

# *MESOAMERICA*

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## **Feature: How Much is Clean Water Worth?**

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World Water Day passed with little fanfare in Latin America. Except for a few articles and editorials in the local press explaining the event, 22 Mar '05 was much like any other day. At least 130 million people woke up with no access to clean water and five out of six people in the region still lacked adequate sanitation service.

Despite several ambitious targets set by organizations like the UN in the '80s and '90s to eradicate or drastically reduce the number of people drinking unsafe water, in '00 there were still more than a billion people in the world who lacked access to clean water sources. To combat this worldwide problem, in '00 all 191 member nations of the UN signed the Millennium Declaration, with one of its goals to cut the number of people without sustainable access to clean water in half by the year 2015. Today, unsafe water and inadequate sewer systems still lead to dysentery, diarrhea, cholera and other water-borne diseases that kill millions of children every year. In Nicaragua alone, 73 out of every 1,000 inhabitants, mostly under the age of five, die from sickness linked to diarrhea. Sadly, with populations rapidly increasing in the same areas of Latin America that suffer from the worst rates of clean water access, the problem will not only get worse, but it will be more expensive to fix.

Unfortunately for Latin American countries, not only do millions of inhabitants live without access to clean water, there is little money to do anything about it. Some of the most indebted countries in the world are found in Latin America, with an average debt 52% of its yearly GDP<sup>1</sup>. By virtue of its debt obligations, the region is at the mercy of international financial institutions and their programs of financial austerity and "cost recovery" plans, which limit subsidies to the public sector and encourage government liquidation of state-owned enterprises to reduce overall expenses. International lending institutions like the World Bank, International Monetary Fund (IMF) and the Inter-American Development Bank (IDB) have virtually tied the hands of government officials who try to publicly fund the expansion of water access, by placing strict conditions on loans that these countries need to survive.

### **How Did It Get To Be This Way?**

There are several broad factors related to why water systems in Latin America did not continue to grow with the region's population. One reason for the lack of coverage and subsequent spread of disease is that Latin America's surface water sources are becoming increasingly polluted. Decades of unchecked industrial, agricultural and residential pollution have taken a toll on traditional water sources. The director of the Nicaraguan Center of Water Resources Investigation stated in '02 that "... far from regarding these great bodies of water as key elements for development, they have been degraded to serve merely as garbage and human waste sinks. The sad fact is that every single one of Nicaragua's

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<sup>1</sup> Percentage does not include Nicaragua's foreign debt, which in '03 was 193.8% of its GDP.

water sources is subjected to some process of degradation [pollution].” In most areas of Latin America, agricultural run-off, mining wastewater and domestic wastewater all go directly back into the water cycle without being treated. For example, nearly 32 million gallons of raw sewage flow into Lake Managua every day from Managua’s 1.5 million inhabitants. In urban areas, explosive growth and poor urban planning, especially in regard to the unregulated construction of shanty-towns, have caused further pollution that produces more contaminated water sources. In the countryside, deforestation (specifically in El Salvador) has caused rivers and streams to become choked with mud and silt due to soil erosion, making them unusable for drinking water.

In places where it does exist, most of Latin America’s water infrastructure is dilapidated, over-used and badly in need of repair. In ’98, Hurricane Mitch caused an estimated \$321 million worth of damage to the water infrastructure of Nicaragua, Honduras, El Salvador and Guatemala. Guerrilla warfare has also taken its toll on Latin America’s water works. It is estimated that the US-backed *contra* fighters destroyed nearly \$1.4 billion worth of Nicaraguan infrastructure, including water services, during the ’80s. Previously, FSLN guerrillas attacked the country’s infrastructure. Other revolutionary movements in the region during the ’80s, like the FARC in Colombia and the FMLN in El Salvador, also made the construction of large water projects nearly impossible in the large tracts of land under their control.

In addition to pollution and disasters, both natural and man-made, providing access to clean water sources has never been a real priority of the national governments in Latin America. Most Central American countries, and a few South American countries, remained without a national program for the distribution of potable water until the ’40s and ’50s. Before that, water issues were left to local governments and communities. Much like the region’s wide economic disparity between the rich and the poor, the availability of potable water followed along with the uneven allocation of Latin America’s economic resources, with the vast majority of water infrastructure built to accommodate the needs of the urban middle and upper classes and little done to help the urban and rural poor.

Poor water management continued when national efforts to expand water services finally began in the ’50s and ’60s. National governments faced competing interests for the expansion of water services to large agro-businesses, expanding industrial operations, growing urban centers and small villages and farmers. Each sector wanted its access expanded and its water share increased, often at the expense of leaving other sectors (usually villagers and small farmers) without improvements and with insufficient water. To this day, governments are still plagued by tough allocation decisions as water demands increase for tourism, agro-business and urban populations. Costa Rica, which has staked much of its economic future on the continued strength of its tourism industry, must quickly decide how to get water to planned beach resorts in the dry northwest region of Guanacaste while at the same time providing water to the province’s huge cattle ranches and rice farms.

To repair or replace what time, wars, natural disasters and poor management have rendered ineffective or useless while at the same time expanding services to areas that do not have water service will cost billions of dollars. According to the IDB, to meet the goals included in the Millennium Declaration, Latin America will need to invest \$40 billion over the next 10 years in its water distribution systems. Furthermore, if wastewater treatment were included, the financing would increase substantially. Finding money to finance water and sewer systems is not just a problem of third world countries; the US faces a \$250 billion investment over the next 30 years to overhaul and replace much of its existing

infrastructure. However, with most of Latin American economies shaky at best, how then are some of the world's poorest and most heavily indebted countries supposed to finance the needed upgrades?

### **Privatization: River to Ruin?**

In order to pay off the region's immense debt and to attract much-needed foreign investment, Latin American countries are obliged to follow the instructions of their creditors. That means, among other things, drastically reducing government expenditures. School budgets and social security benefits are cut and governments are forced to eliminate subsidies to nationalized industries (such as phone, power, water and mining). Beginning in the '90s, the majority of the multi-million dollar loans and loan renewal contracts handed out to Latin America countries by the IMF, the IDB and World Bank include specific conditions to privatize public utilities and other state-owned enterprises.

Supporters of privatization argue that it is clear from Latin America's past experiences that state-run water agencies are not up to the task of providing water to its citizens. State-run utilities, they say, have little incentive to become more efficient in the delivery of water because they are a government monopoly, are inexperienced in modern technology and have clumsy means to mobilize capital for much needed improvement projects. In addition, public water utilities subsidize water distribution to certain segments of the population at prices lower than the actual service costs, thereby creating a deficit that must be made up by the state in other areas or by increasing the nation's debt. Following this logic, private (for-profit) companies, therefore, are better able to meet the demands of the consumer quickly and efficiently because they are subjected to competition with other companies, employ qualified managers, use modern technology and can afford to invest in large projects without increasing the government's debt. To communities facing huge budget shortfalls, the promised advantages of privatization are a powerful incentive to make the switch.

The first step to privatization of water is changing the way that the public thinks about water. The World Bank, the IDB and the IMF, along with the UN, urge countries to view water as an economic commodity that can be bought and sold, and not as a public resource. After assigning an economic value to water, the next step is to include proper wording into trade agreements. For example, the push to quantify the economic value of water has intensified during recent talks regarding the Central American Free Trade Agreement (CAFTA). In the current embodiment of CAFTA, private companies (under the "investor rights" clause) can sue governments if public-interest laws or regulations, such as limiting the amount of water a company can take out of an aquifer, threaten the potential profits of international companies that control water distribution.

Despite claims by private water companies that privatization brings social, financial and health benefits to its consumers, the industry's track record in the third world, especially in Latin America, shows otherwise. Rate hikes, poor service, environmental destruction and harm to downstream users while reaping huge profits for the companies that undertake it have characterized privatization in Latin America.

While privatization supporters attack the idea of a governmental monopoly, they fail to mention that all privatization does is turn a government monopoly into a for-profit monopoly. Because it would be impractical to have numerous companies build and maintain their own water and sewer systems in a given area, when water systems are privatized only one company receives the rights to manage the

system, usually for a period of 20 to 30 years. The only competition that companies receive is during the initial bidding process. However, once these contracts are signed, companies routinely rewrite the contract within a year or two, by simply claiming that the situation is more complicated than previously thought. In addition, while private companies provide for only 10-15% of the world's water sources, three European companies (Suez, Vivendi and RWE-Thames) dominate the market; they or their subsidiaries control more than 70% of the private market serving 300 million people in over 130 countries. In '02 alone, Vivendi generated \$12 billion in profits for its CEOs and stockholders.

How can these companies make so much money? One just needs to look at a few of Latin America's most well-known cases of water privatization to see the pitfalls of transferring a public utility to a profit-seeking company. In Sep '99, a US-based engineering firm, Bechtel, was awarded the privatization contract in Cochabamba, Bolivia, in order for the country to qualify for a loan. In no time at all, in one of the poorest countries in the world, Bechtel increased prices by 200%, leaving the average water bill equal to 22% of the monthly pay of a self-employed man and 27% of that of a woman. The company even went as far as to charge people for taking water out of their own wells and for rainwater collected in cisterns on roofs. Needless to say, most of the population could not afford these huge price hikes and in Apr '00, following months of protests and riots that left one person dead, the company was forced out of the country. Bechtel did not leave quietly though, because in Nov '01 Bechtel filed a \$25 million lawsuit in the International Center for the Settlement of Investment Disputes (ICSID), based in The Netherlands, against the Bolivian government, stating that the company lost out on profits that it was promised by the government. While the Bolivian government has offered \$1 million to supplement Bechtel's initial investment, Bechtel refused to settle and the lawsuit is still pending. Unfortunately, this is not an isolated incident. Privatization efforts have failed to bring the promised results in towns, cities and whole regions of countries all across Latin America, including: Puerto Rico, the Maldonado Province of Uruguay, the cities of El Alto in Bolivia and Buenos Aires in Argentina, numerous towns and cities in Brazil and Mexico, and many other areas of Latin America.

Everyone needs water. However, privatization is not the only way for communities to get clean water when national governments fail to provide it. Local management, in the form of Co-ops and rate payer-funded public utilities, has succeeded in providing low-cost alternatives where privatization and national governments have failed. In the Brazilian city of Porto Alegre, 99.5% of the 1.4 million population has access to clean water, a rate higher than any other location in Brazil, because of the efficiency of its locally-funded and locally-managed water council. There are also international organizations like Global Water Partnership that work to "support countries in the sustainable management of their water resources" by promoting a better understanding of water management issues between governmental agencies, public institutions and private companies.

In circumstances where privatization must occur, the public must push for strong governmental oversight and regulation, transparent contracts that are difficult for companies to redraw, and the ability of the public to assess the work of the private contractor. While this is difficult to accomplish in areas where privatization is currently being pushed, an informed public can, as seen in Bolivia, change the course of water management. Also, by emphasizing the decentralization of water distribution and by advocating fair contracts with private companies, local populations can show the World Bank, the IMF and the IDB that there are other options for improving a nation's water resource other than by pressuring governments to privatize their water utilities.

—Cory Schott