



Infrastructure Planning and Management

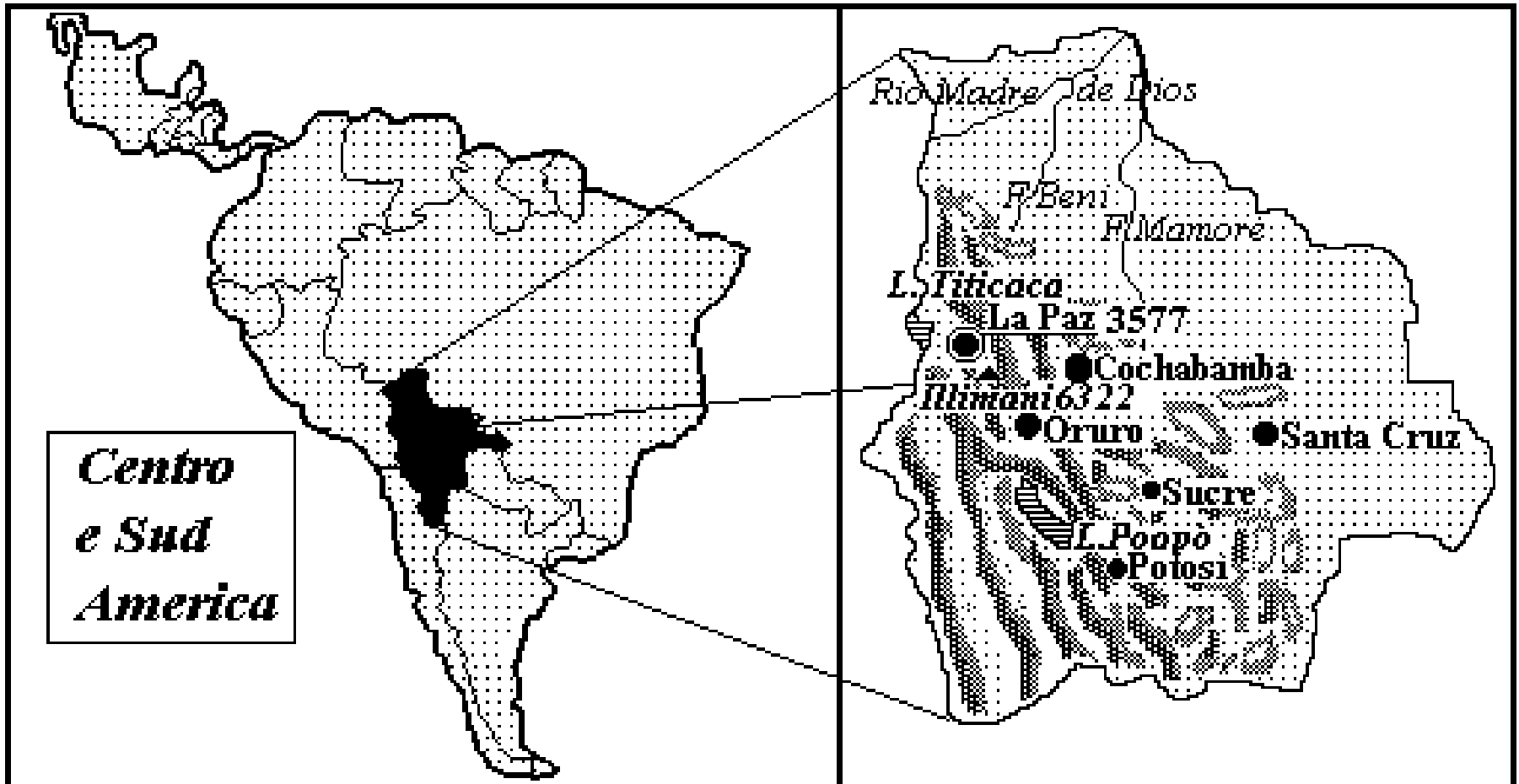
PPP Case Study
Cochabamba Water Privatization

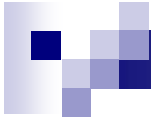


Agenda

1. The Cochabamba Case

Cochabamba is a city in Bolivia, South America





A Few Facts on Cochabamba

- Founded in the 16th century
- 500,000 inhabitants
- Fertile region -
Agricultural economy
- Mild and Pleasant
weather





Short Digression on quality of service

- When evaluating the performance of a Water and Sanitation System, the following metrics are often considered
 - Water Pressure
 - Percentage of Metered connections
 - Interruption of Service
 - Efficiency of Billing
 - Efficiency of Handling complaints
 - Staffing
 - UFW (Unaccounted For Water - Leakages, Theft)
 - Percentage of area/residents covered
 - Tariffs



Water Provision in Bolivia prior to the PPP

- Centralized **public** utilities - e.g. SEMAPA provided water
- Private trucks and associated providers provided water to some areas
- Water Cooperatives were also in existence



Quality of Water Service prior to the project

- 75% Urban Water Supply Coverage
- 36% Sewer connections
- Financial status of water providers
 - Poor
 - Tariffs covered operations costs but leave no money for investment




Performance of SEMAPA in Cochabamba

- 4.7 employees per 1000 connections
 - More than twice as inefficient as the global benchmark
- Only 57% coverage
- 50% UFW
- 5-10% illegal connections
- Only a few hours a week of water was provided
- Over reliance on ground water among the community
- Poor pay more money and a greater share of their income




**Key Question: How can
water infrastructure improve
In Bolivia and Cochabamba?
Privatization can be an option**



What actions did the government take to enable PPP

- 1994 - Created a water Regulator - SIRESE
- 1997 - Finalized Concession Award Procedures, role of Regulator
- 1999 - Water and Services law was passed that had details on rights, tariffs etc

The stage was set for privatization.
The government seemed to have done its homework



Timeline of events in Cochabamba

- 1997 - A concession for the water supply project was suggested
 - Irrigation, Water and Power Project are lumped together
 - The project did not take off
- 1998 - A concession agreement for the project was floated again
 - Several parties showed interest
 - One party submitted a bid! - AdT - Aguas del Tunari
 - Bidding process declared null and void
- 1999 - Government negotiated directly with ADT and awards them the contract!!!



The Concession Agreement

- **Project Sponsor** – Aguas del Tunari
- **Concession period** – 40 years
- **Scope** – operation of existing water system in Cochabamba, Construction of \$214 Million project for power, irrigation and water supply
- **Tariffs** set to go up by 35% initially in 1999 and then 20% in 2002.
 - Increasing Block Tariffs (IBT) adopted so that the wealthier pay more than the poor – nearly twice to thrice as much
- **Service** - Expansion and coverage targets were given to AdT that they had to meet
- **Exclusivity rights** were given to AdT



Increasing Block Tariffs

Residential Categories	Fixed Charge 0-12 cu.m (\$)	Variable Charge 13-25 cu.m (\$/cu.m)
Residential 1 (Poor)	1.8	0.153
Residential 2	3.02	0.288
Residential 3	4.85	0.394
Residential 4 (Rich)	8.64	0.518



Coverage Targets

Year-End	2000	2001	2002	2004
New water connections	3,850	11,800	33,600	57,600
New sewage connections	4,150	12,150	34,150	58,200

What happened next?

- Widespread protests
- State of emergency declared
- 10th April 2000, government retracts concession from AdT and gives it back to SEMAPA





Reasons for Project Failure

- Economic crisis in Bolivia

- Liberalization had not led to much growth
- Only 4.2% GDP growth from '90-'99
- As a result there was a lot of disillusionment with privatization

- Ideological issues

- The local people were against a foreign firm charging them for water
- Exclusivity was also a concern here as competition was not welcomed and some of the water tankers and other providers had to go out of business.



Tariffs under AdT

- Average increase was 35%, but only 10% of the tariff was increased for the poor
- New tariff made economic sense
 - Money was left over for operations, expansion and maintenance
- Rate of return for AdT 16% and so they made a profit, but was this too high?
- Better quality of supply led to more utilization, led to higher water bills, which the citizens did not like!!!




Social Issues

- Farmers pre-emptively protested
- Rich residents had already built water infrastructure and therefore did not want to forego this and buy water from AdT due to the exclusivity clause
- Poor people would not get water until they were connected
 - Well drillers and tankers protested
- No transparency, no consultations
 - Professional and Citizen associations were not involved in the planning of the project
 - They demanded cancellations/tariff reductions
 - The government did not have funds to educate and campaign and AdT was indifferent to the public



Governmental Problems

- There were divisions within the government
 - Municipal allies were against privatization
 - Central govt was pro privatization
- SSSB, the regulator was not an independent regulator
 - It could not set tariffs
 - It was forced by the government to go in for the project

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1. Could this project have succeeded?
 2. Could these limitations Have been Overcome?
 3. Is there a future for Water Privatization?



What should have been done differently?

- Social Inclusion and Transparency

- SSSB didn't have the funds, AdT didn't have the inclination. However stakeholder consultations should have been held
- Existing water providers and arrangements should have been integrated

- Independent Regulator

- Tariffs could have been raised by the government BEFORE privatization so as to counter the ideological protests.

- Exclusivity clause could have been rethought



Conclusion

- The project seemed to have been structured well with innovative strategies such as increasing block tariffs that ensured that the poor did not suffer from large tariff increases
- However lack of political consensus, social opposition and an economic downturn led to the failure of the project



Ciao for Now



Thank you!