

# Water Privatisation and Renationalisation in Bolivia: Are the Poor Better Off?<sup>1</sup>

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## The water sector in the Bolivian

cities of La Paz and El Alto was privatised between 1997 and 2005. When the concession contracts were drawn up, the government and the private company agreed explicit coverage targets. The agreement was to install 71,752 new water connections by 2001—roughly universal access in La Paz and 82 per cent coverage in El Alto. However, by 2005 the private contracts were terminated and the sector was renationalised. What happened?

We compare access to water in the periods before and after privatisation in the cities that privatised water provision and those that did not. We use data from the national household surveys carried out by the Bolivia's Instituto Nacional de Estadística (INE). Access to water is considered from three perspectives: delivery (coverage rate), equity (concentration of access) and affordability (water expenditure).

The indicator for assessing delivery is the water coverage rate—a headcount of households with in-house access to piped water. We find that access expanded more than proportionally in cities with private provision. In Cochabamba, where the water sector was under public ownership, access deteriorated. Under cooperatively managed provision (in Santa Cruz), the coverage rate remained fairly constant (see Table). It is true that the cities had different coverage rates at the start of the period. The higher the initial coverage, the more difficult it might be to expand access further. A performance index accounts for the effort made by the utility to increase coverage.<sup>2</sup> Taking that into account, access to in-house piped water still seems to have increased substantially more in La Paz and El Alto with privatisation than in the other cities.

Equity refers to providing all households with the same level of access to utilities despite their income status. We also find that access to piped water became more equitable under the private concessions. In 2005, the difference in coverage rates between the poorest 20 per cent and the richest 20 per cent of the population fell from 30 to 4 percentage points in El Alto and from 15 to 4 percentage points in La Paz, compared to the period before privatisation. The pro-poor increase in water access in La Paz and El Alto stemmed mainly from enforcement of the targets in the concession contracts. The contracts demanded that the companies provide services to low-income areas and, as stated above, the target was to reach very high levels of coverage.

Piped Water Coverage Rate (%) in Four Bolivian Cities

|            | 1996* |             |             | 2001  |             |             | 2005** |             |             |
|------------|-------|-------------|-------------|-------|-------------|-------------|--------|-------------|-------------|
|            | Total | 20% poorest | 20% richest | Total | 20% poorest | 20% richest | Total  | 20% poorest | 20% richest |
| La Paz     | 87.9  | 83.4        | 97.9        | 88.6  | 79.2        | 98.2        | 96.6   | 96.2        | 100         |
| El Alto    | 76.2  | 55.6        | 85.6        | 69.4  | 78.1        | 87.4        | 87.8   | 86.0        | 90.8        |
| Cochabamba | 76.5  | 63.3        | 84.7        | 78.6  | 58.5        | 93.1        | 61.8   | 25.9        | 74.2        |
| Santa Cruz | 95.5  | 90.2        | 98.6        | 95.8  | 92.2        | 100         | 95.6   | 90.1        | 100         |

Source: Authors' calculations based on INE.

\* One year before privatisation. \*\* One year before renationalisation.

Water is unaffordable if households spend more than 3 per cent of their income on bills. Before the concessions in La Paz and El Alto, a 19 per cent increase in water prices was offered as an inducement to private providers. In 2001, the first revision of the targets allowed a further 12 per cent increase. The poorest quintile in La Paz spent an average of 4.7 of their income on water in 2001. By 2005, however, the poorest in La Paz could just afford water, spending on average 2.6 per cent of income. This, however, is mainly explained by increases in their income.

The explicit five-year expansion targets imposed by the concession contracts seem to have played a critical role in the growth of new connections in the poorest areas. But the private provider failed to meet the targets stipulated in the concession contract. Tariff increases also provoked public outrage. Eventually the unpopularity of cost recovery and the failure to meet legally binding targets compelled the government to terminate the contracts.

The lesson is that when privatisation contracts stipulate clear targets, concessionaires do attempt to reach them. But there is a limit to how far private providers can increase spending on infrastructure and expand services from the profits made through cost recovery. Ultimately, expanding access to the poor requires public efforts.

### Notes:

1. A similar version of this article was published by the International Policy Centre for Inclusive Growth in *Poverty in Focus* 18 (2009) (IPC-IG). For a detailed discussion see Hailu et al. (2009).
2. We calculate a performance index based on Kakwani's achievement function. The index is a non-linear transformation of the original coverage indicator, taking the starting level into account and allowing specification of the appreciation of degree of effort (see Kakwani, 1993).

### References:

- Hailu, Degol, Rafael Osorio and Raquel Tsukada (2009). 'Privatisation and Renationalisation: What Went Wrong in Bolivia's Water Sector?' IPC-IG Working Paper 58. Brasilia, International Policy Centre for Inclusive Growth.
- Kakwani, Nanak (1993). 'Performance in Living Standards: An International Comparison', *Journal of Development Economics* 41, 307–336.

