

## **The Global Water Crisis, Privatization, and the Bolivian Water War**

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The struggle for access to potable water is at the nexus of the larger battle between states, multinational corporations, international financial institutions, and organized groups of citizens in Latin America. The common terrain for these actors is the emerging water crisis, a result of the rapidly dwindling supply of available clean water for human consumption. Less than three percent of the world's water supply is fresh water, and less than one percent is accessible for human consumption. Over 1 billion people lack safe drinking water, and 2.6 billion people lack basic sanitation (World Health Organization 2004).

Transnational water companies see a financial opportunity in this crisis, as limited supply and growing demand motivate the scramble to control the world's water systems. Environmentalists see an ecological crisis of grave proportions, which calls for an immediate transformation of the way water is extracted and used. On the community and individual level, many Latin American citizens have experienced limited access to clean water under both state owned and privately owned water systems.

This chapter examines water privatization policy in Cochabamba, Bolivia, the site of the first large-scale rejection of water privatization in Latin America. The privatization of water emerged as a controversial policy area in Bolivia after massive protests forced the retreat of a multinational water conglomerate from the city of Cochabamba. The citizens of this Bolivian city mobilized to express the viewpoint that water is a human right and a natural resource that is too vital for

the preservation of life to be treated solely as an economic good. In terms of the broader conceptualization of this book, the protests in Cochabamba are an example of how inequitable water management policy can cause social unrest and political instability.

The United Nations Commission on Sustainable Development describes water as “irreplaceable for the purposes of drinking, hygiene, food production, fisheries, industry, hydropower generation, navigation, recreation and many other activities. Water is equally critical for the healthy functioning of nature, upon which human society is built” (UNCSD 1997 cited in Finger and Allouche 2002, 32). Safe drinking water and sanitation are directly linked to human health and environmental health; 80% of diseases in poor countries are spread through unsafe water, and an estimated 90% of Third World wastewater flows untreated into local rivers and streams (Barlow and Clarke 2002, 52).

Global water shortages are emerging as a result of overpopulation, overuse, pipe leakage, pollution, and waste. The poor suffer disproportionately from water shortages and lack of reliable access to safe water and sanitation services. Women bear the brunt of water scarcity and lack of water rights, as women play a central role in the provision and management of water in poor countries (Bennett et al. 2005). As the World Bank notes, addressing the global water crisis is essential for reducing poverty in the developing world (World Bank 2004a).

In this chapter I analyze water privatization policy in Bolivia using Schneider and Ingram’s (1997) policy design for democracy approach, which

asserts that policy designs have a direct impact on opportunities for democracy and citizenship. Through analysis of the policy design, water privatization policy in Bolivia is found to have had negative consequences for democracy and active citizen participation. Despite this negative impact on democratic citizen participation, a social movement emerged in Cochabamba that confronted and overturned the unpopular policy. The chapter begins with a brief overview of global water issues, privatization, and the circumstances leading to the reversal of the water contract in Cochabamba. The content and design of water privatization policy in Cochabamba is then analyzed, focusing on the policy goals, policy implementation, and the social constructions of knowledge that were embedded in the policy. This analysis also explores the World Bank's role in pushing privatization in Bolivia, and raises concerns about accountability and the democratic deficit within the World Bank.

Decisions made at the supranational level by international financial institutions have a tremendous impact on local policies in developing countries. Economic reforms pushed by international financial institutions like the World Bank and the International Monetary Fund have met with varying degrees of resistance, particularly in Latin America where many social movement groups and non-governmental organizations protest the social and economic consequences of these reforms. Globalization processes are changing the role of the state in the everyday lives of citizens, and transnational corporations are playing an increasing role in determining "who-gets-what in the world system" (Strange 1996, 54). While international financial institutions and multinational

corporations are pushing the state out of the economy and lessening its role, many Latin American social movements are simultaneously pulling the state back into local communities and demanding a strong government role in the provision of services. These social movements often resist public policies that lessen the role of the state in the daily lives of citizens.

Public policies have far-reaching and long-lasting impact beyond the specific outcomes that arise from their implementation. In addition to allocating resources, policies can reproduce and reify existing social constructions of groups, institutions, and knowledge (Schneider and Ingram 1997). In this way, public policies have the potential to strengthen democracy and galvanize active citizenship, or they can negatively impact opportunities for democratic participation. As a response to unpopular policies, social movements can emerge to protest and effect change in public policy.

When citizens challenge policies, they often focus on the negative social and economic outcomes of policies. Social movements also frequently challenge the democratic deficits that exist within the institutions involved in making and implementing unpopular policies. Water privatization is a policy area where claims have surfaced regarding negative social and economic effects as well as undemocratic decision-making processes by institutions like the World Bank.

### **World Bank Water Policy**

The World Bank is the most influential actor in the international water sector, both in terms of policy-making and financial aid for water-related projects (Bauer

2004, Finger and Allouche 2002, Moore and Sklar 1998). The water sector represents 15% of the Bank's cumulative lending (World Bank 1993). Although Bank-financed water projects have experienced successes over the years, many water supply and sewerage projects financed by the World Bank have a poor track record in terms of efficiency, improved service, and improved access for the poor (Moore and Sklar 1998).<sup>1</sup>

The World Bank's approach to water policy drastically shifted in the early 1990s from a model that promoted state involvement in infrastructure development, to one that portrays the state as an impediment to progress, development, and the public interest (Finger and Allouche 2002). While the Bank had previously viewed infrastructure services as public goods warranting state provision, it began to advocate treating these services as private goods. This shift coincided with the rise of the "Washington Consensus" as the dominant paradigm for economic development, which advocated privatization of public utilities.

The World Bank's 1993 Water Resources Management Document elaborated this shift in policy goals to reflect the newly accepted free market approach. It also incorporated concerns from environmental groups and various NGOs that were pushing the Bank to adopt more environmentally sustainable policies and to be more responsive to local community input. The new approach to managing water resources included treating water as an economic good, decentralizing management and delivery structures, placing a greater reliance on pricing, fuller participation by stakeholders, and a more comprehensive policy

framework that considers social, economic, and environmental aspects of water management (World Bank 1993).

Proponents of water privatization argue that treating water like any other commodity is the only way to improve efficiency and address community water needs. Privatization supporters cite studies that show how privatization has benefited the poor and improved service in some developing countries (Chong and Lopez-de-Salinas 2004, Galiani et al, 2003). Those who oppose the commodification of water challenge the notion that transnational corporations have the right to own and profit from entire water systems that include the delivery mechanisms for water, the underground aquifers, and water resources that are naturally replenished through the hydrologic cycle. Proponents of equitable water management often challenge the notion of efficiency as the appropriate criterion for water policy making. As the debate over water privatization grows, two competing visions of water emerge: one that favors defining water as an economic good that should be commodified and traded on the open market; and the other which defines water as a public trust, a part of the global commons, and a basic human right that must not be privatized (Barlow and Clarke 2002).

### **Privatization in Latin America**

Beginning in the early 1990s, privatization of water was viewed as the solution to water crises throughout Latin America. Public sector failure and the need for substantial investment coincided with a growing number of transnational corporations that were seeking to enter water markets (Finger and Allouche

2002). Ten corporations or consortiums currently dominate the global water industry, the two largest of which are Vivendi Universal and Suez (Barlow and Clarke 2002,106). Smaller consortiums such as RWE-Thames and Bechtel-United Utilities also provide water to millions of people worldwide, and are increasingly challenging Vivendi and Suez's dominance in the water sector (Barlow and Clarke 2003). As many governments in the developing world abandon their traditional roles in the provision of services like water and sanitation through the privatization of public utilities, these corporations have come to own and operate many Third World water systems.

The implementation of privatization of services in Latin America is attributed to a mixture of state inefficiency, changing norms about the role of the state in the economy, the lack of resources in some countries, and the acceptance of the market as an appropriate venue for providing services to citizens. Advocates for privatization of public services argue that by selling state-owned enterprises to the private sector, developing countries eliminate problems of corruption and inefficiency that bog down state-run enterprises. Developing countries are increasingly under pressure to privatize public utilities such as telecommunications, electricity, and water in order to receive loans from international financial institutions such as the World Bank and the International Monetary Fund. This policy is challenged throughout the hemisphere by many labor unions, NGOs, and local community organizations with the support of transnational advocacy groups. These sectors claim that privatization negatively impacts access, quality, and accountability of social services.

### **Privatization in Bolivia**

Bolivia began implementing neoliberalism in 1985 with a set of reforms called the “New Economic Policy.” The New Economic Policy was a group of structural adjustment reforms that completely restructured the economic and social fabric of the country. It included reduction of the public sector, an end to state subsidies, wage freezes, and a general retrenchment of state agencies responsible for social welfare issues such as health and education (Gill 2000). Although the World Bank and the International Monetary Fund have consistently pressured Bolivia to adopt neoliberal reforms, initial acceptance of neoliberalism in Bolivia came from political leaders within the country. The central idea in the neoliberal approach is that free markets increase efficiency through pricing, while state regulations and subsidies distort this process and therefore reduce efficiency.

By 1985 Bolivia faced a growing national economic crisis. This crisis was the culmination of years of fiscal mismanagement by military regimes, which resulted in massive foreign debt, inflation, and a stagnated tin industry (formerly Bolivia’s primary source of foreign exchange). There was a need for massive economic reform in Bolivia at this time. Members of the government who chose to pursue the neoliberal route found strong allies in the International Monetary Fund and the World Bank (Gill 2000).

Under pressure from the World Bank and the International Monetary Fund, the Bolivian government began widespread privatization of state-owned industries including the national airline, railroads, tin mines, the

telecommunications industry, and the national electric company (Shultz 2003b, Olivera 2004). The World Bank began aggressively pushing for privatization of Cochabamba's public water system in 1996. The Bolivian government finally negotiated a contract for the sale of the system in 1999. The contract for Cochabamba's water system was the first water privatization to be subsequently reversed in the face of massive social protest in Latin America. Although the World Bank touted the policy as the solution to the city's water problems, the privatization of water delivery services in Cochabamba quickly became a political quagmire for the Bolivian government and a symbol of resistance to neoliberal reforms in Latin America.

### **Cochabamba's Water War**

The Bolivian "water war" of April 2000 was the culmination of years of domestic unrest over water issues in Cochabamba (Assies 2003). Prior to privatization, Cochabamba suffered chronic water shortages and many of the poorest neighborhoods were not connected to the municipal water network. Under this arrangement, state subsidies to the water utility mainly supported middle-class neighborhoods and industries located in the urban center (Finnegan 2002). Communities that were not connected to the urban network had to seek alternative sources of water. Many of these marginalized communities pooled their resources with international aid to create independent freshwater well cooperatives which provided clean and inexpensive water to members of the cooperative. These

cooperatives served a relatively small number of people, while the majority of Cochabambans endured inadequate water quality and access.

Under pressure from the World Bank to accept the conditions of a debt relief package (Shultz 2005a), the Bolivian government sold the Cochabamba water system in 1999 to the only bidder, Aguas del Tunari, a subsidiary of the United States corporation, Bechtel.<sup>2</sup> The 40-year contract gave Aguas del Tunari exclusive control over the municipal system, including all industrial, agricultural and residential systems, as well as the water in the natural aquifer. The deal also allowed the company to install meters on all water sources, including cooperative wells (Finnegan 2002).

These acts were legal under Law 2029 (the Drinking Water and Sanitation Law), which was approved by the Bolivian government in October 1999 in preparation for the privatization. Law 2029 was passed quickly with little public knowledge, deliberation or public support (Olivera 2004, Slattery 2003). The new law created the legal framework for private ownership of water sources. It authorized private responsibility for delivery of water to citizens (Slattery 2003). The law outlawed traditional water practices, such as cooperative water systems and individual homeowners' wells, and banned collection tanks used by many peasants to collect rainwater. It ended government subsidies for water consumers, and authorized price increases that would allow the price of water to reflect the "true economic cost of the service" as determined by the contracted owner (Slattery 2003).

The impact of the privatization was immediate and widely felt. The new water company installed meters on cooperative wells that were built with donated funds and the personal funds of the community. The communities were charged for water drawn from the wells and for the installation of the meters (Finnegan 2002). Some urban families experienced a 200-300% increase in water rates (Schultz 2003a). Lower-income workers faced water bills that exceeded a quarter of their monthly income (Finnegan 2002).<sup>3</sup> Farmers, engineers and environmentalists were outraged over the lack of consultation by the government with local experts in negotiating the contract (Finnegan 2002). Middle-class families and business owners objected to the rate hikes and to the lack of improvement in water quality under the new water company. In response, a coalition of neighborhood associations, labor unions, workers, farmers, and other sectors of society formed the Coalition for the Defense of Water and Life, or “La Coordinadora.”<sup>4</sup>

Although La Coordinadora was officially formed in December 1999, some members of La Coordinadora were working on water management issues in Cochabamba for years prior to the privatization of the municipal system. The Cochabamba Department Federation of Irrigators’ Organizations (FEDECOR) had been organizing and protesting around issues of resource ownership in the rural areas surrounding Cochabamba since the mid-1990s, focusing mainly on providing alternative proposals for water management to the government’s proposed general water law (Assies 2003). The Society of Bolivian Engineers (SIB) had also challenged government proposals for water management in the

area since the late 1990s. These groups protested the exclusionary and non-transparent negotiation of the contract between the government and Aguas del Tunari. The government rejected their requests for inclusion in the negotiation of the contract and design of the policy despite their interest and expertise in water resource management in Cochabamba (Assies 2003).

When the contract with Aguas del Tunari was signed in late 1999, the Cochabamba Department Federation of Irrigators' Organizations and the Cochabamba College of Engineers predicted that the new contract would mean a drastically reduced quantity of potable water for consumers and agriculturalists, as well as massive rate hikes that would disproportionately hurt the poor (Assies 2003). When the policy was put into effect in January 2000, the predictions made by FEDECOR and SIB were realized; Aguas del Tunari instituted massive rate hikes and carried out seizures of private and communitarian water systems. As the implementation of the policy progressed, trade unionists, community organizations, and consumers joined in opposition to the policy.

Although the protests that took place in the early months of 2000 were mainly over rate hikes and the seizure of private water sources, the leadership and organized roots of La Coordinadora consistently exposed the policy negotiation process between the government and Aguas del Tunari as undemocratic and non-transparent. Thus, the protests in Cochabamba reflected a mixture of normative complaints about the negotiation process made by organized communities and organizations such as FEDECOR and SIB, as well as utilitarian concerns about cost and ownership made by consumers.

In the early months of 2000, La Coordinadora organized demonstrations and highway blockades that paralyzed most of the country. La Coordinadora demanded that the government review the rate increases enacted by Aguas del Tunari and renegotiate the contract with the company. Unsatisfied with the government's response to the rate hikes, they eventually called for the government to modify Law 2029 and to cancel the contract with Aguas del Tunari. The protesters framed the issue as a fight between poor people and a greedy multinational corporation over the basic human right to water (Finnegan 2002).

In April 2000, over 100,000 citizens from Cochabamba and the surrounding areas participated in a general strike and multiple highway blockades across the nation, which led the government to declare martial law. Conflicts between protesters and police left dozens wounded, and one person dead. When it became clear that the protesters were too numerous and too angry to back down, Aguas del Tunari executives fled Cochabamba. Shortly after, the government revoked the contract with Aguas del Tunari. In a victory for La Coordinadora, Cochabamba's water system was returned to the public utility with a new board of directors that included Coordinadora representatives.

A new national water law was written giving legal recognition to *usos y costumbres* (traditional communal practices), including protection of independent water systems, public consultations on rates, and a commitment to prioritizing social needs (Finnegan 2002). But with a sinking aquifer, crumbling infrastructure, and little chance of new international investment, the public system

is desperately in need of capital. Bechtel attempted to sue the Bolivian government for over \$25 million in lost profits in the World Bank's International Center for Settlement of Investment Disputes, but was forced to drop its suit due to international pressure.<sup>5</sup>

The Cochabamba water war became a symbol of resistance to water privatization and of rejection of neoliberal policies that reduce the role of the state in domestic economies. Opponents of water privatization objected not only to the rate hikes, but also to the lack of democratic decision-making processes and consultation associated with the privatization (Olivera 2004, Assies 2003). Public statements by La Coordinadora decondemned the “simulation of democracy which only renders us obedient and impotent...” (La Coordinadora 1999). The conflict over water privatization in Cochabamba was the first of a number of “consumer rebellions” in Bolivia against the sale of natural resources to private corporations (Shultz 2005b). Organized consumers reversed the privatization of water in the Bolivian city of El Alto in 2005. Ongoing calls for re-nationalization of the country's natural gas and oil reserves have created political instability since 2003 (Painter 2005), leading to the nationalization of the nation's oil and gas reserves in May 2006 (McDonnell 2006). The failure of water privatization in Cochabamba is an example of how public policy is more than the sum of its economic outcomes; it also has wider implications for democracy, citizenship, and for the prospects of equitable water management.

### **The Policy Design of Water Privatization in Bolivia**

Schneider and Ingram (1997) provide a framework for analyzing policy designs and the dynamic relationship between policies and their contexts. “Policy design” refers to the instrumental and symbolic content of the public policy, such as the architecture, discourses, and practices that comprise the policy. Policy designs are created through a dynamic process that involves the social construction of knowledge and of target population identities. Policy designs have consequences for democracy and active citizenship; policy designs can enable and support active citizen participation and democracy. They can also contribute to the reproduction of degenerative policies that undermine and stifle democratic participation. Degenerative policies discourage active citizenship by excluding citizen participation, devaluing local knowledge and input, and are often handed down from above with little transparency and accountability. Conversely, policies can enable citizen participation by strengthening communicative processes through fostering communication among different levels of government and public and private actors (Schneider and Ingram 1997).

Policy designs emerge from specific issue contexts which are the socially constructed understandings that emerge from the broader societal context. These social constructions are then embedded in the design itself. By socially constructing an issue, a set of beliefs is accepted as “true” or “real.” The policy reflects and reproduces this particular construction of reality. Unpacking a policy’s design involves looking at this issue context as well as the core empirical elements of the policy. These core policy elements include observable elements,

such as the goals or problems to be solved, agents, target populations, rules, tools, rationales and assumptions that make up the policy (Schneider and Ingram 1997).

In the case of water privatization in Bolivia, an examination of the policy goals, policy implementation, and social constructions embedded in the policy reveals a discrepancy between stated and hidden goals, an implementation structure that limited opportunities for democratic participation, and a policy rationale that reproduced socially constructed knowledge about water and about the appropriate method of delivering water to citizens.

### **World Bank Water Policy Goals**

The goals of public policies correspond to the problems to be solved by the policy, or what is to be achieved or changed through the policy (Schneider and Ingram 1997, 82). Policy goals reflect conscious choices that are made about what the policy is intended to achieve, and they result in “benefits to some and burdens to others” (Schneider and Ingram 1997, 83). This allocation of benefits is linked to concerns about equity, justice, and democracy. Goals can be normative, political, and technical in nature. They reflect the societal context in which they are formed. Goals can also reflect a politically motivated rationale; these goals are often hidden, and can be revealed in examination of the implementation and outcomes of the policy.

The overall goal of the World Bank’s water policies is to reduce global poverty through sustainable development. The World Bank’s public goals regarding water management are linked to the stark reality of massively

inadequate access to clean water in the developing world. Public World Bank documents refer to the millions of people, the majority of whom are extremely poor, that lack access to safe water and decent sanitation. The World Bank's goal is to facilitate the provision of effective, fair delivery of water and sanitation services in developing countries. The World Bank is committed to helping achieve the Millennium Development Goal of halving by 2015 the proportion of people without sustainable access to safe drinking water and basic sanitation (World Bank 2004b).

The World Bank asserts that "improving service efficiency is...an overarching goal for the reform of water and sanitation services" (World Bank 2005). Improving efficiency requires "investment coupled with reform" (World Bank 2002b). Proposed reforms involve "creating the conditions for more accountable, efficient, equitable and effective service providers" (World Bank 2002b). Achieving efficiency in the water sector requires reforms that allow private sector control of services under contract with the public sector. This type of reform calls for a transparent financial planning process to identify "the right sources of finance" to support the long-term goals (World Bank 2005). The World Bank had specific goals for water privatization in the three Bolivian cities of Cochabamba, La Paz/El Alto, and Santa Cruz de la Sierra. These goals were to "provide service for all in the most efficient manner," and to "lay the foundation for sustainability" (World Bank 2002a).

The World Bank favors water policies that "put people at the center of decision- making" and "at the center of sustainable water supply and sanitation"

(World Bank 2002b). These policy goals emphasize that communities ought to be in control of their own water systems and they must be empowered to make decisions regarding water services. The World Bank encourages borrowing countries to implement reforms to allow this kind of community empowerment and control. The Bank is committed to facilitating participation of affected people and NGOs in water resource management, with an emphasis on the poor and indigenous peoples of borrowing countries (World Bank 1993). The rhetoric the World Bank uses to describe its policy goals is imbued with respect for local communities and local knowledge, support for empowerment of citizens, and an overarching humanitarian mission to improve the lives of the poor.

The World Bank has a declarative public commitment to serving the poor and involving local communities in decision-making regarding water policy. There is evidence that the World Bank acted contrary to these goals in its involvement with Bolivia. The World Bank emphasizes that water policy must prioritize the needs of the poor. Yet prior to the negotiations for the privatization contract in Cochabamba, World Bank officials specifically informed the Bolivian government that “no public subsidies should be given to ameliorate the increase in water tariffs in Cochabamba” (World Bank 1999). Bolivian groups such as the Cochabamba College of Engineers and FEDECOR had predicted that post-privatization rate increases would leave many residents unable to afford the new price for water (Assies 2003). This was a reasonable prediction given that over 70% of the Bolivian population lives below the poverty line.

This rejection of subsidies contradicts many internal World Bank analyses regarding privatization. Some analysts within the Bank point to the necessity of these safeguards during the initial stages of privatization to protect the poor (Klein 2003, World Bank 1993, and see Slattery 2003 for a non-World Bank, pro-privatization analysis of the importance of subsidies). Certain services require a minimum level of consumption for survival, such as water and heating, and thus may require 'lifeline' exemptions for some users who are too poor to afford market prices (World Bank 1993, Finger and Allouche 2002). The World Bank specifically advised the Bolivian government against this method of protecting the poor during the time when the Bank was assisting Bolivia with the design of the privatization policy (World Bank 2002a, 2).

The World Bank's goal of ensuring local control over water management was also contradicted by the World Bank's policy recommendations and demands on the Bolivian government. The concession to Aguas del Tunari essentially outlawed the local small-scale water systems, such as community wells and cooperative water systems that had been built with international aid and community funds. This concession contract, prepared "with the Bank's assistance" (World Bank 2002a, 2), gave sole control of all water delivery and sanitation services to the private contractor. This included the water in the underground aquifer, which residents drew from in their private wells. It also effectively privatized rainfall, as residents were no longer permitted to capture rain for their own consumption without paying the new water company. Aguas del Tunari now owned these methods of water supply that were primarily used by

the poor. In practice, the policy did not meet the World Bank's goals of maintaining local control over water management and encouraging active citizenship.

Contrary to its stated goals of engaging in open and participatory processes with local communities to decide on appropriate reforms, the World Bank pressured the Bolivian government to adopt the policy by making privatization a condition for loans and debt relief. In February 1996, World Bank officials informed the mayor of Cochabamba that a pending \$14 million loan to improve water service was conditioned on privatization of the city's system ("Banco Mundial Es Claro..." 1996, 10). Bank officials also pressured Bolivia's president to privatize the system in June 1997 by making \$600 million in badly needed international debt relief contingent on the privatization of Cochabamba's water system ("Organismos multilaterales presionan al Gobierno..." 1997,5).

Community representatives were not allowed to participate in the decision-making process over the privatization of water in Cochabamba. There was no open and participatory process where local residents were invited to deliberate and decide on appropriate reforms to the water sector (Shultz 2005b, Olivera 2004). This dismissal of local input counters the World Bank's stated goals of community involvement and respect for local knowledge in decision-making about water policy. The Bolivian government also bears responsibility for the lack of consultation with local groups. Contrary to claims by members of La Coordinadora, one Bolivian analyst asserts that consultation did take place, in the sense that local elected officials and representatives from the municipal water

system (SEMAPA) were involved in the process of negotiation of the contract (Laserna, “Cochabamba: La Guerra Contra el Agua”). However, most accounts of the process cite a total dismissal of local input from those affected by the policy (See Olivera 2004, Shultz 2003b and 2005b, Public Citizen 2003). Many argue that those who were consulted did not represent the needs of the public (Assies 2003).

Critics of World Bank water policies claim that its unwavering support for privatization of water in the developing world is rooted in ideological support for the neoliberal model of development. The World Bank’s shift to water privatization policies in the 1990s mirrored the global trend toward rolling back the government’s role in the economies of developing countries. Although the state had previously played a prominent role in World Bank-funded infrastructure projects, the World Bank began portraying the state as an impediment to progress. By re-framing the government as inefficient in providing these services, the goals of privatization policy became linked with de-legitimizing public control of utilities and loosening national control over domestic economies. This perspective describes the World Bank’s goals as a reflection of the dominant ideological framework of the time; a framework that is pushed by western developed nations, such as the United States, that maintain significant influence within the World Bank.

Although the World Bank’s public goals regarding water management call for policies that support democratic participation by local communities and active citizen roles in decision-making and resource management, there is a disconnect

between these goals and the resulting policy ‘on the ground’ in Bolivia since 1996. Charges of hidden goals that support the financial interests of private multinational corporations and the ideological policy perspectives of western developed countries call into question the World Bank’s role as an international organization primarily concerned with poverty alleviation and responsible resource management. Imposing policies without consultation, removing local control over natural resources, and discouraging financial support for the poor in adjusting to privatization effectively removes local people from decision-making regarding the policy, and prevents them from participating in the implementation of the policy.

### **Implementation of World Bank Water Policy in Bolivia**

In Schneider and Ingram’s policy design framework, implementation is defined as the “value added” to design by the agents who carry out the policy (Schneider and Ingram 1997, 89). Although the World Bank prescribed the policy, the Bolivian government and Aguas del Tunari were the main agents responsible for implementing the policy. Implementation of the policy began with the negotiation process to decide on the nature of the privatization agreement, and included the actual implementation of the contract in Cochabamba. The implementation of the policy and the corresponding messages sent to the public showed a disregard for democracy and citizen participation, as local input and needs were systematically ignored.

By most accounts, the negotiation process regarding the privatization of Cochabamba's water system was closed and undemocratic, with no citizen role in negotiation or bargaining. During the government negotiations with Aguas del Tunari, citizens attempted to express their concerns over the negotiation process. Local engineers and environmentalists wanted to participate, as did local farmers who feared their irrigation systems would be threatened. The President of FEDECOR, Omar Fernandez, expressed concerns that the contract with Aguas del Tunari would result in a rise in the price of irrigation water that would drive between 15,000 and 20,000 farmers into bankruptcy. The Ministry of Foreign Trade and Investment and the World Bank later set the prices at the level predicted by Fernandez (Assies 2003). Despite the expertise of groups like FEDECOR and the wealth of local knowledge about the needs of local farmers and consumers in Cochabamba, these sectors of the community were not incorporated into the negotiation or policy planning processes. For many citizens, joining La Coordinadora was a response to the lack of democratic process in the policy negotiation.

This lack of citizen participation continued as Aguas del Tunari implemented the policy. The executives from Aguas del Tunari working in Cochabamba were foreign engineers with little understanding of local sentiments regarding privatization (Finnegan 2002). They were committed to implementing the plans for expanding the city's water system, and they clearly stated that those who could not pay the new price for water would be cut off from service. The message sent during the implementation of the policy was that public input and

consultation were unnecessary and unimportant. Government and World Bank experts who understood the complexity of the market and the water technology were portrayed as the appropriate actors to determine solutions to water problems, while local expert opinions were disregarded.

During the implementation of the policy, consumers joined La Coordinadora mainly in response to the rise in water prices and the seizure of private water sources. La Coordinadora also included organized citizens with normative claims about the exclusionary and undemocratic nature of the implementation process. While the government gave rhetorical support to open dialogue, it dealt exclusively with legally accredited organizations, which many citizens felt were co-opted by the municipal government and did not represent their interests (Assies 2003). Therefore, La Coordinadora posed a challenge to the “instituted system of legally accredited representation, which failed to channel the concerns and interests of large sectors of the population” regarding the controversial privatization policy (Assies 2003,32).

In response to exclusion from all aspects of the policy negotiation and implementation by Aguas del Tunari and the Bolivian government, La Coordinadora began to pursue its agenda outside of the official policy and legal system. La Coordinadora only achieved a place at the negotiating table after sustaining months of protest in the streets. When the government finally conceded to the demands of La Coordinadora, they agreed to create structures for ongoing inclusion of local community groups in future planning on water management. On the subject of the lack of consultation with local communities, Bolivian

hydrologist and UNESCO water expert Carlos Fernandez Jauregui asserts, “...water legislation has to be based on consulting local people, as other laws are. If local culture, customs and ways of life had been taken into account, all these problems could have been avoided” (Cited in Slattery 2003).

While the Bolivian government refused to consider the needs and opinions of local organizations and citizens during the initial negotiation and implementation of the policy, the World Bank also disregarded the importance of communication with the public about the policy. This disregard is evident in the World Bank’s analysis of the failure of water privatization in Cochabamba. According to one World Bank analysis of water privatization in Bolivia, the contract negotiated with Aguas del Tunari included a costly project that would bring water to Cochabamba from the Misicuni reservoir (World Bank 2002a). This project would be partly financed through price hikes, and would eventually allow for improvements in service. Aguas del Tunari agreed to invest US\$85 million in infrastructure, and had a goal to provide 24-hour service by the second year of the contract (World Bank 2002a). Since this contract was made behind closed doors with no public input and no information to the consumers, when the initial price hikes were implemented, citizens of Cochabamba believed they were simply being charged higher prices for the same sub-par service.

One World Bank report attributes the failure of water privatization in Cochabamba to the public’s misunderstanding of the intentions and plans of the company (World Bank 2002a). The report does not mention the lack of information available to the citizens about the contract, nor does it recommend

using education about future privatizations to consumers as a possible remedy to the breakdown in communication during the implementation. The failure of the policy is blamed on public ignorance regarding the merits of private investment, and on local politicians who impeded the privatization process. The report refers to resistance by the mayor of Cochabamba to the price hikes as “political interference” by a local politician (World Bank 2002a, 2), not as a legitimate response to a policy that was unpopular, secretive, and potentially life threatening to the citizens of Cochabamba. The World Bank report concludes that the main lesson to be drawn from the failure in Cochabamba is that consumers do not like to pay higher rates for the same sub-par water service they experienced under the public system (World Bank 2002a). This analysis reveals the problematic nature of policy implementation that shuts out citizen participation and ignores the rights of citizens to information about policy designs.

The implementation of the policy relied on socially constructed notions about its target population (the water users in Cochabamba). The policy constructed the citizens of Cochabamba as consumers, not citizens who might take action about a policy that affected their daily lives. It also characterized them as likely to waste water. Promoters of privatization often claim that when consumers do not pay high prices for water, they will waste it (Schultz 2005a). This is reflected in the comments of former World Bank President, James Wolfensohn, “...the biggest problem with water is the wastage of water through lack of charging”(Cited in Schultz 2005a).<sup>6</sup> In Cochabamba, where water is piped for two hours every other day into homes with no washing machines,

dishwashers, lawn sprinklers or other water-intensive luxuries, this is a problematic claim to sustain empirically (Shultz 2005a). As a number of private water companies have discovered, many water users in Bolivia are more likely to conserve water than to waste it.

Following privatization of water in the Bolivian city of El Alto, profits from domestic water use fell short of the company's expectations. This was partly due to the large numbers of rural people who had moved to the city and were accustomed to conserving water (Forero 2005). Rate hikes also forced many residents to cut back on water use. The company was considering incorporating a public relations campaign to *promote* water use in El Alto to counteract the drop in consumption that resulted from the rise in tariffs and the cultural practice of conserving water (World Bank 2002a).<sup>7</sup> In this situation, citizens are constructed as ignorant consumers who do not understand the true value of water and who must be manipulated by pricing and public relations campaigns to use the "appropriate" amount of water in their homes. As seen in the implementation of the policy, the social construction of target populations carries implications for citizen participation.

### **Social Construction of Knowledge Within the World Bank's Water Policy**

#### **Design**

Socially constructed knowledge is embedded within the design of policies (Schneider and Ingram 1997). Water privatization policy involves socially constructed notions about water, government involvement in utilities, and the role

of professional and expert communities in determining appropriate policy. The way water is viewed influences approaches to water-related policy. Water has evolved from being viewed as a common good to being seen as a commodity that is managed according to economic principles (Finger and Allouche 2002).<sup>8</sup> Water policy that treats water as a commodity assumes the market price for water is an inherently fair price that reflects the true value of water. This commodification of water is seen in World Bank privatization policies which advocate a “full-cost recovery” pricing system requiring that consumers pay a price for water that reflects the cost of the water, the cost of infrastructure development, and the necessary profit for corporate investors. This conception of water is drawn from professional knowledge regarding economic efficiency as the most important concern for water management.

Some analysts question whether an approach to water policy that treats water solely as an economic good is compatible with long-term goals of responsible water management (Bauer 2004). Carl Bauer’s in-depth research of Chilean water markets<sup>9</sup> raises questions about using conventional economic approaches to water. Bauer advocates a more qualitative and interdisciplinary approach to the “economics of water” which “emphasizes the institutional, legal, social, and political aspects of economic analysis” that are often ignored in conventional economic approaches to water policy (Bauer 2004, 3). Bauer asserts that conventional economic approaches, including neoliberal economics, are often limited to quantitative, technical methods. These approaches are rooted in orthodox neoclassical economics that do not incorporate historical or

interdisciplinary analyses such as institutional economics, political economy or ecological economics. The result is a “narrow” conception of water, which ignores the legal and institutional arrangements that are necessary for successful, efficient, and equitable water resource management (Bauer 2004,11).<sup>10</sup>

From this perspective, privatization is a simplistic solution to a complex problem that is not solely economic in nature. The growing scarcity of water worldwide and the problems associated with inadequate access to water and sanitation in poor countries are political problems that purely economic solutions are inadequate to address (Finger and Allouche 2002). The rationale that privatization alone is the most economically efficient manner to handle water and sanitation services ignores the non-monetary costs of privatization, such as the costs to the welfare of the citizens, the loss of national sovereignty to multinational corporations and international financial institutions, and the damage done to democratic principles of accountability and transparency. Efficiency may not be the primary concern of water consumers, for whom issues of water quality, equitable access, and affordability are likely to be more relevant. Further, the value of water is not fully captured in scientific or economic studies alone, as values and ideas about quality of life standards vary. Water is not merely a product that is consumed; it is an essential element in public health, economic development, industry, and agriculture. Water has also historically been imbued with religious and cultural meaning that cannot be quantified (See Shiva 2002).

The debate at the second World Water Forum in The Hague in 2000<sup>11</sup> over whether to define water as a human “right” or a human “need” reveals how

important common understandings are for water policy. Defining water as a “human right” implies obligations on the part of states and the international community to ensure that it is available to everyone. Defining water as a “human need,” as it was ultimately defined at the World Water Forum, justifies private control over the resource (Barlow and Clarke 2002). The decision to define water as a human need was decried by water activists and NGOs that support adopting an international definition of water as a social good, a human right, and a part of the global commons that is uniquely suited for public and local control.<sup>12</sup> In Bolivia, La Coordinadora promotes an alternative vision for local water management that views water as “a social good [and] a sensitive social issue” (De La Fuente 2003). La Coordinadora favors local public control of the water system that is independent of the federal government and private foreign companies, and that incorporates “active participation in the administration and control of public and social services” (La Coordinadora 2005).

An important aspect of the rationale for privatization is the assertion that private companies, not governments, should carry out water delivery and sanitation services. In the rationale for privatization, governments are often portrayed as inefficient and inappropriate for managing this kind of service, while the private sector is described as efficient and therefore better suited for the task. According to the World Bank, providing water is a daunting task for poor nations; it is expensive, and corruption and bureaucracy frequently plague public utilities. In the case of Cochabamba, the city’s public water system was not effective in delivering water to residents and was straining to meet demands for service

expansion. Therefore, Cochabamba was particularly vulnerable to a conception of publicly owned utilities as inefficient.

Citizens and organized movements that resist water privatization often hope to bring the government back into service provision.<sup>13</sup> Many citizens involved in anti-privatization movements question whether private ownership is the solution to government inefficiency, particularly in countries where years of fiscal austerity measures have cut funding for social services like water and sanitation. There is also growing distrust of private foreign control over natural resources and services that are essential to life, as private control is viewed as less accountable and less open to citizen participation than publicly owned utilities. For those who view water as a fundamentally public resource, removing government from provision of water services is problematic despite concerns about government inefficiency.

Professionals and expert communities, such as the World Bank and multinational water companies, play a role in the social construction of water and of private ownership of utilities. The institutional culture of these communities and their agreed-upon notions about the appropriate way to manage water directly affect policy designs. Policy-making is seen to be more objective when experts play a large role in the creation and implementation of the policy, and when utilitarian rationality is the dominant value that guides policy (Schneider and Ingram 1997). Through the use of the scientific method to determine the facts of any given policy situation, the power of social constructions is supposedly diminished, and solutions to social problems are discovered in an objective way.

This process creates an illusion of neutrality and implies a transcendence of the pitfalls and inequalities commonly associated with policy-making. From this perspective, scientists, professionals, and academics emerge as the appropriate experts to be consulted in policy-making, while local citizen input and knowledge is often viewed as unnecessary.

Scientific and professional policy design is not value-neutral. It does not necessarily escape the pitfalls of degenerative politics. Scientific and professional expertise often relies on a particular type of knowledge that is limited to utility and rationality considerations. This approach to policy typically does not consider values and cultural factors that cannot be measured empirically (Schneider and Ingram 1997). Scientifically designed policies can serve interests that run counter to the public interest. They can reinforce unequal and unjust relationships.

Policies are inherently normative in nature in that they are constructed according to a set of normative understandings (Fischer 2000). Therefore, claims of expertise based on technical knowledge alone do not always mesh with the “real world” of public policy (Fischer 2000,43). Just as science is not immune to social and political forces, neither are economic determinations of what constitutes good policy. Water privatization is accepted as sound policy largely based on expert analysis that considers market-rate pricing and private ownership to be superior to public control (World Bank 2005, Peet 2003). Policies based purely on a market rationale can overlook or ignore issues of equity, and they can de-legitimize local knowledge and alternative policy elements.

The World Bank's water privatization policy in Bolivia provides an example of the implications of accepting scientific and professional constructions of knowledge, and of the ascendance of expert communities in public policy decision-making. The tension between professional expertise and democratic governance is exacerbated when "policy communities" gain influence over issues that affect the public (Fischer 2000, Schneider and Ingram 1997). Policy communities form when experts come to agreement on the problems, solutions and desired outcomes of policy situations. Within these communities, outside knowledge or perspectives are often considered to be irrelevant. Policy communities have reputations for being knowledgeable, prestigious, and best suited to formulate policy that deals with complex social problems. By essentially placing themselves between politicians and the public, policy communities can allow politicians to avoid blame or responsibility for policy outcomes. The policy community can insulate itself from scrutiny by emphasizing the technical aspects of policy that the general public does not understand.

The World Bank is a policy community that advances a coherent set of solutions to the pressing problems of developing countries. International organizations like the World Bank have become sources of authority in the international system, drawing power from the legitimacy of the "rational-legal authority" they embody and the control they have over technical expertise and information (Barnett and Finnemore 1999, 707). Bureaucracies like the World Bank appear to be de-politicized because they present themselves as impersonal, technocratic, and neutral. They derive authority from this image, and modern

society views this type of rational-legal authority as legitimate (Barnett and Finnemore 1999). The World Bank also derives power from its ability to pressure governments into adopting their policy recommendations, as seen in Bolivia. Encouraging the empowerment of experts and professionals in policy-making can denigrate the role of the ordinary citizen in the policy process, as there is less need to educate and involve ordinary citizens when decision-making and advising are perceived as primarily the role of epistemic communities.

Although social constructions of knowledge are powerful and can become entrenched, they are also dynamic and frequently contested. The response to water privatization in Cochabamba is an example of how different ideas about water, private control of services, and the role of experts can emerge and challenge the dominant paradigm for understanding these issues. The reversal of privatization in Cochabamba represented a major shift in policy. Large-scale policy change can occur when beliefs and values (the policy image) interact with the political institutions which are the venue for policy action (Baumgartner and Jones 1991). Policy shifts occur when many people change their views on an issue, thus changing the policy image. By reframing the image of an issue, groups can move the issue to a venue that is more favorable to their particular image of the issue (Mintrom 1999). In the case of Cochabamba, the community challenged the image of water as a commodity that should be subject to market prices. Instead they framed water as a basic human right that ought to be subject to local community control in a manner that ensures equity in water management. This

reframing of the issue, combined with the massive pressure on the government by protesters, led to the canceling of the private contract.

Policies based on scientific and professional perspectives send messages to citizens about the unimportance of civic participation and local knowledge. These messages are one component of the overall policy design that includes goals, implementation structures, and socially constructed notions of target populations and knowledge. The social movement that emerged in Cochabamba effectively challenged the policy itself, the social constructions the policy reproduced, and the role of the World Bank in Bolivia.

### **Persisting Criticisms of the World Bank Reflected in the Cochabamba**

#### **Privatization**

Although protests and criticisms about water privatization in Cochabamba were mostly aimed at the Bolivian government and Aguas del Tunari, La Coordinadora members also called attention to the World Bank's role in pushing privatization despite widespread community opposition to the policy. They cited the lack of civil society participation in decision-making about reforms to the water sector and the lack of ongoing consultation with civil society groups in the implementation of the policy as evidence of a lack of democratic participation in World Bank practice.

With the diffusion of democratic norms in the international arena, international institutions like the World Bank face increasing scrutiny regarding issues of transparency and accountability (Karns and Mingst 2004). The World

Bank is a public institution that was designed to facilitate global collective action. The World Bank is also the key international organization in the area of development. Its role has expanded from financing infrastructure projects in developing countries to reforming entire states by promoting a specific brand of development (Finger and Allouche 2002).

Water projects have always been part of the World Bank's project portfolio, mainly in the form of large-scale dams and hydropower projects (Moore and Sklar 1998). The World Bank maintains an emphasis on large-scale capital-intensive water projects, despite a rhetorical commitment to shifting resources away from these endeavors and toward addressing the pressing need for projects that improve water supply and sanitation for the world's poor. The Bank's water supply and sewerage projects have a poor track record in terms of efficiency, improved service, and improved access to the poor (Moore and Sklar 1998).

An internal review carried out by the World Bank's Operations Evaluation Department (OED) surveyed 129 water supply and sewerage projects funded by the World Bank. Over half of the projects suffered from cost overruns, low economic rates of return, and excessive loss of water. Only two of the projects reviewed demonstrated success in improving conditions for poor households (Moore and Sklar 1998). Internal studies reveal that World Bank-funded water projects frequently benefit the middle and wealthier classes and large-scale farmers rather than the poor and small-scale farmers (Moore and Sklar 1998).

The national governments of borrowing countries share responsibility with the World Bank for some of these policy failures and for the lack of civil society

involvement. Local NGO access to the World Bank and the influence of local grassroots groups is strongly influenced by the degree of democratization in the national politics of the borrowing country (Fox and Brown 1998). There is also the ongoing risk that borrowing governments will not implement World Bank policies in the appropriate manner. These concerns are particularly applicable to the role and actions of the Bolivian government in the Cochabamba privatization.

### **Conclusion**

The policy design of water privatization in Bolivia relied on a social construction of knowledge that prioritized utilitarian concerns over issues of equity and democracy. The defective policy was negotiated and implemented in a deceptive and unjust manner, and it shifted control over a vital social service to a private company with little accountability to the citizens it served. As a result of citizen exclusion from the policy design and implementation process, a movement of concerned citizens emerged which successfully reversed the privatization and returned the water system to public control. The response from the people of Cochabamba to water privatization is indicative of the power of social movements when faced with policies that are inequitable and un-democratic. By reversing the privatization of water and demanding self-governance of local water systems, the citizens of Cochabamba challenged more than a specific policy outcome - they challenged a policy design that undermined their right to democratic participation and active citizenship regarding an issue that is essential to life and development. They also posed a challenge to the notion of economic efficiency as the

appropriate guiding principle in water policy-making, as concerns about efficiency often ignore issues of equity in water access.

La Coordinadora represented a new form of social movement organizing in Bolivia that was based on territorial concerns and resources rather than on union affiliation (Garcia Linera 2004). The battle over water privatization policy in Cochabamba opened up a larger discussion in Bolivia over control of natural resources and other public goods, state accountability for services, and issues of democracy and representation. Similar protests against water privatization in the Bolivian cities of El Alto and La Paz and the national “gas wars” over the question of foreign ownership of the country’s natural gas reserves point to a growing anti-privatization movement in Bolivia. In May 2006, recently elected president Evo Morales nationalized the nation’s oil and gas reserves in response to growing public disapproval of foreign ownership and/or control of natural resources.

With the cancellation of the contract with Aguas del Tunari, control of the Cochabamba water system reverted back to the local community and the municipal government. However, removing the private company from Cochabamba has not solved the problem of inadequate access to safe water in the city and surrounding neighborhoods. The new body charged with managing the water system has struggled with bad infrastructure and service demands that are difficult if not impossible to meet without major investment of resources. Such major investment from the public or private sectors of the international financial community is not likely to be forthcoming in the foreseeable future, nor does

Bolivia itself have the requisite financial resources. The public water utility in Cochabamba enjoys support from the population and is making progress toward sustainable and socially responsible management of water resources (Assies 2003). However, one analyst describes the victory of La Coordinadora as “an illusion,” citing the fact that many of the city’s poorest residents continue to get their water from dirty pools and from private vendors of questionable integrity (Laserna 2005).

Despite these criticisms, La Coordinadora clearly succeeded in drawing international attention to issues of water rights, the role of multinational corporations in developing countries, and the politics of privatization. This movement showed the Bolivian government, the World Bank, and the international community the potential consequences of shutting citizens out of policy decisions that impact the daily lives of people who are already living in a precarious condition of poverty and underdevelopment. The recent “gas wars” reveal an ongoing desire for a form of political participation in Bolivia that encompasses more than traditional electoral politics; the citizens of Bolivia are repeatedly demanding a voice in the management of the national patrimony. In this way, the battle over water in Cochabamba was a precursor to a continued struggle in Bolivia over who will own and obtain the benefits from natural resources, who will provide services that are essential to the survival and well-being of society, and most importantly, who has the right to decide these matters for the entire nation.

## **Endnotes**

1. See Moore and Sklar 1998 for data on the performance of World Bank-financed water projects.
2. Bechtel owns 50 percent of International Water; International Water owns 55 percent of Aguas del Tunari.
3. See <http://democracyctr.org/bechtel/waterbills/index.htm> for copies of actual water bills from Aguas del Tunari showing these increases.
4. See Assies (2003) for the history of La Coordinadora.
5. A junior partner of Aguas del Tunari, Abengoa of Spain, is still pursuing a case against Bolivia.
6. Cited in Schultz 2005a, from comments made by Wolfensohn to a Washington, DC news conference, April 12, 2000.
7. The company had asked state regulators for permission to raise monthly fees again. This request was rejected, but they did receive permission to increase the new connection fee for water and sewage to US\$450, a fee that was far too expensive for most citizens to pay (Braun 2005, Forero 2005).
8. See Bauer 2004 for a detailed history of this shift to defining water as an “economic good.”
9. Water policy in Chile has been the world’s leading example of the free-market approach to water management.
10. Bauer criticizes the World Bank’s unwavering support for water privatization as rooted in ideological justifications, not empirical evidence.

11. The World Water Forum is an annual meeting of lobby organizations such as the Global Water Partnership, the World Bank, multinational water corporations, and other representatives from the global water sector.
12. See for example: The Blue Planet Project of the Council of Canadians (<http://www.blueplanetproject.net/english/links/>), and Public Citizen's Water For All Campaign (<http://www.citizen.org/cmep/Water/>).
13. See Shiva 2002 for movements in India that resist both corporate and government control of water in favor of local, community-managed systems.

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