PUSHING PRIVATIZATION: WATER AND INEQUITY IN URBAN MEXICO

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A Thesis Submitted to The Honors College
In Partial Fulfillment of the Bachelor’s degree
With Honors in
IDS-International Studies

THE UNIVERSITY OF ARIZONA

May 2009

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ABSTRACT

This paper explores the internationally facilitated push for privatization as was experienced in urban Mexico. It places the privatization efforts within the greater Latin American context and analyzes the effectiveness of privatized water systems in ensuring safe, affordable, accessible, and equitable distribution. The paper argues that within urban Mexico, privatized potable water systems have contributed to widening inequalities along socioeconomic grounds.
INTRODUCTION

Water is essential to life. An individual denied access to water is likely to reach critical condition after day one and be dead before the fourth morning. Unclean water is at the root of epidemics such as cholera, dysentery, and typhoid: diseases that have proven to be fatal if left untreated.

Humanity is facing a global water crisis. International organizations such as the United Nations, the World Health Organization, the United Nations Children’s Fund, the World Water Commission and the World Water Council are in agreement:

Reports estimate that more than 1.2 billion people—one-fifth of the world’s population—currently suffer from unhealthy and inadequate supplies of water for drinking and other basic necessities. Nearly half the world’s population lacks safe sanitation. By 2025, nearly 9 billion people will be living on the planet and 2.3 billion people—more than one-quarter of the total population—will have inadequate access to water to meet basic needs. Furthermore, over half of the people in developing countries will lack access to adequate potable water (Ennis-McMillan 2006).

More than 5 million people a year die as a result of preventable waterborne diseases (Whiteford and Melville 2002). As the world’s population explodes, average per capita water usage increases, and the global climate warms, potable water scarcity is beginning to receive the attention it deserves as one of the most worrisome threats to national and international security.

Narrowing the scope, water issues are of particular importance to the Mexican state. Mexico suffers from an overall lack of available water. In 2001, President Vicente
Fox stated, “Water is a particularly sensitive issue. As the source of life, its availability conditions development in many areas of the country. Hence its management and conservation are matters of strategic national security” (Ennis-McMillan 2006). In 1991, the Federal Health Minister Jesús Kumate Rodríguez stated, “the main deficiency in the country’s development relates to potable water” (Castro 2006). Within the Mexican state, there are gross inequities in potable water availability and quality across the board. While the Mexican Constitution of 1917 guarantees water for all citizens, according to the Pan American Health Organization, 13 percent of Mexico’s population does not have easy access to domestic water service, which translates into approximately 13 million people (Ennis-McMillan 2006).

In many areas, programs have tended to restrict the installation of piped water systems in poor communities in favor of increasing water supply to wealthier urban neighborhoods, the industrial sector, and large-scale irrigation projects (Ennis-McMillan 2006).

These “easy access” figures do not even account for beyond access factors such as water quality and frequency of water availability, factors that also tend to disfavor low-income communities in Mexico.

Given that water is essential to life, the status quo, that’s leaving 13 million plus literally high and dry in Mexico, has prompted many academics and development agencies to study differing forms of water distribution and management and rate their effectiveness. As we exit the first decade of the twenty first century, more and more
municipalities within Latin America are turning to privatization as the solution to their potable water distribution woes. This next section will discuss what is commonly meant by “privatization”, why and from where the push to privatize surfaced, and the main arguments for and against privatizing public water systems.

PRIVATEIZATION

Many argue that water is fundamentally different from other utilities, such as electricity, in that it is essential for survival. Due to this fact, the water sector is the last of the major utilities to be widely privatized.

Private investment in water and sanitation is far below that in other infrastructure sectors, accounting for just 5 percent of global private investment in infrastructure in developing and transition economies during 1990-2001. Private flows for water supply and sanitation averaged $4.6 billion a year in 1999-2001, down from a decade high of $9.3 billion in 1997 (all measured in 2001 dollars). Latin America has the most private water and sanitation projects, while East Asia has the most investment (Kessides 2004).

The term “privatization” is currently applicable to a range of management strategies. Traditionally, “privatization” referred to the complete transfer of a publicly owned and managed system from public into private hands. Today, it is often more loosely referenced to describe a range of ways in which private interests participate in the public realm. When it comes to the water sector, “privatization”, or “private-sector participation”, generally takes one of seven forms: service contract, management
contract, lease, BOT (Build-Operate-Transfer) or BOO (Built-Operate-Own), concession, partial divestiture and full divestiture. Service contracts are granted to a private contractor in order to perform a specific service in exchange for payment, whereas management contracts allow private agencies to operate and maintain water distribution and infrastructure over the short term (typically 5 years). Leases (typically 10-20 years) grant private companies temporary rights to both water and infrastructure, which allows them to charge fees to users. In these instances, the public sector is still responsible for investment in improved infrastructure and protects private investors against financial risk.

BOT, or BOO, agreements are contracts for specific infrastructure development projects. Under such agreements, the private contractor is responsible for all investment and then either transfers (BOT) or retains (BOO) ownership over the infrastructure. In concessions (15-20 years), the private interest additionally assumes responsibility for new capital investments while retaining all profit. Partial and full divestitures describe instances where the governing body completely transfers part or all of the water system into private hands (J. E. Castro 2008). “Concessions are by far the most common type of project in the sector, accounting for more than 80 percent of investments in the 1990s” (Kessides 2004).

Internationally, there are three major private players in water sector management: Suez and Vivendi Universal of France and RWE-Thames Water of Germany. These
“Big-3”, just within the past decade, have expanded from servicing 53 million to now over 300 million people (Barlow and Clarke 2004).

Since France, in the middle of the 19th century under Emperor Napoleon III, was the first country to begin to privatize water, Suez and Vivendi Universal have a competitive advantage in that they pioneered the market.

Together, [Suez and Vivendi Universal] have monopoly control over 70 percent of the existing world water market. Suez operates in 130 countries and Vivendi in well over 90. While Vivendi is the larger of the two water giants, posting bigger annual sales than its rival mainly because of its diverse operations and large customer base in France, Suez serves far more people (approximately 110 million) around the world. Of the 20 water contracts awarded by big cities since the mid-1990s, 20 went to Suez (Barlow and Clarke 2002).

Countries across the globe did not simultaneously and independently conclude that privatization was the answer to their water distribution problems. Privatization is an essential element of the neoliberal economic agenda and beginning in the 1980s; there was a global effort, orchestrated by the international financial institutions (World Bank, International Monetary Fund, and Inter-American Development Bank), to utilize their power as loan and aid granting institutions in order to further a neoliberal agenda. Thus large-scale privatization projects arose, and continue to arise, as a result of conditionality clauses attached to loans. “Out of the 40 IMF loans disbursed through the International Finance Corporation in 2000, 12 had requirements for partial or full privatization of water
supply and insisted on policy creation to stimulate “full cost recovery” and eliminate subsidies” (Shiva 2002).

Bennett argues that this global trend toward economic liberalization has resulted in

Policy increasingly formulated and regulated transnationally while the responsibility for water management is transferred to the water users. This has three effects: (a) market mechanisms and trade dominate policy frameworks, (b) global policies are implemented without regard to local differences in a “cookie cutter” fashion, and (c) the responsibility for resource management is taken from the state (the public domain) and handed to individual stakeholders (the private sector)” (Bennett 1995).

Proponents of privatization ground their argument in the failure of the public sector to universally provide safe, affordable, and accessible drinking water. The principle reason cited for such failure is a lack of ability to invest. In short, effective water systems are expensive and many developing countries do not have the capital required to restructure entire systems. The neoliberal agenda argues that private contractors could take the burden off of public governing bodies by providing the capital for infrastructure improvements and expansion themselves. While this assertion may make theoretical sense, it hasn’t been evidenced in practice (J. E. Castro 2008). Even the World Bank now admits, “A detailed assessment in Latin America, for example, shows that private investment (at 1998 levels) is sufficient to cover only 5 percent of water and sanitation…needs. Worldwide, only about 5 percent of water services are currently
provided through the private sector” (The World Bank 2004). Barlow and Clarke argue that after the private sector fails to produce the needed capital, governments and public institutions typically pick-up the tab to finance privatization efforts. Public “financial support includes “cash contributions during the construction period; subsidies during the operating period, e.g. in the form of non-refundable grants; and a favorable tax regime – including tax holidays, refunding of tax on construction and operating costs.” In order to minimize the risk transferred to the public sector…public authorities are expected to provide financial guarantees” (Barlow and Clarke 2002).

Secondly, privatization fans assert that private companies have greater incentive than public institutions to expand coverage. The foundation for this assumption is the notion that each individual has consumer value, thus expanding coverage to more consumers allows for the expansion of profits (Segerfeldt 2005). Again, while this may appear logical in theory, it hasn’t been evidenced in practice. The fact is that poor people are often not profitable. Private contractors’ ability to abuse their natural monopolies and skyrocket rates has, in many instances, made water services extremely unaffordable for low-income individuals. Low-income people are likely to default on payments, in which case, expanding coverage poses a greater risk for private contractors. Privatization of water systems has amplified socioeconomic inequalities, not minimized them.

Lastly, hand-in-hand with privatization is the commodification of water. Water has been redefined not as a right, but as a good that is traded according to the laws of
supply and demand. Commodification is a process that “transforms collective water users into individual market players and creates a negotiating arena unhindered by notions of community or social equity” (Bennett 1995).

The following case studies will provide evidence to support the above claims regarding the privatization of the water sector.

**THE LATIN AMERICAN CONTEXT**

The push to privatize potable water systems has not only been felt within Mexico, but has been experienced regionally since the 1980s, despite the region’s traditional practice of retaining social control over water (Lee 1990). Chile was the first to ride the wave when it privatized its water service at the national level in 1981. Since then, the example set by Chile, accompanied by the inclusion of conditionally clauses that demand privatization in loans granted by the World Bank, Inter-American Development Bank, and International Monetary Fund, have encouraged other Latin American countries to follow suit. The most thoroughly reviewed cases, likely due to large-scale public responses in all instances, are Bolivia and Uruguay. This section will discuss these cases in depth and highlight their commonalities. Such commonalities help to provide a regional context in order to place the Mexican case.
Bolivia

“Ours is a small country and it hardly owns anything any more. Our mines were privatized, the electrification company was privatized, and the airlines, the telecommunications, the railways, our oil and gas. The things we still own are the water and the air, and we have struggled to make sure that the water continues to be ours.”

- Oscar Olivera

Cochabamba, Bolivia’s third largest city, is located just southeast of the nation’s capital, and is home to over 600,000 residents. Over the past decade, Cochabamba has gained international acclaim for its dramatic and precedent setting response to the privatization of SEMAPA (Servicio Municipal de Agua Potable y Alcantarillado), the state-owned water company that serviced the city.

In September 1999, the Bolivian government under President Hugo Banzer Suaréz (1971-1978, 1997-2001) signed a $2.5 billion, 40-year contract to hand water previously controlled by the public SEMAPA over to Aguas del Tunari, a consortium led by the London-based International Water Limited, San Francisco-based Betchel Corporation, and Spanish Abengoa Corporation (Public Citizen n.d.). It wasn’t until October of 1999, however, that the Bolivian parliament passed the Drinking Water and Sanitation Law (Law 2029) that legalized the privatization of state-owned drinking water and sanitation services (Frontline World n.d.).

Two local organizations, Federación Departamental de Regantes de Cochabamba (FEDECOR) and the Cochabamba College of Engineers, were among the first to oppose
the contract. “FEDECOR President Omar Fernández asserted that the price for irrigation water would rise to US$0.08 per m³ and that this would drive between 15,000 and 20,000 farmers into bankruptcy,” a price prediction that did come to fruition (Assies 2003). Residents of Cochabamba began to organize when rate hikes exceeded the 35% cap promised by the consortium to the Bolivian government, a hike that was deemed necessary to upgrade the city’s infrastructure and expand service coverage. As rates doubled and tripled, Cochabamba’s residents staged a four-day strike in January 2000. Under the leadership of Oscar Olivera, the Coordinadora en Defensa del Agua y la Vida (La Coordinadora), or Coalition for the Defense of Water and Life, was formed, and February 4 and 5 of 2000, were marked by large-scale, peaceful demonstrations and marches that were met by police forces and tear gas (Frontline World n.d.). La Coordinadora united “major sectors of the population: professional societies, neighborhood associations, enterprises, manufacturing unions, regantes, cocoa leaf producers, and peasants” (Fuente 2003).

La Coordinadora gained steam in the spring of 2000 as protests spread throughout the country, an unofficial referendum proved that 96 percent of voters disapproved of SEMAPA’s privatization, and as executive director of Cochabamba based-The Democracy Center, Jim Shultz, earned the attention of the western press (Frontline World n.d.).
The protests of April 8 and 9, 2000 are infamous for escalating violence after President Banzer declared a “state of siege”. The death of 17-year old Victor Hugo Daza, who was shot by a Bolivian Army captain, gained the attention of the press. Five lives were claimed in the conflict (Assies 2003). On April 10, La Coordinadora emerged from the conflict victorious as Olivera signed an agreement with the Bolivian government to repeal privatization legislation and give control over the local water system to a temporary board consisting of two representatives from the municipality and four independents linked to La Coordinadora (Frontline World n.d.).

**Uruguay**

“El agua es un recurso natural esencial para la vida. El acceso al agua potable y el acceso al saneamiento, constituyen derechos humanos fundamentales.” – “Water is a natural resource that is essential for life. Access to potable water and access to sanitation are fundamental human rights.”

- Constitution of Uruguay

On October 31, 2004, the Uruguayan people made history when they voted by a margin of over 62% to protect water as a public good by declaring that “water is a natural resource essential to life” and that access to sanitation services is a “fundamental human right” (Mollo, et al. 2005) The Comisión Nacional en Defensa del Agua y de la Vida (CNDAV), or National Commission for the Defense of Water and Life, a coalition that united community-based organizations with the trade union that represented employees
of Obras Sanitarias del Estado (OSE), the state-owned water and sewage company, promoted the referendum that was entitled “Constitutional Water Reform in Defense of Water” (Pierri 2005). The widespread public support for the reform was fueled in part by the public’s dissatisfaction with the privatized water systems run by the Spanish companies Uraguá and Aguas de la Costa that had contracts to operate in the southeastern department of Maldonado.

“Aguas de la Costa belongs to the Spanish Aguas de Barcelona, which is in turn an affiliate of Suez-Lyonnaisse des Eaux. Since the firm began to operate in the department of Maldonado in 1992, rates have climbed to seven times the cost of water services in the rest of the country. Uraguá, which is owned by the Spanish firms Cartera Uno, Ibredola and Aguas de Bilbao, supplies piped water to Punta del Este and Piriápolis – the country’s two leading resort towns – as well as the city of Maldonado in southeastern Uruguay. In January 2002, at the peak of the tourist season in the southern hemisphere summer, OSE recommended that the people of Maldonado boil the water distributed by that Spanish firm before drinking it, as fecal e-coli bacteria had been detected in the water” (Pierri 2005).

By restricting private control over water in a constitutional document, the Uruguayan case has taken public control over local water systems to a new level, setting a precedent not only for the rest of Latin America, but for the rest of the world.

**Regional Analysis**

“Latin American countries implemented privatization programmes between 1985 and 2000 – Chile as early as 1974 – because they shared an almost identical international environment and very similar domestic macro-economic constraints” (Weizsacker, Young and Finger 2005).
It is apparent that the move toward the privatization of public services was rooted in the Latin American debt crisis of the 1980s. The extreme amounts of external debt incurred by countries like Bolivia and Uruguay incentivized privatization since it was assumed that services, such as water distribution, could be provided to the public at little to no cost to the federal or local government once privatized. This was viewed as an opportunity to cut costs and recover a balanced budget.

Additionally, the move to privatize state-owned enterprises reflected the agenda of the neoliberal ‘Washington Consensus’. Beginning in December of 1987, the International Monetary fund attached the Enhanced Structural Adjustment Facility (ESAF), or a set of structural, market-based reforms, to its new program designed to alleviate a portion of the enormous external debt held by “heavily indebted poor countries” (HIPC’s) (International Monetary Fund 2004).

In Bolivia, structural reform is said to have begun in 1985, when “President Victor Pas Estensorro declared a famous edict known as 21060. This established profound changes in the national economy…The economic objective was to put a stop to inflation – which it did – but at the same time 21060 was also a political decree to destroy the unions and privatize state-owned companies” (Olivera 2001).

The International Monetary Fund stated that this approach was “in line with the medium-term strategy” and encouraged Bolivia to press onward. According to the IMF, although rates of economic growth through the mid-1990s had been “less than satisfactory for substantial progress in reducing poverty, a pickup in foreign direct
investment in 1996 suggest[ed] that structural reforms will begin to bear fruit and that Bolivia is on the road to higher sustained growth” (International Monetary Fund 1997).

Given that Bolivia was continuing to adopt the policies required to receive concessional financing through the Enhanced Structural Adjustment Facility, the IMF approved its third annual loan for Bolivia on September 10, 1997 for an amount of US$46 million (International Monetary Fund 1997). This loan came at a price. On August 25, 1998, the International Monetary Fund, in collaboration with Bolivian authorities and the World Bank, released the “Enhanced Structural Adjustment Facility Policy Framework Paper, 1998-2001.” The paper outlined a three-year plan to accelerate the medium-term structural adjustment practices that had begun under President Estensorro in 1985. The paper highlighted many scheduled public sector reforms, ranging from tax administration to judicial reform, but the sentence that was met with the most opposition stated that “the government intends to privatize all remaining public enterprises,” and most important to the people of Cochabamba, the paper announced “the government plans to sell…a water company (SEMAPA) by December 1998” (International Monetary Fund 1998). This policy was outlined in April of 1998 and by September of 1999 a contract with Aguas del Tunari had been signed.

Following in the footsteps of Bolivia, the government of Uruguay, under the leadership of Jorge Luis Batlle Ibáñez (2000-2005), directed a “Letter of Intent, Memorandum of Economic Policies, and Technical Memorandum of Understanding” to
the managing director of the International Monetary Fund, Horst Kohler, on June 18, 2002. The letter, which requested “an augmentation of its Stand-By Arrangement in an amount equal to SDR 1158.2 million,” also stated that the government of Uruguay intended, over the next 18 months, to seek “extra World Bank and Inter American Development Bank Assistance for about US $1.1 billion” (International Monetary Fund 2002). In order to prove that Uruguay was deserving of increased financial support, the rest of the document outlined both the structural adjustment measures that had already occurred and those that were to take place. In a section entitled “water and sewage,” the proposal stated,


Given that this letter of intent surfaced in the wake of the Bolivian demonstrations, the statement was met with immediate resistance.

In both of these cases, it is clear that the substantial external debts owed by Bolivia and Uruguay made them vulnerable to the whims of the International Monetary Fund and the World Bank, as the countries were dependent upon the continuation of the large developmental loans and debt relief assistance provided by these two institutions. Since privatization and a balanced budget had been outlined as preconditions for
concessional financing, it was entirely predictable that administrations within Bolivia and Uruguay would give the go-ahead to privatize public water systems.

While the International Monetary Fund and the World Bank touted neoliberal reforms as the be-all, end-all during the 1990s, these cases highlighted some definite downsides to privatizing public enterprises; downsides that historically have fallen heavily on members of the poor and working classes.

To compare a privatized enterprise to a publicly managed service, private corporations must operate at a profit, whereas public entities operate at zero and even negative rates of return. Imbedded within this is the fact that when a water service becomes privatized, rates are going to increase. In the Bolivian case, the Bolivian government guaranteed a 16 percent rate of return on capital to Aguas del Tunari, which was contracted to be achieved through a 35 percent rate hike (Nickson and Vargas 2002). Oscar Olivera advised that the notion that water price hikes should not be managed by public subsidies “was the perspective of people living Washington, for whom a $30 increase in the price of water is nothing. But for many Bolivian families who earn as little as $100 per month, the resulting increases were catastrophic” (Olivera 2001). Skyrocketing costs drove many individuals to take action.

Secondly, privatized services that are protected by contract and are not appropriately regulated are subject to the problem of moral hazard, where private corporations act opportunistically at the expense of the population (Nickson and Vargas
2002). In the Bolivian case, Aguas de Tunari was given exclusive rights to water distribution within the Cochabamba area for a 40-year period and was not properly regulated. The corporation had little incentive to expand coverage as necessary or to take measures essential to protect the population from health risks due to an unclean water source. This hazard was also exemplified in Maldonado, Uruguay when it became necessary to boil the publicly distributed water in January of 2002 (Pierri 2005).

The people of Bolivia and Uruguay did not appreciate the excessive financial and social costs they carried due to privatization, which resulted in large-scale protest.

Campaigns in both Bolivia and Uruguay were successful because they were able to build broad coalitions of political support against privatization. In the Bolivian case, La Coordinadora united “peasants, environmental groups, teachers, and blue- and white-collar workers in the manufacturing sector” (Olivera and Lewis 2004). Specific coalition members included union leaders in the Fabriles (Cochabamba Federation of Factory Workers) and Pueblo en Marcha, or People on the Move (Olivera and Lewis 2004). In Uruguay, CNDAV united trade unions, human rights groups, and environmental organizations. Working in coalition, these organizations were able to reach the critical mass necessary to gain international attention and generate a powerful push from below.

These two cases demonstrate that you can’t divorce an event from its context, as the move to privatize water systems in both Bolivia and Uruguay was influenced heavily by the debt crisis of the 1980s and the structural reforms attached to International
Monetary Fund and World Bank concessional financing and loan forgiveness packages of the 1990s. Secondly, it is important to acknowledge that the financial and social costs associated with privatizing water can be so great as to move a population to protest, as was the case in both of these instances. And lastly, in both cases, the strong and diverse base of political support that they both enjoyed is indicative of the vast popular opposition to the privatization measures.

THE MEXICAN CASE

Neo-liberal reforms began to infiltrate the Mexican state during the De La Madrid presidency (1982-1988) and were advanced prior to the introduction of the North American Free Trade Agreement (NAFTA) by the Salinas administration (1988-1994) in 1994 (Bennett 1995). This policy shift was demonstrated when the 1992 Ley de Aguas Nacionales, or National Water Law, amended in 2004, declared that “it is in the public interest to promote and encourage private participation in the financing, construction and operation of federal water infrastructure, as well as in the provision of services” and empowered the Comisión Nacional de Agua (CNA), or National Water Commission, to enter into agreements with the private sector” (United Nations 1998). The shift was fully manifested in 1995 when the Fondo de Inversión de Infraestructura (FINFRA), or Fund for Infrastructure Investments, was established in order to encourage private sector participation in infrastructure projects. The fund is coordinated by the Banco Nacional de
Obras y Servicios Públicos (BANOBRAŚ), or National Bank of Public Works and Services, and a technical committee comprised of representatives from the Secretaría de Hacienda y Crédito Público (SHCP), or Secretary of Property and Public Credit, the Secretaría de Comunicaciones y Transportes (SCT), or Secretary of Communication and Transportation, the Comisión Nacional de Agua (CNA) and the Secretaría de Contraloría y Desarrollo Administrativo (SECODAM), or Secretary of Control and Administrative Development, has the authority to approve investments (United Nations 1998).

In 2001, Mexican President Vicente Fox created the Program for the Modernization of Water Management Companies (PROMAGUA) to advance privatization and coordinate the restructuring of Mexico’s water systems.

“PROMAGUA…facilitates the corporate takeover of public water utilities by authorizing contracts or concessions—valid for periods ranging from five to 50 years—between local governments and private water companies” (Barlow and Clarke 2004). PROMAGUA has facilitated the “signing of agreements with 28 of Mexico’s 20 states, including 687 municipalities encompassing 70% of the country’s urban population” (Barlow and Clarke 2004).

Within the last decade, 20% of Mexico’s water system has been privatized. The major private players in Mexico are Suez and Vivendi Universal of France, the British United Utilities, and Aguas de Barcelona of Spain (Barlow and Clarke 2004). Azurix, a subsidiary of the U.S.-based Enron, Ondeo, a subsidiary of the French Suez Corporation,
and Aguas de Barcelona, a Spanish corporation, are all transnational corporations that have taken a slice of the Mexican water distribution system, none of which have received raving reviews for their services (Marrero 2005). The following case studies, Monterrey and Mexico City, examine the privatization of water systems within urban Mexico.

**Monterrey**

“Article 27 of the Mexican Constitution and the National Water Law of 1992 establish that all surface and groundwater found on Mexican territory, as well as all coastal waters within the limits defined by international law, are property of the nation” (Whiteford and Melville 2002), yet the Mexican nation has chosen to poorly manage Monterrey’s water supply. “Until path-breaking hydraulic infrastructure came on line in 1984, one-quarter of the city’s population (the poor) did not have running water in their homes” (Whiteford and Melville 2002). So what went wrong?

In 1909, the state of Nuevo León contracted Monterrey’s water system to a private firm, Mackenzie, Mann, and Co. of Toronto, Canada. While the firm was contracted to build and operate the water service until 2008, it was stopped short in 1945 when the state government decided to take back the reigns. Mackenzie was operating under a strict contract to expand coverage as the city grew, but often violated the contract and only expanded coverage to areas that it believed to be profitable. The poor and the marginalized were out of luck. As Bennett states, “despite signing a contract intended to
protect the public interest (extension of the water system to match population growth), a private firm does not necessarily have the public interest as its objective” (Whiteford and Melville 2002).

Unfortunately for Monterrey, public control of the water did not appear to be any more just than private management. The government set up a Potable Water Commission comprised of

…five government representatives (one each from the Nuevo León state government, the Monterrey city administration, the Banco Nacional Hipotecario Urbano y de Obras Públicas [Bank of Public Works], the Ministry of Hydraulic Resources [SRH], and the Ministry of Health and Welfare [SSA]); three representatives from Monterrey’s private sector (one each from the Monterrey Chamber of Commerce, the Monterrey Chamber of Industry, the Monterrey Chamber of Real Estate); and one representative of the city’s residents (a token position, given that this board member was appointed directly by the state governor) (Whiteford and Melville 2002).

All of the board members representing the private sector came from the Grupo Monterrey, a group of the city’s eight elite families that dominated local business and politics. When the government officials failed to attend board meetings, the elite interests took over. When the priorities designated by the board, a.k.a. Grupo Monterrey, failed to see eye-to-eye with the priorities of the Ministry of Hydraulic Resources, which had to approve all potential projects, “no major infrastructure projects were built to provide water to the city of Monterrey” for over twenty years (Whiteford and Melville 2002).

Due to the continuous disagreements between the Commission’s private sector-dominated board of directors and the Ministry of Hydraulic Resources, there was
only meager investment in water services from 1961 to 1969. From 1970 to 1976, whatever investment was available for water services favored the western sector of the city, where members of the Grupo Monterrey both lived and sought to develop high-income residential enclaves (Whiteford and Melville 2002).

In 1977, President José López Portillo took the Potable Water Commission back into government hands by restructuring the board. Beginning in 1980, the government initiated two immense hydraulic infrastructure projects including the Cerro Prieto dam. However, “because the distribution network had been neglected in previous decades, a significant number of neighborhoods had no piped water service at all. All the dams in the world would be useless to those residents (an estimated 300,000 people)” (Whiteford and Melville 2002).

Since that point, Monterrey has made significant improvements to its system with President Miguel de la Madrid’s “Water for All” program and the El Cuchillo dam, but the systems for public water distribution are still far from perfect, and the federal government does not deserve all of the credit.

The impetus for Water For All did not come from the federal government’s concern for the welfare of Monterrey’s population, nor did it emerge from a desire to learn more about recoverability of costs. Rather, Water for All (announced in 1984) was a response to years of street protests by low-income women in Monterrey, protests that peaked in the summers of 1982 and 1983 (Whiteford and Melville 2002).

It took a group of low-income women employing tactics such as road blocking, kidnapping of water-service vehicles and personnel, and large scale protests over eleven
years to create change (Bennett 1995). Through her analysis Bennett concludes, “The study of Monterrey indicates that water services—whether publicly or privately owned, or publicly or privately managed—need to be systematically regulated by the government” (Whiteford and Melville 2002).

While privatization proved disastrous for Monterrey, it didn’t stop international development agencies and the central Mexican government from pushing a privatized agenda later in the 20th century.

**Mexico City**

Mexico City is the world’s second largest metropolitan area, home to over 18 million people. Ever expanding borders and severe urban poverty have challenged the functionality of a water distribution system. In 1993, the Comisión de Agua del Distrito Federal (CADF), or Federal District Water Commission, which was created under the Federal District Privatization Decree of July 1992, divided the Capitol into four quadrants and assigned a private contractor to each zone. Each contract exists in three phases and holds the contractor only liable for the operations and commercial aspects of distribution, not for production, control over policies, or ownership of infrastructure (United Nations 1998). “Suez and Vivendi each took control of one quadrant, while the U.K. -based companies United Utilities and Severn Trent captured the remaining two” (Barlow and Clarke 2004). Since a different company managed each quadrant, residents in the four
quadrants paid differing and inequitable rates, until the Democratic Revolutionary Party mandated a uniform rate.

Residents of Mexico City have burdened their share of rate increases. “In 2001, for example, Vivendi increased its Mexico City rates by 60%, which led to payment defaults and, consequently, services cutoffs mainly effecting poor residents in that quadrant” (Barlow and Clarke 2004). Lack of investments in infrastructure maintenance in improvements has also led to gaps in coverage and the transference of debts to the municipal government.

CONCLUSIONS

In Latin America, the push to privatize was not internal. Mammoth foreign debt and underdevelopment held many Latin American countries at the whims of international development agencies, such as the International Monetary Fund, the World Bank, and the Inter-American Development Bank. Such institutions, through conditional financing and loan forgiveness, forced a neoliberal economic agenda, including privatization, upon Latin America.

As all of the above cases illustrate, the principal arguments in favor of privatization are grounded in theory, not reality. Private water giants have been unable to generate the capital required to maintain, improve, and expand water infrastructure. Instead, the financial burden is either passed off to the public governing body or onto the
consumer in the form of egregious rate hikes. Secondly, private corporations do not have the incentive to expand coverage to serve low income populations as such actions often operate at a net loss, not a profit gain. And lastly, the continued commodification of water is dangerous. As water is no longer considered a basic human right essential for life, but rather a good offered according to the laws of supply and demand, low-income people are the first to suffer and inequality gaps are widened.
Works Cited


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