government that was in place long before the Water Wars is an important component to understanding how the citizens of Cochabamba received the intended changes to their city's water supply. Since the water privatization reforms were viewed as the product of a historically illegitimate government, the immediate suspicion of them by many Cochabambinos is in part explained.

Finally, it was Banzer's use of police and military repression to quell the popular protests in Cochabamba that signaled a clear deviation away from the legitimate use of power. Because the government neglected to create or support any formal institutions for the expression of grievances by the public after privatization, the streets became the only viable venue for opposing voices to be heard. However, Banzer's use of violent repression of demonstrators, which left six dead and many more injured or incarcerated, illustrated the weakness of democratic institutions in Bolivia and the reign of illegitimate power by those in office. For example, when Olivera, the leader of *La Coordinador*, was asked how the movement was able to organize and rally so many people behind the cause of ending privatization, Olivera remarked, "Oh, we didn't do that. The government did it for us" (Farthing and Kohl 2001, 10). Olivera's quote demonstrates the degree to which the momentum behind the Water Wars was not just

rooted in anger against tariff increases, but also anger against the state's use of illegitimate power. As noted earlier, once state violence was employed, Cochabamba's privatization reform quickly came to end, reflecting the manner in which the use of illegitimate power could only sustain the failure of privatization.

Ultimately, Bolivia's water sector privatization efforts were marked by a sense of illegitimacy on the part of the government. The history of patronage-based management of water resources, compounded with the lack of transparency that surrounded privatization, led many of the citizens of Cochabamba to doubt the intentions of the state's water reform policies. Finally, with the deployment of troops to suppress protests by the Banzer government, the state effectively de-legitimated its role in the management of privatization and undermined the reforms themselves. Overall, the actions taken by the state throughout privatization were largely unsupported by and in direct conflict with popular local sentiments. Thus, by using its power in such a way that failed to benefit society at large, but rather aimed at helping a select few while repressing the rest, the state acted as an illegitimate body.

In a final analysis of the Water Wars, it is essential to recognize the degree to which political factors and state failures ultimately shaped the context of Cochabamba's water privatization reforms. In the end, while a variety of dynamics comprised the Water Wars, a comprehensive understanding of privatization's failure cannot be reached without acknowledging the ways in which the government and its political framework undermined policies from initiation. Overall, the state's institutions of centralized power, fractured state-society relations, and illegitimate power were the pillars upon which water sector privatization ultimately failed.

Chapter V

Conclusion

The Water Wars that took place in April of 2000 in Cochabamba, Bolivia have received global recognition. To many, they are held up as proof of the inherent failures of PSP; similarly, they are also seen as a triumphant story of the powerless and their victory over a greedy company. While this thesis has attempted to neither support nor refute these narratives, it has labored to bring a more holistic perspective into the literature on the subject and to shed light on the broader context within which Cochabamba's concession failed.

Upon starting this project, my initial perception of the Water Wars was that privatization – in itself – was antagonistic in the context of Cochabamba. As a merit good, it seemed imprudent to place water ownership in the hands of a private company, because the market does not necessarily assure access for all, especially the poor and marginalized. Moreover, literature on the subject gave a sense that the rate of poverty and lack of economic development in the Cochabamba could not sustain a for-profit water company. Other scholars also noted the conflicting nature of communitarian management of water resources that have long been in operation among traditional communities in Cochabamba valley with the introduction of private rights and ownership over water supply. Overall, it appeared as though privatization was the wrong policy for the city and that the Water Wars were just a reaction to that.

However, through further analysis, I realized that there was a key player missing from this line of reasoning – the state. The fact is that, under public provision, Cochabamba's water services were inadequate, with nearly half of the population – mainly the poor and marginalized – unconnected to the network. Due to a history of corruption, mismanagement, and under-funding, the public water company, SEMAPA, was unable to protect the merit good qualities of

water by neglecting to serve a significant portion of the populace. In this way, I came to the conclusion that although the economic and socio-cultural arguments against privatization may still have elements of truth in the context of Cochabamba, there was a general lack of understanding of the state and its role in water management and implementing water reform. Therefore, this thesis has sought to fill a gap in the literature on the Water Wars and to explore how political and institutional frameworks effectively set the stage for the conflicts over PSP in Cochabamba.

In general, this paper has demonstrated that a multitude of complex factors and influences shaped the failure of water utilities privatization. First, I have treated the issue as a question of political economy by recognizing that the Water Wars were more than just a water dispute – they were a battle over power. On a superficial level, privatization failed in Cochabamba for economic reasons; *Aguas del Tunari* raised water tariffs to exploitative levels, bringing consumers to the streets to wield their collective power and expulse the illegitimate company. On another level, the Water Wars were a battle over ideology – a battle to protect the traditions and norms of a marginalized populace against the encroaching nature of capitalism. Yet, on a rudimentary level, the conflicts over water utilities privatization were also about political power. They were a clash between the state – with its propensity to exercise power illegitimately – and the voiceless majority who fought to overcome political exclusion.

In many ways, the political framework within which water privatization policies were crafted and implemented framed the reforms themselves. From a broad view, patterns of poor governance are prevalent within the Bolivian state. For example, matters of political stability, government effectiveness, and control of corruption are among its primary weaknesses. Moreover, based on citizens' perceptions, there is very little trust and confidence in the

government's political leaders. It is within this context that privatization as a process proved to be much more than just a shifting of ownership, but rather was a vehicle through which state institutions of exclusion, corruption, illegitimacy, and violence asserted themselves.

Political dimensions of centralized state power, fractured state-civil society relations, and illegitimate use of state power constitute the pillars upon which Cochabamba's water privatization policies collapsed. Each of these elements played a key role in shaping the government's privatization reforms and the manner in which they were both introduced and received. Specifically, Bolivia's privatization policies were weakened by the fact that they were designed and negotiated in an environment lacking in citizen and stakeholder input as well as with insufficient accountability and transparency levels. Furthermore, once those reforms were implemented, concerned citizens were denied formal outlets of expression and were violently oppressed when they took those sentiments to the streets. It was these trends of illegitimate and exclusionary power that laid the groundwork for privatization's failure in Cochabamba.

Overall, my thesis has employed a wider perspective to analyzing Bolivia's experience with water utilities privatization, and thus has provided insight into the diverse influences that shaped the policy's outcome. In total, I have recognized that economic, socio-cultural and political factors all comprised the context that defined Cochabamba's failed concession. Furthermore, my exploration of the political and institutional causes of the Water Wars has filled a significant gap in the current literature. Based on my findings, the debate over water privatization, whether in Bolivia or elsewhere, must not be limited only to a discussion of ownership issues, but rather must also take into account the myriad of dynamics that set the foundation upon which such reforms are constructed.

**Appendix
A: Water Bills**

AGUAS DEL TUNARI S.A.
 AVISO DE COBRANZA # GFC74 Codigo de Cliente: **151208700**
 NO VALIDO PARA CREDITO FISCAL

| | | | |
|----------------------------|----------------------|------------------------|------------|
| NOMBRE | MARIN T. SATURNINO | Mes de Cobranza | Diciembre/ |
| DIRECCION | MELQUIADES C -00099 | CATEGORIA | R3 |
| Fecha de Lect. Ant. | LECTURA ANTERIOR 725 | CONSUMO | 39 m3 |
| Fecha de Lect. Act. | LECTURA ACTUAL 764 | CICLO | 12 |
| FECHA DE EMISION | 16/12/1999 | | |

SERVICIO: AGUA Y ALCANTARILLADO

| | | |
|--|-------|-------|
| CONSUMOS REGISTRADOS EN LOS ULTIMOS 6 MESES | Mes 1 | 14 m3 |
| | Mes 2 | 7 m3 |
| | Mes 3 | 13 m3 |
| | Mes 4 | 10 m3 |
| | Mes 5 | 11 m3 |
| | Mes 6 | 9 m3 |
| PROMEDIO | 11 | m3 |

IMPORTE EN Bs: 88.50 **VENCIMIENTO:** 15/01/2000
DEUDA ACUMULADA AL MES ANTERIOR Bs: 0 **POR:** 0 Meses

OBSERVACIONES: Consumo Elevado

CENTROS DE COBRANZA:
 - OFICINAS AGUAS DEL TUNARI S.A.
 - BANCOS SANABERO, SANTA CRUZ, UNION - COOPERATIVAS SAN JOAQUIN, PIO X
 - SAN PEDRO, SAN ANTONIO, TUKUYPAJ, HOSPICIO, SAN CARLOS, CRISTO REY

PARA MAYOR INFORMACION LLAME AL TELEFONO 107

MARIN SATURNINO

BILL FOR DEC. 1999

WATER RATE CATEGORY R3

WATER USE FOR MONTH 39 CUBIC METERS

BILL FOR MONTH 88.50bs (\$14.75)

AGUAS DEL TUNARI S.A.
 AVISO DE COBRANZA # ETS73 Codigo de Cliente: **151208700**
 NO VALIDO PARA CREDITO FISCAL

| | | | |
|----------------------------|----------------------|------------------------|----------|
| NOMBRE | MARIN T. SATURNINO | Mes de Cobranza | Ene-2000 |
| DIRECCION | MELQUIADES C -00099 | CATEGORIA | R3 |
| Fecha de Lect. Ant. | LECTURA ANTERIOR 764 | CONSUMO | 32 m3 |
| Fecha de Lect. Act. | LECTURA ACTUAL 796 | CICLO | 12 |
| FECHA DE EMISION | 19/01/2000 | | |

SERVICIO: AGUA Y ALCANTARILLADO

| | | |
|--|-------|-------|
| CONSUMOS REGISTRADOS EN LOS ULTIMOS 6 MESES | Mes 1 | 39 m3 |
| | Mes 2 | 14 m3 |
| | Mes 3 | 7 m3 |
| | Mes 4 | 13 m3 |
| | Mes 5 | 10 m3 |
| | Mes 6 | 11 m3 |
| PROMEDIO | 16 | m3 |

IMPORTE EN Bs: 131.80 **VENCIMIENTO:** 18/02/2000
DEUDA ACUMULADA AL MES ANTERIOR Bs: 0 **POR:** 0 Meses

OBSERVACIONES:

CENTROS DE COBRANZA:
 - OFICINAS AGUAS DEL TUNARI S.A.
 - BANCOS SANABERO, SANTA CRUZ, UNION - COOPERATIVAS SAN JOAQUIN, PIO X
 - SAN PEDRO, SAN ANTONIO, TUKUYPAJ, HOSPICIO, SAN CARLOS, CRISTO REY

PARA MAYOR INFORMACION LLAME AL TELEFONO 107

SATURNINO MARIN

BILL FOR JANUARY 2000

WATER USED: 32 CUBIC METERS

BILL FOR MONTH 131.80bs (\$21.96)
 INCREASE = 50%

AGUAS DEL TUNARI S.A.
 AVISO DE COBRANZA # J0P65 Codigo de Cliente: **093605700**
 NO VALIDO PARA CREDITO FISCAL

NOMBRE: JALDIN A GERMAN
DIRECCION: C M ETEROVIC-01125

Fecha de Lect. Ant: 10/11/99 **LECTURA ANTERIOR:** 965 **Mes de Cobranza:** Diciembre/99
Fecha de Lect. Act: 09/12/1999 **LECTURA ACTUAL:** 1000 **CATEGORIA:** R3
FECHA DE EMISION: 09/12/1999 **CONSUMO:** 35 m3 **CICLO:** 07

SERVICIO: AGUA Y ALCANTARILLADO

CONSUMOS REGISTRADOS EN LOS ULTIMOS 6 MESES:

| | | |
|-------|----|----|
| Mes 1 | 35 | m3 |
| Mes 2 | 23 | m3 |
| Mes 3 | 24 | m3 |
| Mes 4 | 27 | m3 |
| Mes 5 | 24 | m3 |
| Mes 6 | 24 | m3 |

PROMEDIO: 26 m3

IMPORTE EN Bs: 82.09 **VENCIMIENTO:** 08/01/2000
DEUDA ACUMULADA AL MES ANTERIOR Bs: 0 **POR 0 Meses**

OBSERVACIONES:

CENTROS DE COBRANZA: - OFICINAS AGUAS DEL TUNARI S.A.
 - BANCOS SANADERO, SANTA CRUZ, UNION - COOPERATIVAS SAN JOAQUIN, PIO X
 - SAN PEDRO, SAN ANTONIO, TUKUYPAJ, HOSPICIO, SAN CARLOS, CRISTO REY

PARA MAYOR INFORMACION LLAME AL TELEFONO 107

GERMAN JALDIN

WATER RATE CATEGORY R3

USE FOR MONTH 35 CUBIC METERS

BILL FOR DECEMBER 1999

TOTAL BILL 82bs (\$13.67)

AGUAS DEL TUNARI S.A.
 AVISO DE COBRANZA # GFC66 Codigo de Cliente: **093605700**
 NO VALIDO PARA CREDITO FISCAL

NOMBRE: JALDIN A GERMAN
DIRECCION: C M ETEROVIC-01125

Fecha de Lect. Ant: 09/12/1999 **LECTURA ANTERIOR:** 1000 **Mes de Cobranza:** Ene-2000
Fecha de Lect. Act: 11/01/2000 **LECTURA ACTUAL:** 1038 **CATEGORIA:** R3
FECHA DE EMISION: 11/01/2000 **CONSUMO:** 38 m3 **CICLO:** 07

SERVICIO: AGUA Y ALCANTARILLADO

CONSUMOS REGISTRADOS EN LOS ULTIMOS 6 MESES:

| | | |
|-------|----|----|
| Mes 1 | 35 | m3 |
| Mes 2 | 35 | m3 |
| Mes 3 | 23 | m3 |
| Mes 4 | 24 | m3 |
| Mes 5 | 27 | m3 |
| Mes 6 | 24 | m3 |

PROMEDIO: 28 m3

IMPORTE EN Bs: 157.60 **VENCIMIENTO:** 10/02/2000
DEUDA ACUMULADA AL MES ANTERIOR Bs: 0 **POR 0 Meses**

OBSERVACIONES:

CENTROS DE COBRANZA: - OFICINAS AGUAS DEL TUNARI S.A.
 - BANCOS SANADERO, SANTA CRUZ, UNION - COOPERATIVAS SAN JOAQUIN, PIO X
 - SAN PEDRO, SAN ANTONIO, TUKUYPAJ, HOSPICIO, SAN CARLOS, CRISTO REY

PARA MAYOR INFORMACION LLAME AL TELEFONO 107

GERMAN JALDIN

BILL FOR JANUARY 2000

USE FOR MONTH 38 CUBIC METERS

BILL FOR MONTH 157bs (\$26.27)
 INCREASE = 90%

AGUAS DEL TUNARI S.A.
 Calle Padre Yaguapán N° 2236 / Tel.: 107 - 107 / Fax: 25728
 Cochabamba - Bolivia

RUC: 0360247
 IMP: 304010-01148394
 ORDEN: 7082410

FACTURA POR SERVICIOS - ORIGINAL CLIENTE

Coba, 26/Ene/2000 CCR01 10:30

Nombre del Cliente: **ARMAYO V JOSE**
 Dirección: **C.B.H. HUMANI 00000**

Ciclo: 6
 Fecha de Emisión: **23/Dic/1999**
 Fecha de Vencimiento: 23/Ene/2000
 Categoría: 4
 Categoría: **R2**

| DESCRIPCIÓN | CANTIDAD | PRECIO UNITARIO | IMPORTE |
|-----------------------------------|----------|-----------------|--------------|
| 201213500 AGUA | | | 19,00 |
| AGUA CANTARILLADO | | | 8,00 |
| CONTRIBUCIÓN A FONDO DE INVERSIÓN | | | 2,00 |
| DESCUENTO Ley 1686 | | | 4,00 |
| TOTAL | | | 25,00 |

IMPORTE TOTAL: **25,00**
 MONEDA: Bolivianos

JOSE ARAMAYO

BILL FOR DECEMBER 1999

BILLING CATEGORY R2

TOTAL BILL 25bs (\$4.16)

AGUAS DEL TUNARI S.A.

AVISO DE COBRANZA
 NO VALIDO PARA CREDITO FISCAL

CODIGO: 2012135001

Para llamar a AGUAS DEL TUNARI:
 Comerciales al número: 107
 Reservas, medición, facturación, cobros, renovación, control
 Técnicos al número: 187
 Agua, calidad, tratamiento

N° 634

Nombre: **ARAMAYO V JOSE**
 Dirección: **C.B.H. HUMANI 00000**

Fecha Lect. anl.: 0
 Lect. anterior: 0
 Categoría: R2

Fecha Lect. act.: 0
 Lect. actual: 0
 Importe: **39,80**

Mes de Cob.: Ene/00
 Consumo: 15
 Fecha de Emisión: 23/Ene/00

El total adeudado es Bs. **70,80** correspondiente a facturas

Fecha de Vencimiento: **24/Feb/2000**

Usted pertenece al ciclo: 16

JOSE ARAMAYO

TOTAL BILL 39.80bs (\$6.63)
INCREASE = 60%

BILL DUE FEBRUARY 2000

AGUAS DEL TUNARI S.A.
 Calle Padre Yaguapán N° 2236 / Tel.: 107 - 107 / Fax: 25728
 Cochabamba - Bolivia

RUC: 0360247
 IMP: 304010-0049067
 ORDEN: 7082410

FACTURA POR SERVICIOS - ORIGINAL CLIENTE

Coba, 17/Dic/1999 B0405 06:43

Nombre del Cliente: **MORALES G LUCIO**
 Dirección: **C.B.H. HUMANI 00000**

Ciclo: 6
 Fecha de Emisión: **24/Dic/1999**
 Fecha de Vencimiento: 24/Ene/2000
 Categoría: 4
 Categoría: **R2**

| DESCRIPCIÓN | CANTIDAD | PRECIO UNITARIO | IMPORTE |
|-----------------------------------|----------|-----------------|--------------|
| 201211900 AGUA | | | 19,00 |
| AGUA CANTARILLADO | | | 8,00 |
| CONTRIBUCIÓN A FONDO DE INVERSIÓN | | | 2,00 |
| DESCUENTO Ley 1686 | | | 4,00 |
| TOTAL | | | 25,00 |

IMPORTE TOTAL: **25,00**
 MONEDA: Bolivianos

BILL FOR DECEMBER 1999

LUCIO MORALES

BILLING CATEGORY R-2

TOTAL WATER BILL : 25bs (\$4.16)

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