



Photo by Ben Garland

Contaminated water pours from a pipe in Nicaragua.

WATER

# Clean, Reliable, and/or Affordable

by Asavari Devadiga

The “Water War” that broke out in Cochabamba, Bolivia, after the privatization of water services is probably the best-known controversy surrounding water service contracts, but it is certainly not the only one. That conflict was an outgrowth of two strands of reform that gained currency across the developing world during the 1990s: decentralization and institutional insulation from politics. Alison Post, an assistant professor of Political Science at UC Berkeley presented the findings of a study on the rationale behind these reforms and their outcomes that she conducted with Veronica Herrera, an assistant professor at the University of Connecticut.

Historical Context

From the post-World-War-II era through the 1990s, national bureaucracies managed urban water and

sanitation systems in most developing countries. This centralized model resulted in impressive gains by the 1960s, even though communities outside the central network had to rely on informal providers. However, three main problems with the centralized model emerged in the 1970s and 80s. First, the focus remained on building new infrastructure rather than maintaining what had already been built. Poor maintenance undermined the functioning of the infrastructure and caused people to become frustrated with the poor level of service. Second, since it was politically difficult for utilities to raise rates to reflect inflation, there was an increasing reliance on tax revenue to provide funds for water and sanitation services. Using tax revenue to fund these services had two negative impacts. It forced utility managers to compete with other national priorities for funding, and

it created a geographically regressive system, where people in poor rural areas and on the marginal urban fringe supported centralized water and sanitation services with their tax money but did not receive any of those services themselves. Lastly, with the emergence of the Latin American debt crisis, national governments could no longer dedicate sufficient general fund monies to national water and sanitation providers, especially given the increasing pace of urbanization.

Post presented this confluence of factors as an example of what the scholars Pablo Spiller and William Savedoff describe as “low-level equilibrium.” In this situation, low prices lead to poor service quality, limited service expansion, operational inefficiency, and corruption. Consumers receiving these poor services have a low willingness to pay due to low trust of providers. Once entrenched, this vicious cycle becomes difficult to break. Post noted that in pre-privatization Argentina, for example, in some provinces as few as 50 percent of those with a water connection were registered as consumers, and among registered customers, only 30 percent actually paid their bill. The limited revenue collected was used primarily for personnel, with very little remaining to invest in physical infrastructure.

Decentralization and Insulation as Solutions

In the 1990s, two reform proposals were put forth to solve these problems: decentralization and insulation. The supporters of decentralization argued that water and sanitation services should be provided at the subnational level. Their rationale was that users would be able to participate more in decisions made locally and would thereby become more aware of resource constraints. This awareness would in turn make them more willing to pay the higher rates needed to cover the utility’s costs. A combination of domestic and international incentives led to widespread adoption of decentralization. Approximately 34 countries implemented it worldwide, and all but three countries in Latin America have decentralized systems today, although central governments tend to retain some financial and regulatory roles.

The goal of the second reform, insulation, was to protect service providers from political influences, which were blamed for patronage hiring and the politicization of water rates. A spectrum of strategies were suggested to accomplish this goal, including transferring water and

Urban Service Delivery in Selected Latin American Countries

Country	Water		Sewerage	
	1960	1990	1960	1990
Chile	74%	100%	60%	100%
Colombia	79%	87%	61%	84%
Mexico	68%	94%	70%	85%
Peru	47%	68%	30%	76%

Source: Gilbert, Alan, *The Latin American City*, Nottingham, UK: Russell Press, 1998.

sanitation provision to a special purpose department within a municipal or state government; creating a special purpose government agency with its own budget; corporatizing the provider by creating a publicly owned entity operating under private sector law; and outsourcing or privatizing service provision.

The last category itself spans a wide spectrum of options. Private sector provision of services can be managed through short-term contracts with less insulation or via long-term concession contracts with more insulation. Divesture, where the private provider actually owns the infrastructure, is the most extreme form of privatization and was considered to be the most insulated from political influence.

While corporatization has been initiated in at least 21 countries, and roughly 5 percent of the world population in 61 countries gets their water from the private sector, the impacts of these policies are unclear due to poor documentation and the lack of publicly available data.

Impacts of Reform

According to Post, the outcomes of these two reforms vary substantially, and there is no consensus about their impacts in the literature. She also pointed out that the rationales behind the two reforms, which were often implemented simultaneously, are in tension, and they may in fact serve to undermine one another. Decentralization was supposed to bring service closer to the people so that they could pressure utilities for better service, while insulation was designed to insulate providers from political pressure.

What she and Herrera found in Latin America was that the reforms have not performed as expected. Formal mechanisms set up to allow customers to provide feedback to decentralized providers have not been well used. Rather, consumers have taken to the streets or resorted to backroom pressures to influence

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service providers. The fact that utilities now have local headquarters has also given protestors an easy-to-reach target. Technical problems with decentralization have also arisen due to difficulties coordinating between different tiers of government and the lack of economies of scale. In addition, smaller-scale systems have made it more difficult to subsidize the rates of poor consumers. These failures of decentralization have contributed to the failure of insulation as well: politicians facing street protests still pressure service providers to keep rates below the cost-recovery level. And, despite reformers’ good intentions, patronage appointments continue to be common.

When asked during the question-and-answer session whether the reforms had lowered the number of unregistered customers, Post referred again to the Argentine example. While privatization was eventually reversed in most communities, during the 10- to 15-year window when private companies provided services, they had strong incentives to update the records, and they employed methods such as aerial surveys to make sure all their customers were on the books. She also noted that one

study found that Argentine child mortality rates declined more rapidly where systems had been privatized. In sum, the conflicting rationales behind the 1990s-era reforms have led to mixed results. Despite efforts to insulate utilities from political pressure, elected officials still intervene in utility management. Likewise, efforts to increase customers’ willingness to pay for needed infrastructure upgrades through decentralization have foundered due to public unrest and local protests. Meanwhile, the key to disrupting Latin America’s pernicious low-level equilibrium remains elusive.

Alison Post is an assistant professor in the Charles & Louise Travers Department of Political Science at UC Berkeley. She spoke for CLAS on March 18, 2013.

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VIDEO AVAILABLE AT CLAS.BERKELEY.EDU

A city worker delivers a weekly water ration in a low-income Mexico City neighborhood.



Photo by Eduardo Verdugo/Associated Press.



Photo courtesy of blueEnergy.

Outhouses draining untreated waste into waterways, Nicaragua.

WATER

# Powering Rural Development

by Jess Joan Goddard

Bluefields is the capital of the poorest department in the second-poorest country in the Western Hemisphere: Nicaragua. Located on the country’s Caribbean coast, Bluefields is both geographically remote and economically marginalized. A lack of roads limits entry to those traveling by air or by sea, and residents lack access to many basic services. As a child, Mathias Craig, the executive director and co-founder of blueEnergy, accompanied his mother, an expert linguist, on research trips to the region’s indigenous communities. Dedicated to helping improve the poverty-induced conditions he experienced there, Craig kept returning to the same question: “How do you put together a suite of solutions that can help change lives?” blueEnergy is the solution he came up with while still a graduate student at the Massachusetts

Institute of Technology. The nonprofit’s mission — “to work for a more equitable, sustainable world”— reflects both Craig’s early preoccupation with social justice and the organization’s ambitious approach to development.

For Craig and blueEnergy, the last 10 years have been marked by a deepening engagement with Bluefields. The organization focuses on holistic community development and the provision of basic services like energy and water. Thus far, they have provided services to 10,000 people in more than 18 communities. According to Craig, blueEnergy is “defining a different development path, and defining it with [Bluefields].”

Introducing the nonprofit’s renewable energy program, Craig reminded the audience that “it’s easy to take for granted the role that energy plays in our lives.” Plotting annual