



Water Privatization Case Study: Cochabamba, Bolivia

In February and March of 2000, protests broke out in Cochabamba, Bolivia, in response to the skyrocketing price of water. Many people saw their bills triple or even quadruple, just weeks after Aguas del Tunari, a private company owned by London-based multinational International Water Ltd., took over the city's water system.

For thousands of families, the rate hike meant up to half of their monthly income went to paying for water.¹

Unable to survive under these conditions, the citizens demanded that the water contract be terminated. After suffering civil rights abuses, injuries and even death at the hands of the police and military, the protesters were heard and their water rights were restored.

The Historical and Economic Build-Up to Privatization

From the 1950s through the early 1980s, a succession of governments attempted to wrench Bolivia out of poverty through "structuralist" measures. Because the Bolivian economy did not respond well to these measures, the structural adjustment program set up by the World Bank and IMF collapsed in 1981, leading to six consecu-

tive years of negative economic growth.

A stabilization program begun in 1985 liberalized all prices, restored financial stability and reduced inflation. Growth has been positive since 1987, but the social effects of these policies have hit the poor very hard.²

Since the Sanchez administration (1993-97), privatization has been a key component of Bolivia's neoliberal economic

policy. In the name of economic efficiency, the World Bank and IMF have pushed the Bolivian government to sell its public enterprises to international investors. Submitting to Bank pressure, Bolivian authorities have sold many public enterprises, including the national airline, electric utilities, the national train service and, in 1999, Cochabamba's water system.³ Other enterprises are currently being auctioned off.

Poverty and Water in Bolivia: The World Bank Gets Involved

Bolivia's third-largest city, Cochabamba – said to have the country's loveliest climate – is located in the low, fertile hills of central Bolivia, about 350 miles east of the capital city of La Paz.

Bolivia is South America's poorest country. According to the IMF, nearly two-thirds of the population live below the poverty line, and annual per capita income is about \$950.

The World Health Organization reports that the percentage of people supplied with drinking water in urban and rural areas is 93 percent and 55 percent, respectively; people with sanitation service in urban and rural areas in 82 percent and 38 percent, respectively.

The World Bank has predicted that by 2025, two-thirds of the world's population will run short of fresh drinking water. With little or no way to decrease the need for water as supplies shrink, Fortune magazine has dubbed water "the oil of the 21st century."

The private water industry, dominated by a handful of multinationals and their subsidiaries, stands to benefit handsomely as the global water crisis deepens. These corporations and other proponents of water

privatization argue that the private sector can deliver basic goods and services more efficiently and at lower costs than the public sector.

In reality, there is little evidence to support the argument that privatization actually benefits consumers – particularly the poor – by improving access and lowering costs. Quite often, water prices increase and quality problems follow on the heels of privatization.⁴

Bolivia is one among many poor and highly indebted countries subjected to water privatization as a condition for borrowing money from the World Bank and IMF. While recognizing that poverty reduction and social improvements have been modest, the

directors of the IMF and World Bank nevertheless congratulate the Bolivian authorities on their solid trade record since 1985.

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lack of social improvements as the result of delays in privatization schemes.⁵

As a result, the central Bolivian government is trying to privatize as many public enterprises as possible.

A key document shaping this transformation is called the Enhanced Structural Adjustment Facility (ESAF) Policy Framework Paper for 1998-2001, which was prepared by the Bolivian authorities in collaboration with the World Bank and IMF staffs, and was published on August 25, 1998.

The Policy Framework Paper states that "the government intends to privatize all remaining public enterprises ... and plans to sell a water company (SEMAPA) by December 1998."⁶

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Generally, Policy Framework Papers were written to provide an outline of the macroeconomic policies and structural reforms a country is required to implement as a condition for receiving loans earmarked for poverty reduction. Bolivia's three-year program, originally under ESAF, was first approved in September 1998 and most recently re-approved in 2001.⁷

Unfortunately, the World Bank does not disclose documents related to structural adjustment initiatives. Still, it is no secret that the organization had a hand, at the very least, in catalyzing the water privatization process in Bolivia.

Yet, when questioned about their role, World Bank staff members have repeatedly skirted the issue, and at one time outright lied about the organization's involvement.⁸

SEMAPA in Cochabamba

In 1999 the Bolivian government granted a 40-year contract to Aguas de Tunari (a subsidiary of the consortium of London-based International Water Ltd. and San Francisco-based Bechtel Corp.) to run SEMAPA, Cochabamba's water system. Aguas del Tunari took over in October 1999 and was in full operation by the following January.

An economic report published by the World Bank in June 1999 states that "no public subsidies should be given to ameliorate the increase in water tariffs in Cochabamba."⁹ Therefore, the World Bank knew as far back as the highly secretive bidding process and contract negotiations that citizens of Cochabamba would be hit with price hikes.

Water tariffs, in fact, did indeed increase, by 200-300 percent in many cases, just

weeks after Aguas del Tunari took over.

Protests and the Government's Response

Unable to survive under the burden of the new water prices, the public staged protests in Cochabamba in February 2000. Strikes, roadblocks and other forms of civil disobedience were used as the protesters effectively shut the city down for four consecutive days.

The first incident of violence didn't occur until President Banzer dispatched police with tear gas as thousands of protestors marched peacefully. About 175 marchers were injured and two were blinded by the gas.

To appease the protesters, the municipal government

agreed to sit down with their representatives in April. According to protest leader Oscar Olivera, a long-time labor leader, the meeting was a set-up. "We were talking with the mayor, the governor and the other civic leaders," he said, "when the police came

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in and arrested us." A huge public outcry ensued, and crowds converged at City Hall the next day in response to the arrests.¹⁰

As the protests spread from Cochabamba throughout Bolivia, more than 50 people were detained. Dozens were injured. Six people were killed. Police broke into the homes of protest leaders. More than a dozen of them were arrested and sent to a remote prison in the Bolivian jungle, which was confirmed both by Government Minister Walter Guiteras and Information Minister Ronald MacLean.¹¹

Under pressure from civil society the governor of Cochabamba tried to persuade the central government to cancel the contract with Aguas del Tunari. Later that same

day, the governor announced his resignation.¹²

During the April protests, President Banzer placed Bolivia under martial law, the same day a teenage protestor was shot through the face and killed by police. The state of emergency, called for 90 days, allowed for the suspension of almost all civil rights, including the arrest and confinement of protesters without a warrant, restrictions on travel and political activity, and a curfew.¹³

Banzer also banning gatherings of more than four people and severely limited freedom of the press. A news alert put out by the Committee to Protect Journalists revealed threats made to media outlets during the two-week state of emergency. Reporters at the La Paz daily *Presencia* received bomb and death threats by telephone.

The nationally broadcast PAT television station, which aired footage of a sharpshooter firing into a crowd of demonstrators, was also threatened.

During the first day of the state of emergency, the Bolivian military also temporarily occupied three small radio stations in

towns surrounding Cochabamba.¹⁴

Resolution?

Finally, on April 10, President Banzer announced the termination of the water contract between Bolivia and Aguas del Tunari. Banzer turned over control of the city's water system, including its \$35 million debt, to the protesters' organization *la Coordinadora de Defensa del Agua y la Vida* (Coalition for the Defense of Water and Life), led by Olivera. Their mandate is to develop a water system that relies upon neither the government nor transnational corporations.¹⁵

It is unclear what will happen next regarding compensation to the ousted private water consortium. The case may go to arbitration on the grounds that the company has rights to expropriation fees, but *la Coordinadora* strongly opposes diverting money to pay a company with revenues equal to half of Bolivia's GNP.

For his work, Olivera was awarded the 2001 Goldman Environmental Prize, as well as the 2000 Letelier-Moffitt Human Rights Award from the Institute for Policy Studies.

Notes

- ¹ AFL-CIO. "Bolivian leader honored with civil rights award." <www.aflcio.org/news/2000/1017_bolivia.htm>
- ² Mosley, Paul. "Microfinance and poverty in Bolivia." *Journal of Development Studies*. April, 2001.
- ³ *NACLA Report on the Americas*. "Bolivians Win Anti-Privatization Battle." Vol. XXXIII, No. 6, May/June 2000.
- ⁴ *News and Notices on for IMF and World Bank Watchers*. Vol. 2, No. 4, Spring 2001.
- ⁵ IMF. Public Information Notice: IMF Concludes Article IV Consultation with Bolivia 6/25/01." <www.imf.org/external/np/sec/pn/2001/pn0159.htm>
- ⁶ IMF. ESAF Policy Framework Paper. <www.imf.org/external/np/pfp/bolivia/index.htm>
- ⁷ "IMF Approves Third Annual PRGF Loan for Bolivia." M2 Presswire. June 11, 2001.
- ⁸ Personal communication with the World Bank Help Desk, August 8 and 10, 2001.
- ⁹ IMF. Bolivia Public Expenditure Review. <www.wds.worldbank.org>

- ¹⁰ *NACLA Report on the Americas*. "Bolivians Win Anti-Privatization Battle." Vol. XXXIII, No. 6, May/June 2000.
- ¹¹ CNN.com. "Three Killed in Clash with Police, Protesters in Bolivia." April 9, 2000. <cnn.com>
- ¹² *NACLA Report on the Americas*. "Bolivians Win Anti-Privatization Battle." Vol. XXXIII, No. 6, May/June 2000.
- ¹³ CNN.com. "Three Killed in Clash with Police, Protesters in Bolivia." April 9, 2000. <cnn.com>
- ¹⁴ Committee to Protect Journalists. "News Alert/Bolivia: Media Threatened During State of Emergency." <www.cpj.org/news/2000/Boliva24april00na/html>
- ¹⁵ The Goldman Environmental Prize. <www.goldmanprize.org>



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**For more information,
contact us at:**
202-546-4996
cmep@citizen.org
www.citizen.org/cmep