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The Politics of Privatisation
Policies at Local Level in Mexico:
The Case of the Water Utilities in
Aguascalientes

by

Jorge Leal Kirchbach

A thesis submitted in fulfillment of the
requirements for the degree of

Doctor of Philosophy

Department of Government

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Abstract

This thesis assesses the extent and relevance of the prevailing debate over the use of privatization schemes at a local level in Mexico, after decades of highly centralised and rigid political and economic decision-making. The aim is to examine the privatization debate by analysing events following the modifications made to Article 115 of the Mexican constitution in 1983, which marked the inception of a new set of policies regarding the provision of public utilities at the local level. The theory of privatisation, as promoted by the Mexican Government, was for the first time on the political agenda, and debate spread rapidly. However, because research into privatisation has hitherto focused largely on economic explanations, this thesis will instead attempt to analyse the politics of the privatisation programme at a local level. Basically, it looks to explain and demonstrate that economic policies are subject to political scrutiny and demands.

The process of moving the control of traditionally government services from federal to state and thus to local level seems to be an ongoing trend focused upon encouraging improved governance capabilities and increased social wealth. Far from achieving this, though, it has instead generated great controversy in the political arena concerning the implementation of public policies. Increasing concern regarding the size of governments in the Mexican municipalities, and thus their ability to cope with the provision of public utilities, has prompted these authorities to pursue their objectives by means of privatisation programmes. Of such programmes, the vast majority have taken the form of concession schemes, and it is one such scheme, concerning water utilities in the city of Aguascalientes, that represents both the most controversial and, consequently, forms our case study.

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London, England (Summer, 1999).

Contents

	Page
Abstract.....	ii
Acknowledgments.....	iii
Contents.....	vi
List of Tables and Figures.....	ix
Acronyms and Abbreviations.....	xii
Preface.....	xxi
Chapter One	
Introduction.	
The Rise of the Technocratic Era: Promoting Privatisation Schemes in Mexico.....	1
1.1 Thesis Hypothesis, 1	
1.2 Privatisation: A Political Tool, 5	
1.3 Privatisation Policies at a Local Level in Mexico: A Promise or Threat,18	
Chapter Two	
Reinventing Ways to Provide Public Utilities at a Local Level Under Technocratic and Centralised Observance in Mexico: The Background to the Privatisation Programme.....	23
2.1 The Role of Technocratic Policies Under Central Observance at the Local Level in Mexico, 24	
2.2 Local Governments and Public Utilities in Mexico: The Legal and Administrative Structure, 41	
2.3 The First Responsibility of Local Governments: The Provision of Public Utilities, 50	
2.4 The Role of the Private and Public Sectors in the Provision of Public Utilities in Mexico, 59	
2.5 Local Governments and Privatisation Policies: The Empirical Evidence, 72	
Concluding Note, 80	

Chapter Three

Politics, Policies, Elections and Water: The Context in the Municipality of Aguascalientes.....83

3.1 Demographic and Economic Perspectives: The Background in Aguascalientes, 84

3.2 The Role of Politics and Policies in Aguascalientes, 94

3.3 Elections in Aguascalientes: The Fall of the PRI Hegemony and the Rise of the PAN Dominance, 111

3.4 The Water Structure in Mexico: The Background in Aguascalientes, 116

Concluding Note, 125

Chapter Four

The Path Towards the First Concession Scheme for the Water Utilities in Mexico: The Beginnings in Aguascalientes (1989-1993).....128

4.1 The Steps Towards the First Concession Scheme for the Water Utilities in Mexico: The Background in Aguascalientes (1989-1992), 129

4.2 Fighting for the Paternity of the Concession Scheme: The 1992 Elections, 139

4.3 The First Stage of the Approval of the Concession for the Water Utilities: '93, the Year of a Final Resolution, 148

4.4 The Concession Scheme: A Free Road to Implementation, 158

Concluding Note, 169

Chapter Five

The First Water Utilities Concession in Mexico: From Theory to Practice (1993-1995).....172

5.1 The Context of the Water Concession: As a Private Entity, 173

5.2 The Background to the Programme, 183

5.3 The Evolution of the Concession Programme, 190

5.4 1995: The Water Utilities as an Electoral Issue, 201

Concluding Note, 211

Chapter Six

The New Political Hegemony in the Municipality of Aguascalientes: An Evaluation of the Affects upon the Water Concession (1996).....213

6.1 The Arrival of the Panista Government in the Municipality of Aguascalientes: Electoral Promises, Governance Contradictions, 214

6.2 The Rescue Initiative for the Concession Scheme: A Populist Initiative?, 222

6.3 The Rise of the Concession Scheme: A New Concession Title, 237

6.4 The Dominance of the PAN in the State: Recalling Previous PRI Practices, 248

Concluding Note, 257

Chapter Seven

The Effects of Political Change on the Future of the Water Concession: The Dominance of the PAN in Aguascalientes Setting the Scene (1997-1998).....259

7.1 1997: New Concession Title, New Collateral Effects and One Winner: The PAN, 260

7.2 The Political Rise of the PAN in the State: Reducing the Influence of Opposition Parties Among the Electorate, 272

7.3 1998: The Effects of the Concession Scheme Favouring the Rise of the PAN in the State, 281

7.4 The Fall of the PRI and the Rise of the PAN in the State and the City Capital: Transferring Unfulfilled Responsibilities to the Newly- Elected Governments, 295

Concluding Note, 302

Chapter Eight

Conclusions.

Local Governments, Privatisation Policies and Water Utilities in Mexico: Is this the Responsibility of the State or the Private Sector?.....306

8.1 The Water Concession PRI-style: A Menace to the Public Interest?, 308

8.2 The Water Concession, PAN-style: Reproducing Earlier Practices, 315

Appendix1: A Note on Primary Sources and Methodology.....325

Bibliography.....339

List of Tables and Figures

Page

Tables

1.1	Number of Public Enterprises in Mexico (1920-1982).....	14
1.2	Evolution of the Privatisation Programme in Mexico (1982-1988)....	15
1.3	Evolution of the Privatisation Programme in Mexico (1988-1994)....	17
2.1	Political Affiliation of the Mexican Municipalities (1999).....	38
2.2	Categories of the Mexican Municipalities (1995).....	49
2.3	Private Participation for the Provision of Public Utilities.....	56
2.4	Type of Public Service Delivery of the Mexican Municipalities (1997).....	60
2.5	Private and Public Participation in the Delivery of Public Services at Local Level in Mexico (1997).....	63
2.6	Techniques Used in Practice by Public and Private Means at Local Government Level in Mexico (1997).....	67
3.1	Demographic Variables of the State and Municipality of Aguascalientes (1995).....	85
3.2	Economic Variables for the State of Aguascalientes (1995).....	90

3.3	Economic Variables of the Municipality of Aguascalientes (1990-1995).....	93
3.4	Presidential Elections, Percentage of Votes for the PRI and the Opposition, Level of Abstention and Electoral Nominal Roll in Aguascalientes (1964-1994)	111
3.5	Elections for State Governor in Aguascalientes. Votes Obtained by the PRI, Votes Obtained by the Opposition, Electoral Nominal Roll and Level of Abstention (1962-1998).....	112
3.6	Elections for Mayor, Votes Obtained by the PRI, PAN (1998) and the Opposition and Level of Abstention in the Municipality of Aguascalientes (1974-1998).....	114
3.7	Water Infrastructure and Use in Aguascalientes (1998).....	122
4.1	The Path Towards the Concession Scheme for the Water Utilities in the Municipality of Aguascalientes (1980-1993).....	138
4.2	Evolution of the Concession Scheme for the Provision of the Water Utilities in the Municipality of Aguascalientes (1993).....	168
5.1	Legal Framework for the Water Utilities Concession in the Municipality of Aguascalientes (1993).....	176
6.1	Independent Citizens, Political, Social and Civil Groups Supporting the Municipality of Aguascalientes Rescue Initiative (1996).....	232
6.2	Social, Political and Civil Organisations Against the Municipality of Aguascalientes Resolution for the Rescue Initiative (1996).....	236

6.3	Evolution of the Concession Scheme for the Water Utilities in the Municipality of Aguascalientes (1996).....	256
7.1	Conditions of the Water Utilities in the Municipality of Aguascalientes (1997).....	264

Figures

2.1	The Legal and Administrative Structure of the Mexican Municipalities (1999).....	44
3.1	Political Representation in the State of Aguascalientes (1999).....	107
3.2	Water Administration in Mexico (1999).....	117
3.3	Water Management in the State and Municipality of Aguascalientes (1999).....	120
5.1	Water Rights Hierarchy for the Concession Scheme in the Municipality of Aguascalientes (1993-1999).....	175

Acronyms and Abbreviations

A.A.	Asociación de Abarroteros / Grocer's Association.
AEACP	Asociación Estatal de Abarroteros y Comerciantes en Pequeño / Small State Grocers and Merchants Association.
APAZU	Agua Potable, Alcantarillado y Saneamiento para Zonas Urbanas / Drinking Water, Sewer and Reparation for Urban Zones.
APDC	Alianza Popular Para La Defensa Ciudadana / Popular Alliance for The Citizen's Defense.
AMJE	Asociación de Mujeres Jefa de Empresa / Businesswoman's Association.
AMMAC	Asociación Mexicana de Municipios / Mexican Municipalities Association.
APDC	Alianza para la Defensa Ciudadana / Alliance for the Citizen's Defence.
BANOBRAS	Banco Nacional de Obras y Servicios / National Bank for Utilities and Public Works.
CAASA	Comisión de Aguas de Aguascalientes Sociedad Anónima / Limited Company for the Water Commission in Aguascalientes.

CANACINTRA	Cámara Nacional de la Industria de la Transformación / National Chamber of the Manufacturing Industry.
CANACO	Cámara Nacional de Comercio / National Chamber of Commerce.
CANAIVE	Cámara Nacional de la Industria del Vestido / National Chamber of the Textile Industry.
CAPA	Comisión de Agua Potable y Alcantarillado de la Ciudad de Aguascalientes / Potable Water and Wastewater Commission for the City of Aguascalientes.
CAPAMA	Comisión de Agua Potable y Alcantarillado del Municipio de Aguascalientes / Potable Water and Wastewater Commission for the Aguascalientes Municipality.
CCAPAMA	Comisión Ciudadana de Agua Potable y Alcantarillado del Municipio de Aguascalientes / Citizen's Commission for the Potable Water and Wastewater of the Aguascalientes Municipality.
CCE	Centro Coordinador Empresarial / Entrepreneurial Coordination Centre.
CDE	Comité Directivo Estatal / State Executive Committee.

CEA	Centro Empresarial Aguascalientes / Aguascalientes Managerial Centre.
CEDEMUN	Centro Nacional de Desarrollo Municipal / National Centre for Municipal Development.
CEN	Comité Ejecutivo Nacional/ National Executive Committee.
CESMA	Centro de Estudios Sociales del Municipio de Aguascalientes / Social Studies Centre of the Municipality of Aguascalientes.
CETES	Certificados de la Tesorería / Treasury Bonds.
COLMEX	Colegio de México / College of Mexico
CFE	Comisión Federal de Electricidad / Federal Commission of Electricity.
CIDE	Centro de Investigación y Docencia Económica / Centre for Economic Teaching and Research.
CNA	Comisión Nacional del Agua / National Water Commission.
CNC	Confederación Nacional Campesina / National Peasant Confederation.
CNIC	Cámara Nacional de la Industria de la Construcción / National Chamber of the Construction Industry.

CONAPO	Consejo Nacional de Población / National Population Council.
COPARMEX	Consejo Obrero Patronal de la República Mexicana / Labour Employee Council of the Mexican Republic.
CROC	Confederación Revolucionaria de Obreros y Campesinos / Revolutionary Confederation of Peasants and Labourers
CTM	Confederación de Trabajadores de México / National Confederation of Workers.
DOF	Diario Oficial de la Federación / National Official Newspaper
EZLN	Ejército Zapatista de Liberación Nacional / Zapatista Front for National Liberation.
EAP	Economically Active Population.
EVM	Ejecutivos de Ventas y Mercadotecnia / Marketing and Sales Executives.
FEAP	Frente Estatal de Acción Popular / State Front for Popular Action.
FEOI	Frente Estatal de Organizaciones Independientes / State Front of Independent Organizations.
FICORCA	Fideicomiso para la Cobertura de Riesgos Cambiarios / Trust for Foreign Exchange Protection.

FOBAPROA	Fondo Bancario de Protección al Ahorro / Deposit Guarantee Fund.
FOCA	Frente de Organizaciones Cívicas por el Agua / Civic Organization's Front for Water.
FOCI	Frente de Organizaciones de Comerciantes Independientes / Organization's Front of Independent Merchants.
FTA	Federación de Trabajadores de Aguascalientes / Labour Federation of Aguascalientes.
GATT	General Agreement on Tariffs and Trade.
GDP	Gross Domestic Product.
GIP	Gross Internal Product.
GUTSA	Gutiérrez Sociedad Anónima / Gutierrez Limited Company.
ICA Group	Ingenieros Civiles Asociados / Civil Engineers Association.
ICA	Instituto Cultural Aguascalientes / Cultural Institute of Aguascalientes.
IDB	Interamerican Development Bank.
IFE	Instituto Federal Electoral / Federal Electoral Institute.

IMEF	Instituto Mexicano de Ejecutivos de Finanzas / Mexican Institute of Finance Executives.
IMF	International Monetary Fund.
INAP	Instituto Nacional de Administración Pública / National Institute for Public Administration.
INEGI	Instituto Nacional de Estadística, Geografía e Informática / National Institute for Statistics, Geography, and Information Science.
INPC	Indice Nacional de Precios al Consumidor / National Consumer Price Index.
IVA	Impuesto al Valor Agregado / Added Value Tax.
IVEA	Instituto de Vivienda del Estado de Aguascalientes / Housing Institute for the State of Aguascalientes.
LCA	Liga de Comunidades Agrarias / Agrarian Communities League.
MNP	Millones de Nuevos Pesos/ Millions of New Mexican Pesos.
MP	Millones de Pesos / Millions of Mexican Pesos

NAFINSA	Nacional Financiera Sociedad Anónima / National Financing Agency.
NAFTA	North American Free Trade Agreement.
NGO/NGO's	Non Gubernamental Organization (s).
OMSA	Operación y Mantenimiento de Sistemas de Agua / Operation and Maintenance of Water Limited Company.
NP	Nuevos Pesos / New Mexican Peso.
PAN	Partido Acción Nacional / National Action Party.
PARM	Partido Auténtico de la Revolución Mexicana / Authentic Party of the Mexican Revolution.
PC	Partido Cardenista / Cardenista Party.
PDM	Partido Demócrata Mexicano / Mexican Democratic Party
PEA	Población Económicamente Activa / Economically Active Population.
PFCRN	Partido del Frente Cardenista de Reconstrucción Nacional / Party of the Cardenista Front for National Reconstruction.
PGR	Procuraduría General de la República / Attorney General of the Republic.
PIB	Producto Interno Bruto / Gross Internal Product.

POEA	Periódico Oficial del Estado de Aguascalientes / Official Newspaper of the State of Aguascalientes.
PPS	Partido Popular Socialista / Socialist Party.
PR	Representación Proporcional / Proportional Representation.
PRD	Partido de la Revolución Democrática / Democratic Revolution Party.
PRI	Partido Revolucionario Institucional / National Revolutionary Party.
PRONASOL	Programa Nacional de Solidaridad / National Solidarity Programme.
PRONAFICE	Programa Nacional de Fomento Industrial y Comercio Exterior / National Programme of Industrial Promotion and Foreign Trade.
PROFECO	Procuraduría Federal del Consumidor / Consumer's Federal Attorney.
PT	Partido del Trabajo / Worker's Party.
PVEM	Partido Verde Ecologista Mexicano / Ecologist Party.
SAASA	Servicios de Agua Aguascalientes, S.A. / Aguascalientes Water Services, Limited Company.
SEDESOL	Secretaría de Desarrollo Social / Secretariat of Social Development.

SEGOB	Secretaría de Gobernación / Secretariat of the Interior.
SHCP	Secretaría de Hacienda y Crédito Público / Secretariat of Finance and Public Credit.
SNOI	Sindicato Nacional de Obras de Irrigación / National Union of Irrigation Works.
SOE/SOE's	State Owned Enterprise (s).
SPP	Secretaría de Programación y Presupuesto / Secretariat of Programming and Budget.
TESOBONOS	Certificados de la Tesorería / Treasury Bonds.
UCD	Unión Campesina Democrática / Democratic Peasant Union.
USA	United States of America.
USEM	Unión Social de Empresarios Mexicanos / Social Union of Mexican Entrepreneurs
UUAP	Unión de Usuarios de Agua Potable / Union of Drinking Water Users.
UUASP	Unión de Usuarios de Agua y Servicios Públicos / Union of Water and Public Service Users.
WB	World Bank.
\$	Pesos Mexicanos / Mexican Pesos.

Preface

A Not-So-Unreal Case: From Theory to Practice

Let's assume that you have run for mayor of Aguascalientes for the 1993-1995 period of government. The municipality is one of the 20 most important in Mexico, in which is concentrated 70 per cent of the total state population and 80 per cent of the total economic activity of the small but prosperous state with the same name. The state, located in the heart of Mexico, has always been privileged by presidential policies, and during recent years has been used as a practice laboratory for any policy innovation though federal prerogative. It was also a bastion of the official Institutional Revolutionary Party (PRI), and enjoys the highest standard of wealth in the country.

After an intensive campaign for mayor financed by the PRI you have won by a huge majority (60 percent of the votes cast). The *ayuntamiento* (city hall) is well balanced for your future government, including a number of party members that will make your life easier as mayor. After the celebrations, you begin your first day in office, to find yourself facing an uncertain situation. Your plans for managing the municipality do not look as promising as they had, and your future political ambitions could be jeopardised. The cost of providing the public utilities, with current or fixed costs, represents between 70 and 80 per cent of your annual budget. You are left with a ridiculous 10 to 20 per cent margin for discretion. Considering that the water utilities represent the greatest burden on your budget (60 per cent), and more specifically that the privatisation of the

water utilities has been promoted from the centre, with your municipality selected as the first to apply this scheme, you have no chance to hesitate. There is an extra pressure because while campaigning (both elections were held almost simultaneously) you were included in discussions between the elected state governor from the official party (a former close collaborator of the Mexican president) and the incumbent state governor, on the future of the water utilities. It had been agreed that the administration then in power would not make any moves towards privatisation, since this was to be one of his primary policies of government at state level, and consequently of yours at local level. Very soon after assuming power, therefore, the state governor has 'encouraged' you to privatise the water utilities. In this, he is clearly fulfilling a promise to the Mexican president, who is keen on privatisation at this level.

In order to show your loyalty, and to avoid turning back, you decide to follow the British experience of privatisation of the water utilities. However, there is a great difference - namely, a lack of knowledge of what privatisation really means for your city. Only a few days after taking power you announce the concession of the city water utilities (the intention was clear even in your inaugural speech). After all sorts of lobbying you have no great hesitation over this policy. The PRI majority inside the city hall and the state chamber of deputies make things easy and it takes only ten months to make legal the first concession of the water utilities in the country, promoted by the technocratic federal government. ICA, a leading construction group, headed by a businessman under federal protection

and ongoing presidential support gains this water concession, the first in Mexico and Central America. For this purpose, ICA group has a partnership with the world leaders in water supply, the French company, *Générale des Eaux*. There is no auction system; your argument supporting the company is based on their previous experience in partially managing the water utilities in the municipality in the form of a contract service. Presidential support for this company is clear, and you have no choice but to justify its presence in the managing of the water utilities. The aim is to promote this company helping it to obtain the water management of the 100 most important cities in Mexico. The results in Aguascalientes will set the boundaries of action for this company, which has been so generously promoted by the federal authorities.

You believe that the arrival of the concession scheme is a ticket directly to the first world, and that your policies will remain as a great legacy, not just in your municipality but in Mexico. Unfortunately you are wrong; it does not take long for the first negative effects of the water concession to reach the people. There are serious mistakes, like a lack of an auction system to grant the concession scheme, lack of an appropriate regulatory body, and endless mistakes in the concession title (legal loop holes, financial and economic inaccuracies) which cause problems for the inhabitants and lead to price increases. To add to the problems, the Mexican peso is devalued in the middle of your three-year period of government. The situation becomes complicated, and the water concession by the PRI prerogative is more highly politicised than any other issue.

As a prelude to the imminent fall of the PRI in the state, elections for mayor are scheduled during your last year of government. An opposition candidate from the right wing party PAN appears on the scene with populist and messianic promises to revoke the water concession. The people's desire for change, affected by the politicisation of the water concession, helps him to power, and you witness the arrival of the first opposition government in the history of the municipality. Not even the PRI machinery and the corporatist vote can prevent this great loss. In a clear lesson, the result of an economic policy based largely upon a privatisation scheme has been the arrival of the democratic process in the state.

The PAN wins not only the municipality and in consequence the majority in the city hall, but also a majority inside the state chamber of deputies. Consequently, it has the opportunity to reproduce previous PRI practices. However, an uncomfortable relationship with the state governor from the official party, who still has left three years in power out of six, is to mark this new period of government.

The first aim of the PAN government is to revoke the concession scheme, arguing that it won an irrational and perverse concession title. It does not take long however, for the municipality to rethink this action and return the concession. To the surprise of the inhabitants it is given back using the PAN machinery in the state to the same company (ICA group) which previously managed the water utilities. Once again there is no auction system or proper regulatory body, and there are similar mistakes in the concession title (non autonomous regulatory body, legal loopholes, financial and economic inaccuracies) as in the previous one as a

consequence of this rushed procedure. The old PRI practices (*mayoriteo*, negotiations under the table, ambiguous speeches and submission practices) are repeated inside public corridors. The PAN campaign promises are left out of the discussion and under clear federal pressure, as well as internal financial problems, they realise the impossibility of reassuming responsibility for the water concession.

During this period of government, major macro economic pressures (increases in interest rates, devaluation, political uncertainty and international financial crises) highlight the weakness of the concession title by PAN prerogative during this period of government. They add an extra social connotation to the water concession (higher tariffs, unplanned programs and lack of a proper regulatory body), and there are daily fights amongst all the parties involved (social representations, private entities, political parties and public representatives).

The biggest test for this PAN government is the imminent 1998 elections for governor, mayors and the renewal of the state legislature. Logic points to the fall of the PAN, considering that the inhabitants and the political machinery in the state are over heated by the concession scheme under PAN control (influenced by the unfulfilled campaign promises regarding the water utilities). Nonetheless, to the surprise of the PRI members, the PAN candidate for mayor retains the municipality and a great majority inside the state chamber of deputies is made up.

Furthermore, an opposition candidate, in fact of PAN militancy obtains the state governorship for the first time. The public perception of the water concession still lays the blame on the PRI —not PAN-- and the effects of

the *voto razonado* (conscious vote) and the lack of a truly democratic selection of PRI candidates persuade the inhabitants to retain and increase the PAN presence. In this sense, these elections are not influenced by the problems generated by the water concession.

So, this *illustrative* case is the actual situation described, explored and analysed in this research. The story of privatisation and post-privatisation of the water industry is complex. However, the key themes are as follows. They are the importance of party politics. The hidden role of the centre in determining municipal decisions. The confusing way in which the issue was presented to the public. The general lack of public understanding of what was afoot. The ability of a large private-sector company to run this confused situation to its advantage. The question of ownership of a utility is almost secondary to problems of the legal framework, the regulatory structure, and the general operating environment. If there are problems with these, then privatisation will not solve problems.

This research hypothesis has been planned around the following debates. Firstly, it will look at how far the technocratic era, and centralised decision-making, have influenced the role of local government in Mexico, particularly in the delivery and provision of the public utilities by means of promoting alternative schemes with clear neo-liberal ideology. Secondly, it will argue that local democracy itself does not guarantee a better policy or the renewal of earlier practices. Whether local democracy makes a difference to policy will, in essence, be questioned. Thirdly, privatisation has been seen by many authors as likely to improve economic efficiency. However, this is only true if there is genuine competition or if there is an

effective regulatory framework. Where these do not exist, privatisation may not be such a good idea, as this thesis will demonstrate.

Chapter One

Introduction

The Rise of the Technocratic Era: Promoting Privatisation Schemes in Mexico

Introduction

This thesis defines a specific area of public policy - local water privatisation - in order to describe the effects of neo-liberal policies on the political scene in Mexico. The main purpose is to understand better the nature and role of local government in Mexico. It is not so much interested in the economics of privatisation or the logic of democratisation per se, but in the way in which these interacted to transform the nature of local government. As a result of the degree and influence of decentralisation in the Mexican political system, the municipalities have to cope with the increasing demands of managing the public utilities. Despite the high profile of decentralisation policies in recent years, this research shows that Mexican presidentialism is still very much in place.

1.1 Thesis Hypothesis

Aims of the Thesis

In searching after the core hypothesis of the thesis it is necessary to review our case study by asking how the municipality of Aguascalientes has been tied to higher levels of government, and how it is influenced by this political relationship. The economic and political development of the municipality of Aguascalientes has been tied for decades to state and

federal prerogatives, and more specifically, to the president. In this case, centralisation has resulted in a relatively positive economic development compared to the remaining municipalities in Mexico. On the other hand, it has tied local politics and policies to federal prerogatives, with little autonomy from them.

The political hegemony created by the control over the state by the official party, at least until 1995, made Aguascalientes, and particularly the municipality, the ideal place to introduce any kind of public policy innovation. Likewise, the tied relationships between the centre and the state governments, so that major federal policies were applied as experiments in the municipality, was decisive. Thus, the privatisation of the water utilities in Aguascalientes represented the first case nationally to be applied at this level. An international private company (ICA / *Générale des Eau's*) wanted to use Aguascalientes as a learning experience, while the international community liked privatisation as a concept.

It is also important to consider that the state of Aguascalientes, and thus the municipality of Aguascalientes, has privileged characteristics, strategic geographic location, developed industrial infrastructure and workforce, good economic growth, a low unemployment rate, a competitive level of wages and salaries, social stability, multinational investments, a developed public utility infrastructure (electricity, water and wastewater and telecommunications), and labour stability. All these have encouraged the establishment of federal policies.

The impact on the municipality is similar to that of the state, since the state's political, economic, and social variables have benefited from

centralised policies that have encouraged development at this level. The municipality represents one of the most developed (in all senses of the term) cities in Mexico. As a response to the encouragement received from federal policies during the last 25 years to the state of Aguascalientes and, more precisely, the municipality, federal authorities have granted more responsibilities (economic, social, urban, and hence political) to both levels of government. One of the inheritances received by the municipality was the granting of the concession of the water utilities to a private group by a PRI decision. However, political changes occurring at the same time as the water privatisation but independent of it led to some very unexpected outcomes. As electoral democratisation developed, so water became a political issue in Aguascalientes. It was a major factor in explaining political change in both the municipality and the state.

The results achieved by this federal policy have been diverse and complicated, affecting and changing the local economic, social, and political scenario. The roles of policies and actors have been transformed, and the new structures of government at this level have been challenged. However a lot of detailed problems with the privatisation were not properly thought through. This became evident over time. Overall, the story of water privatisation in Aguascalientes is a good example of superficial neoliberalism and crony capitalism. It was not considered attempt to provide good solutions to specific economic problems.

Although competitive democracy developed in Aguascalientes, the municipality proved not be a competent policymaking body. At a political level, then, the thesis explores the limitations of local government in

Mexico, to some extent countering the work of others writers (Ward/Rodríguez) who possibly over-state the virtues of decentralised government.¹ Accurate picture of what happened in some states but does not fit Aguascalientes. In Aguascalientes real progress in increasing democratic competition was not matched by a deliberative or even intelligent treatment of a complex policy issue.

The federal government continues to be significant in the water affairs of Aguascalientes because local government wants this to be the case. So obstacles to decentralisation are not simply based on obstructive federal authority but also on a lack of desire for autonomy in some major municipalities. However the greater openness arising from the democratisation of politics has at least enabled people to be more aware

¹ Peter Ward. 1996. Problemas Actuales en el Gobierno y la Administración de las Megaciudades Latinoamericanas, *Gestión y Política Pública*, vol V, núm. 1, pp.127-149. México: CIDE. Peter Ward, Victoria Rodríguez and Enrique Cabrero. 1998. *Bringing the States Back In: New Federalism and State Government in Mexico*, Austin, LBJ School of Public Affairs- University of Texas. Victoria Rodríguez. 1992. Mexico's Decentralization in the 1980s: Promises, Promises, Promises., in Morris, A., and Lowder, S, (eds.) *Decentralization in Latin America: An Evaluation*. New York: Praeger. Victoria Rodríguez. 1993. The Politics of Decentralisation in Mexico: From Municipio Libre to Solidaridad, *Bulletin of Latin American Research* 12 (2), pp. 133-145. Victoria Rodríguez. 1994. *Political Change in Baja California. Democracy in the Making?*, La Jolla, California: Center for US-Mexican Studies. Victoria Rodríguez. 1995. Municipal Autonomy and the Politics of Intergovernmental Finance: It is Different for the Opposition?, in Victoria Rodríguez and Peter Ward (eds.). *Opposition Government in Mexico*, Albuquerque, University of Mexico Press, pp 153-172. Victoria Rodríguez. (eds.). 1996. *New Federalism, State and Local Government in Mexico*, memoria de la conferencia realizada en la Universidad de Texas en Austin, 25-26 de Octubre, ILAS- Mexican Center. Victoria Rodríguez. 1996. The New PRI. Recasting Its Identity, en R. Atkin *et al.*, *Dismantling the Mexican State?*. Londres: McMillan, pp.92-115. Victoria Rodríguez. 1997. *Decentralization in Mexico: From Reforma Municipal to Solidaridad*, University of Texas at Austin: Westview Press. Victoria Rodríguez and Peter Ward. 1991. Opposition Politics, Power and Public Administration in Urban Mexico, *Bulletin of Latin American Research* 10 (1), pp. 23-36. Victoria Rodríguez. 1995. *Opposition Government in Mexico*. Albuquerque: University of New Mexico Press.

of the failures of the water privatisation policy. This does mean that lessons can be learned which may be useful for the future.

This high degree of centralisation has had both positive and negative effects. It has encouraged the development of the state, and thus the municipality, far beyond that of the rest of the country. However, this greater economic development has not guaranteed an equal distribution of benefits, an effective provision of public services. Whilst the municipality of Aguascalientes was ranked top in the country (quality of life), the wealth has been concentrated in only a small number of inhabitants; the majority suffer conditions below the national average. The greater economic growth leads to more inhabitants demanding more and better public services, and when, as in the case of the water utilities, these have been neglected for many years, the necessary investment represents a burden on local finances. Furthermore, centralisation has limited the scope, power, and independence of the municipality, whilst imposing more responsibilities because of growth in population, thus creating problems of governance.

1.2 Privatisation: A Political Tool

Privatisation - What does it mean?

The term *privatisation* was first developed in the United Kingdom by the Conservative government of Margaret Thatcher.² A review of the literature

² Cento Veljanovski.1987. *Selling the State: Privatisation in Britain*. London: Weindfeld and Nicolson.

presents as many definitions as writers about the subject.³ It is still a new word, particularly at a local level in developing countries, but has already attracted a controversial reputation.⁴

In establishing a definition that is adequate for this research, and that can be applied at a local level in Mexico, Starr's distinction between two uses of the term is very useful. In the strict sense of the meaning, privatisation is a specific policy related to the transfer of assets, total or partial, from public to private ownership. Diverse techniques or mechanisms can be included within this definition, and such changes are prompted by the belief that the new enterprise will perform under market considerations.⁵ Within this definition, there is clearly a change from the public to the

³ To find at least fifteen different concepts related to privatisation, see: T, Thiemeier. 1986. Privatisation: On the Many Senses in Which This Word is Used in An International Discussion on Economic Theory. In Thiemeier and Quaden, G. (eds.), *The Privatisation of Public Enterprises: A European Debate*. Liege: CIRIEC, pp 7-10. Some authors prefer to use different terminology for the same process: 'capitalization', 'divestiture', 'corporatization', 'rolling back the state', 'destatification', or 'demunicipalization' amongst others.

⁴ The outcomes of the privatisation programmes implemented throughout the world have been criticised by opposition leaders, especially in less developed countries, as defined by: World Bank.1992. *Privatisation: Eight Lessons of Experiences*. Washington, DC: Country Economics Department. July. Outreach # 3.

⁵ To find more about theories related to private ownership see: Milton Friedman, 1969. *Capitalism and Freedom*. Chicago: University of Chicago Press; J.E. Stigler. 1988. The Effect of Government on Economic Efficiency. *Business Economics*, January, Friederic, Von Hayek. 1986. The Use of Knowledge in Society, in L. Putterman, (ed.), *The Nature of The Firm: A Reader*. Cambridge: Cambridge University Press; D.A. Heald. 1985. Will Privatisation of Public Enterprise Solve the Problem of Control? *Public Administration* 63, pp. 7-22 [#35]and A. Alchian and H. Densetz. 1972. Production, Information Cost and Economic Organization. *American Economic Review*, 62(5), pp. 777-95.

private sector as regards the supply of goods or services.⁶ It does not imply spending cuts, liberalisation or deregulation, tax reduction, or any policy reforms, except for those policies which transfer the form of production. Thus, the author suggests that *most forms of deregulation do not shift production from public to private firms and hence do not constitute privatisation in the restricted sense.*⁷ However, if a previous monopoly is deregulated, some form of production will move into private ownership - for example, governmental withdrawal from providing a public service encourages intervention from the private sector.⁸

An all-encompassing definition of privatisation remains elusive, but it has been established that it includes the transfer of public enterprises or responsibilities to the private sector in any of its forms or mechanisms when under applied public observation (regulatory frameworks).⁹ Hence, it is important to distinguish the privatisation elements *per se* from those of

⁶ For this point see: E.S. Savas 1987. *Privatisation: The Key to Better Government*. Chatham, NJ: Chatham House Publishers, pp 3. This author also cited *Webster's New Collegiate Dictionary, 9th ed. (Springfield, Mass.: Merriam, 1983)*, pp. 936. Nonetheless the earliest use of the word privatisation appears to have been in Peter F. Drucker, *The Age of Discontinuity* (New York: Harper & Row, 1969), as 'reprivatisation'. Robert W. Poole, Jr., shortened it to 'privatisation', in the Reason Foundation newsletters (Santa Monica, Calif.) at the beginning of 1976.

⁷ Paul Starr. 1990. The New Life of the Liberal State. Privatisation and the Restructuring of State-Society Relations. In John Waterbury and Ezra Suleiman, eds. 1990. *Public Enterprise and Privatisation*. Boulder, Co: Westview Press, pp.22-54.

⁸ E.S. Savas.1987. *Privatisation: The Key to Better Government*. Chatham, NJ: Chatham House Publishers.

⁹ These arguments are described in: John, Kay and D, J. Thompson. 1986. Privatisation: A Policy in Search of a Rationale. *Economic Journal* 96, pp. 18-38. Veljanovski, C. 1987. *Selling the State: Privatisation in Britain*. London: Weidenfeld and Nicolson; Wortzel, Heidi V, and Lawrence H. Wortzel. 1989. Privatisation: Not The Only Answer. *World Development*, pp. 633-41 and Christopher Adam, William Cavendish, and Percy S. Mistry.1992. *Adjusting Privatisation: Case Studies from Developing Countries*. London: Villiers.

economic deregulation or liberalisation (increasing competition) and public enterprise reforms - which for our purposes fall within the non-strict sense of the meaning.¹⁰ These elements do not necessarily involve any change in the form of supply, and therefore do not represent a privatisation mechanism under public scrutiny.

The Inherently Political Nature of Privatisation Policies

Throughout the case study the debate will focus on demonstrating the political nature of privatisation policies. Privatisation is a political approach that includes market, economic, legal, social, and financial considerations. It is *not* an isolated variable.¹¹ Before considering why it is necessary to view privatisation as an approach, it is necessary to review the question of why privatisation is a political tool.

It can be argued that politics is inherent in public policy formation; that the evaluation of any policy development demands political analysis. In this sense, privatisation is invariably a political resolution for any country. As Adam, Cavendish and Mistry argue, the change from public to private

¹⁰ B.J. O' Toole and G. Jordan. 1995. *Next Steps: Improving Management in Government*. Aldershot: Dartmouth.

¹¹ To find more about the term in strictly economic reasoning see: Von. F. Hayek 1960. *The Constitutions of Liberty*. London: Routledge & Kegan Paul; John, Kay A and D. J. Thompson. 1986. Privatisation: A Policy in Search of a Rationale. *Economic Journal* 96, pp. 18-38; T. Thiemeyer and G. Quaden, G. (eds). 1986. *The Privatisation of Public Enterprises: A European Debate*. Liege: CIRIEC, John Vickers and George Yarrow, G. 1985. *Privatisation and The Natural Monopolies*. London: Public Policy Centre. John Vickers and George Yarrow. 1989. Privatisation in Britain, in Mac Avoy, et al., (eds.) *Privatisation and State Owned Enterprises*. USA: Kluwer Academic Publisher. John Vickers and George Yarrow. 1989. *Privatisation: An Economic Analysis*, Cambridge: MIT Press; Dieter Bös. 1987. Privatisation of Public Enterprise, *European Economic Review*, 31, pp. 352-60. Dieter Bös. 1988. Recent Theories on Public Enterprise Economics, *European Economic Review* 32, pp 409-14 and Dieter Bös. 1991. *Privatisation: A Theoretical Treatment*. Oxford: Oxford University Press.

ownership, in any of its forms, is an *inherently political process*.¹² Supporting this argument, Donaldson and Wagle state that: *privatisation is always political, however - political in the sense that governments have aims that are non-economic*.¹³ Thus, whilst countries have economic aims besides these other considerations, the main goals are always political.¹⁴ They may, for example, be aiming to leave the market in private hands, redistribute the shares of the enterprise with special emphasis on local investors, maintain the work force, or provide better services at a lower cost. There are also social implications.

In this sense, decisions to privatise emerge from political beliefs encouraged by external or internal actors, including economic considerations. In fact, the relationship between political and economic objectives is an inherent determinant of the success or failure of privatisation policies in any country.¹⁵ The nature of privatisation as a political tool emerges from the fact that all the actors involved - without focusing exclusively on economic beliefs or market considerations - play

✓¹² Christopher Adam, William Cavendish and Percy. S. Mistry. 1992. *Adjusting Privatisation: Case Studies from Developing Countries*. London: Villiers, pp.52.

¹³ David Donaldson and Wagle Dileep. 1996. *Privatisation: Principles and Practices*. Washington: World Bank.

¹⁴ To find more about the World Bank support for privatisation policies see: World Bank.1995. *Bureaucrats in Business*. World Bank: Oxford University Press, p. 257, Sunita, Kikeri, Nellis, John and Shirley, Mary. 1989. Public Enterprise Reform: Privatisation and The World Bank, *World Development* pp. 659-72. Washington, DC: World Bank; World Bank. 1989. Public Enterprise Reform: Privatisation and The World Bank, *World Development*, pp.659-72. Washington, DC: World Bank; World Bank. 1992. *Privatisation: The Lessons of Experience*. June. Washington, DC: World Bank, and World Bank. 1992. *The Welfare Consequences of Selling Public Enterprise: Case Studies from Chile, Malaysia, México, and The United Kingdom*. Washington, DC: World Bank.

¹⁵ *Ibidem.*, pp.52.

important roles in the policy-making process. For the privatisation to be successful, it is necessary to evaluate all those involved in the process, and to determine the most desirable approach. This will be demonstrated through the case researched herein.

Bös argues that *large-scale privatization changes the distribution of power within a society...thus leads to a new distribution between private and public economic power*.¹⁶ This redistribution of power will emerge in any privatisation on any scale, involving power groups, state authorities, trade unions, and investor and international organisations, amongst others. For example, in some cases the transfer from public to private ownership will lead to a reduction of trade union power, especially in third world countries where there is a greater degree of involvement of the state in the economy.

The political constraints upon policy formation come fundamentally from civil servants, who will tend to oppose any change. Opposition may also come from any other source of power where privatisation is considered as a menace to the interests of a specific group, and even from groups who will benefit from the application of this policy. For example, privatisation is linked to severe cuts in employment and subsidies, and can hit, in particular, bureaucrats and trade unions. It redefines those who benefit from the public utility or enterprise.

Supporting these arguments, Letwin argues that:

¹⁶ Dieter, Bös. 1991. *Privatisation: A Theoretical Treatment*. Oxford: Oxford University Press, pp. 2.

Probably the most important but least understood reason for engaging in privatisation is the effect that a transfer of ownership from the state to the private sector can have upon the nature of government. This aspect of privatisation is frequently ignored by the commentators, who concentrate almost exclusively on financial and economical effects and thereby ignore the fact that privatisation is in origin a political rather than an economic or financial act. The decision to privatise is made by politicians and administrators, not by businessmen or financiers - it is, in other words, made by people whose primary concern is with the role of government and the formation of public policy.¹⁷

Letwin's arguments are much more persuasive than previous definitions, explaining that privatisation is a political process made by state authorities rather than private managers. Economic considerations cannot, alone, make the implementation of the policy feasible, as will be demonstrated further in the thesis.

In the words of Robert Robin, Director of the Finance Industry and Regulation at the UK treasury: *there is no such thing as a successful privatisation. Privatisation is a political process.*¹⁸ It is political in the sense that the transfer is constrained by political actors rather than by economic mechanisms. The World Bank supports these arguments. After reviewing

¹⁷ Oliver, Letwin. 1988. *Privatizing The World: A Study of International Privatisation in Theory and Practice*. London: International Privatisation Unit, p.2.

¹⁸ *Euromoney Magazine*. February, 1996.

several cases from different countries, it concluded that politics is the most important factor when reforming any public enterprise.¹⁹

Privatisation must be considered as an approach rather than a method because it is not a single or specific mechanism that one can thus guarantee will be successfully implemented. This argument, supported by Veljanovski and Hanke, applies to the Adam Smith definition of privatisation:²⁰

*privatization is not a method but an approach. It is an approach which sees no substitute for the market to the reality it self...it is the flexibility of privatization as an approach which makes it capable of being applied to so many situations in so many economies... needs to be defined as an approach and not as a method.*²¹

Thus, privatisation is not a unique solution or method that one can rely upon to obtain a universal result. It is an alternative mechanism for policy-makers when considering new forms of providing specific public goods or services, since political factors are the main considerations

¹⁹ World Bank.1995. *Bureaucrats in Business*. World Bank: Oxford University Press, p. 257. To find more about the World Bank support for privatisation policies see: Sunita, Kikeri, Nellis, John and Shirley, Mary. 1989. Public Enterprise Reform: Privatisation and The World Bank, *World Development* pp. 659-72. Washington, DC: World Bank; World Bank. 1989. Public Enterprise Reform: Privatisation and The World Bank, *World Development*, pp.659-72. Washington, DC: World Bank; World Bank. 1992. *Privatisation: The Lessons of Experience*. June. Washington, DC: World Bank, and World Bank. 1992. *The Welfare Consequences of Selling Public Enterprise: Case Studies from Chile, Malaysia, México, and The United Kingdom*. Washington, DC: World Bank.

²⁰ To find this argument see: Cento Veljanovski 1987. *Selling the State: Privatisation in Britain*. London: Weindfeld and Nicolson, p. 2 and Steve Hanke.1987. *Privatisation & Development*. Washington, D.C: Institute for Contemporary Studies, p.19.

²¹ Madsen Pirie. 1988. *Privatisation*. London: Adam Smith Institute, pp.11-12.

besides any economic reasoning, privatisation policy-making acquires political characteristics.

Privatisation: An Overlook to the Mexican Case.

The intervention of federal government in the economic activities of the country has been a fact of political life in Mexico since the beginning of the century. Under the dictatorship of Porfirio Diaz (1877-1911), government concentrated on private investment from the US, Britain, and France. The mining, electricity, and oil sectors were managed privately, attracting the first export income for the country. The first public enterprise was the *Ferrocarriles Nacionales*, created for the railway system in 1908 with the majority of shares retained by a mixture of Mexican (public) and French investments.

Nevertheless, the great economic achievements and modernisation of the country oversaw the concentration of wealth in a few hands (international investors). For the majority of the people, and especially for peasants and the indigenous communities, lives remained characterised by poverty, ignorance, and extreme marginalisation. In consequence, the Diaz government fell a few months after the start of the Mexican revolution in 1910. This event set the stage for state intervention in the main economic activities of the state by the promulgation of the new constitution in 1917 (at that time, these were: currency coinage, telegraphs, the postal service, radiotelegraphy, and billing under the control of the federal government), marking an invisible line between the public and private sectors for the provision of the key sectors of the economy. In subsequent decades, constitutional amendments brought new public responsibilities

and the country began to see the further growth of the state. Table 1.1 describes the evolution of public enterprises, divided into four stages, between 1920 and 1982.²²

After eight decades of direct state intervention in the key sectors of the economy, and the increasing burden of public enterprises, the technocratic government of Miguel de La Madrid Hurtado (1982-1988) considered that it was time to introduce privatisation. The accumulation by the state of 1,155 public enterprises was seen by neo-liberals as a symbol of state obesity. The state exercised control not just over banks and almost all of the electrical and petroleum sectors, but also over night clubs, TV channels, soccer teams, hotels, and aeroplane companies.

Table 1.1 Number of Public Enterprises in Mexico (1920-1982)

Year	Number of Public Enterprises
I) 1920-1940	36
II) 1941-1954	144
III) 1955-1970	272
IV) 1971-1982	1,155

Own Elaboration using data from: Jacques Rogozinski. 1997. La Privatización en México: Razones e Impactos. México: Trillas.

As in most countries, the privatisation programme was partly determined by fiscal considerations. The economic burden in developing countries was a result of a growing external debt, creating fiscal imbalances and severe

²² These stages are defined by one of the pioneers and experts in the use of privatisation policies in Mexico, Jacques Rogozinski. To find more see: Jacques Rogozinski. 1997. *La Privatización en México: Razones e Impactos*. México: Trillas, pp. 60-75.

economic recessions. Nevertheless, the privatisation followed ideological aims and international trends in its implementation.²³

These policies have prevailed until recently, setting the context for the implementation of the privatisation programme and the neo-liberal policy reforms in Mexico. The structural adjustments brought about by the privatisation policies implemented by the government of Miguel de la Madrid resulted in the decline of public enterprises considered as *non priority or strategic* for the economy (Table 1.2).²⁴

Table 1.2 Evolution of the Privatisation Programme in Mexico (1982-1988)

Year	Number of Public Enterprises
1982	1,155
1983	1,074
1984	1,049
1985	941
1986	737
1987	617
1988	412

Own elaboration using: Secretaría de Hacienda y Crédito Público. 1983. *La Venta de Empresas del Sector Público. Fundamentos, Procedimientos y Resultados 1983-1988*. México: SHCP.

The privatisation programme reached the peak of its development, and controversy, during the Carlos Salinas administration (1988-1994). Political turmoil, including accusations of election fraud, generated great strains within the national political system. In economic terms, the start of the *sexenio* was marked by severe cuts in public spending, intended to

²³ Supporting the conditional role of the World Bank in Mexico see: Jim Cason and David Brooks. 1999. *En poder de la jornada, documento secreto del organismo Insta Banco Mundial a México a acelerar las privatizaciones*. June, 24. México: *La Jornada* Newspaper.

²⁴ According to the Secretariat of Finance and Public Credit: Secretaría de Hacienda y Crédito Público. 1988. *La Venta de Empresas del Sector Público. Fundamentos, Procedimientos y Resultados 1983-1988*. México: SHCP.

reduce inflationary pressures and avoid an impending devaluation. The burden of the public external debt resulted in low economic growth (1.2 per cent during 1993).

In consequence, the Salinas government became even more tied to international financial institutions (World Bank). Under the 1989 renegotiation of the Mexican external debt (the Brady Plan), the federal government had agreed to “voluntarily” apply or intensify certain measures (privatisation, the reduction of public expenditure, and new regulatory frameworks allowing foreign investment and trade liberalisation) in exchange for debt reduction (net transfers abroad) that accounted for \$4 billion US dollars.²⁵ México joined commercial partnerships with the US and Canada, notably the North American Free Trade Agreement (NAFTA), and also joined the circle of the most industrialised nations (OECD). Increased US influence and interest, along with international trends (privatisation and globalisation) all contributed to a climate in which the Mexican government intensified the privatisation movement (Table 1.3). Nevertheless, the privatisation program in Mexico was driven by a political imperative. The former Mexican president Carlos Salinas (1988-1994) wanted to gain international credibility and he needed private finance to help the official party (PRI).

The use of privatisation programmes at a federal and local level have been deficient, creating a misconception of the theory in Mexican politics in which the term remains a legacy of a technocratic era and a damaged

²⁵ *Ibidem.*, pp. 89-90.

society.²⁶ For example, the results achieved (such as banks bankrupted), and the means used (selective beneficiaries of the divestitures programme) to justify privatisation to the country, have converted the privatisation debate into a never-ending political controversy.

Table 1.3 Evolution of the Privatisation Programme in Mexico (1988-1994)

Year	Number of Public Enterprises
1988	412
1989	379
1990	280
1991	241
1992	217
1993	210
1994	219*

Own elaboration using: Jacques Rogozinski.1997. *La Privatización en México: Razones e Impactos*. México: Trillas, pp. 111.

* The increment refers to the creation of *Administraciones Portuarias Integrales* (API).

The Mexican case, in particular, demonstrates that privatisation policies are not a unique solution, but represent only one possible option. It is important to consider that private ownership works better in some environments, whilst public institutions are preferable in others. Ultimately, the success of any privatisation relies on its political feasibility, rather than its economic nature. In narrowing the privatisation experience on the evidence from our case study, it was found that there is in part a gap between theory and practice, e.g., the key decisions are still made (or not made) by the state, there is no competition for the concessions, there is little intervention regarding tariff levels or social and political action against water disconnections. In fact, these beliefs, far from being achieved, have represented a further pressure on the public utilities.

²⁶ See: Judith A. Teichman. 1995. *Privatisation and Political Change in Mexico*. Mexico: University of Pittsburgh Press.

1.3 Privatisation Policies at a Local Level in Mexico: A Promise or a Threat?

The Effects of Centralisation on Privatisation Policies: A Threat to Local Development?

Since the 1983 constitutional reforms, local authorities have employed a diverse range of privatisation methods, with equally diverse results. However, the aims behind the reformation of Article 115 from the Mexican constitution in 1983 are far from being met. The provision of public services by private means (strict form) seems an ongoing trend for a few municipalities in Mexico, but with different implications for each of them, especially considering that the chances of real development are concentrated in only a few cities. What is clear is that the public utilities are the most basic and direct manifestation of government, representing the first point of contact with the public.

Privatisation policies have not been limited to the wealthiest or largest municipalities in Mexico. In fact, there has been private involvement in almost all the municipalities since long before the introduction of privatisation theory and its promotion by the federal government during the last two decades. Such involvement can be traced back to the constitution of the first municipality in Mexico, without ever being recognised as a specific policy. The necessity to provide the services has often been greater than the means the private sector possesses, creating a permanent confusion regarding this policy.

It is important to bear in mind that local governments in Mexico suffer from two main disadvantages when providing services by public means.

First, there is a lack of financial resources, and the mechanisms to find alternative sources of funding are few or absent. Second, there is inexperienced management, with unclear objectives, high turn-over of personnel, and changes in public policies every three years. Enterprises are highly politicised and resistant to change and certain mechanisms and procedures are used to innovate public services without public knowledge. Legal loopholes in the state and local legislation also represent common problems in the implementation of privatisation policies or the use of alternative schemes allowing private intervention.

Little work has been done on the results achieved by privatisation policies at local level, specially for the water utilities, and the Mexican municipalities are still far from exploiting privatisation to the extent to which theory, and Mexican law, allows. Nevertheless, the privatisation process has arrived in almost every municipality in Mexico, albeit without acknowledgement (it is an 'unknown' policy). In other words, it is common at a local level to allow private intervention without ever considering such action to be 'theory-driven'. The lack of information, and major political and economic aspects, have jeopardised the development of this policy, and one could easily argue that any privatisation scheme at this level depends not on the economic feasibility of the programme, but on its political nature.

Water Utilities: A Public Responsibility on the Private Interest

The water services represent the most controversial utility for any local authority, and the one for which there is the greatest necessity and demand. Water represents a natural monopoly, in which capital-intensive

and long-term investments are needed due to the fixed costs and, because it is the most important resource, essential to the public good and for the development of any society. From the experience of privatisation of this natural monopoly, one may make assumptions and draw conclusions regarding the nature and affects of the privatisation debate for the public utilities as a whole.

When examining the water services in Mexico one found two dominant cultures: the culture of non-payment, which impacts on price; and the lack of a responsible water culture, which affects the service provided. In this sense, privatisation is not entirely to blame for the water privatisation problems, but is instead affected directly by the general public opinion that the water services must be provided free and by the government under a paternalist structure, a term known as *papa gobierno*.

Macro-economic variables (inflation and the exchange rate) are always main determinants of the failure or success of a policy at a local level. For example, a policy innovation such as privatisation, which is tied to real costs values, is heavily affected by the inflation rate. Investments in infrastructure are generally the result of other countries, and will thus be affected by any devaluation of the local currency, the greater the instability at a macro level, the greater the effect at local level.

The subsidies received by the public utilities, and specifically the water services, are results of the achievements of the Mexican revolution in 1910. All the water services in Mexico receive direct or indirect subsidies to solve their problems. These subsidies are both a cause, and a result, of irresponsible behaviour, and help to explain the prevalence of the non-

paying culture, and abuse of the service. Nevertheless, whilst the debate over a more conscientious use of the water utilities is tied to this ideology, the main aims of removing subsidies and setting cost-based prices are political. Quite simply, the poor tax collection rates and high debts in the Mexican economic system pose the question: Who is going to pay?

There will always be great potential for the politicisation of any privatisation scheme. In the case of the water utilities, the affects on the water tariff and the availability of the service are principal factors used to evaluate private efficiency, but nevertheless, external private entities are always under social scrutiny and politics determines their permanency. They face a chain of requirements, so that even where the tariff is acceptable, the provision is questioned; where the provision is good, the quality of the water is questioned; if the water quality is acceptable, the exploitation of the wells is seen as damaging, and so on. Private bodies face endless but not inevitable questions, which have more to do with political beliefs than with economics.

It is also relevant to point out that privatisation beliefs and practices must take into account the issue of sustainable development. Attention must be paid to the role played by the private sector in the protection of the environment, which in theory is a state issue. For the Mexican municipalities, the lack of water resources is a clear problem, particularly in the 100 cities in which are concentrated most of the population. The problem is exacerbated by a deficient system and obsolete means of provision. Thus, it seems inevitable that in the near future these cities will be facing water shortages, and increases in prices. Federal and state

subsidies are in short supply, and the only viable solution is gradually to bring prices to a realistic level in order to balance the market conditions. In so doing, careful consideration must be given to the political implications, and to defining the risks and the benefits.

It is clear that the inherent characteristics of the water utilities as a natural monopoly add extra implications to the consideration of privatisation beliefs. In particular, monopolies lead to inefficiencies in the private sector and, consequently, the water utilities may lead to a market failure, e.g., constant prices increases due to the lack of competition. To guard against this, competition must be used as a tool to promote efficiency and improve quality, whilst regulatory frameworks should also ensure efficient provision of the services and fair prices. Attention must also be given to the external factors that jeopardise the privatisation movement: democracy, bureaucracy, and institutions. All of these play a key role, whereby the government fails to allocate resources efficiently.

Even when regulation is used to back up any privatisation, special attention must be given to the transfer from a public to private monopoly. Private entities are accountable first to their shareholders, which in most cases are international companies miles away from the city; and then to the regulatory body, which often fails, in practice, to represent the interests of the public. Prices are commonly set without considering market forces, or are modified according to partisan beliefs within each period of government. This leads to a vicious circle, in which the only objective is to obtain a profit without considering social necessities, resulting in a permanent politicisation.

Chapter Two

Reinventing Ways to Provide Public Utilities at a Local Level under Technocratic and Centralised Observance in Mexico: The Background to the Privatisation Programme

Introduction

This chapter begins by describing the Mexican political system and its main characteristics, focusing upon the effect of privatisation policies on policy formation and implementation at the local level, and highlighting the traditional influence of the official party. Attention will be given to the degree of centralisation, and to the influence of technocratic beliefs, present at every layer of government, as well as to the relationships between local level and the state and federal governments. Finally, this section will look at the varying role of opposition governments at both state and local level in changing the forms and mechanisms of governing. Section 2.2 goes on to identify the links between local governments and public services, examining the legal and administrative structure, and main characteristics, of the Mexican municipalities in this regard, and describing the broad heterogeneity present; whilst section 2.3 examines the ways in which local governments in Mexico provide public services, classifying them according to their size and degree of development. The section will look at the legal support behind the provision of the public utilities at a local level and then explain the basic techniques available. Section 2.4 presents the relationship between the public and private sectors, and describes the extent to which the latter can be involved in the provision of public services. It seeks to explain why Mexican municipalities

have been reluctant to allow this, identifies the services provided, and examines the techniques used, before looking at the number of public utilities actually provided in this manner. Finally, section 2.5 looks at the debate about privatisation and its implementation in the Mexican municipalities.

2.1 The Role of Technocratic Policies Under Central Observance at the Local Level in Mexico

Central-Local Relationships: An Historical Submission

The Mexican constitution states that Mexico will take the form of a federal, democratic, and representative system with three levels of government. Thus, in 1997, Mexico was ruled by a federal government, 31 state governments, and 2,418 municipalities.²⁷ There is also one *Distrito Federal* - D.F. - (Federal District) elected for the first time by popular vote on June 6, 1997, and represented by a *jefe de gobierno* (chief of government) and by 16 *delegaciones* (boroughs) rather than municipalities. Considering that our debate focuses upon the local level, for the purposes of this research the *Distrito Federal* clearly does not represent a state government due to the legal impediment that it is not constituted by municipalities.²⁸ The population of the country was estimated, in 1998, at about 96 million inhabitants (71 per cent urban - including the 22 per cent from the *Distrito*

²⁷ Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*, México: SEGOB-CEDEMUN, (CD- ROM).

²⁸ There has been discussion recently, (1998-99) regarding the integration of the *Distrito Federal* as a state government, and thus its being constituted by municipalities. If approved, this could open a bigger gap within the municipalities in Mexico.

Federal and inner boroughs - and 29 per cent rural).²⁹

The creation, in 1519, of the first municipality, Villa Rica de la Vera-Cruz, marked the beginning of central-local relationships in Mexico, and was the first sign of how useful a municipality can be to obtain specific objectives under unilateral decisions.³⁰ However, Mexican-style centralisation (the semi-authoritarian state) can be traced back to the foundation, by the Aztecs, of Tenochtitlán. More recently, major constitutional changes have been introduced to alter the balance between federal, state, and municipal government relationships, but little has actually been achieved. Rather than attempting to explain federal-local issues in detail, though, this chapter will concentrate only on the main developments. The detail will be provided later.³¹

The arrival in power of Miguel de la Madrid for the 1982-1988 period marked the beginning of the technocratic era in Mexico, an era in which neo-liberal policies have appeared openly on the economic agenda (with privatisation and decentralisation as primary aspects).³² This was accompanied by the federalism debate; although moves toward federalism

²⁹ Consejo Nacional de Población. 1998. *Población Nacional*, accessed through the Internet www.conapo.gob.mx on August, 1998.

³⁰ This municipality was created with two objectives: to obtain legality and to legitimate the conquest with an autonomous institution from the Spanish crown. To find more about this argument see: José Mejía Lira. 1992. *Modalidades Administrativas de Los Municipios Mexicanos*, Documento de Trabajo (DAP No. 10), México: CIDE.

³¹ For a study of the Mexican, amongst other Latin American municipalities, see: Andrew Nickson. 1995. *Local Government in Latin America*, USA: Lynne Rienner: Boulder, pp.199-235.

³² For an interesting debate on De la Madrid's decentralization policies and municipal reforms see: Victoria Rodríguez.1997. *Decentralization in Mexico: From Reforma Municipal to Solidaridad to Nuevo Federalismo*, University of Texas at Austin: Westview Press.

have, in practice, been postponed because of the characteristics of the Mexican political system.³³ The failures of this ideology in recent decades, including major political reforms and policy innovations such as privatisation and, consequently, regulatory policies, have been proportional to the degree of political and economic centralisation. For example, the federal government retains power over all policy-making and implementation. Consequently, other tiers of government can play only a limited role.³⁴

One aspect on which experts in Mexican politics and Mexican citizens agree is the existing form of government. This is unambiguous: Mexico has the characteristics of a semi-authoritarian or monolithic government - in other words, a centralised federalism.³⁵ Historically, local governments have been used to pursue specific political, military, or economic goals reflecting the federal interest. Nickson argues that the corporatist system, led by the official Institutional Revolutionary Party (PRI) (which has been in power for the last seven decades), is no exception. It

³³ For discussion on the federalism debate see: Luis Medina. 1997. *La División de Poderes Vertical: El Federalismo*, Documento de Trabajo (DEP No.70), México: CIDE, Alicia Hernández Chávez. 1993. Federalismo y gobernabilidad en México, in Marcello Carmagnani (coord), *Federalismo Latinoamericanos: México, Brasil, Argentina*, México: FCE, and Yamile Mizrahi. 1997. *Pressuring the Center: Opposition Governments and Federalism in Mexico*, Documento de Trabajo (DEP No.71), México: CIDE.

³⁴ An extensive debate on the degree of centralisation of the Mexican government is found in: John Bailey. 1994. Centralism and Political Change in Mexico: The Case of National Solidarity, in Wayne A. Cornelious, Ann L. Craig and Jonathan Fox, *Transforming State-Society Relations in Mexico. The National Solidarity Strategy*, San Diego, Center for U.S. Mexican Studies, University of San Diego, California, US.

³⁵ This term was used on Alicia Hernández Chávez. 1993. Federalismo y Gobernabilidad en México, in Marcello Carmagnani (coord), *Federalismo Latinoamericanos: México, Brasil, Argentina*, México: FCE.

promotes local governments oriented to serve only federal interests or, in most cases, to serve the Mexican president almost exclusively, a system known as *presidencialismo*.³⁶

The power of the Mexican president is sometime defined as *meta-constitutional*, whereby the president is able to remove governors and mayors, and to decide the future of any member of the political machinery.³⁷ The Mexican constitution even gives exclusive powers, and the president, in turn, formulates agriculture, labour, health, and poverty eradication policies, amongst others. The political circle of the Mexican president is limited to a specific number of members of his cabinet, known as the *camarillas* (power circles) and including civil servants, inside the executive branch of the official party.³⁸ The president is also able to select his successor, and although it is thought that the current president, Ernesto Zedillo Ponce de León, will not exercise this power, it is nonetheless true that the political machinery of the official party has remained steady for the last 70 years.³⁹

³⁶ This argument is reviewed in: Andrew Nickson. 1995. *Local Government in Latin America*. Lynne Rienner, Boulder:USA, pp.200.

³⁷ To find more on this discussion see: Jeffrey Weldon. 1998. The Political Sources of Presidentialism in Mexico, in Scott Mainwaring and Mathew Shugart, *Presidentialism in Latin America*, Cambridge: Cambridge University Press.

³⁸ For a discussion on these groups see: Joy Langston. 1997. *An Empirical View of the Political Groups in Mexico: The Camarillas*, (Documento de Trabajo, DEP No. 15), México: CIDE, and Joy Langston.1993. *The Camarillas: A Theoretical and Comparative Examination of Why They Exist and Why They Take The Specific Form They Do*, (Documento de Trabajo DEP, No.12), México: CIDE.

³⁹ To find a broad discussion see: Joy Langston.1994. *The Role of the Political Groups in The Succession Process*, (Documento de Trabajo, DEP No.19), México: CIDE.

The Legacy of the Mexican Political System at the Local Level: A Threat to Its Survival

The centralisation of power has limited each municipality's capacity for manoeuvre and development. In seeking to further identify the results of decades of centralised government, this rigid political hegemony had concentrated the economic expansion exclusively in 24 cities by 1998.⁴⁰ Thus, by the year 2000 onwards, most human, capital, and infrastructure resources will be concentrated in a very few cities. The fact that the municipalities in Mexico are relatively small and rural (85 per cent have less than 15,000 inhabitants), together with the important issue of migration to the wealthiest areas, could help to explain why local governments are so dependent upon, and submissive to, centralised decision-making. The federal government provides up to 90 per cent of each municipality's total income. This financial dependency represents the main reason for acquiescence to upper levels of government. However, whilst the federalism debate argues for more local authority control over their own financial resources, the lack of accountability and enforcement delimits its perspective at this level.⁴¹

There are three basic mechanisms to finance the municipalities: federal participation, state funding, and municipal taxes. Extra funding is only available from federal funds called *participaciones extraordinarias* (extraordinary tax revenues), which are distributed according to

⁴⁰ National (Section). *Reforma* Newspaper. December 1, 1998.

⁴¹ An historical perspective about federalism is found in: Luis Medina. 1997. *La División de Poderes Vertical: El Federalismo*, (Documento de Trabajo, DEP No.70), México: CIDE.

mysterious formula, and thus represent an element with unknown characteristics. Such as, for example, a federal programme called *PRONASOL* or *SOLIDARIDAD* in the former Salinas administration (1988-1994). At this level, success in obtaining extra resources relies, to a great extent, upon the relationship (regardless of party affiliation) with the president. Thus, municipal subordination clearly attends political aims.

Therefore, the lack of resources (human, technological, financial, and administrative) clearly limits the ability to pressure the federal government with social demands. In addition, political subordination to the official party, ignorance, and partisan interest are common denominators at this level.⁴² It is inevitable that politicians and civil servants at the federal level will be more interested in attending to serious matters, instead of dealing with what seem to them to be insignificant situations at local level.

Supporting our arguments, there is evidence of highly-centralised decisions, relying on the fact that local development strategies, or federal programmes, are useless in all senses, due to the strict control and monitoring from federal bodies like the Secretariat of Finance and Public Credit (SHCP), the Secretariat of Social Development (SEDESOL) and the Comptroller's General Office. These bodies promote the objectives of the *Plan Nacional de Desarrollo* (Government National Plan) without

⁴² An interesting debate about the electoral effects of this federal programme under Salinas administration is reviewed by: Scott Morgenstern.1997. *Spending for Political Survival: Elections, Clientelism, and Government Expenses in Mexico*, (Documento de Trabajo, DEP No. 61), Mexico: CIDE, pp. 11.

considering local needs, as the results clearly prove.⁴³ The only alternative sources of funding for municipalities - the development banks, the *Banco Nacional de Obras y Servicios* (BANOBRAS), or Nacional Financiera (NAFINSA) - are under strict federal control.

State-Local Relationships: The Reproduction of Federal Practices

The relationships amongst state and local authorities are extremely important. Upon these depend major resolutions affecting the internal life of the municipality. Thus, it is necessary to consider the degree of centralisation within state authorities. Rodríguez states that the 1983 Municipal Reform constitutional amendments of the de la Madrid government (reviewed further in detail), did not grant independence or autonomy to the municipalities. On the contrary, these allowed more control at state level, and the subordination to federal decisions remained the same.⁴⁴

It is important to note that the state authorities represent the immediate upper tier of government to local authorities. Major financial, human, and technological resources are concentrated at this level, as are regulatory and normative frameworks. It is here that major decisions are taken; for example, any large infrastructure project would need approval at this level, in conjunction with federal decisions. The extreme financial

⁴³ Andrew Nickson. 1995. *Local government in Latin America*. Lynne Rienner, Boulder:USA, pp. 203.

⁴⁴ Victoria Rodríguez. 1992. Mexico's decentralization in the 1980s: Promises, Promises, Promises. In Morris, A., and Lowder, S, (eds.) *Decentralization in Latin America: An Evaluation*. New York: Praeger, pp.136.

dependency of the small and medium-size municipalities encourages state governments to exchange funding for political favours. Considering that most official party state governors owe their political posts more to the president than to the electors, their own submission is clear, and affects the development of the region and the management of local politics. A state governor - particularly, but not exclusively, one from the official party - will strive to maintain a good relationship with the president. Any confrontation might lead to a hostile relationship or even the loss of the political post, jeopardising the governor's chances of remaining within the political machinery.

As discussed earlier, funding and centralised decisions on its distribution represent the most common problems. It is necessary here to consider how these factors relate to the state authorities. First, it is to this level of government that financial contributions are sent for distribution amongst the municipalities according to a specific formula. The city water supply, local road construction, the collection of local taxes, and land use planning are all financially dependent on the state government.⁴⁵ All represent serious financial burdens to local authorities, yet in most cases the allocation of funds has little to do with reality; rather, it is dependent on centralised beliefs. Furthermore, such decisions by state governments are not only politically accepted, but are supported by the normative and regulatory frameworks surrounding state legislation. Thus, little autonomy is granted to local authorities to define their strategic framework.

⁴⁵ This discussion is reviewed in Richard, Batley. 1992. *Urban Management in Mexico*. Birmingham: University of Birmingham, pp. 29.

Determining the limits of how to charge for the right to use public services, the collection of taxes, and external borrowing all require state approval in the first instance. This legal structure, which in most cases denies the reality of the situation, represents an extra pressure on the municipality.

Municipal tax collection, which represents a direct source of income, is concentrated in state governments, affecting on the means to distribute it. This helps to explain why major developments are located in the *cabeceras del estado* (head municipality of the state).⁴⁶ It is in these municipalities that major developments (infrastructure, financial resources, technological, educational, and agricultural) are concentrated, and also where the majority of the state population reside. These municipalities also enjoy a comparative advantage in the provision and development of public services, since these cities are perceived as the first 'face' of the state government. Other, smaller municipalities tend to be left behind, leading to sharp contrasts, especially in large states with many municipalities. Thus, state-local relationships reproduce the practices of federal-local relationships, further limiting the freedom of local government.

Local-Lower Tiers Relationships: Reproducing the Vicious Circle

Topics such as federalism and decentralisation are constantly under discussion between local and federal authorities, but the important

⁴⁶ For an analysis of the provision of the public utilities outside the *cabecera municipal* see: Rodolfo García del Castillo. 1994. Encuesta Nacional de Gestión Municipal: Los Servicios Públicos. Primeros Resultados. In *Gestión y Política Pública*, Primer Semestre, México: CIDE, pp. 417.

question is the extent to which the Mexican municipalities are, in fact, centralised. This thesis will show that this variable has chain effects and that, consequently, local authorities are as centralised as their 'higher' counterparts. This impacts upon the provision of the public utilities and on policy-making decisions, thus affecting the development of the cities. In other words, most of the policy innovations at this level are dominated by inflexible and partisan ideologies.

After decades of rigid and monolithic structures in Mexico, it is arguable that local authorities have, inherently, the same kind of government. There is evidence of presidentialism on a small scale, whereby decisions are concentrated in just one man, the mayor, while the city hall represents the other body in which these decisions are jointly concentrated under strict partisan ideologies. Thus, any decisions regarding the municipality are monopolised by these two entities.⁴⁷ In consequence, the efficient provision of the public utilities is under their prerogative and scrutiny.

Empirical evidence for this discussion can be found in the local communities (suburbs). These are located in specific areas that, according to the Mexican constitution, the local authorities control, monitor, and encourage development within. Consequently, these communities, or inner cities, are expected to provide public services (supposedly under municipal observation), thus suffering the effects of centralised decisions. It is

⁴⁷ *Ibidem.*, evidences that at least 62 percent of local decisions rely on the mayor. The City Hall is mentioned as the second main body in which local decisions are centralized in 82 percent of cases.

common for influential groups to be concentrated in these areas since they include both the less developed regions of the city and, in some cases, the wealthiest ones. Obtaining control and making necessary arrangements with the leaders or representatives are the main political goals - first, when campaigning for the municipal presidency and, afterwards, when assuming the public post. The mechanisms used to encourage the development of these suburbs replicate those used by the major tiers of government. These include corrupt practices, the assisting of specific groups, using certain areas for political 'goals', and pressuring communities with opposition representatives. Bureaucratic procedures, and withholding resources and skilled personnel, are common practices and, as mentioned above, it is common for major developments to be concentrated exclusively in the *cabecera del municipio*.

In a series of personal interviews, reinforced with extensive surveys from the CIDE, it became clear that local authorities are as centralised as their major counterparts.⁴⁸ The extensive empirical evidence shows that while Mexican municipalities complain about centralised governments, their own mechanisms of government remain on the same grounds.

Considering these factors, is private ownership by means of privatisation schemes the solution? At the federal level, arguments for the use of privatisation schemes at local level were supported by the advocacy of the

⁴⁸ An extensive discussion supporting our arguments can be found in: Rodolfo García del Castillo. 1994. Retos y Perspectivas de la Administración Municipal en México. In *Gestión y Política Pública*, Vol III, num. 2, Segundo Semestre, México: CIDE, pp. 399-449.

economic theory. As a result, privatisation ideology arrived at this level as a legacy of Mexico's technocratic era, whereby private ownership or intervention was seen as a tool with which to close the gap between local necessities and government responsibilities and led, consequently, to a much wider political debate. It is not the intention of this research to explore the feasibility of private ownership. It is, however, assumed that using privatisation schemes to provide public services leads to a reduction in political inertia (government passiveness) and to interest groups (the breakdown of quotas of power) encouraging a permanent politicisation of the arena.

Our research will focus on this argument and will show how economic policies in the form of privatisation schemes at this level rely upon local politics, even when backed by federal support. The degree of failure is determined, in the first instance, by the political nature and influence of the project (internal and external actors involved in the process) and, consequently, by its economic benevolence.

The Rise of Opposition Governments at a Local Level: A Threat to the Political Machinery

In defining the politics surrounding any tier of government in Mexico, it is important to emphasise the role played by opposition governments. These represent a new source of power in domestic politics at all levels, particularly considering their influence during the last decade - breaking the political hegemony and representing a constant threat to the official party, and undermining the power of the Mexican president. It is necessary, therefore, to look at the effects of opposition governments

upon the old political machinery, and consider their influence at a local level.

Without attempting to explain, in detail, the relationship between democracy and decentralisation (other than its effect on the provision of the public utilities), it is important to consider that, since the major defeat of the *Partido Revolucionario Institucional* (PRI) - Institutional Revolutionary Party - in the 1997 federal elections for the lower chamber, Mexico could possibly have been heading for new forms of government. This was recognised by Mexican president Ernesto Zedillo Ponce de León, who stated that *I am not sure that the next presidential candidate from the PRI will be the next president of Mexico.*⁴⁹ The possibility that in the next presidential elections, in the year 2000, a candidate from the opposition could win, whilst not guaranteeing a decentralised government *per se*, clearly identifies the new tendencies present at all levels of Mexican politics. Clearly, it is necessary to consider whether the end of presidentialism may be on the agenda.⁵⁰

Elections at the state and local levels are valuable tools with which to test the strength of the official party. They also represent a new source of power in the Mexican political system, in which state governors are able to openly participate in the next presidential elections (in 2000), and local mayors are moving forward to obtain higher posts. This trend, whilst

⁴⁹ No es seguro que el Próximo Presidente sea Priista: Ernesto Zedillo. *La Jornada*. July 21, 1997.

⁵⁰ An interesting debate can be found in: George Philip. 1998. *Democratisation and Executive Power in Mexico*, presented at the LSE seminar in Mexican Politics, (document in print).

undermining the presidentialis system, has shown the growth of regionalism and local quotas of power. Thus, with the arrival in power of opposition governments, Mexico *is* facing the fall of the presidentialist system at some future stage, with collateral affects on the strength of regional and local powers.

Nonetheless, recent state and local elections (1998) have seen a recovery by the official party, evidencing a clear shift of electoral ideologies during the 'democratisation' process resulting in the view, finally, that the candidate is more important than the party ideology.⁵¹ Table 2.1 illustrates the political parties governing the Mexican municipalities by 1999.

In recent years, opposition governments, especially at local level, have emerged on the political scene with stronger perspectives. Mizrahi argues that *opposition governments have fewer incentives to subordinate themselves to a federal government still controlled by the PRI*.⁵² Evidence from the recent past allows us to examine how, in practice, these opposition governments have employed alternative mechanisms with which to provide the public utilities.

The relationships between opposition governments and public services in Mexico can be explained with reference to the cases of Ciudad Juarez and Chihuahua, where the PAN governments introduced new techniques,

⁵¹ To find more about this discussion see: Scott Morgenstern.1997. *Spending for Political Survival: Elections, Clientelism, and Government Expenses in Mexico*, (Documento de Trabajo, DEP No. 61), México: CIDE, pp. 6.

⁵² This idea is debated in: Yemile Mizrahi. 1997. *Pressuring the Center: Opposition Governments and Federalism in Mexico*, (Documento de Trabajo, DEP No.71), México: CIDE, pp. 3.

additional resources, and undermined state control over local issues, eventually leading to more independence. Later on, PRI governments emerged on the scene and followed this trend.⁵³

Table 2.1 Political Affiliation of the Mexican Municipalities (1999).

POLITICAL AFFILIATION				
PARTY	MUNICIPALITY		POPULATION	
	TOTAL	%	TOTAL	%
PAN	287	11.86	27,513,398	33.24
PRI	1,385	57.26	42,427,591	51.26
PRD	278	11.49	10,353,436	12.51
PT	26	1.07	473,858	0.57
PVEM	10	0.41	321,763	0.39
PRT	2	0.08	30,107	0.04
COALITION	4	0.17	343,526	0.42
UYC *	418	17.28	1,173,983	1.42
CM **	3	0.12	54,413	0.07
OTHERS	6	0.25	72,307	0.09
TOTAL	+ 2,419	100.00	++ 82,764,382	100.00

Source: CEDEMUN. 1999. *filiación Política de los Municipios en México*. México:SEGOB-CEDEMUN, accessed though the Internet on www.cedemun.gob.mx, (July, 1999).⁵⁴

* UYC :*Usos y Costumbres* ** *Consejos Municipales* +one municipality was added by 1999 and one municipality in Michoacan are still in dispute. ++Data reflects the INEGI.1995. Censo Nacional. México:INEGI.

Thus, new opposition governments in Mexico may be willing to alter the balance between the different levels of government, regardless of political affiliation. They may also bring innovation to the provision of public services, and the necessity to find alternative techniques will emerge naturally, *precisely because they are opposition government*.⁵⁵ For example, policy innovations (such as privatisation techniques) are

⁵³ *Ibidem.*,

⁵⁴ PCM: *Partido Civilista Morelense*, in the State of Morelos, PC: *Partido Cardenista* in the State of Oaxaca, PDM: *Partido Demócrata Mexicano* in the State of San Luis Potosí, PI: *Planilla Independiente* in the State of Tamaulipas and PPS: *Partido Popular Socialista* in the State of Veracruz. The Coalitions refers to PRD-PT in the State of Baja California Sur and PRD-PVEM in the State of Nuevo León.

⁵⁵ Yemile Mizrahi. 1997. *Pressuring the Center: Opposition Governments and Federalism in Mexico*, (Documento de Trabajo, DEP No.71), México: CIDE, pp. 3.

considered to, automatically, represent pressure upon more competitive political scenarios. However, the reader must remain sceptical, since the results of the present research point to a different conclusion.

The fact of there being an opposition government is closely related to the identification of a substantial change, a change that can make a significant difference to society in the new market scenario. Nonetheless, the political aspects of reform tend to delay innovation in the provision of public services. In a series of interviews with mayors the answer was plain: *any innovation is always risky and especially [so] when being an opposition in a hostile environment.*⁵⁶

Financial dependency also puts opposition governments in a highly difficult position in negotiations with the federal government, which has to act under old rules while attempting to cope with local demands under strict federal prerogatives. On one hand, it is financially impossible to act without federal support; on the other hand, it is urgently necessary to find alternative ways to manage the public finances. Thus, there is a dilemma between pragmatism and idealism.⁵⁷

Cases of opposition governments acting under the shadow of centralised government have been reviewed in the current literature. These demonstrate that there is no guarantee that an opposition government will perform better; there is only the expectation of some sort of innovation in public policy and policy-making structures. Nonetheless, by remaining

⁵⁶ *Ibidem.*

⁵⁷ *Ibidem*, pp.7.

under federal scrutiny in an almost unchanged political system, the scope of any opposition government is severely limited. For example, in the 1998 elections, the official party recovered against opposition gains, clearly demonstrating its persuasive power. In this sense, without a change in the Mexican presidency, movement through more democratic practices at state and local levels that can be translated into realistic policies will be very limited.

Furthermore, a change in the presidency does not necessarily guarantee a change in practices, particularly considering the remaining political machinery, and the inexperience of the opposition parties. While the official party relies on the corporativist and clientelis system (inner circles of political power), opposition governments need to gain citizens' support. This leads to great tension in the political system, limiting the scope for any sort of innovation or reform, especially regarding the public utilities. It is relevant that in our case of study both official and opposition governments relied, at some stage, on similar practices in order to control the local situation. Opposition governments reproduced early practices of the official party, with the aim of paying back the official party for the treatment it had suffered under their administration.

The opposition movement is not perceived as a threat to society. Nonetheless, the democratic scenario facing Mexico has both pros and cons. The inhabitants who benefit from the official party are taking a more active role, largely in order to stop any policy innovation that could be translated into a loss of power or resources; whilst the results obtained by opposition governments or the introduction of democratic practices are

unpopular in some circles (local quotas of power and members of the old guard-PRI-), because of a natural inertia. Thus, an opposition government does not guarantee new forms of government, only a search for alternative means to provide public services.

2.2 Local Governments and Public Utilities in Mexico: The Legal and Administrative Structure

Local Government in Mexico: The Background

Our discussion of local governments in Mexico will be set in the context of the economic and political changes that have taken place since 1982.⁵⁸ Mexico has emerged from several economic crises and political conflicts, and local governments have clearly been influenced by these developments. The start of the 1980s marked the beginnings of new paradigms and policies for the years to come, with the arrival in the Mexican presidency of Miguel de la Madrid for the 1982/88 *sexenio* (a six-year presidential term) supporting new trends in Mexican politics - decentralisation and municipal autonomy. This represented an aspect of neo-liberal policies, and the advent of the new technocratic era in Mexico. In 1983, De la Madrid's government made the first significant amendment regarding the municipalities since 1917. Article 115 of the Mexican

⁵⁸ To find a discussion at a local level in Latin American countries see: Alicia Ziccardi (cord.) 1991. *Ciudades y Gobiernos Locales en la América Latina de los Noventa*. México: Miguel Angel Porrúa-Instituto Mora-Flacso, For a description of innovative mechanisms of government at this level see: Alicia Ziccardi. 1995. *La Tarea de Gobernar: Gobiernos Locales y Demandas Ciudadanas*. México: Miguel Angel Porrúa-UNAM.

constitution was changed in order to grant a higher degree of autonomy to local governments.⁵⁹ Along with other constitutional changes, the aim was to provide the municipalities with greater financial resources, from federal and local participation, that would allow them to decide how, when, and on what to spend their own resources. The total responsibility for the delivery of public services would be transferred to local authorities, together with the introduction of a democratic system using a multi-party political scheme, providing the hegemony needed to perform in a fair environment. The amendments would grant local governments political and economic autonomy from state and federal control, with the intention that economic liberalisation would lead to political transformation.⁶⁰ These reforms became law in 1984 and were nationally promoted by De la Madrid's government as the *reforma municipal* (municipal reform). The arrival of this constitutional reform marked the beginning of a new era for local government authorities. They were, indeed, the result of a social demand for *municipio libre* (free municipality), a slogan used by the Mexican revolutionaries of 1910.⁶¹

⁵⁹ In theory it can be argued that the amendments made to Article 115 granted significant changes to local governments, and were the first signs of a clear interest in decentralised local authorities. In practice the results are not so optimistic, as will be stated further in the literature.

⁶⁰ See: Victoria Rodríguez and Peter Ward. 1995. *Opposition Government in Mexico*. University of New Mexico: University of New Mexico Press, pp.154.

⁶¹ An interesting debate of the modifications to Article 115 from a legal perspective can be found in: Juan Ugarte Cortés. 1985. *La Reforma Municipal y Elementos para Una Teoría Constitucional del Municipio*, México: Porrúa. A definition of the administrative and legal framework of the Mexican municipalities can be found in: María Emilia Janetti Díaz y Arturo Pontifes Martínez. 1996. *La Protección Jurisdiccional y Administrativa del Municipio*, México: CIDE-Colegio Nacional de Ciencias Políticas y Administración Pública.

By the time this thesis was concluded, during 1999, the federal chamber of deputies for the period 1997-2000, and the Senators chamber for the period 1994-2000, had approved constitutional changes to Article 115 (June-July), changes aimed at providing local authorities with enhanced opportunities to control and monitor their governance, public management, and financial resources (incomes). This is expected to become law in April, 2000.⁶² Those areas of core concern to this thesis (i.e., the provision of the public utilities), however, remained unchanged.

The Legal Framework of the Mexican Municipalities

There are four main categories with which one can describe how the municipalities are legally constituted in Mexico: First, by a *gobierno* (government), defined as a jurist-political institution in which the demands and the interests of the society are integrated in the *ayuntamiento* (city hall); second, by the *población municipal* (municipal population) representing a social community in which similar interests and necessities interact within a specific society; third, by the *territorio o circunscripción territorial* (territorial or municipal circumscription), which corresponds to a specific land or area where the population lives, interacts, and establishes their relationship with the community; and, finally, by the *ley de organización municipal* (jurist municipal order), whereby local governments are ruled by a specific law and not by who represents the

⁶² To find about these constitutional reforms see: Cámara de Diputados LVII Legislatura. 1999. *Gaceta Parlamentaria de la Cámara de Diputados*. Año 2, Número 286, June 15, México, or on the www at <http://gaceta.cddhcu.gob.mx>.

power. Thus, one can identify the municipality framework on its four basic principles: territory, government, inhabitants and laws.⁶³

In order to understand how these bodies are represented by the public institutions, and the connection between the society and the municipality, the following description presents the two core bodies of local governments. Figure 2.1 presents data on the legal and administrative structure of the Mexican municipalities.⁶⁴

Figure 2.1
The Legal and Administrative Structure of the Mexican Municipalities (1999).



Every municipality has the right to elect its government, which is structured as follows: The first level of government is represented by the *ayuntamiento*, also known as the *salón de cabildos*. It is the highest level of government, where major resolutions concerning social, political, and economic issues are discussed. It can be identified as a chamber of

⁶³ This classification was used by José Mejía Lira. 1991. *Notas Para el Estudio de la Administración Pública y Estatal y Municipal en México*, (Documento de Trabajo) México: CIDE, pp. 31.

⁶⁴ To find more see: INAP (coed). 1995. *Administración Pública Municipal*. Guía Técnica 3. México: INAP-CEDEMUN-SEGOB, and Rodolfo García del Castillo y Misael Hernández Torres. 1994. *Formas Clave para la Prestación de los Servicios Públicos Municipales*, Documento de Trabajo (DAP No.16), México: CIDE.

representatives at this level. According to the *reforma municipal*, the main goal of this body is to promote a fair environment in local demands using a multi-party political scheme. The objective is to represent a balance between the party in power and the parties with political presence in the municipality during a three-year period of government.

It includes two internal social representations, intended to look after the interests of the society and to create a balance between the different levels of government. Both are elected according to plurinomial (proportional) representation - PR - (no direct vote) for a similar period of time and are made up of members from different political parties.⁶⁵ Thus, the political hegemony inside this body lies with the political party that wins the election for mayor.

The first body is the *sindicatura*, commonly invested in one or two *síndicos* selected from the same political party as the one elected - one is responsible for legally representing the interests of the *ayuntamiento*, and the other serves as internal controller. Both have juridical responsibility. The second body is made up by a specific and variable number of council members or aldermen, known as *regidores*, concentrated in a specific number of *regidurías*. The first *regidor* is invested in the mayor, who has

⁶⁵ This mechanism of proportional representation for selecting the members from the *Ayuntamiento* has been debated since it always leads to a majority inside this body for the party in power, For a broad discussion see: Tonatiuh Guillén López. 1996. *Gobiernos Municipales en México: Entre la Modernización y la Tradición Política*, México: Miguel Ángel Porrúa-Colegio de la Frontera Norte, pp. 174-175.

the *voto de calidad* (quality vote), and is the only member elected by direct vote.

The majority of the remaining members (70-80 per cent) are always members of the governing party, whilst the rest are members of other political parties with a presence in the municipality but in a minority, acting as opposition. Thus, the party in power always has total control inside this body, which is commonly subject to partisan ideologies governing its policy-making. Nonetheless, both these bodies are intended to represent the interests of every administrative municipal body in order to ensure the efficient functioning of the public utilities.⁶⁶ For example, water and wastewater is a commission represented by a member of the *regiduría*.

The second level of government is the *presidencia municipal* (municipality). This institution is elected by direct vote and is exclusively invested in the *presidente municipal* (mayor). The administrative functions are concentrated in this body and it is intended to represent the interests of the society. It is legally conceived as the last tier of government, and serves for a period of three years with no possibility of re-election.

Local Governments in Mexico: A Broad Heterogeneity

The Mexican municipalities have just one variable in common: their

⁶⁶ According to Article 115 of the Mexican constitution, besides each *ley orgánica municipal* and state laws, the number of *síndicos* or *regidores* may vary accordingly to the size and number of the population. Commonly the *Ayuntamiento* is integrated by one or two *síndicos* and the number of *regidores* may vary from 4 to 18 depending on the services provided. They can be elected for the next term only if they represent the position as *suplente* (substitute). Members representing the post as *propietario* (proprietary) are not entitled to be elected as *suplentes* for the next term.

remarkable heterogeneity and disparate rate of growth.⁶⁷ The number of municipalities has increased dramatically, from 13 at the beginning of 1921, to 2,418 by 1997,⁶⁸ an increase of almost 19,000 per cent during the last nine decades. How can this trend be explained? Diverse situations have been encouraging the creation of new cities.⁶⁹ On the one hand, massive migration to the wealthiest or most prosperous cities is a reliable explanation for the concentration of people in specific regions, with the repercussion of more cities growing in parallel.⁷⁰

On the other hand, though, some less-developed regions have also faced the creation of new municipalities, as part of an ongoing trend whereby small communities become municipalities that are governed not by direct election but by *usos y costumbres* (custom and practices). The disparities are evident. For example, while the State of Oaxaca comprises 570 municipalities (162 municipalities elected by direct vote and 408 by the mechanism of custom and practices), Guanajuato state has 46,

⁶⁷ To find an analysis of the Mexican municipalities see: Alfredo Ramírez y Roy Campos. 1997. *Encuesta Nacional de Gestión Municipal 1993: Informe Metodológico*, Documento de Trabajo (DAP No. 51), México: CIDE.

⁶⁸ Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN-INEGI, (CD- ROM).

⁶⁹ An important historical development was the creation in 1519, by the Spanish conqueror Hernán Cortés, of the first municipality in México, then called Villa Rica de la Vera Cruz, now Veracruz in the state with the same name. On the historical development of the Mexican municipalities see: Gustavo Martínez Cabañas. 1995. *La Administración Estatal y Municipal en México*, México: INAP, pp. 80-93.

⁷⁰ For an extensive analysis of this remarkably uneven growth in the Mexican municipalities see: Rodolfo García del Castillo. 1997. *Análisis del Municipio Mexicano. Diagnóstico y Perspectivas. Parte 1*. Documento de Trabajo (DAP No.32), México: CIDE and Rodolfo García del Castillo. 1997. *Análisis del Municipio Mexicano. Diagnóstico y Perspectivas. Parte 2*. Documentos de Trabajo, (DAP No.33), México: CIDE.

Aguascalientes 11, and in Baja California Sur there are only 5 (all elected by direct vote, adding an extra dimension of unequal growth).⁷¹ By 1995, there were 153,813 communities with less than 2,500 inhabitants, in which 29 per cent of the total inhabitants of the country resided (rural areas). Over 70 per cent of these communities had less than 100 inhabitants, a statistic representing a clear challenge regarding the provision of public services.⁷²

This non-planned growth has caused irregular urbanisation and disproportional regional development, all of which has affected directly upon the public utilities provided.⁷³ In order to explain this trend it is necessary to review the ways in which Mexican municipalities are divided according to their size. The development and the hegemony of each city is different but, for the purposes of this thesis, they can be identified according to three categories, as presented in Table 2.2.⁷⁴

⁷¹ The above data was obtained through: Daniel Moreno. Reforma, in *Enfoque Suplemento*, No.199, November 22, 1997, México.

⁷² Presidencia de la República. 1995. *Programa Hidráulico 1995-2000*, México, pp. 4.

⁷³ A typology evidencing the dramatic differences amongst the Mexican municipalities can be found in: Alejandro Medina Giopp.1992. *Experiencias Relevantes Sobre Tipología Municipal*. Documento de Trabajo (DAP No. 11), México: CIDE.

⁷⁴ This classification was obtained from Consejo Nacional de Poblacion. 1998. *Clasificación de Localidades*. México: CONAPO and José Mejía Lira. 1991. *Notas para el Estudio de la Administración Pública Estatal y Municipal en México*. (Documento de Trabajo), México: CIDE, pp. 35-37. Also, data to describe the following percentages were taken from the INEGI. 1998, accessed through the Internet www.inegi.org.mx and CONAPO. 1998, accessed on www.conapo.gob.mx/principia.html.

Table 2.2 Categories of the Mexican Municipalities (1995).

Category of Municipality	Population	Percentage of Municipalities	Concentration of National Population	Number of Municipalities
i) Rural	under 15,000	85 %	36 %	2, 064
iii) Urban	15,000-99,999	12 %	28.2 %	281
iv) Metropolitan	100,000 onwards	3 %	35.8 %	73
Total (National)	201, 138 localities	100 %	100 % *	2,418

Own elaboration using data from the CEDEMUN-INEGI census and CONAPO.

* The 100 percent does not include the inhabitants from the *Distrito Federal*.

The results obtained from these classifications illustrate the dramatic differences between and amongst each category. Thirty-six per cent of the total population lives in the less-developed areas - i.e., rural, with less than 15,000 inhabitants. Such areas constitute 85 per cent of the total municipalities, with a significant population of indigenous inhabitants (ten to 15 per cent). The lack or underdevelopment of public services is a common problem in this category.

Another 28.2 per cent of the population lives in the urban regions, which represent 12 per cent of the total municipalities. Nonetheless, the starkest contrast relies on the fact that only three per cent of the total municipalities, but 35.8 per cent of the population, live within 'metropolitan' entities.

2.3 The First Responsibility of Local Governments: The Provision of Public Utilities

The Provision of Public Utilities: The Legal Support

As noted earlier in this chapter, Mexico is a federal republic in which the federal and state constitutions grant specific responsibilities to local governments as the third level of government.⁷⁵ These responsibilities include the provision of the public services that are required by all the population, regardless of their role in the economy (i.e., for industrial, commercial, agricultural, or public use). It is thus not remarkable that the local authorities rule - that they provide almost *all* the public utilities.⁷⁶ Exceptions are telecommunications, national road systems (federal and state motorways), electricity infrastructure, post office, education, and housing and health services, the responsibilities for which lie at the federal and state levels. The present situation of the public utilities in Mexico needs to be analysed within the context of the historical developments of the last two decades. The first provision of services (in a contemporary sense) by the municipalities took place at the beginning of the 1980s.⁷⁷ Therefore, it is vital to identify those public services that the municipalities

⁷⁵ For the background supporting the administration of the public services see: INAP (coord). 1995. *La Administración de los Servicios Públicos Municipales*, Guía Técnica 10, México: INAP-CEDEMUN- SEGOB.

⁷⁶ The terms public services or public utilities will be used to mean the process to satisfy collective or individual necessities or demands by public or private means using specific schemes and according to what is established in federal, state or local laws in México.

⁷⁷ An interesting analysis can be found in: Rodolfo García del Castillo. 1997. *Los Municipios de México: Los Retos Ante el Futuro*, (in print), México: CIDE.

are required to provide.⁷⁸ These functions are set out in the constitutional amendments concerning the provision of public services made in 1983 by the Miguel De la Madrid government. As stated on Article 115, fraction III, of the Mexican Constitution: ⁷⁹

The municipalities, with the participation of the state governments when necessary or when determined by law, will be responsible for the provision of the following services: a) Water supply and wastewater, b) Street Lighting, c) Street Cleaning, d) Markets and food supply centres, e) Cementaries, f) Slaughterhouses, g) Streets, parks, and gardens, h) Public safety police and Traffic Police, i) The others services determined by local legislators according to territorial and socio-economic conditions in the municipality, therefore its administrative and financial capacity.

In order to provide the above services, every municipality has a normative framework previously approved by their own *ayuntamiento* and subsequently by the state chambers of deputies, which states the forms and uses of the public utilities and the guidelines for public administration management. This is the *ley orgánica municipal* (organic municipal law), also known as the *código municipal* (municipal code). This legislation is

⁷⁸ On the recent modifications in 1999 to Article 115 fraction III the new adds consist exclusively in paragraphs a) potable water, drainage, sewer, treatment and disposition of its residual waters c) city cleaning, compilation, movement, treatment and final disposal of residues g) streets, parks and gardens and its instrumentation h) public safety, in the terms of the article 21 of this constitution, municipal preventive police and traffic police.

⁷⁹ *Constitución Política de los Estados Unidos Mexicanos*, México: Mc Graw Hill.

compulsory and self made at this level. It applies nationally with similar conditions and criteria; however, every municipality has its own *ley orgánica municipal* with different specifications according to the size, population, and services provided.

In explaining the relationship between municipalities and the provision of public services, it is necessary to review how they are related. According to the Mexican constitution, the provision of public services is a major task for any municipality in Mexico. It represents the most basic form of management (often confused with governing) the public interest at this level, and is identified by the public as the primary justification for the creation and functioning of the municipalities.

Paradoxically, the income obtained from such provision represents only a small portion of the budget. Instead, the municipalities rely upon federal participation, thus creating a subordination circle in which authorities at this level are under scrutiny from higher levels.⁸⁰ Consequently, the results achieved are always below social expectations due to the lack of a real income with which to ensure better services. The water utilities represent an important case. They face a lack of investment that, consequently, generates health problems, particularly in the less-developed regions.

The provision of public services is identified as one of the legacies of the 1910 Mexican revolution, based on the assumption that public services

⁸⁰ For a broad discussion on federal financial dependency see: Rodolfo García del Castillo. 1994. Retos y Perspectivas de la Administración Municipal en México. In *Gestión y Política Pública*, Vol. III, No. 2, Segundo Semestre, México: CIDE, pp. 427.

must be provided with public means and particularly by the municipality. The selection of the proper techniques or mechanisms with which to provide public services is closely related to the political beliefs of the party in power, to local idiosyncrasy, to personal interest from the *ayuntamiento*, and to interest groups. Overall, in terms of local governments and public services, the evidence suggests that the administrative organisation of the Mexican municipalities has been increasingly inefficient since the reforms made by Miguel de La Madrid.⁸¹

The Provision of Public Utilities: The Techniques

In order to understand how local governments in Mexico provide public services, it is important to review the techniques used in practice, as well as the relationships with other entities, such as the private sector.⁸²

i) *Directa* (Direct)

This mechanism represents the most orthodox form of providing public services by public means. In this case the municipality is wholly responsible for providing and delivering the services, including the administrative, regulatory, and normative frameworks.

⁸¹ According to one of the most important scholars in municipal works in México; Raúl Olmedo.1985. *El Desafío Municipal*, México: CNEM- SEGOB, pp. 111.

⁸² To find more about the techniques used by the Mexican municipalities for the provision of public services see: INAP (coed). 1994. *Manual de Servicios Públicos Municipales*. México: INAP-BANOBRAS, José Mejía Lira. 1994. *Servicios Públicos Municipales*. México: UAEM, Rodolfo García del Castillo. 1992. *Cobertura y Calidad de los Servicios Públicos Municipales*, México: CIDE, and INAP. 1995. *La Administración de los Servicios Públicos Municipales*. Guía Técnica 10, México: INAP-CEDEMUN- SEGOB. and Rodolfo García del Castillo y Misael Hernández Torres. 1994. *Formas Clave para la Prestación de los Servicios Públicos Municipales*. Documento de Trabajo (DAP No.16), México: CIDE.

ii) *Acuerdos Intergubernamentales* (Inter-Governmental Accords)

These are administrative joint ventures between federal or state and the local governments. They are intended to help provide a specific public service (or services).

iii) *Cooperación con la Comunidad* (Inter-Community Co-operation)

This is a direct mechanism that works in close accord with social demands. It is intended, in the first instance, to represent members of the public and to serve as their link with the municipality. The aim of this kind of agreement is to tackle the lack of the most basic public services via mutual co-operation (municipality-society), and a common strategy with which to achieve it is to obtain funding from alternative sources including the society itself, private entities, and state or federal institutions. Ultimately the municipality manages the resources, though, and no private or social representation is permitted.

iv) *Contratos de Servicios* (Service Contracts)

This technique is used in cases where private intervention is allowed for a short period of time to perform a public service under public observance but without considering any private (financial) investment (this would represent a concession or an alternative sub-scheme). Its existence depends upon a balanced profits set-up (incomes and expenses) and two basic sub-schemes are possible. Firstly, the private element could perform a specific task or service (for example, invoicing, or installing water meters); or, alternatively, they could manage an entire 'system' (for example, by taking on all the administrative and operational functions of a water utility). Such approaches are considered by experts *to be potentially*

the most competitive form of privatisation and impose the least regulatory burden, and could be viewed as a first step towards obtaining the full control and responsibility of the utility (concession). For example, private involvement in administrative areas gives the 'know how' to encourage local authorities to make the concession.⁸³

v) Concesiones (Concessions)

These include the partial or total transfer of the management of public resources or services to private sector investment for a long or even indefinite term, and include Lease (L), Build-Own-Transfer (BOT), and Build-Operate and Own (BOO) approaches (Table 2.3).⁸⁴

Capital investment is generally the responsibility of the private body and remains public only in lease contracts. The municipality retains implicit characteristics like normative law and regulatory frameworks and the contract relies on these bodies.⁸⁵ It can be renewed and extended or, alternatively, cancelled before the expiry date if it does not meet the objectives for which it was created.

⁸³ As stated by Judith Rees. 1998. Regulation and private participation in the water and sanitation sector. National Resources Forum, Vol. 22, No. 2, Great Britain: United Nations-Elsevier Science Ltd, pp. 101.

⁸⁴ To find more about these sub techniques available see: Alejandro Villagómez. 1995. Mecanismos de Participación del Sector Privado en el Funcionamiento de los Proyectos Gubernamentales: La Experiencia en México, in *Gestión y Política Pública*, vol. IV, No.1, Primer Semestre, México: CIDE, pp. 207-234.

⁸⁵ The legal framework for the concession is found in: Virginia Alcántara Palma y Arturo Durán García. El marco jurídico para la concesión de los servicios públicos municipales, in *Federalismo y Desarrollo*, Año 11, Julio-Agosto-Septiembre de 1998, México: Banobras, pp. 125-139.

Table 2.3 Private Participation in the Provision of Public Utilities.

Option	Management & Operation (M&O)	Asset Ownership	Capital Investment	Commercial Risk	Duration (Years)
Service Contract	Public/Private	Public	Public	Public	1-2
Management Contract	Private	Public	Public	Public	3-5
Lease	Private	Public	Public	Shared	8-15
Concession	Private	Public	Private	Private	25-30-50
BOT	Private	Public/Private	Private	Private	20-30
BOO	Private	Private	Private	Private	Indefinite*
Divestiture+ (Full or Partial).	Private	Private or Private and Public	Private	Private	Indefinite (*may be limited by license).

Own Elaboration by using data from: Judith Rees. 1998. Regulation and private participation in the water and sanitation sector. National Resources Forum, Vol. 22, No. 2, Great Britain: United Nations- Elsevier Science Ltd, pp. 95-105 and World Bank. 1997. Toolkits for Private Participation in Water and Sanitation. Washington DC: IBRD.

+ Even when this technique is not explored by the Mexican Constitution on Article 115, represents an alternative for the provision of the public utilities.

vi) Organismo Descentralizado (Decentralised Body)

This approach is used when a municipality decides to create an external body to administrate a specific service with the aim of improving quality. The creation of this body relies on the approval, in the first instance, of the *ayuntamiento*, as well as the state deputies chamber. It has its own budget and administrative independence, but its regulatory framework lies exclusively within the municipality under state and federal observation. An example is the *junta del agua* (water local administration). This body was created with the aim of regulating, controlling, and monitoring the water and wastewater services of the city. Nevertheless, private participation is allowed - largely by means of contracting out some operational or administrative functions in the form of service contracts (as with the example of invoice generation provided above).

vii) *Empresa Paramunicipal* (Paramunicipal Enterprise)

This has the same features and responsibilities as a decentralised body, but it is granted financial and legal autonomy to perform in a specific environment. It has its own regulatory framework - defined by the *ayuntamiento* and approved by the state legislatures. Consequently, it is permitted to operate in three different ways: first, via public means; second, indirectly, using public and private bodies; and, third, by a mixture of public, private, and NGO associations.⁸⁶

Any public or private participation (capital investment) is permitted to retain a majority of the shares and the control of the enterprise, but it must do so without losing sight of the public purpose for which it was created. For example, external financial resources are permitted as long as they do not alter the social role of the enterprise. In order to achieve this goal, the objectives and means are supervised by the municipality. Otherwise, a specific body is appointed to monitor the enterprise. This technique clearly allows private participation and can be considered to be a joint venture.

viii) *Fideicomiso* (Fiduciary)

This technique involves the creation of an administrative body to which financial resources are granted in order to provide a specific public service. The role of private intervention is limited exclusively to the management of the resources - in other words, private intervention is used to manage

⁸⁶ Rodolfo García del Castillo y Misael Hernández Torres. 1994. *Formas Clave para la Prestación de los Servicios Públicos Municipales*, Documento de Trabajo (DAP No. 16), México: CIDE, pp. 18.

public financial resources, the aim being to obtain better premiums. The surplus is then used to finance specific public services. This mechanism clearly allows private participation, but does not afford it any independence with which to formulate, control, or make decisions regarding the public services.

ix) *Asociación o Convenio Intermunicipios* (Association or Inter-municipal Agreement)

Article 115 of the Mexican constitution places special emphasis upon this sort of co-operation, stating that *The municipalities from similar state governments, previous accord within the municipalities and subjected to the law, could make associations and co-ordinate same efforts for the better provision of the public services.*⁸⁷ This form represents a mechanism between two or more municipalities in order to achieve specific objectives, including the formulation of strategies and the management of public services, as well as the co-ordination of efforts. It is restricted to local agreements and does not permit any other kind of private intervention.

x) *Bonos o Cupones de Servicio* (Bonus or Service Coupons)

The basic characteristic of this form relies on direct subsidy, with bonuses or coupons to be freely exchangeable for specific goods or services. A private entity is allowed to perform the service and to charge the

⁸⁷ *Constitución Política de los Estados Unidos Mexicanos*, México, Mc Graw Hill, pp. 115-119.

municipality for the goods or service provided. Examples are transport coupons or bonuses for cultural activities.

Section (i) of Article 115 clearly states that the above mechanisms are not the only alternatives for the public provision of goods or services, when permitted by NGOs or private means. It does state what the municipalities, according to the *ley orgánica municipal*, are explicitly allowed to do in this regard, but further possibilities include the formulation of new schemes, such as a privatisation policy, or the exclusion of certain public services from this article.

Any change depends, in theory, on local demands, and is subject in the first instance to approval by the *ayuntamiento*, and therefore by the state chamber of deputies (in other words, the full or partial divestiture from any public utility is not considered, but not excluded, by this article. Rather, its application depends on the above considerations). Nonetheless, the delivery of public services represents, if not the only reason for the existence of local authorities, then one of the most controversial functions of government at this level, and services such as public safety or traffic are not included in the discussion about private involvement.

2.4 The Role of the Private and Public Sectors in the Provision of Public Utilities in Mexico

Public Utilities and Private Means: The Involvement

This section presents the relationship between the public sector and the permitted involvement of the private sector in the provision of public services, according to the techniques reviewed earlier and presented in

Table 2.4.⁸⁸ The evidence suggests that the participation of the private sector in the delivery or management of public goods or services is allowed in six out of ten alternatives. In these cases, there is a transfer between public and private of the right to perform or provide a specific service and, in five of the cases, such transfers could be seen as privatisation schemes in the strict sense of the term.

Table 2. 4
Type of Public Service Delivery of the Mexican Municipalities (1997)

Public Service Delivery	Public Intervention	Private Intervention
i) Direct	✓	×
ii) Intergovernmental Accords	✓	×
iii) Intercommunity Co-operation	✓	×
iv) Concession	✓	✓
v) Service Contracts	✓	✓
vi) Decentralised Body	✓	✓
vii) Paramunicipal Enterprises	✓	✓
viii) Fiduciary	✓	✓
ix) Intermunicipal Agreements	✓	×
x) Service Coupons	✓	✓

Source: Own elaboration by using data from the SEGOB-CEDEMUN-INEGI census.

The first alternative is the services contract, in which a private entity agrees to manage specific areas of a public utility (invoicing, water micro

⁸⁸ A relevant analysis of the debate about the provision of public utilities by private or public participation is reviewed by: Richard Batley (ed.). 1997. Private Participation in Urban Service Delivery, in *The Latin American City: New Directions in Urban Policy and Management*, School of Public Policy: University of Birmingham and Institute for Housing and Urban Development Studies, The Netherlands, City Symposium, March 13-15, 1997, Barcelona, España, pp. 33-38.

and macro measurement and quality control, amongst others). Next, there is a form of concession scheme, which allows private involvement and investment in all of its variants (Lease, BOO, and/or BOT). A third form involves using a decentralised body, which may lead to concession schemes or service contracts, amongst other approaches.

A fourth technique relies on *paramunicipal* enterprises, whereby private participation is possible under two basic schemes: first, by indirect participation, whereby the municipality makes concessions, contracts, leases, franchises, and other arrangements between public and private participants; and, second, by allowing a mixture of enterprises - governmental, private, or social - to form partnerships.

A fifth alternative is in the form of a fiduciary, an approach through which public funds are managed via private participation.⁸⁹ The last scheme, of service coupons, allows private intervention only in a non-strict sense of the term, since there is no transfer between public and private *per se*. Private intervention *is* allowed, but for the purposes of this chapter this scheme does not represent an alternative because it clearly does not change the supplying or transferring of a specific product or service from public to private ownership.

Nonetheless, it is important to consider that any of these schemes can lead to a mix of techniques that could modify the original background. For

⁸⁹ To find a broad description see: Rodolfo García del Castillo and Misael Hernández Torres.1994. *Formas Clave para la Prestación de los Servicios Públicos Municipales*, Documento de Trabajo (DAP No.16), México: CIDE, pp. 17-18.

example, service coupons can lead to contracted services, etc.

The Relationship in Practice between Public and Private Intervention for the Provision of Public Utilities: The Empirical Evidence.

Having established that private participation is allowed in the majority of the schemes supported by the Mexican constitution, it becomes necessary to determine the number of services provided, in practice, by private and public means in the Mexican municipalities. Even though it is not the aim of this chapter to explain why a government might need to privatise, it is important to review the degree of actual private and public involvement in the provision of public services, in order to build our case study.⁹⁰ For this purpose, use has been made of the survey made by the SEGOB through the *Centro Nacional de Desarrollo Municipal* - CEDEMUN - (National Centre for Municipal Development) in conjunction with the *Instituto Nacional de Estadística, Geografía e Informática* - INEGI (National Institute for Statistics, Geography, and Information Science) - prepared in 1995 and actualised by 1997. At this time it is the only source available through which to obtain this specific kind of information.

In explaining this trend, Table 2.5 considers only those public services stated in our survey; it is not the intention to discuss or explain other developments. These figures are not entirely accurate, as will be shown

⁹⁰ The survey used is: Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN-INEGI, (CD- ROM). Interesting use of this survey can be found in: Rodolfo García del Castillo. 1997. *Los Municipios de México: Los Retos ante el Futuro*, (in print), México: CIDE. To find the methodology used for this survey see: Alfredo Ramírez y Roy Campos. 1997. *Encuesta Nacional de Gestión Municipal 1993: Informe Metodológico*. Documento de Trabajo (DAP No. 51), México: CIDE.

later in this chapter; however, they do show that local governments are a big provider of public services - at least 23,327, or 92.44 per cent, of all the public utilities are provided by public means. Only 1,910, or just 7.56 per cent, of them employ any kind of privatisation scheme in their provision. It is particularly relevant for the purposes of this research that, at least in theory, the water utilities are provided, in 99.05 per cent of cases, by public means.

Table 2.5
Private and Public Participation in the Delivery of Public Services at Local Level in Mexico (1997).

Public Utility	Public Intervention	National Percentage	Private Intervention	Private Percentage
Water	2,309	99.05%	22	.95%
Wastewater	1,703	99.48%	9	.52%
Street Lighting	2,295	99.53%	11	.47%
Public Safety	2,212	99.95%	1	.05%
Traffic Policing	1,105	99.82%	2	.18%
Street Cleaning	1,957	99.95%	1	.05%
Garbage Collection	1,906	98.80%	23	1.20%
Paving	1,809	99.75%	5	.25%
Markets	1,058	99.17%	88	.83%
Food Supply Centres	85	50.59%	42	49.41%
Cementaries	2,308	99.65%	8	.35%
Slaughter Houses	942	61.79%	36	38.21%
Parks	1,702	99.71%	5	.29%
Public Gardens	1,609	99.32%	11	.68%
Public Transport	327	20%	1,636	80%
Total	23,327	92.44%*	1,910	7.56%**

Source: Own elaboration using data from the CEDEMUN-INEGI census.

** the result is obtained by multiplying $23,327 \times 100 / 25,237 = 92.44$*

*** the result is obtained by multiplying $1,910 \times 100 / 25,237 = 7.56$*

Certain questions arise from this data. For example, if the Mexican constitution allows local authorities to apply specific privatisation schemes, why has so little been done in this regard?

According to extensive surveys - such as those provided by CIDE -

supported by personal interviews, a lack of financial resources is the major justification provided by local authorities for avoiding any kind of policy innovation, notwithstanding the fact, paradoxically, that privatisation policies should, in theory, reduce the public's financial burden.⁹¹ Other factors mentioned are inexperienced management, technical insufficiencies, and centralised decisions (over-control by federal and state bodies).⁹² But why, when money is the problem, do local authorities not find alternative ways to provide public services in order to gain some financial relief? Furthermore, when experienced management is lacking, why is little or nothing done to tackle this problem?

Common sense and the experiences of other countries were not applied to these questions. The results, instead, highlight local idiosyncrasies in Mexico - a series of interviews with civil servants (mayors, *síndicos*, *regidores*, and public officials in charge of public utilities) from different categories of municipalities elicited answers that remained firmly couched

⁹¹ To review the financial characteristics from the Mexican municipalities from a legal perspective, see the study made by: Hugo Nicolás Pérez González. 1993. *La Problemática de la Administración Financiera en el Municipio Mexicano*. Documento de Trabajo (DAP No. 17), México: CIDE, pp. 12.

⁹² On the use of innovative policies in empirical cases see: Rodolfo García del Castillo. 1993. *Cobertura y Calidad de los Servicios Municipales. Estudio Sobre el Estado de México*, Documento de Trabajo (DAP No. 12), México: CIDE, José Mejía Lira (comp). 1994. *Formas Clave para la Prestación de los Servicios Municipales*. Documento de Trabajo (DAP No.16), México: CIDE, Misael Hernández Torres. 1994. *Servicios Públicos Municipales: Una Experiencia de Concesión*. Documento de Trabajo (DAP No. 23), México: CIDE and Enrique Cabrero Mendoza y Rodolfo García del Castillo. 1994. *La Gestión de los Servicios Urbanos: Un Reto a la Innovación en los Gobiernos Locales*. Documento de Trabajo (DAP No. 15), México: CIDE.

in political rather than economic terms, even where it was necessary for local authorities to improve the quality of the services in general terms. Internal (local interest groups) and external pressures (legal impediments), besides central relationships, clearly jeopardise any kind of agreement with the private sector.

Another reason cited for the failure to implement any reform in this regard is related to the Mexican constitution, which states that local authorities will remain in power for a period of three years with no opportunity for re-election, applying to both members of the *ayuntamiento* (*síndicos* and *regidores*) and the mayor. This could explain why politicians and civil servants involved in the municipalities take a passive role. Most wish to hold on to their jobs (in cases of low rank officials) or hope to obtain a political post in the next election. In such a short period of time little, anyway, can be done, and the less risky the decisions, the better chance to remain politically alive (or on the payroll of the succeeding administration).

But why is there so much resistance to change? What can be assumed with some certainty is that the use of any privatisation technique will lead to enormous resistance from the actors involved (bureaucrats, pressure groups, society, and federal and state governments). This could explain why medium and long-term projects generally do not suit the interests of the political parties and local municipalities. The risks are high and the premiums are perceived as low or non-existent, especially when one considers the role of regulatory agencies affecting their partisan interests. Taking passive roles is a common behaviour in order to avoid any new

policy that could jeopardise, if not the future of the city, at least personal projects. Without trying to explain the limits of human behaviour, it can be assumed that any policy innovation, and more specifically the use of alternative schemes by private participation for the provision of the public utilities at this level, are measured in the first instance by the effect on personal projects, second by the public perception, and third by the political feasibility. Thus, the economic and financial defence of the programme, amongst other justifications or privatisation promises (technical improvements; de-bureaucratisation; a reduction in the size of the state and, consequently, the immediate current costs), are in practice considered at a later stage but commonly identified as the main reason for adoption.⁹³ Nonetheless, the determining factor for policy innovation, specifically by means of privatisation schemes, is federal support (as shown further in the literature). Thus, all municipal innovations result, inevitably, in an unavoidable politicisation, and the majority of the cases depend on higher decisions and not local necessities.⁹⁴

⁹³ An analysis of this argument can be found in: Gabriela Nava Campos. 1997. *Autonomía Administrativa: Una Introducción a la Discusión Sobre la Influencia en la Toma de Decisiones de Agencias Reguladoras de Mercado*. Documento de Trabajo (DAP No. 54), México: CIDE, pp.13.

⁹⁴ On the degree of centralisation and federal dependency amongst the interest groups at this level see: Enrique Cabrero Mendoza. 1997. *La Experiencia Descentralizadora Reciente en México. Problemas y Dilemas*. Documento de Trabajo (DAP No.28), México: CIDE, pp. 4, and Enrique Cabrero. *Las Políticas Descentralizadoras en México. Logros y Desencantos (1983-1993)*, México: CIDE (in print) and on local sources of power see: Lorenzo Meyer. 1986. Un Tema Añejo Siempre Actual: El Centro y las Regiones en la Historia Mexicana, in Blanca Torres (comp), *Descentralización y Democracia en México*, México: Colmex.

The Techniques Used in Practice to Provide the Public Utilities: A Practical View

This chapter has shown the degree of private involvement in the provision of public utilities, and has hypothesised that private intervention is seen as a menace to the political interests surrounding privatisation policies. In addition to these arguments, important evidence is obtained by reviewing the actual techniques used for the provision of public utilities (Table 2.6).

Table 2.6
Techniques Used in Practice by Public and Private Means at Local Government Level in Mexico (1997).

Technique Used (Public & Private Intervention)	Number of Services	National Percentage
Public Intervention		
Direct	15, 925	63.10%
Inter-municipal Agreement	1,855	7.35
Co-provision with the State Government	2, 422	9.59
Co-provision with the Federation	382	1.51
Community Collaboration	2,743	10.86
Public Intervention	23,327	92.44%
Private Intervention		
Concessions	1, 910	7.56%
Total by Public and Private	25, 237	100%

Source: Own Elaboration using the SEGOB-CEDEMUN-INEGI census

Considering exclusively the provision of the public services by public means, Table 2.6 shows that in 63.10 per cent of cases this is achieved using a direct mechanism, the most expensive of the techniques available. (Extensive surveys (CIDE) prove that this alternative represents, in most cases, the greatest economic burden upon local finances). In response to the capital-intensive investment, and the lack of the technological and human resources required by the public utilities, the local budget and thus

social spending are directly affected.⁹⁵ Alternative mechanisms are used only in the remaining 36.90 per cent, showing that local governments in Mexico are entirely passive as regards finding alternative options for the delivery of public services, even when these options remain within the public 'sector'. But why are local governments so engaged in providing public services by direct means, even when this represents the most expensive option? Even when there is the clear necessity to find fresh resources with which to cope with the public utilities' financial demands, local authorities remain steadfast.

In contrast to what logic might suggest, in a series of interviews with members of ayuntamientos (mayor's, *síndicos*, and *regidores*) from different categories the answers showed that local decisions do not rely on local needs, but are more subject to political influences from the centre, to rigid decisions from the mayor, and to partisan ideologies. This illustrates clear presidentialism, on a small scale, in which local decisions are concentrated in just one man - the mayor. Furthermore, the *ayuntamiento*, which represents the other body in which these decisions are jointly concentrated, is under mayoral control and manipulation.

A common practice is for members of this body to negotiate under the table with the mayor, local officials, federal and state deputies, and any person or interest group that has any kind of immunity against local

⁹⁵ Some of the most relevant data supporting our arguments are found in: Rodolfo García del Castillo. 1997. *Los Municipios de México: Los Retos ante el Futuro*, (in print), México: CIDE. See also: Rodolfo García del Castillo. 1994. Retos y Perspectivas de la Administración Municipal en México. In *Gestión y Política Pública*, Vol. III, No. 2, Segundo Semestre, 1994, México: CIDEbidem.,

resolutions. However, at the end of the day, the mayor has the final decision that could lead to support for specific parties, interest groups, civil servants, or even just the mayor's own reputation.

One of the most important problems that arises from these considerations is that decisions regarding public services are decided at this level. It is common practice to use extra resources to finance problematic services according to partisan ideologies (mayor-city hall), leaving the rest of the services with minimal funding. For example, the water utilities require capital intensive investments and, in most cases, do not meet local expectations. The mayor is often more interested in promoting urban infrastructure, which is highly visible although not, of course, a prime necessity.⁹⁶

The results obtained from the interviews can be generalised so as to apply to *all* municipalities. On the one hand, the bureaucratic behaviour of local authorities demonstrated a lack of experienced managers and employees, politicised enterprises, civil servants unwilling to find new techniques or alternative procedures, pressures from the public, and the fear of losing control over a certain public utility, all of which contributed to the tendency to avoid any kind of new policy. On the other hand, of course,

⁹⁶ An interesting debate about the *presidencialismo* or degree of centralisation at this level is found in: Tonatiuh Guillén López. 1996. *Gobiernos Municipales en México: Entre la Modernización y la Tradición Política*, México: Miguel Angel Porrúa-Colegio de la Frontera Norte, pp. 179-190. See also: Rodolfo García del Castillo. 1994. Retos y Perspectivas de la Administración Municipal en México. In *Gestión y Política Pública*, Vol. III, No. 2, Segundo Semestre, México: CIDE, pp.409.

financial and economic (macro-economic) pressures are also used as justifications for privatising by local authorities. Nevertheless, local governments have political reasons (personal projects, external and internal pressures) to continue to provide public services using direct mechanisms.

As an additional pressure, Article 115 of the Mexican constitution states that the public services must be provided by the local authorities, without considering the prevailing situations in which the public utilities find themselves (financial, technological, and operational), the rigid political systems (centralisation at all levels), or the high resistance to change from the actors involved (society, civil servants, and politicians). Thus, local responsibilities in this regard become a controversial point of discussion. An important task of any municipality is to be perceived as a good government, focused on serving social demands above any other interest. The failure to provide any constitutional public service will clearly jeopardise the public perception of “good” government. Furthermore, using any other mechanism that does not guarantee a positive outcome - not to mention the word privatisation - will jeopardise the political and economic stability of the municipality.

In this sense, it is better to provide a bad service (in all aspects) than to assume the risk of new changes. This philosophy creates a chain effect in which the precarious conditions of most of the public utilities are affected by the lack of investment and interest from public officials, generating a potential problem for future administrations in which local necessities are growing faster (water, wastewater, and garbage collection, amongst other

public utilities) than any capital investment. The authorities take a passive role in order to avoid any major political problems. Any change (administrative, legal, technical, or geographical), and any increase, in real terms, in the price for the service, represent a clear menace to the interests of, if not the society, then at least the mayor. In turn, the party in power, or pressure groups (work unions, social leaders, business representatives, or local quotas of power - *caciques*), will tend to be jeopardised by any innovation. It is also important to consider that any policy innovation is tied to macro-economic variables that jeopardise any privatisation scheme at this level, due to the constant economic and political turmoil prevalent in Mexico during recent decades.

Another important aspect relies on the assumption that any attempt to alter the balance between these developments could easily lead to what the society perceives as the *cultura del no-pago* (non-paying culture). In the majority of the municipalities the lack of regulatory frameworks and non-administrative mechanisms, besides technical inefficiencies, all result in public services being easily cheated. This situation leads to a vicious circle (municipality-society) in which local authorities argue against the society, and vice versa, in order to avoid any kind of innovation affecting the services provided (for example, it is common for local authorities to demand that potable water users pay on demand, whereas, at the same time, the user will argue that the water must not be charged for at all).

2.5 Local Governments and Privatisation Policies: The Empirical Evidence

The Provision of Public Utilities by Private Means: The Evidence.

Having reviewed the implications involved, not just in privatisation policies, but in any kind of reform of the provision of public services, it is now necessary to identify the kind of privatisation techniques that have been used in practice by the municipalities in Mexico, in order to review the degree of private involvement in their provision.⁹⁷ In doing so, this thesis will highlight the lack of an accurate official survey, using empirical experiences with which to reinforce our arguments.

As stated earlier and shown in Table 2.6, the use of privatisation policies, in the form of concession schemes, appears in 1,910 cases. Thus, 100 per cent of private engagement relies exclusively on this type of scheme. How can this be explained? In fact, after analysing the data collected from the SEGOB-CEDEMUN-INEGI institutions, inconsistencies and inaccuracies within the official surveys and mechanisms used by these bodies have been identified.⁹⁸

The number of municipalities providing public services by private means is

⁹⁷ For a broad study on innovative mechanisms at a local level in México see: Enrique Cabrero Mendoza. 1996. *La Nueva Gestión Municipal en México. Análisis de Experiencias Innovadoras en Gobiernos Locales*, México: Miguel Angel Porrúa-CIDE.

⁹⁸ Experiences in Latin American countries using privatisation schemes can be found in: BANOBRAS. 1994. Experiencias de Privatización en Latinoamérica, in *Federalismo y Desarrollo*, No.42, Enero-Febrero 1994, México: Banobras, pp. 36-41; also, Andrés Filón. 1997. Experiencias Efectuadas por Distintos Municipios de la Argentina en Materia de Privatización de Servicios Públicos, in *Revista Hacienda Pública*, No. 58, March, México, pp. 44-47.

both overestimated and, at the same time, underestimated by these bodies. The figures seem to show that local governments provide many more services using a concession technique than is actually the case, whilst at the same time the number of public services provided by private means appears lower. How can this contradiction be explained?

The first inconsistency originates in the evaluation of the number of municipalities providing public services. The question asked by these official bodies was: How does the municipality provide public services? The alternatives considered in answering this question were: a) direct, b) intermunicipal agreement, c) co-provision with the state government, d) co-provision with the federation, e) community collaboration, and f) concession. The only mechanism evaluated by these bodies, though, was that of the concession scheme - omitting other privatisation techniques, even those reviewed earlier.

Consequently, the answers obtained in the majority of cases were disproportionate to the reality. As previously argued, Mexican municipalities tend to suffer from two main problems: the lack of financial resources, and ineffective management. A common strategy to solve these problems is to provide some public services, or parts of services, using private intervention without acknowledging it as such. This often occurs in small and medium-sized municipalities, where the intervention of external bodies plays a fundamental role due to the lack of municipal infrastructure.

A common scenario is for the mayor to require an external member to help them with specific duties. In most of these cases, the helper provides

its private assets in order to perform the services, but the municipality pays them back as a private entity - with clear public responsibilities, but without any kind of agreement. In such cases, private intervention is used in order to perform public services without the knowledge of any of the parties involved.

Thus it appears that, when evaluating the degree of private intervention, no consideration is given to the external helper providing the service in an informal way, and nor are such cases accounted for as a kind of informal privatisation (non-contract), thus altering the results of the survey. In some cases the external helper is identified as a concession (due to the idea of private involvement) without any actual agreement.

One such case personally reviewed involved a family member (mayor's relative) transporting cattle from the ranch to the slaughter house, using his or her private truck, own personnel (more family members), and gasoline. The usual form of payment is from municipal sources or by charging cattle owners for the transportation. Here, public functions are clearly undertaken by private entities (there is a transfer between public and private), representing a privatisation in the strict sense of the term. The lack of agreements, contracts, or even acknowledgement of this development, however, is a common situation encountered when evaluating private intervention, one which can lead to nonsensical results. It is clear, therefore, that private involvement has arrived in the majority of the municipalities in Mexico, but without being acknowledged as a privatisation technique.

On the other hand, some cases counted by the surveys as concessions are

not, legally, any such thing. In fact, only a few concessions, as legally defined, have been made at a local government level. The over-estimation of this trend is due to the fact that the surveys consider only concession schemes (due to the lack of information, which creates a permanent confusion) when, in theory if not in practice, other types of private intervention agreements exist. This helps to explain why there are supposed to be 1,910 concessions, when in reality only a few have been made. Other techniques, such as franchising, joint-ventures, service contracts, leases, BOO, BOT, or the liquidation of public utilities, are all forced into the 'concessions' category.

For example, the greatest number of 'concessions' (1,636, or 84.29 per cent) can be found in the transport sector; however, the legal privatisation schemes used in this sector are actually closer to service contracts, as in the majority of other cases (slaughter houses, markets, city cleaning, and water treatment plants, amongst others).

The Term Privatisation: A Political Threat

In explaining the common misconceptions regarding the use of the terms 'privatisation' and 'concession', one must recognise the inherent political nature of them both. According to official surveys, rather than evaluating the degree of private intervention using privatisation as a mean, one should instead classify all as concession schemes. Teichmann argues that *the word privatisation was never used by Mexican government officials---a reflection of the politically sensitive nature of the issue.*⁹⁹ The evidence of

⁹⁹ Judith A. Teichman .1995. *Privatisation and Political Change in Mexico*. University of Pittsburgh: University of Pittsburgh Press, pp.129.

personal interviews is that even the people involved (mayors and civil servants) in any privatisation procedure do not recognise it as such. Official documents add to the confusion, defining concession and privatisation as totally different things, but simultaneously interchanging the terms indiscriminately, leading to obvious problems when evaluating the practices.¹⁰⁰ However, a concession scheme is only a specific form of privatisation in the strict sense of the term,¹⁰¹ and the confusion of the terms reflects the delicate political nature of the issue. In fact, all that *can* be assumed is that the term 'privatisation' refers to a controversial policy that has nothing to do with the nature of local governments.

The lack of information regarding privatisation also encourages an immediate association with an unfair, neo-liberal policy, implemented in order to sell the sovereignty of the state and applied, in particular, during the presidential term of Carlos Salinas de Gortári (1988-1994). Also, contradictory and controversial results, in the current government of President Ernesto Zedillo Ponce de León (1994-2000), have been achieved by means of privatisation policies at a federal level, thus making any debate regarding this policy - at any level - highly political. This, in turn, affects the implementation of privatisation policies in the Mexican municipalities, since at this level it is an issue related not to the market *per se* but to the imminent necessity to find alternative ways to provide

¹⁰⁰ To find out about this confusion see: INAP (coed.). 1994. *Manual de Servicios Públicos Municipales*, México: INAP-BANOBRAS, pp. 69.

¹⁰¹ An interesting debate explaining the meaning of concession in legal terms is found in: Angilberto Castañeda. 1993. Comentarios Respecto del Concepto y Naturaleza Jurídica de la Concesión, in *Revista Hacienda Municipal*, No. 42, March 1993, México, pp. 46-57.

public services, as a means to avoid federal and state subordination and to cope with local necessities.

The Role of Privatisation Policies at a Local Level: An Overview of the Cases in Mexico.

Having disputed the accuracy of the official data in classifying the privatisation techniques actually used, one must examine those municipalities that have actually used privatisation schemes,¹⁰² which in their proper variants have been a common alternative to the state provision of public utilities (and largely occurred during the Carlos Salinas period of government (1988-1994)).¹⁰³ Recent cases, which have not been recognised in full by official surveys (SEGOB-CEDEMUN-INEGI), produced controversial results, suggesting two main outcomes.

The first, challenging earlier discussions, involves the breakdown of local idiosyncrasies and passive inertias and the subsequent emergence of a number of municipalities that have moved forward in finding alternative ways to provide public utilities. Examples include the cases of city cleaning and garbage collection in the cities of Naucalpan in Estado de México,¹⁰⁴

¹⁰² To find cases using concession schemes see: Enrique Cabrero Mendoza (cord). 1996. *Los Dilemas de la Modernización Municipal: Estudios Sobre la Gestión Hacendaria en Municipios de México*, México: Miguel Angel Porrúa-CIDE.

¹⁰³ To find a discussion supporting privatisation programmemes at a local level see: Jacques Rogozinski. 1997. *La Privatización en México. Razones e Impactos*, México: Trillas, pp. 188-189.

¹⁰⁴ To find more about this specific case from a financial perspective see: Jenny Mercedes Reyes Espinoza. 1994. *La Concesión de los Servicios Públicos: Una Opción de Financiamiento Municipal*, Masters Thesis, México: CIDE. Also, on alternative mechanisms to provide public services see: Rigoberto Soria Romo. 1995. Hacia un Modelo Alternativo en el Financiamiento y Prestación de los Servicios Municipales, in *Federalismo y Desarrollo*, Año 9, No.5, Sept-Oct 95, México: Banobras.

Morelia in Michoacán,¹⁰⁵ Reynosa in Tamaulipas, Guadalupe and Monterrey in the State of Nuevo León, Torreón in the state of Coahuila, Acapulco in Guerrero, Guadalajara in Jalisco,¹⁰⁶ and La Paz in Baja California Norte. These are all cases, ranging from 1993 until 1998, in which private participation in the form of concession schemes, service contracts, BOT, and leases, has been allowed. However, only a few have succeeded, and by 1999 the legal contracts had been modified completely or, in the worst cases, dispensed with altogether.¹⁰⁷

As a result, a second outcome common to all cases is that the politicisation brought about using privatisation techniques is always greater than any effort to implement any policy innovation.¹⁰⁸ This leads to controversial results that have little to do with the rhetoric of privatisation theory or the character of the municipality in question. Consequently, the lesson is clear: any attempt to use privatisation policies is always influenced by politics. This is especially so considering those schemes in which a great deal is transferred (e.g., water utilities), altering the perception (public good under private exploitation) of the policy-

¹⁰⁵ This case is reviewed in detail by: Misael Hernández Torres. 1994. *Servicios Municipales: Una Experiencia de Concesión*. Documento de Trabajo (DAP No. 23), México: CIDE.

¹⁰⁶ A review of this case can be found in: Carlos E. Real Ramirez. 1995. *Nuevas Estrategias Para la Prestación de Servicios Públicos Municipales: El Caso de Guadalajara, 1995*, Master Thesis, México: CIDE.

¹⁰⁷ A discussion of this case can be found in: Servicios Públicos, Mal Negocio. *El Financiero*. Negocios Suplemento. October 26, 1997.

¹⁰⁸ To find an analysis of the political factor in the provision of public utilities see: Alfonso Altamirano Estrada. 1994. *Aproximación al Estudio del Factor Político en la Prestación de los Servicios Públicos*, Master Thesis, México: CIDE.

makers and the inhabitants.

Still, it is important to bear in mind that the use of private participation in the strict sense (using deliberate privatisation schemes such as concessions, services contracts, franchising, or direct transfers), and in the non-strict sense (liberalisation or deregulation of public utilities such as public transport or public bus), became more evident immediately after the modifications to Article 115. However, the use of private participation, both as an official policy, and unofficially and without acknowledgement, can be traced back to the first provision of public utilities in Mexico, regardless of the size or degree of development of the municipalities. In this sense, privatisation schemes have always been used - the differences lie in the policy's concept and implementation.

The greatest legacy of Salina's privatisation movement for the water utilities, in terms of money invested and the promotion by federal authorities with World Bank back-up, has been limited to two concession schemes for the water utilities: one representing our case study, in the city capital of Aguascalientes in the state of the same name; and the other in the conurbation of Cancún-Isla Mujeres, in the state of Quintana Roo.¹⁰⁹

¹⁰⁹ The case of the water concession in Aguascalientes is reviewed using a rationalist perspective and with great incongruencies by: Ruben Salazar Jasso. 1996. *La Concesión de los Servicios Públicos del Agua en el Municipio de Aguascalientes Bajo Una Perspectiva Racionalista*, Masters Thesis, México-CIDE, a further review of this case, though not in great detail can be found in: Manuel Díaz Flores y Rodolfo García del Castillo. 1995. *Innovación Financiera en Gobiernos Locales: El Caso del Municipio de Aguascalientes*. Documento de Trabajo (DAP No. 35), México: CIDE. An economic analysis of both cases is to be found in: Alec Davis Carstens. 1995. *Análisis Económico de la Privatización Como Solución a los Problemas de los Servicios Urbanos de Agua en México: Los Casos de Aguascalientes y Cancún-Isla Mujeres*. Bachelor's Thesis, México: ITAM, also, for a private perspective of the water utilities management: Lilian Saade. 1993. *Perspectivas de la Participación de la Iniciativa Privada en el Servicio de Agua Potable en México*, Bachelor's Thesis, ITAM: Mex.

The concessions were granted in 1993 and 1994 respectively, both under federal support and encouraged by international bodies. The initial plan promoted by federal authorities had been to apply the scheme, eventually, in the 100 most important municipalities.

Concluding Note

To conclude this chapter it is necessary to identify whether local governments, public services, and privatisation policies are sufficiently balanced (economically, legally, and technologically) to assume inherent responsibilities for the provision of the public utilities according to the constitutional amendment. One answer is that local governments and public services are not balanced enough to perform according to local realities, thus generating dysfunctional results. However, privatisation has been applied without consideration for the proper balance between local and public services, occasioning unfair and unexpected results and leading to a permanent politicisation of this policy. This applies to all the municipalities using private intervention at any level, especially when a large transfer is involved.

Clearly, since the 1983 constitutional reforms, local authorities have employed a diverse range of privatisation methods, with equally diverse results. The aims for which Article 115 was reformed are far from the national reality. The provision of public services by public or private means seems an ongoing trend, but with different implications for each municipality in Mexico, especially considering that the true chances of development are concentrated in only a few cities. What is clear is that the

public utilities are the most basic and direct form of governing, representing the first relationship or contact with the society.

According to the findings of this chapter, it can be concluded that local governments in Mexico suffer from two main disadvantages when providing services by public means. Firstly, there is a lack of financial resources, and the mechanisms to find alternative sources of funding are few or non-existent. Secondly, there is inexperienced management, with unclear objectives, a high turnover of personnel, and changes in public policies every three years. Enterprises are highly politicised and resistant to change, and certain mechanisms and procedures are used to innovate public services without public knowledge. Legal loopholes in the state and local legislation also represent common problems in the implementation of privatisation policies or the use of alternative schemes allowing a degree of private intervention.

On the other hand, the politics surrounding any change represent a major obstacle to overcome. As noted above, local governments are influenced by a series of developments - often from upper levels of government - that have little or nothing to do with local experiences. Hence, centralised and highly monopolised decisions at any level of implementation have been found in federal, state and local government. At the lower tier of government these are what were identified as presidentialism on a small scale. Another important development is that Mexican municipalities will have to deal with the new political order in Mexico, represented by opposition governments; thus, the public services will be influenced by this trend.

Little work has been done on the results achieved by privatisation policies, and the Mexican municipalities are still far from exploiting privatisation to the extent to which theory, and the state, allows. Nevertheless, the privatisation process represents an irreversible trend that has arrived in almost every municipality in Mexico, albeit without acknowledgement (as an unknown policy). The lack of information, and the major political and economic aspects, have jeopardised the development of this policy. It can be argued that any privatisation scheme at this level depends not on the economic feasibility of the programme, but on its political nature.

Chapter Three

Politics, Policies, Elections and Water: The Context in Aguascalientes

Introduction

The aims of this chapter are to look at the demographic and economic variables, and to explain the roles played by politics, policies, and elections in the granting and running of the water utilities concession. In section 3.1, this thesis establishes the relevance of the state and municipality of Aguascalientes and illustrates the path taken toward the first privatisation (a concession scheme for the water utilities) in Mexico. In section 3.2, it links the development of Aguascalientes with political influences from the centre. Emphasis is placed on the ways in which the federal government has promoted the development of Aguascalientes by experimenting with federal policies and on the pressure exerted by them in this regard upon local politicians. After looking at the federal actors influencing the development of Aguascalientes, this section goes on to examine local politics and to describe how the state is socially represented according to the laws. Section 3.3 focuses on the elections period, analysing the dominance of the official party until its fall. The aims of this section are to examine the PRI's control over the presidential elections and to identify the first signs of the arrival of the PAN in the state. Elections for the state governor do not differ considerably from presidential ones -the official party had, until 1998, always gained the most votes. However, while it was not until 1998 that the party suffered its worst-ever defeat,

the 1995 elections saw an opposition government (PAN) win the mayoral elections for the first time (after attempting to do so since 1944). The writing was clearly on the fall for the PRI. Section 3.4 overviews water management and administration in the country and in the state and city of Aguascalientes, and the concluding section demonstrates how the city capital of Aguascalientes is relevant in a wider, national context.

3.1 Demographic and Economic Perspectives: The Background in Aguascalientes

A Demographic Perspective on the State of Aguascalientes

The State of Aguascalientes, literally *Hot Waters*, was originally named after the thermal springs that dotted the area, an indication that this resource was once plentiful.¹¹⁰ Paradoxically, the resource that gave the city and the state their names was, in time, to become one of their main concerns. Aguascalientes is located at the heart of Mexico in one of the most strategic economic corridors, surrounded by the states of Zacatecas and Jalisco (the state of Guanajuato is nearby). It is one of the smallest states (28th out of 31 - covering an area of just 5,589 square kilometres and accounting for 0.29 per cent of the national land area), but is one of the five most densely inhabited. It is also one of the five states with the

¹¹⁰ The City of Aguascalientes was founded on October 22, 1575 by Captain Juan de Montoro Rodríguez, and was then named *Villa de Nuestra Señora de la Asunción y de las Aguas Calientes*. It was granted independence and delimited as today in 1835, and in 1857 was granted by the *Carta Magna* as a state government. To find more see: Eugenio Herrera. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México: UNAM-CIIH and Gobierno del Estado de Aguascalientes. 1998. *Aguascalientes*. Gobierno del Estado de Aguascalientes accessed through the Internet on August, 1998 on www.ags.icanet.net.mx.

best quality of life. It comprises 11 municipalities (covering 1,357 communities), all of which are *cabeceras municipales* (head municipalities).¹¹¹ These include the city capital, of the same name, which is the *cabecera del estado* (municipality head of the state), since it is where the power of the state government is based.¹¹² Table 3.1 illustrates the demographic variables evident within the state and the municipality.

Table 3.1 Demographic Variables of the State and Municipality of Aguascalientes (1995)

	State Km(sq.)	Number of Municipalities	State Population	Urban Areas	Rural Areas
State Government	5,589 100%	11	862,335 100 %	620,164 71.91%	242, 171 28.09%
Municipality	1,176 21%	City Capital (532 localities)	582,628 67.6%	534,852 91.8%	47,776 8.2%

Source: Own elaboration using information from the Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN, (CD- ROM), INEGI. 1996. *Cuaderno Estadístico Municipal. Aguascalientes*. México: INEGI and INEGI. 1996. *Anuario Estadístico del Estado de Aguascalientes*. México: Gobierno del Estado de Aguascalientes-INEGI

By 1995, the total state population was around 862,335 (in 1998 it was estimated to be 923,137), representing 0.95 per cent of the national population, with an annual growth rate of 3.3 per cent (this has slowed during the last decade, but has maintained its growth tendency compared to the national average). The majority of the population (71.91 per cent) live in urban areas, even though these account for only 6 per cent of the state territory. The remaining land areas are mainly agricultural and forest

¹¹¹ The Municipalities are: Aguascalientes (city capital), Asientos, Calvillo, Cosío, Jesús María, Pabellón de Arteaga, Rincón de Romos, San José de Gracia, Tepezalá, Palo Alto and San Francisco de los Romo.

¹¹² Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN, (CD- ROM).

land. Population density is 154 inhabitants per square kilometre, though this differs widely between rural and urban populations - 21.7 per cent of the population live in communities with less than 2,500 inhabitants. Women represent a slight majority, at 51.06 per cent of the population. The average age of the population is 19 years (48.8 per cent) and life expectancy is 71.2 years. The indigenous community is almost extinguished, representing only .08 per cent of the total population, with the illiterate population representing only 5.50 per cent. However, by 1997, more than 40 per cent of the population was classified as living in poverty. Clearly, the development of the state has not guaranteed a fair economic distribution.¹¹³

Nonetheless, it is clear that the state of Aguascalientes is one of the most progressive and well-developed in Mexico. It is distinguished from the rest of the country by its inherent characteristics, and by its being predominantly young and with a demographic tendency (birth rate and internal migration) greater than the national average (1.8 per cent annually). Consequently, the state's communications, education, health, housing, and service provision sectors are amongst the best in the country. The youthfulness of the population, with almost 50 per cent of them under 20 years old, and the tendency for population growth, besides the internal balance of net migration, has encouraged the development of the state, and thus promoted greater demands. The immediate effects are on the provision of public services, and more

¹¹³ Viven en la pobreza 40 % de los aguascalentenses. *El Universal (National Section)*. July 8, 1997.

specifically on the provision of the water utilities.

The City Capital: A Demographic Perspective

In order to explain how the development of the state is linked with that of the city capital (see table 3.1),¹¹⁴ it is useful to first mention that, in terms of population, the city of Aguascalientes is the 19th largest metropolitan municipality in Mexico.¹¹⁵ Its population, currently estimated (1998) at 623,712, represents more than two-thirds of the total state population, and is growing slightly faster than that of the state, at 3.5 per cent annually. This population is concentrated in 532 localities.¹¹⁶

In contrast to the other ten municipalities in the state, which have populations of less than 60,000 (accounting for 32.4 per cent of the state population), the inhabitants are concentrated in a single territory of 1,176.5 square kilometres. Of this, only 6.6 per cent represents urban territory. However, population is distributed in inverse proportion: 534,852, or 91.8 per cent, of the inhabitants live in the urban area (areas with

¹¹⁴ To find more about the city capital of Aguascalientes see the official web page on the Internet on www.muniags.gob.mx.

¹¹⁵ During 1992 the municipalities of El Llano and San Francisco de los Romo were created out of the city capital territory, suffering a decrease in real terms of its population and land area. Nonetheless, it kept a constant pace in its demographic growth.

¹¹⁶ The data used to elaborate the statistics on the city capital of Aguascalientes were obtained through the following documents: Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN, (CD-ROM), INEGI. 1996. Cuaderno Estadístico Municipal. *Aguascalientes*. México: INEGI, INAP. 1997. *La Administración Local en México*. México: INAP, Presidencia Municipal de Aguascalientes (1996-1998). 1996. Plan Municipal de Desarrollo 1996-1998. Aguascalientes, México and Gobierno del Estado de Aguascalientes. 1996. *Aguascalientes: Your Competitive Advantage*, Aguascalientes, México and Ma. Concepción Martínez Omana. 1994. *Aguascalientes: Un Ensayo de Descentralización*. México: Instituto Cultural Aguascalientes-Gobierno del Estado de Aguascalientes.

more than 2,500 inhabitants), and the remaining 47,776, or 8.2 per cent of the inhabitants, are concentrated in rural locations (areas with less than 2,500 inhabitants). The indigenous population is almost entirely concentrated in and around the city capital, and represents 0.10 per cent of the population. The illiteracy rate is 5.4 per cent.

It is evident that the development of the state is tied to that of the city capital. Indeed, it is common to recognise Aguascalientes as *a capital without a state*, in which the state and municipal governments have the same geographical relevance and share almost all the economic and political power.¹¹⁷ In this sense, the development of the city capital is proportional to that of the state, each affecting the variables of the other.

The Background to the Economic Development of the State

The broad heterogeneity of the state has encouraged the concentration of the main activities in the capital city. In order to exemplify the tied economic relationships, this section will look at the ways in which the economic variables are concentrated in the state (Table 3.2).

Strategic geographic localisation has helped the state of Aguascalientes to develop more efficient economic variables than those for the country as a whole. It has become a prime location for multinational enterprises and investments,¹¹⁸ while the local industrial and commercial sectors have also been heavily intensified, encouraging the development of qualified labour

¹¹⁷ Víctor Avilés. *Aguascalientes, Una Capital sin Estado*. Periódico Uno mas Uno. April 6, 1986.

¹¹⁸ Some of the multinational enterprises in Aguascalientes are: Xerox, Texas Instruments, Detroit Diesel Allison, Siemens, Nissan and Corn Products.

and technical procedures, and the creation of *corredores industriales* (industrial corridors).¹¹⁹ As a result of this industrial development, the state of Aguascalientes has become a focal point for exports.¹²⁰

The impact on labour has been one of the main determinants of economic growth. By 1995, the number of inhabitants in the urban areas over 12 years old and potentially integrated in the economically active population (EAP) reached 639,852, or 74.1 per cent of the total state inhabitants. Of these, the active population was 322,485, or 50.4 per cent.¹²¹ In recent decades the unemployment rate has been fluctuating below the national average: by the second quarter of 1998, it was 2.1 per cent (the lowest for 5.5 years).¹²²

Employment is mainly in the service sector, which accounts for 34.4 per cent of the EAP. Industry accounts for 20.3 per cent; business 23.1 per cent; construction 4.9 per cent; communication and transport 5.8 per cent; and government 8.1 per cent. A further 3.4 per cent includes

¹¹⁹ The State of Aguascalientes has six main industrial parks in the city capital surroundings, created by a mixture of private and public partnerships: a) *Ciudad Industrial*, b) *Parque Industrial Valle de Aguascalientes*, c) *Parque Industrial El Vergel*, d) *Parque Industrial Alta Tecnología*, e) *Parque Industrial Siglo XXI* and f) *Parque Industrial San Francisco*, which is located in the municipality of San Francisco de los Romo.

¹²⁰ Other national and local industries or business are established neither by national or joint national and international investment. These include: Grupo Textil San Marcos, J.M. Romo, Motodiesel Mexicana, Vekhel México, Nutribebidas de Aguascalientes, Productos la Huerta, Grupo Maty, Gilsa, Lucky Star de México, Cinemas United Artists, Indiana Cash Drawer, Monticello Spring Co., Standard Products, amongst others.

¹²¹ INEGI. 1996. *Anuario Estadístico del Estado de Aguascalientes*. México: INEGI-Gobierno del Estado de Aguascalientes.

¹²² Descendió el desempleo 2.1%. *El Herald de Aguascalientes*. June 19, 1998.

agriculture, mining, cattle raising, and fishing, amongst others.¹²³

Table 3.2 Economic Variables for the State of Aguascalientes (1995)

Economic Variables	Percentage
EAP (last quarter of 1995)	50.4%
Economic Growth (1990-1998 average)	6.7 %
Contribution to National (GIP)	1%
Unemployment Rate (second quarter 1998)	2.1 %
EAP x Sector	
i) Service	34.4 %
ii) Business	23.1 %
iii) Industry	20.3%
v) Government	8.1 %
vi) Communication & Transport	5.8%
vii) Construction	4.9%
viii) Agriculture (primary sector)	3.4%
Total	100 %
Contribution to State GDP x Sector	
I) Manufacturing	38 %
ii) Commerce, tourism, & transport	31.3 %
iii) Financial Services	17.8 %
iv) Agriculture (primary sector)	7.6%
v) Construction amongst other sectors	5.3%
Total	100%

Own elaboration, using data from: Gobierno del Estado de Aguascalientes. 1996. *Aguascalientes: Your Competitive Advantage*. Aguascalientes, México, INEGI. 1996. *Anuario Estadístico del Estado de Aguascalientes*. México: INEGI-Gobierno del Estado de Aguascalientes and Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB-CEDEMUN, (CD- ROM).

By 1995, the primary sector accounted for only 7.6 per cent of gross domestic product (GDP); the manufacturing sector about 38 per cent; commerce, services, tourism, and transportation represented 31.3 per cent; financial services produced 17.8 per cent; while the construction sector and other services made up 5.3 per cent. By 1998, the state

¹²³ INEGI. 1996. *Anuario Estadístico del Estado de Aguascalientes*. México: INEGI-Gobierno del Estado de Aguascalientes, pp. 101.

producto interno bruto (PIB) (gross internal product [GIP]) had grown by 6.7 per cent, making this the third most progressive state in the country, as the national average was 3.3 per cent per annum.¹²⁴ The economic impact on GIP nationally accounts for 1 per cent.¹²⁵

The state has evidenced a dramatic change during recent decades - from being predominantly and rudimentarily agricultural, it has become soundly industrialised (including the agricultural sector, which has increased in real terms), encouraging the development of the remaining sectors. Between 1990-1995, economic growth reached levels of 6.8 per cent, compared to 2.8 per cent nationally. Moreover, there has been no serious strike during the last two decades.¹²⁶

The Economic Development of the City Capital

In any explanation of the economic variables of the state, one common denominator is always visible: the economic development of the state influences the economic activity in the city capital (Table 3.3). As shown on the table, the EAP in the city capital represented 330,585 inhabitants, of which 150,885 (46.6 per cent) were economically active (98 per cent employed, only two per cent unemployed). The economically inactive population (EIP) represented 52 per cent, or 171,831 inhabitants; the

¹²⁴ Tercer Lugar Querétaro y Aguascalientes en el crecimiento del PIB, revela COEF. *El Sol del Centro*. July 15, 1998.

¹²⁵ Gobierno del Estado de *Aguascalientes*. 1996. *Aguascalientes: Your Competitive Advantage*. Aguascalientes. México, pp. 14-13.

¹²⁶ To find more about the state of *Aguascalientes* see the Internet page from the State Council for Economic and Trade Development from the State Government of Aguascalientes on www.mexonline.com. The state government has its own web page on www.aguascalientes.gob.mx.

remaining 1.4 per cent is non-accounted for from the total 100 per cent.¹²⁷

The total EAP in the city capital was concentrated as follows: primary sector 4.6 per cent; secondary sector 35.7 per cent; tertiary sector 58 per cent, and non-specified 1.7 per cent, centralising 74.22 per cent of the total state EAP and providing 80.6 per cent of the total state GIP. The construction sector in the city capital accounted for 72.5 per cent of the total for the state, the agricultural sector 42 per cent, manufacturing 89 per cent, and commerce, services, and the electricity sector 85 per cent.¹²⁸ Inevitably, the development of the state has centralised all the economic activities in the city capital, promoting a growth disproportionate to that of the remaining ten municipalities, which show signs of being underdeveloped. In 1994, 80.21 per cent of the total industrial activity in the state was concentrated in the capital city.¹²⁹

The development of the city capital has always been recognised as a national model. It has promoted investments, employment, and policy innovations - in fact, the influential *Wall Street Journal* argued that if

¹²⁷ INEGI. 1997. *Cuaderno Estadístico Municipal: Aguascalientes*. México: Gobierno del Estado de Aguascalientes-INEGI, pp. 75-85.

¹²⁸ *Ibidem.*, according to this official publication the primary sector is made up by agriculture, cattle raising, forestry, fishing and hunting. The secondary sector includes mining, gas and petroleum extraction, in bond industries, electricity generation and construction. The tertiary sector corresponds to services and commerce. The non-specified sector complements the total 100 percent.

¹²⁹ To find more see: Gobierno del Estado de Aguascalientes. 1993. *Aguascalientes los Retos Frente al Siglo XXI. Plan Estatal de Desarrollo 1992-1998*, Aguascalientes, México and Gobierno del Estado de Aguascalientes. 1994. *Programa de Desarrollo Urbano de la Ciudad de Aguascalientes 1994-2010*. Periódico Oficial del Estado de Aguascalientes, tomo LVII, August 14, 1994, Aguascalientes. México.

*Mexico has luck, its future could be like Aguascalientes.*¹³⁰ The centralisation of economic activity in the city capital has tied its development to that of the state and vice versa, and it can be argued that, in effect, the city capital almost controls the state. Thus, state and local authorities tend to consider *Aguascalientes* as a small state with a big city capital, or as a big city capital in a small state.

Table 3.3 Economic Variables of the Municipality of Aguascalientes (1990-1995)

Economic Variables	Percentage
EAP	46.6%
Contribution to State EAP	74.22 %
Contribution to State GIP	80.6 %
Unemployment Rate	2%
EAP x Sector	
i) Primary	4.6 %
ii) Secondary	35.7 %
iii) Tertiary	58 %
v) Non-Specified	1.7 %
Total	100 %
Contribution to State GIP x Sector	
i) Construction	72.5%
i) Agricultural	42 %
ii) Manufacturing	89 %
iii) Commerce, services and electricity	85 %

Own elaboration, using: INEGI. 1997. Cuaderno Estadístico Municipal: Aguascalientes. México: Gobierno del Estado de Aguascalientes- INEGI, Manuel Díaz Flores y Rodolfo García del Castillo. 1995. Innovación Financiera en Gobiernos Locales: El Caso del Municipio de Aguascalientes. (DAP No 35), México: CIDE and Centro Nacional de Desarrollo Municipal. 1997. Los Municipios de México: Información para el Desarrollo. México: SEGOB-CEDEMUN, (CD-ROM).

¹³⁰ The article, published in the *Wall Street Journal* was quoted by Aguascalientes es Modelo Nacional de Desarrollo. *El Hidrocálido*. July 10, 1998.

3.2 The Role of Politics and Policies in Aguascalientes

The Political Influences on the State Development: A Federal Perspective

Federal decisions have always privileged Aguascalientes by means of specific public policies. Therefore, in order to understand the degree of development of the state, it is necessary to have some understanding of the political actors at federal level, and the ways in which they have influenced the economic development of Aguascalientes.

Since the presidency of Gustavo Díaz Ordaz (1964-70) federal authorities have applied special development projects in the state. Luis Echeverría Álvarez (1970-76) introduced the first industrial city. The presidency of José López Portillo (1976-1982) brought greater industrialisation projects, with the state being considered as a priority region for the implementation of specific industrial federal policies.

The most significant developments accompanied the arrival to the Mexican presidency of Miguel de La Madrid (1982-88). During this period of government, major decentralisation programmes, and the creation of *polos de desarrollo* (development poles) were distinctive policies in the *Plan Nacional de Desarrollo* 1982-88 (National Development Plan). The city capital of Aguascalientes was one of 60 cities in which population decentralisation policies were implemented.¹³¹ The state was included in the *Proyecto Estratégico de Ciudades Media* 1984-1988 (Strategic Project

¹³¹ Manuel Díaz Flores y Rodolfo García del Castillo. 1995. *Innovación Financiera en Gobiernos Locales: El Caso del Municipio de Aguascalientes*. Documento de Trabajo (DAP No 35) México: CIDE, pp.3.

for the Medium Size Municipalities) and the *Programa Nacional de Fomento Industrial y Comercio Exterior* (National Programme for Industrial Development and International Commerce or PRONAFICE), as well as in industrial decentralisation policies emanating from this presidential term. The (1983) modifications to Article 115 discussed earlier represent one example.

In this sense, Aguascalientes (particularly the city capital) was used as an experiment prior to the implementation of policies at a national level. For example, the creation of the *programa estatal de vivienda popular 1981-86* (state programme for popular housing) evidenced the interest of federal authorities in promoting the development of the city capital through housing decentralisation programmes.

The arrival of Carlos Salinas (1988-94) marked the beginning of a new set of public policies supported at federal level. The intensification of economic reform was a main determinant of this period of government. The privatisation of the water supply at a local level was strongly supported by federal bodies such as the *Comisión Nacional del Agua* CNA (National Water Commission), and the objective was to implement the programme in the municipality of Aguascalientes with the ultimate aim of introducing it into more municipalities. For this purpose, *Las 100 Ciudades Básicas 1990-1994* (the 100 basic cities) federal programme, promoted by the *Secretaría de Desarrollo Social* (SEDESOL - Secretariat of Social Development), encouraged state and local policies to keep pace with federal beliefs, specifically with regard to decentralisation and privatisation policies.

The current government of Ernesto Zedillo Ponce de León (1994-2000) has maintained economic policy strategies similar to those of its predecessors. Although economic and political turmoil in recent years ('94 and '98) has affected negatively on national policies, and consequently on the state; nevertheless, federal programmes like the *Programa Hidráulico* 1995-2000 (Hydraulic Programme 1995-200), the *Programa de Desarrollo Urbano* 1995-2000 (Urban Development Plan 1995-2000), and the *Nuevo Federalismo* 1995-2000 (New Federalism 1995-2000) are evidence of the intention to maintain the state of Aguascalientes as the focal point for development.¹³² Our case of study is a clear example of this. The water concession in the city capital continues to be the role model for further privatisation policies for the water supply: the earlier presidential programme for the 100 most important cities in Mexico has been updated, even though external factors (economic and political) have delayed the application of these policies in more municipalities.¹³³ This development will be discussed in more detail elsewhere in the thesis.

State-Central Relationships: Influencing the State Tendencies

During the last two decades, the federal policies and programmes

¹³² To find more about the decentralisation program in *Aguascalientes* see: Ma. Concepción Martínez. 1994. *Aguascalientes: Un Ensayo de Descentralización (1982-1988)*. México: Instituto Cultural Aguascalientes-Gobierno del Estado de Aguascalientes and José Antonio Rojas Nieto. 1990. *El Desarrollo Industrial Reciente: El Caso de Aguascalientes*, published in the *Cotidiano Magazine*, México: UAM-Azcapotzalco, No. 33 (January-February, 1990), on urbanism and society in Aguascalientes see: Marco Alejandro Sifuentes. *Aguascalientes: Urbanismo y Sociedad*. México: Instituto Cultural Aguascalientes-Gobierno del Estado.

¹³³ To find more about this program see: SEDESOL. 1994. *Experiencias Relevantes en Administración Urbana: Innovaciones Técnicas y Administrativas Establecidas por Autoridades Locales*. México: Sedesol.

implemented in Aguascalientes have had one common denominator: central-federal links have promoted the intensification of federal programmes that could be applied at a national level, converting Aguascalientes into a practice laboratory.¹³⁴

Since the governorship of Enrique Olivares Santana (1962-68), who was heavily involved with the Mexican presidents Adolfo López Mateos (1959-1964) and Gustavo Díaz Ordaz (1964-1970), the agricultural sector and cattle raising (milk production) have been accorded great importance and have been highly developed in the state. The state governors Francisco Guel Jiménez (1968-74) and José Refugio Reyes Esparza (1974-80) introduced the first industrialisation programmes. However, the greatest developments in Aguascalientes took place during the governorships of Rodolfo Landeros Gallegos (1980-1986), Miguel Angel Barberena Vega (1986-92), and Otto Granados Roldán (1992-98). Major industrialisation, decentralisation, and privatisation policies were implemented, using the tied relationships that existed between these governors and the presidents at the time.

All of these governors had two things in common: first, the same political party (PRI) promoted them; second, their political careers had been promoted from the centre, implementing federal policies and using the state as an experiment for further policies at a national level. Some of them even held top level public posts or were close collaborators of

¹³⁴ Manuel Díaz Flores y Rodolfo García del Castillo. 1995. *Innovación Financiera en Gobiernos Locales: El Caso del Municipio de Aguascalientes*, Documento de Trabajo (DAP No. 35) México: CIDE, pp.3.

Mexican presidents. The former governor Enrique Olivares Santana became Secretary of the Interior during José Lopez Portillo's presidency, while Otto Granados Roldán and Miguel Angel Barberena Vega were close collaborators of the former presidents Carlos Salinas and Miguel de La Madrid respectively.¹³⁵

The core focus of this research regards the influence of governor Otto Granados Roldán. He used his personal relationship with the president Carlos Salinas de Gortari to facilitate federal policies and influences, using the city capital of Aguascalientes to launch the first privatisation scheme for the water utilities in Mexico. Over the last two decades, development in Aguascalientes has depended to a great extent on the heavy impulse from the centre. The first challenge to this unwritten principle came in 1998 with the arrival of the PAN governor, Felipe González González, representing a clear breakdown in that which politics and policies have previously meant for the development of the state.

Local Politics and Social Influences in Aguascalientes: The Actors

Since the economic and social resources of the state are mainly concentrated in the city capital, it can be assumed that the political actors defining the state tendencies are also concentrated there. In order to understand how the political, social, and institutional influences in the

¹³⁵ Otto Granados is a former *Director de Comunicación Social de la Presidencia de la República* (1988-1992). As well, he served as *secretario particular and Oficial Mayor* when Carlos Salinas was *Secretario de Programación y Presupuesto* (SPP) during 1986-1988. Miguel Angel Barberena served as *Director de Comunicación Social de la Presidencia de la República* (1982-1988) before been elected as governor of Aguascalientes.

state are concentrated, and how they interact in the city capital and influence local policy decisions, this section will concentrate on five of the most influential groups dominating the economic and social - and thus the political - life of the state and the city capital. Their selection is based upon previous surveys and field work.¹³⁶

- Elected government (federal, state, and local levels).

Until 1998, the official party dominated the state, and was therefore a main determinant on its internal political life. Until very recently, the influence and interference of federal authorities, and specifically the president, prevailed in the selection or approval of official party (PRI) candidates for 'important' posts in the state.

It is common practice for local PRI members to obey decisions from the centre, in this case from the *Comité Ejecutivo Nacional del PRI* (CEN - National Executive Branch of the PRI), in order to benefit a specific candidate or group. Elections for governor, senators, and federal deputies are clear examples of this. The 1998 PRI defeat in the election for state governor was attributed to the controversial selection of its candidate, Héctor Hugo Olivares Ventura (who had been seeking the state governor candidacy for the last three elections).

Ironically, the local PRI 'current' of democratisation, headed by senators

¹³⁶ To find more about groups of power in *Aguascalientes* see: Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México: UNAM (CIIH), Ma. Concepción Martínez. 1994. *Aguascalientes: Un Ensayo de Descentralización (1982-1988)*. México: Instituto Cultural Aguascalientes and Fernando Salmerón Castro. 1996. *Intermediarios del Progreso. Política y Crecimiento Económico en Aguascalientes*. México: CIESAS.

and federal deputies, appeared only recently, and only when a personal project was jeopardised by a centralised decision. Otherwise, the alignment of PRI members is determined by the fact that most of them owe their political careers to this process of selection. Senators, mayors, and federal deputies have long been exchanging public posts between themselves - concentrating power in a specific group and leaving behind new generations.

Public policies at state level are in accordance with federal ideologies, which do not necessarily match those of the state. The degree of subordination at this level is clear, especially in view of the fact that all the state governors from the official party owed their position to the president. However, it is important to recognise that federal interference has favoured, more than it has limited, the development of the state, thus affecting on the development of the city capital. For example, decentralisation policies have been accompanied by more economic resources, and industrialisation policies have significantly developed competitive companies.

Moreover, these policies accompanied a rate of population growth that was higher than the national average, which has directly affected the services provided and created greater social demand. The water utilities are far from adequate to meet local needs; public safety represents a major concern; and other public services are performing below social expectations. As suggested earlier, federal development is not always accompanied by greater and more efficient public utilities. This could explain why centralised decisions are not always followed by better control

mechanisms.

At the state level, until 1995 when the official party lost the city capital and, consequently, most of the state control, the power over all the main political activities was concentrated in the state governor. Obedience to state decisions was obligatory for any local candidate and, further, for all elected members from the PRI. The state chambers of deputies, and the municipalities, were strategically balanced in order to serve higher levels of government. Centralised decisions, and the system of presidentialism, were reproduced on a smaller scale.

This trend was particularly evident in the selection of local candidates. The candidate for mayor in the city capital was usually someone linked with the governor, whilst the remaining municipalities were decided according to their importance. Furthermore, the state governor, besides being federally supported, encouraged the implementation of specific public policies. The state chamber of deputies was the main instrument with which to apply these policies because, until 1995, the PRI dominated the chamber, and any amendments were easily made. At the same time, this body pressured other levels of government to follow decisions from the state governor. The concession of the water utilities in 1993 is one clear example.

The reproduction of practices from higher levels of government is common at the local level. Candidates for the *ayuntamiento* (*síndicos* and *regidores*) are selected according to their preferences for mayor, bearing in mind that these members are intended to work closely with, and favour any decision from, the mayor, without regard for party ideologies. Thus, a

chain of subordination can be identified in which similar practices are reproduced by lower tiers of government and the official party serves only as the link through which to reproduce it.

Furthermore, it is clear that the first opposition party (PAN) to come to power in the city capital, for the period 1996-1998, has been recalling previous PRI practices in local policy decision-making. The concession of the water utilities was used as an electoral flag to bring it to power in 1995. During 1996, the concession was revoked, and then granted again to the same private group by using the PAN majority in the *ayuntamiento* and the state legislature. However, the PAN has changed some former practices. For example, previously, interference from the state government to promote a policy did not require approval from the *ayuntamiento* or the state chamber of deputies. By the time the opposition won for the period 1996-98, though, the relationships between these bodies had deteriorated, creating a political confrontation in which state and local policies were the main target.

The water utilities have been affected by these non-cordial relationships. Nevertheless, it is clear that the arrival in government of a former opposition party does not guarantee *per se* different means with which to make policy. Earlier PRI practices were reproduced by the PAN and since, by 1998, the PAN had absolute control over the state, it is questionable that partisan ideologies will take precedence over local necessities. This will be discussed throughout the case study.

- Local business owners

local politics are decided to a large extent by who controls the money in Aguascalientes (micro-medium and large industries or commerce organisations). As was shown earlier, these economic sectors are the most important in terms of money and people employed in the city. The above groups are integrated in organisations (trade, industrial, and labour) that have an important influence on the state and local decisions, and can be identified as *a real power over the society*.¹³⁷ Paradoxically, the larger corporations, like NISSAN, Siemens, or Texas Instruments, interfere very little with local politics. Their relations rely on higher levels of government. The Japanese population in particular, although large in number, tend not to interact with local society.¹³⁸

The selection of candidates, for all political parties, is almost always linked to employer organisations. For example, former PRI Mayor Héctor Manuel del Villar (1987-1989) was linked to CANACINTRA, and Fernando Gómez Esparza (1993-1995) has been involved with the private construction sector. Recently, members of these organisations have run successfully for

¹³⁷ Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México: UNAM (CIIH).

¹³⁸ The following business organisations represent the most influential: *Centro Empresarial de Aguascalientes* (CEA) and *Centro Coordinador Empresarial* (CCE), both conglomerating different business organisations; *Cámara Nacional de la Industria de la Transformación* (CANACINTRA); *Cámara Nacional de Comercio* (CANACO); *Cámara Nacional de la Industria del Vestido* (CNIV); *Cámara Nacional de la Industria de la Construcción* (CNIC); *Consejo Obrero Patronal de la República Mexicana* (COPARMEX), and *Ejecutivos de Ventas y Mercadotecnia* (EVM). To find more about the role and philosophy of this group see: Sociedad Mexicana de Geografía y Estadística. 1993. *INEGI: Ejemplo Nacional de Descentralización*, on INEGI, Evaluación del Desarrollo Urbano Regional de Aguascalientes, XII Congreso Nacional de Geografía 1986-1992, México.

public posts as representatives of the PAN, whilst promoting their non-political background. The former Mayor, Alfredo Reyes (1996-1998), is involved with the private inbound and commercial sectors, and is a former President of COPARMEX. Among the most recent cases, the elected governor (1998-2004) from the PAN, Felipe González, has a business background and is linked to business organisations (CANACINTRA and COPARMEX, amongst others). The Mayor-elect, Luis Armando Reynoso Femat (1999-2001), is involved in the private sector and thus indirectly with employer organisations. A common creed effective at least during the PRI dominance in public corridors was the unwritten agreement between businessmen and local career politicians that *the city capital will be governed for one period by a politician and the next period by a local businessman*. Nonetheless, until 1998, the state governor was always a career politician promoted from the centre. This year, electoral preferences have changed considerably and members from this sector will have a major role to play in moulding the development of Aguascalientes.

- Union workers and social organisations

Until relatively recently, union workers kept a low profile as activists in local politics. In recent years, however, they have played a key role in furthering the political stability of the state and thus in domestic politics. Many of these organisations are linked to political parties or pressure groups; for example, CNOC, CROC, CTM, and the influential FTA support the PRI. Social organisations, which are linked to a certain extent with the business sector, unions or political parties, have recently been exhibiting

signs of real power over local politics.¹³⁹ The water concession has been jeopardised by these groups, especially since the corporatist PRI system lost its persuasive power amongst them. Furthermore, political parties have been promoting these groups, as in the cases of PAN support for FOCA, A.A., and the FEAP.

- The clergy has been politically active since the creation of Aguascalientes, and holds real influence over the society and local politics.¹⁴⁰

The state inhabitants are extremely religious (Catholics), and the society is traditionalist and conservative. The relationships amongst politicians, local business owners, and the clergy are evident: most employer organisations have links with religious ones and vice-versa. The PAN attracts voters with its religious doctrine and its support from the local clergy. The influence of the clergy on the political life of the state and the city goes far beyond passive support: it promotes candidates and openly participates in local politics. It is arguable that *the lack of neutrality from the clergy is because it is immersed in a social dynamic, and is thus sensitive to political events and to who controls the power and the*

¹³⁹ These organisations appear on the scene whenever there is a chance to politicise the local political arena, as in the case of the concession of the water utilities. *Frente Estatal de Acción Popular* (FEAP), *Frente de Organizaciones Cívicas por el Agua* (FOCA), *Frente Estatal de Organizaciones Independientes* (FEOI), *Unión de Usuarios del Agua y Servicios Públicos* (UUASP), *Organizaciones de Colónos and Alianza Popular para la Defensa Ciudadana* are amongst the many organizations that have emerged spontaneously on the political arena mainly promoted and guided by partisan ideologies and interest.

¹⁴⁰ Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México: UNAM (CIIH), pp. 44.

money.¹⁴¹

It also has links with local universities and social organisations, and even runs businesses¹⁴² - a popular saying has it that *Aguascalientes is an orphan son in which the stepfather is the government and the stepmother the church.*¹⁴³

- The media has a great effect on public preferences, and in some cases is even committed to specific interest groups, political parties, or external influences.

Personal interviews with public officials found that the common denominator was *if you do not have a good relationship with the media (more precisely with who controls the media) as a top or ambitious politician or civil servant your chances of being successful are very low. It is the local media who really form public opinion, and pressures the society to take action.* In most cases, the same media group owns local newspapers and radio stations. The advantage or disadvantage accorded to any politician or specific public policy is linked to the media. As will be made clear through the case of study, the privatisation of the water utilities represents a clear example of what the media can do to local

¹⁴¹ Salvador Camacho Sandoval. 1987. *Proyecto Modernizador y Grupos de Poder en la Universidad Autónoma de Aguascalientes. Aproximaciones a Un Problema*, en Revista Sociología -México, Otoño 1987.

¹⁴² Some of the social-politic and religious organisations are: *Club Rotarios* (Rotary Club), *Club de Leones* (Lions Club), *Club Serra*, *Caballeros de Colón*, *Movimiento Familiar Cristiano*, *Grupo Pro Vida*, *Unión de Padres de Familia*, *Cursillistas* and *Gente Nueva*.

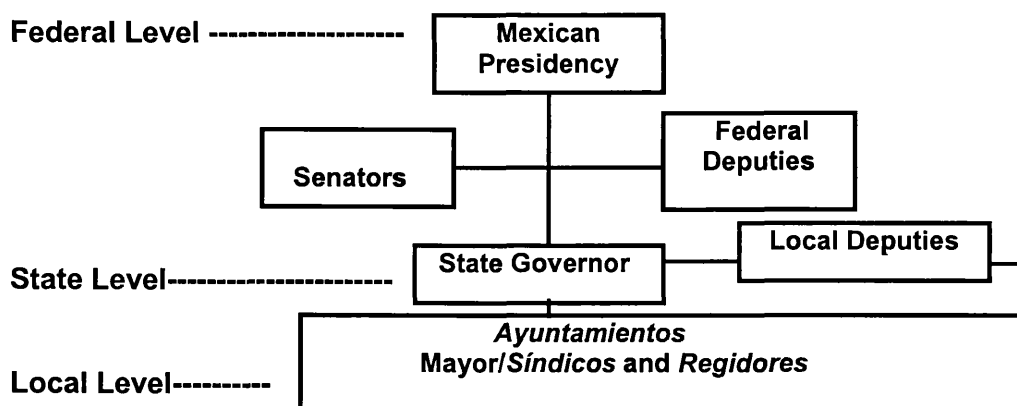
¹⁴³ The above creed was used by Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México: UNAM (CIIH), pp. 45.

politics.¹⁴⁴

The Political Structure in the State

In order to understand local politics it is important to review how the state of Aguascalientes is socially represented according to federal, state, and local laws (Figure 3.1).

Figure 3.1 Political Representation in the State of Aguascalientes



Own Elaboration using data from the Official Resolutions

According to the Mexican constitution, Aguascalientes will be formed according to federal beliefs, with the leadership of the state invested in the *gobernador del estado* (state governor), who stays in power for a six-year period. There are also three *senadores* (senators), two elected by direct vote and the third allocated to the majority opposition party within the state. This mechanism is known as proportional or plurinomial representation (PR). The state is also represented by three *diputados*

¹⁴⁴ According to the INEGI. 1997 *Anuario Estadístico del Estado de Aguascalientes*. México: INEGI- Gobierno del Estado, pp. 64 and 65. The media in the state of Aguascalientes are integrated by eighteen Radio stations (Am 12 and Fm 6), two local T.V and 8 retransmission channels, one cable T.V. besides three Internet nodes. Likewise, five local newspapers are currently in circulation: *El Hidrocálido*, *El Sol del Centro*, *El Herald de Aguascalientes*, *Página 24* and the controversial weekly *Tribuna Libre* amongst national, regional and international newspapers and magazines.

federales (federal deputies), elected for a three-year period by uninominal election or direct vote; alternatively, during 1997, two federal deputies were elected by proportional representation.

State laws require that the *congreso del estado* (state legislature) will comprise 27 *diputados locales* (local deputies), of which 18 are elected by direct means and the remaining 9 by proportional representation (PR) for a period of three years. The hegemony of the state is concentrated in 11 municipalities elected by direct vote for a three-year term, having their own social representation invested in the *ayuntamiento*. There are one or two *síndicos* from each municipality. The number of *regidores* may vary according to each *ley orgánica municipal*, with all except the mayor being elected through proportional representation. Invariably, however, the majority inside this body is controlled by the party represented by the mayor.¹⁴⁵

The *sexenal* (six-year term) for state governor is not concurrent with presidential terms and elections. There is a difference of three years, so that when a new president is elected, the state governor has already been in power for three years and vice versa. However, elections for federal deputies coincide every six years with the presidential and senatorial elections, and every three years are held alone. These elections are one year behind local ones and, every six years, run parallel to federal elections. Elections for *senadores* (senators) are held every six years and

¹⁴⁵ To find more about mayors in the municipality of Aguascalientes see: Presidencia Municipal de Aguascalientes. 1992. *Aguascalientes: Presidentes Municipales 1945-1992*. Aguascalientes, México.

are always parallel to presidential elections.

Elections for the state legislature (local deputies) and *presidencias municipales* (city mayors), the core bodies that represent the internal political life of the state, are in parallel every three years. Every six years these elections are held at the same time as state governor elections. Local elections are held one year after federal ones, depending on the election term (three or six years). In the year 2000 there will be elections for president, senators, and federal deputies; local elections will be held in 2001; and during 2003 there will be elections for federal deputies. During 2004 there will be local elections and elections for the state governorship. Thus, local and governor elections are separate every three years and never coincide with federal ones.

The pattern of major electoral campaigns highlights the constant political effervescence in the state. It also shows that the state has two different sorts of elections - federal and local - both having different connotations for the electorate, especially considering that political influences from Mexican presidents have encouraged the development of Aguascalientes and, more specifically, of the city capital. The issue of tied relationships between the president and the state governor cannot be ignored. There is an inevitable and permanent campaign by state governors to promote themselves not just with one president but with all the future possible candidates, since from time to time the state governor will have to deal with two different presidents in power.

In an interview, a top official from the *Comité Ejecutivo Nacional del PRI* (National Executive Branch from the PRI) stated that: *A common trend*

*until recently for these sorts of cases is when a state governor (PRI) is elected. Its loyalty to the actual president is inevitable for the first three years (the post was decided neither by the president nor by centralised decisions). In exchange, federal support arrives and specific policies are encouraged. When the president leaves the post, things change dramatically and everything depends on how good the relationships are with the new one.*¹⁴⁶

In most cases, the new president will not have the same considerations and will want to erase any trace of the former *sexenio*, including specific policies and close collaborators. Clearly then, the governance of the state of Aguascalientes requires a strong political vision, and an abundance of political energy. The elected PAN governor Felipe González González - who will be relying, until the year 2000, on a president from the opposition (PRI), Ernesto Zedillo Ponce de León - has publicly favoured the PAN presidential candidate and former Governor of the State of Guanajuato, Vicente Fox Quesada. It can be assumed from this that central-state relationships are always on the agenda of any state authority without regard for political affiliation; the aim is to obtain sympathy from a candidate that can be translated into a better situation for personal projects and thus the state. Therefore, any political party will at some stage promote the centralisation of government decisions, since after 70 years of monolithic governments it is difficult to break this 'tradition'.

¹⁴⁶ The interview was held in Mexico City (1997) at the CEN of the PRI, a pledge of confidentiality was asked by the official interviewed.

3.3 Elections in Aguascalientes: The Fall of the PRI Hegemony and the Rise of PAN Dominance

The Role of Presidential Elections in Aguascalientes (1964-1994)

This section will examine the PRI's hegemony and control of the presidential elections, and show the first signs of the arrival of the PAN in the state. The development of presidential elections in the state illustrates the domination of the official party until the 1994 elections (Table 3.4).

Table 3.4
Presidential Elections, Percentage of Votes for the PRI and the Opposition, Level of Abstention and Electoral Nominal Roll in Aguascalientes (1964-1994)

Year	Opposition Votes	PRI Votes	Nominal Electoral Roll	Abstention
1964	8.80%	91.20%	100, 551	26.60 %
1970	12.90%	87.10%	152,001	37.40 %
1976	6.20%	93.80%	198,930	44.30 %
1982	30.00%	70.00%	269,000	23.40%
1988	45.19%	45.84%	334,920	48.00%
1994	52.51%	47.49%	420, 935	19.32 %

Own elaboration-using data from: IFE, various years. *Estadísticas de las Elecciones: Aguascalientes*, accessed through the Internet www.ife.org.mx on August 1998, Andrés Reyes Rodríguez (1994). *¿Elecciones o Designaciones? 50 años de Historia Electoral en Aguascalientes*. México: ICA-Gob.Del Estado, Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México:UNAM (CIIH) and Eugenio Herrera Nuño y Andrés Reyes Rodríguez. 1997. Aguascalientes, In Silvia Gómez Tagle. 1994, *Las Elecciones en los Estados*, México:UNAM.

The table shows the dominance of the PRI in elections from 1964 onwards. Despite a slight decrease in support in real terms in 1970 and 1976, there was no real threat to the PRI. Moreover, the level of abstention had no real affect on electoral outcomes: greater levels of abstention were not traduced into PRI defeats. In 1988, however, preferences started to change, and opposition parties showed the first signs of becoming a

political threat. Support for the PAN and the PRD marked them out as the second and third forces in the state. This trend continued in the presidential elections of 1994, with the *voto razonado* (conscious vote) from the urban areas showing greater influence among the electorate than the corporativist vote from the PRI in the rural sector.

Electoral Preferences and Elections for State Governor (1962-1998)

Elections for state governor do not differ considerably from those for president; the official party always won, until 1998, when the PRI suffered its historic defeat (Table 3.5).

Table 3.5
Elections for State Governor in Aguascalientes. Votes Obtained by the PRI, Votes Obtained by the Opposition, Electoral Nominal Roll, and Level of Abstention (1962-1998).

Year	Opposition Votes	PRI Votes	Electoral Nominal Roll	Abstention
1962	8.37%	91.63%	-----	-----
1968	-----	99.08%	118, 343	32.08%
1974	16.61%	83.39%	184, 854	58.60%
1980	12.67%	73.85%	190, 053	42.47%
1986	28.37%	69.70%	310,228	37.08%
1992	25.07%	72.02%	334, 458	41.39%
1998	61.09%	37.51%	515, 743	32.49%

*Own elaboration-using data from: IFE, various years.. Estadísticas de las Elecciones: Aguascalientes, accessed through the Internet www.ife.org.mx Andrés Reyes Rodríguez (1994). ¿Elecciones o Designaciones?. 50 años de Historia Electoral en Aguascalientes. México: ICA-Gob.Del Estado, Eugenio Herrera Nuño. 1989. Aguascalientes: Sociedad, Economía, Política y Cultura. México: UNAM (CIIH) and Andrés Reyes Rodríguez. 1998. Elecciones de 1992 y el quiebre de la tradición política, in *Revista Crisol* (May), Aguascalientes, México.*

As can be seen, the elections in 1962 and 1968 yielded massive victories for the PRI. In 1974, the official party suffered a slight drop in support, with a corresponding increase for the PAN. However, whilst support for the PRI declined again in 1980, the PAN got only 7.42 per cent of the total votes, a decrease in real terms. In 1986, support for the official party

declined again, while the PAN, one of eight opposition parties, recovered to gain 11.14 per cent of the votes. The level of abstention was also lower than in the previous election.

During the 1992 elections, the PRI was strongly promoted from the centre, and this was reflected in the results. Otto Granados Roldán, a former collaborator of the Mexican president, obtained 72.02 per cent of the total votes - opposition parties declined and the level of abstention rose. The result in 1998 was in stark contrast to previous years, with victory for the PAN candidate, Felipe González González, and these elections will be discussed in detail later. Thus, until 1998, a PRI majority always dominated elections for state governor. Abstention has always played an important part, but did not compromise the PRI hegemony until the 1998 elections, in which its defeat can be linked to the conscious decision on the part of the electorate to vote against the PRI.

Elections at Local Level (1974-1998)

At a local level, the weakness of the PRI was shown earlier than it was in federal or state elections. The 1995 elections marked the beginning of the new electoral tendencies in the municipality of Aguascalientes, when an opposition party (PAN) won the elections for mayor after competing for the post since 1944. The PAN then retained the city capital in the 1998 elections until the year 2001 (Table 3.6).

The table shows the predominance of the official party in the elections from 1974 until 1980. Abstention levels did not represent a threat, and the PAN represented the only real opposition. By 1983, with more opposition parties, the total opposition vote had increased, with the PAN

receiving 32.99 per cent. There was also a decrease in the level of abstention.

Table 3.6
Elections for Mayor, Votes Obtained by the PRI , PAN (1998), and the
Opposition, and Level of Abstention in the Municipality of Aguascalientes
(1974-1998).

Year	Opposition Votes	PRI Votes	Abstention
1974	21.70%	78.20%	61.43%
1977	-----	100%	56.63%
1980	14.50%	85.50%	44.34%
1983	37.33%	62.67%	40.76%
1986	32.30%	67.70%	35.32%
1989	34.70%	65.30%	61.76%
1992	29.45%	68.65%	40.23%
1995	66.01%	31.86%	40.17%
1998	Opposition Votes 45.67%*	PAN Votes 52.83%**	31.34%

* votes obtained by the PRI, PRD, PT and PVEM ** Refers exclusively to PAN votes.

Own elaboration-using data from: IFE, various years. *Estadísticas de Elecciones: Aguascalientes*, accessed through the Internet www.ife.org.mx Andrés Reyes Rodríguez (1994). *¿Elecciones o Designaciones?. 50 años de Historia Electoral en Aguascalientes*. México: ICA-Gob.Del Estado, Eugenio Herrera Nuño. 1989. *Aguascalientes: Sociedad, Economía, Política y Cultura*. México:UNAM (CIIH).

In 1986, however, this trend reversed: the official party enjoyed an increase in support while opposition parties declined slightly. The level of abstention was the lowest registered, at 35.32 per cent. In 1989, an increased level of abstention, and an increase in support for opposition parties, led to a drop in support for the PRI. The official party recovered in 1992, although the level of abstention was again high. The real change came in 1995, which saw the election of the first opposition government in the city capital. The PAN repeated this success in 1998, this time with a significant decrease in the level of abstentions. The fall of the PRI during 1995 and 1998 will be discussed in detail, since the defeats were linked to

the water concession. It is clear that support for the PRI dropped steadily, especially in the city capital, where the party had lost its persuasive power. In view of the fact that the majority of the electorate is concentrated in the city capital (70 per cent), it is clear that the conscious vote of the urban inhabitants determined the fall of the PRI.

Extensive surveys prove that *the rural regions are where the PRI obtains the most votes, especially in those areas with less than 1,500 inhabitants, and according to the population increases the electoral votes for the PRI decreases considerably...In the same way the PAN advances in the opposite way.*¹⁴⁷ This could explain how the PRI had the majority of the votes in the rural areas, but as soon as the majority moved to the urban zones the PRI lost persuasive power, defining the PAN and PRD as the only opposition parties with real electoral presence.¹⁴⁸

Nonetheless, the PRI has been an opposition party since 1995, representing, at least until the year 2001, the second political force in the city capital. Furthermore, other opposition parties have registered and have obtained some minor political positions according to proportional representation, although they do not represent any threat to local politics.

¹⁴⁷ Andrés Reyes Rodríguez.1993. *¿Elecciones o Designaciones?. 50 años de Historia Electoral en Aguascalientes*. México: Instituto Cultural Aguascalientes- Gobierno del Estado de Aguascalientes, pp. 149.

¹⁴⁸ According to the Instituto Federal Electoral (IFE), accessed through Internet www.ife.org.mx March, 1998, the political parties registered in Aguascalientes are: *Partido Revolucionario Institucional* (PRI); *Partido Acción Nacional* (PAN); *Partido de la Revolución Democrática* (PRD); *Partido Verde Ecologista* (PVEM); *Partido Cardenista* (PC); *Partido del Trabajo* (PT); *Partido Popular Socialista* (PPS); *Partido Demócrata Mexicano* (PDM) and the *Partido del Frente Cardenista de Reconstrucción Nacional* (PFCRN).

3.4 The Water Structure in Mexico: The Background in Aguascalientes

The Water Administration & Management in Mexico

Under the Mexican constitution (Art. 27 and Art. 115), the *Comisión Nacional del Agua* (CNA) is a non-incorporated federal authority with exclusive responsibilities for administrating the water usage in the country. It is subject to the *Ley de Aguas Nacionales y su Reglamento*, and to the internal regulation of the SEMARNAP and other applicable arrangements (Figure 3.2).¹⁴⁹

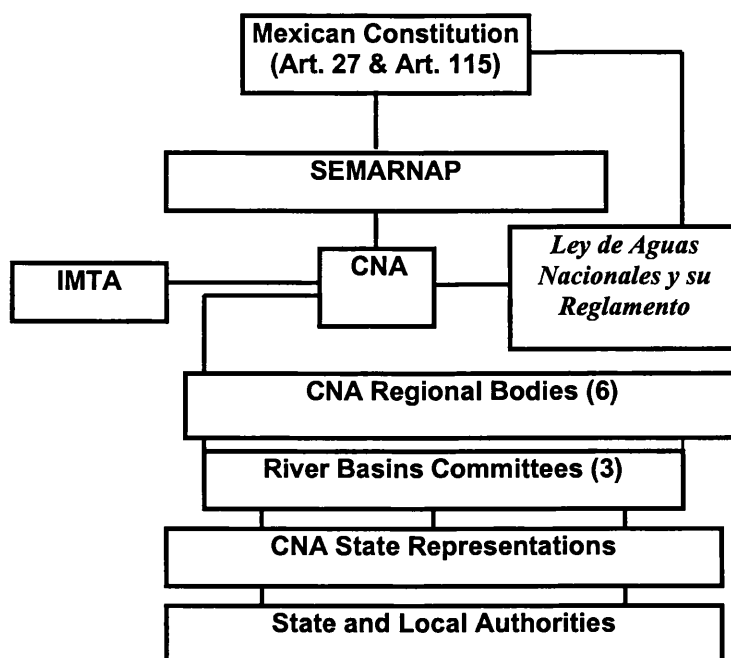
According to CNA, there are two main objectives: 1) to manage and guard the national waters, and the goods that are linked to these, according to the applicable legal arrangements; to monitor the fulfilment of the *Ley de Aguas Nacionales* and to provide what is necessary for the preservation of its quality and quantity to achieve its sustainable integral use; and 2) to study, regulate, project, promote, build, monitor, manage, operate, preserve, and rehabilitate the hydraulic infrastructure, and the complementary works that correspond to the Federal Government.¹⁵⁰ In practice, the CNA receives technological support from the *Instituto Mexicano de Tecnología del Agua*, or IMTA, and therefore concentrates on the water management resources (quality and extraction control). It also promotes the national hydraulic development through programmes such

¹⁴⁹ For a detailed description see: CNA. 1997. *Ley de Aguas Nacionales y su Reglamento*. México: CNA.

¹⁵⁰ This definition was obtained in the CNA official web page on www.cna.gob.mx accessed on June, 1999.

as the *Programa Hidráulico* 1995-2000, part of the *Plan Nacional de Desarrollo* of the current government of Ernesto Zedillo (1994-2000).

Figure 3.2 Water Administration in Mexico (1999)



Own Elaboration using data from the Official Resolutions

The CNA is sub-divided into six regional managements, grouped geographically so that the borders between them almost coincide with the limits of their river basins, but not with the political divisions of states and municipalities. Therefore, each state has a CNA representation (state management) from the regional body. The regional management organise and co-ordinate the water use for each hydrological basin, while the state management represents the most direct form of contact with the daily user and is the link between state and local authorities.

There are also *consejos de cuenca* (river basins committees) covering the most important rivers in three blocks: a) *Lerma*, b) *Bravo*, and c) *Valle de*

México.¹⁵¹ These are intended to tackle the existing pollution and competition problems, both above and below ground. The *consejos de cuenca* are integrated in order to work together to formulate and execute programmes for the better management of the waters, the development of the hydraulic infrastructure and respective services, and for the preservation of the resources of the basin under federal, state, municipal, and water users' (agriculture, commercial, industrial and domestic) support and observation.¹⁵²

The Water Administration and Hydrological Characteristics in Aguascalientes

According to official sources the water management in Aguascalientes is the responsibility of the CNA Northeast regional management, which also covers the states of Zacatecas, San Luis Potosí, Veracruz, and the south of Tamaulipas. This area accounts for 11 per cent of the national territory and 13 per cent of the national population. The geographical position of the region exposes it to extreme meteorological phenomena: hurricanes from the Gulf of Mexico and Pacific Ocean affecting the states of Veracruz y Tamaulipas; frosts and droughts in the plain areas (Aguascalientes, Zacatecas, and, partially, San Luis Potosí). More specifically, Aguascalientes is located on the *Lerma-Santiago* river basins, and depends directly on the *Lerma* committee.

¹⁵¹ A broader explanation can be found in: Presidencia de la Republica. 1995. *Programa Hidráulico 1995-2000*. México: Gobierno Federal.

¹⁵² *Ibidem.*,

The two principal river basins that drain the state of Aguascalientes are those of *Rio Verde Grande* and *Rio Juchipila*. Both are in the same zone as the *Rio Santiago*, which forms part of the hydrological region *Lerma-Chapala-Santiago*. The basin of the river, *Verde Grande*, which originates to the south of Zacatecas and the north of Aguascalientes, has as its current principals within the state the rivers *San Pedro, Aguascalientes* (which represents the most important), *Incarnation, Chicalote* and *Morcinique*, all of which, due to the decreasing natural rainfall of the territory, are of scarce use. The basin of the *Rio Juchipila* is located in the Western part of the state and its mainstream is the *Calvillo* river. The most relevant water storage works contributing to the water supply are the *President Calles, General Abelardo L. Rodríguez, the Niágara*, and the *Malpaso*.¹⁵³

Water use in the state is defined under two categories: 1) *consuntivos*, or non-reusable, of which 81 per cent is for agricultural use, 17 per cent for urban-domestic use, and 2 per cent for industrial use; and 2) *no consuntivos*, or reusable, which mainly covers water used for recreational practices, fisheries, and transportation via natural currents. Water usage in the state is delimited by the CNA through the *Ley de Aguas Nacionales y su Reglamento*, which specifies the guidelines for water concessions.¹⁵⁴

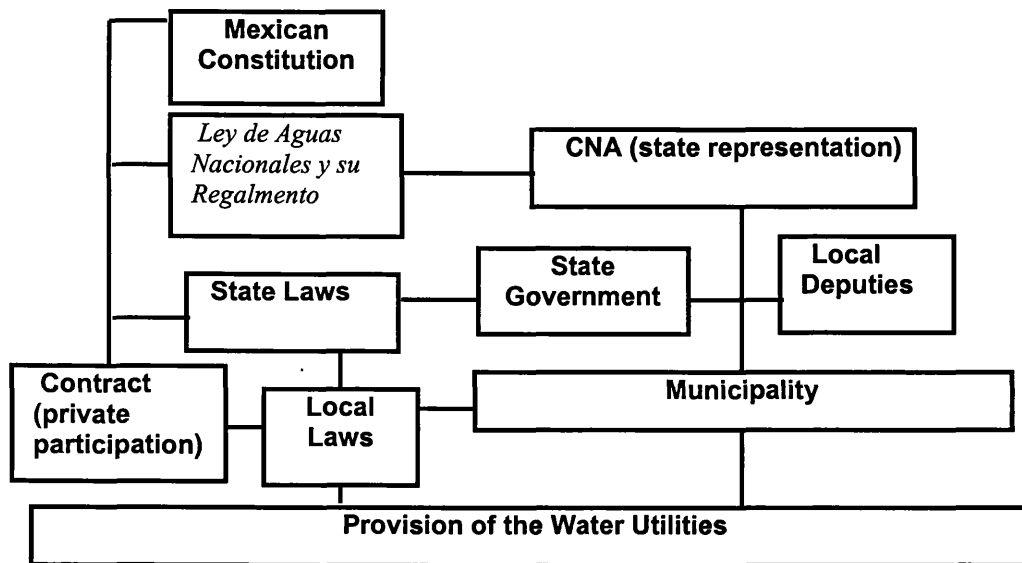
According to the Mexican constitution (Art. 115) the potable water,

¹⁵³ The data comes from the state government official web page on www.aguascalientes.gob.mx accessed in June, 1999.

¹⁵⁴ For a broader explanation see: Gobierno del Estado de Aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. México: Oficina de Coordinación de Asesores-Gobierno del Estado de Aguascalientes. Gobierno del Estado de Aguascalientes pp. 214-217.

wastewater, and its treatment are the responsibility of the municipalities, which may use any of the schemes allowing private or public participation (as reviewed in Chapter Two). Nevertheless, all three levels of government play a fundamental role in water management (Figure 3.3).

Figure 3.3 Water Management in the State and Municipality of Aguascalientes



Own Elaboration using data from the Official Resolutions

The Mexican constitution and the *Ley de Aguas Nacionales y su Reglamento* are the legal basis for water management in the country.¹⁵⁵

The CNA has the federal responsibility, through programmes such as the *Programa de Agua Potable, Alcantarillado y Saneamiento 1995-2000*.

State authorities (state government and state chambers of deputies) are responsible for the elaboration or modification of state water laws and those regarding the public utilities, and in some cases for the direct provision of the water services through *Juntas de Agua*. Under local laws

¹⁵⁵ For a broad discussion of the water framework in México see: Banobras. 1996, *various articles*, No. 54, Año 9, México: Banobras. Also, for an interesting debate about the law and economics of the water resources in México see: Andrés Roemer. 1997. *Derecho y Economía: Políticas Públicas del Agua*, México: Miguel Angel Porrúa-CIDE.

(*Ley Orgánica Municipal-Reglamento de Agua Potable*), the municipality is the last tier of government and most direct form for the provision of the water utilities, and also serves as a regulatory body in cases of private intervention.

According to official sources, the provision of water utilities comprises three main activities or services: the supply of potable water, wastewater services, and sewage treatment.¹⁵⁶ They are also intended to cope with two core functions: the provision of the water in optimal conditions for human consumption, and the disposal of the water used (that is, the extraction, conduction, distribution, and drainage of the water, including all the administrative and technical specifications).¹⁵⁷ Potential water sources are surface water (lakes, rivers, seas, and reservoirs) and ground water (aquifers or subterranean rivers). Water utility users are categorised as: a) domestic use, b) productive (industrial, commercial and agricultural), and c) social (hospitals, public schools, public gardens).¹⁵⁸

The Water Resources and Infrastructure: The Background in the City of Aguascalientes

This section will describe the general water resources and infrastructure in the state and the city capital. The detail will be supplied throughout the

¹⁵⁶ For a description of the role of the water utilities in the municipality see: Ramón Aguirre Díaz. 1998. El Agua Potable en el Fortalecimiento Municipal, In *Federalismo y Desarrollo*, No.63, Año 11, México: Banobras, pp. 62-83.

¹⁵⁷ The above data was obtained from the state government official web page on www.aguascalientes.gob.mx in June, 1999.

¹⁵⁸ The data comes from: INAP. 1993. *La Administración del Servicio de Agua Potable y Alcantarillado*. México: INAP.

case study; however, it should be noted that there has been no formal study of the characteristics of the water sources in the state. This was asserted by former state governor, Otto Granados Roldán (1982-1998), and reinforced by the elected governor, Felipe González González (1998-2004). Consequently, this description will rely on the few official sources available and on personal interviews (Table 3.7).

Table 3.7 Water Infrastructure and Use in Aguascalientes (1998)

Water Coverage	98% (84% national media)
Wastewater Coverage	84% (67% national media)
Water Uses	• Agricultural 77.2 % • Domestic 21.1 % • Commercial & Industrial 1.6 %
Water Lost in the Process (evaporation, illegal connections, and pipeline fractures)	50-70 %
Annual Precipitation	522mm (777mm national media)
Range of Water Extraction	90 % Deficit of natural recharge

Own Elaboration using data from: Gobierno del Estado de Aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. México: Oficina de Coordinación de Asesores-Gobierno del Estado de Aguascalientes, Gobierno del Estado de Aguascalientes. 1996. *Situación Actual y Perspectivas del Agua en Aguascalientes*. México: Gobierno del Estado de Aguascalientes, June.

The development of the state and the city capital, encouraged by a demographic and economic boom, has affected an invaluable resource in the state: the water. As has been stated, the state was named after its hot springs. Ironically, however, the state is located in a predominantly dry territory with limited water resources and a low precipitation level (522mm annually, compared to the national average of 777mm).¹⁵⁹ Combined with the uneven allocation and use of water resources, this

¹⁵⁹ The former state governor Otto Granados Roldán gave an interview to the *Economista* Newspaper on July 30, 1998. The elected governor Felipe González mentioned the lack of a serious study in Aguascalientes in a personal interview in October, 1997.

leads to serious water problems in the state.

These problems are exacerbated by the over-exploitation of 90 per cent of the underground waters, the only developed source of supply.¹⁶⁰ At the current rate of depletion, the life expectancy of this natural resource is now only 30 years.¹⁶¹ Over 72 per cent of the water extracted is consumed by the agricultural sector, which has the lowest value use and the greatest irrational utilisation. Furthermore, inefficient water conduction and evaporation mean that between 50 and 70 per cent of this water is not properly used. The remaining productive sectors (commerce, industries, and services) use only 1.6 per cent of the water extracted; with domestic services make up the remaining 21.2 per cent. Nevertheless, only 50 per cent of this total of 22.8 per cent is actually used - the rest is lost due to underground fractures and pipeline leaks.¹⁶² Internal fractures, deep extraction, and the scarcity of the resource in its natural sources have caused a deterioration in the quality of the water, from *acceptable* to a situation where it is now high in salts, dirty, and mixed with wastewater. As has been shown, two problems are affecting the water sources: the

¹⁶⁰ Some of the literature used for these purposes are: Gobierno del Estado de Aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. México: Oficina de Coordinación de Asesores-Gobierno del Estado de Aguascalientes. Gobierno del Estado de Aguascalientes. 1996. *Situación Actual y Perspectivas del Agua en Aguascalientes*. México: Gobierno del Estado, June 1996. Data was also obtained through exhaustive discussions with members from the federal body *Comisión Nacional del Agua* (CNA). Likewise, Martín Molina Ochoa, the General Manager of the CNA in Aguascalientes, gave me important ideas and data.

¹⁶¹ Orientan a Univesitarios sobre los Servicios del Agua Potable. *El Sol del Centro*. March 20, 1998.

¹⁶² To find more see: Gobierno del Estado de Aguascalientes. 1993. Aguascalientes: Los Retos Frente al Siglo XXI. *Plan Estatal de Desarrollo 1992-1998*. México: Gobierno del Estado de Aguascalientes.

over-exploitation of the underground waters is encouraged by an irrational use or non-water culture; and the lack of modern and efficient water systems means that 50 to 70 per cent of the water extracted is lost in the process.¹⁶³

These problems lead to higher extraction costs and affect the quality and availability of the resource. It can be assumed that many of the factors affecting the water resources begin in the rural areas, and then go on to affect urban regions. For example, even when the water lost in the process is similar (50-70 per cent), the volume extracted in the rural areas affects the availability of the resource (water sources are linked) in urban areas, thus affecting costs and quality.

However, despite these problems, the water services infrastructure in the state is considered as one of the five most developed. It has the most extensive coverage of potable water and wastewater: 98 per cent and 94.3 per cent compared to 84 per cent and 67 per cent respectively nationally.¹⁶⁴ The city capital has the greatest coverage in the country: potable water, at 98.9 per cent, and wastewater at 97.8 per cent.¹⁶⁵

Nonetheless, as will be shown through the case study the water

¹⁶³ For a broad discussion on the water services in México, from a legal and economic perspective, see: Andrés Roemer. 1997. *Derecho y Economía: Políticas Públicas del Agua*, México: Miguel Angel Porrúa-CIDE. For a clear idea of how water resources are managed in México according to the law see: Comisión Nacional del Agua. 1997. *Ley de Aguas Nacionales*. México.

¹⁶⁴ For a broad discussion on water and wastewater coverage in México see: Presidencia de la República 1994-2000. 1995. *Programa Hidráulico 1995-2000*. México: Gobierno Federal.

¹⁶⁵ INEGI. 1997. *Cuaderno Estadístico Municipal: Aguascalientes*. México: INEGI-Gobierno del Estado de Aguascalientes, pp.41.

infrastructure is predominantly old, with poor quality materials affecting the provision of the service, and it has been identified by local inhabitants as the first and most problematic public utility in the state and the city capital. Thus, the reality facing the most developed city in terms of its water and wastewater infrastructure is in sharp contrast to what the official statistics suggest - a clear sign of that which faces the other Mexican municipalities.¹⁶⁶

Intervention from the private sector, in the form of a concession scheme, is used only in the city capital. The remaining ten municipalities in the state provide the services exclusively through public involvement: in seven cases by direct means or through decentralised bodies; in two municipalities through the intervention of the state government, and in one case via use of a community collaboration scheme.¹⁶⁷

Concluding Note

In order to explain and justify the selection of the city capital of Aguascalientes as the case study for this research, in which the privatisation of the water utilities is the core focus of analysis, this chapter has reviewed the development of the state and the city capital, the political and electoral trends of the last two decades, and the management and infrastructure of the water resources. The main points highlighting the

¹⁶⁶ An interesting analysis of the water resources in México can be found in: Banobras. 1996. *Federalismo y Desarrollo*, No.52. (Abril-Mayo-Junio de 1996) México: Banobras.

¹⁶⁷ Centro Nacional de Desarrollo Municipal. 1997. *Los Municipios de México: Información para el Desarrollo*. México: SEGOB –CEDEMUN, (CD- ROM).

relevance of Aguascalientes to the national context can be summarised as follows.

The city capital of Aguascalientes is located in a state with privileged characteristics. The strategic geographic location, industrial infrastructure, work force, economic growth, low unemployment rate, competitive level of wages and salaries, social stability, multinational investments, comparatively well-developed public utilities infrastructure, and labour stability have all encouraged the establishment of federal policies. Since most of the economic activity and state population is concentrated in the city capital, this allows us to compress our area of reference - to assess the results of federal policies in one specific area.

The political hegemony created by the official party's total control over the state - at least until 1995 - made Aguascalientes the ideal place in which to introduce any kind of public policy innovation. Likewise, the tied relationships amongst the centre and the state governments, whereby major federal policies are applied as experiments in the city capital, are decisive determinants. Thus, the privatisation of the water utilities represents the first case, nationally, to be applied at this level. The effect on the city capital is similar to what has been achieved in the state, since the state political, economic, and social variables have been centralised at this level.

The city capital represents one of the most developed (in all senses of the term) cities in Mexico, and federal authorities, through the CNA, play a key role in its water management and regulatory frameworks. State and local authorities also have responsibilities, and the local level of

government is directly responsible for the water utilities. However, it must be borne in mind that the supply and quality of the water itself has been under threat (to be discussed in detail further). Amongst other factors, the scarcity of the resource presents a great challenge for its efficient provision, whether by public *or* by private means.

In summary, this chapter has shown that the development of the state is tied to that of the city capital and vice versa. In this sense, Aguascalientes is one of the most advanced and well-structured cities in Mexico, accompanied by the seal of federal development through policies such as privatisation and decentralisation. Federal support has encouraged a high rate of economic and social growth in the state, with a consequent increase in needs, especially in terms of the provision of public utilities. Of these utilities, water has been selected to constitute the first concession scheme in Mexico. The results achieved by means of this federal policy are diverse and contradictory, and have changed the local economic, social, and political scenario. The roles of policies and actors have been transformed, and the new structures of government in Mexico have been challenged, as will be shown in the following chapters.

Chapter Four

The Path Towards the First Concession Scheme for the Water Utilities in Mexico: The Beginnings in the Municipality of Aguascalientes (1989-1993)

Introduction

This chapter will examine the development of privatisation policies for the water utilities in Mexico, focusing on the municipality of Aguascalientes. Section 4.1 will examine the earliest stages of water utilities management by state and local government, and the introduction of the first privatisation scheme in the municipality of Aguascalientes. Section 4.2 considers the 1992 election period, and the influence of political actors in thwarting the first attempt to grant the concession. The condition of the water utilities at the end of that period are also defined. Section 4.3 describes the role of the governor, mayor, and state legislature in the evolution of the concession scheme in 1993, and explains why local authorities approved the scheme. The debate around the terms 'privatisation' and 'concession' will also be examined. Section 4.4 describes how the private group, SAASA, obtained the concession scheme, and looks at the economic and political factors supporting it. The concluding section gives an overview, and a summary of these developments.

4.1 The Steps towards the First Concession Scheme for the Water

Utilities in Mexico: The Background in Aguascalientes (1989-1992)

The Provision of the Water Utilities in the State of Aguascalientes: The Early Stages

Traditionally, water utilities in Mexico had been provided by federal means. In late 1980, though, a national decentralisation programme was launched to encourage new investment in the sector. By this time, the water utilities were in a perilous situation. For 20 years (1960-1980) no improvements - technological or administrative - had been made in the provision of water utilities in Mexico.¹⁶⁸

The state of Aguascalientes took over responsibility for 69 water utilities, and thus became directly responsible for the provision of services throughout the whole state. The first state water law, the *Ley para Regular la Prestación del Servicio de Agua Potable y Alcantarillado* (Regulatory Law of the Water and Wastewater Utilities) was introduced on August 30, 1981, along with the *Dirección General de Agua Potable y Saneamiento* (General Direction of Water and Wastewater Utilities). These provided the framework with which to manage and control the water utilities in the state.¹⁶⁹

The state government did not operate the water utilities from the capital. Instead, they were handed to local authorities and managed through the

¹⁶⁸ According to an interview on January 14, 1998, with Martín Molina Ochoa, General Manager of the *Comisión Nacional del Agua in Aguascalientes (CNA)*.

¹⁶⁹ It is important to note that the transfer of the water and wastewater utilities took place without any extra resources (economic, technological or human).

Dirección de Obras Públicas Municipales (Municipal Public Works Direction), accountable to the *Secretaría de Obras Públicas y Vivienda Popular* (Secretariat of Public Utilities and Housing) of the State Government. No extra support was given, and the failure to provide the water services efficiently represented a major concern.¹⁷⁰ In 1988, the state government passed responsibility for the provision of the water utilities to the remaining municipalities, to be managed first through direct means and later by using decentralised bodies.¹⁷¹

The Creation of CAPA in 1984: The First Decentralised Water Management in the Municipality of Aguascalientes.

In 1983, the reform of article 115 of the Mexican Constitution granted the municipalities new responsibilities. At the same time, alternative schemes, including decentralisation bodies and privatisation policies, were available to provide public utilities. Aguascalientes took advantage of this constitutional amendment and, on February 5, 1984, the *Periódico Oficial del Estado de Aguascalientes* (POEA - Official Newspaper of the State of Aguascalientes) announced the creation of a new divested body to provide the water utilities in the capital.¹⁷²

This was the *Comisión de Agua Potable y Alcantarillado de La Ciudad de Aguascalientes* (Potable Water and Wastewater Commission for the City of

¹⁷⁰ Fernando Gómez Esparza. 1993. *Razones para la Concesión del Agua*. Presidencia Municipal de Aguascalientes (1993-1995). Aguascalientes. México.

¹⁷¹ SEDESOL. 1994. *Programa de las 100 Ciudades*. México: Secretaría de Desarrollo Social.

¹⁷² For these resolutions, the dates given are those of publication in the *Periódico Oficial del Estado de Aguascalientes*. Some were approved earlier by the state legislature or the *ayuntamiento*.

Aguascalientes), or CAPA, promoted by Governor Rodolfo Landeros Gallegos (1980-1986) in order to allow the municipality to use a decentralised (independent) public agency according to federal, state, and local laws, avoiding the necessity to provide the services by direct means. However, CAPA was under the observation and control of the municipality, as well as being financially tied to it. Furthermore, the city and state governments served as the normative policy and regulatory bodies.

According to the official resolution, CAPA was to be responsible for the management, operation, and conservation of water and wastewater systems in the capital, including building, rehabilitation, planning, programming, enlarging, and maintaining the infrastructure of the service. The creation of CAPA was the first decentralisation policy, supported by state authorities, to be applied at this level.¹⁷³

1988: The First Step towards the Implementation of Privatisation Schemes for the Water Utilities

The first step toward using privatisation schemes for the water utilities was made when governor Miguel Angel Barberena (1986-1992) asked the LIV state legislature to create a new regulatory law, the *Ley del Sistema de Agua Potable y Alcantarillado* (Water Potable System and Wastewater Law), to supersede the water law divestment of 1981.

The new law, published on March 20, 1988, was intended to promote the

¹⁷³ Gobierno del Estado de Aguascalientes. Creación de un Organismo Descentralizado CAPA. *Periódico Oficial del Estado de Aguascalientes*. February 04, 1984, Aguascalientes. México.

withdrawal of local authorities from the provision of water utilities throughout the state, but with special emphasis on the capital. Article 71 extended CAPA's responsibilities to the full provision of water utilities in the capital, including the establishment of financial, operational, and technical specifications. The law also allowed for the participation of third parties, including those from the private sector.¹⁷⁴

In terms of the background to Barberena's new law, it is evident that, during the presidency of Miguel de la Madrid Hurtado (1982-1988), the federal government was also clearly identified with decentralisation and privatisation policies. Aguascalientes was both following national trends and being used as an experiment.¹⁷⁵ State Governor Miguel Angel Barbarena, who had promoted the *Ley del Sistema de Agua Potable y Alcantarillado*, was linked with the Mexican president, and the clear aim was to apply federal policies in Aguascalientes before any other state in Mexico. In fact, the state governor provided a link between the de la Madrid presidency's policy of divestiture programmes, and the subsequent government of Carlos Salinas (1988-1994), which promoted major economic reforms, including privatisation policies.¹⁷⁶ Local government

¹⁷⁴ Gobierno del Estado de Aguascalientes. *Ley del Sistema de Agua Potable y Alcantarillado*. *Periódico Oficial del Estado de Aguascalientes*. March 20, 1988, Aguascalientes. México.

¹⁷⁵ On privatisation and decentralisation policies during the Miguel de la Madrid (1982-1988) administration, see: William Glade (ed).1995. *Privatización de Empresas Públicas en América Latina*. México: Gernika.

¹⁷⁶ On the privatisation program during Carlos Salinas de Gortáriz's presidency (1988-1994) see: Secretaría de Hacienda y Crédito Público.1994. *Desincorporación de Entidades Paraestatales*. México: FCE.

was on the agenda and Aguascalientes was selected to continue applying federal resolutions.¹⁷⁷

In the accords signed in May 1989, the governor encouraged the municipality (CAPA) to take advantage of the *Ley de Agua Potable y Alcantarillado*. Later, the *ayuntamiento* passed the law allowing CAPA to include private bodies in its structure.¹⁷⁸ According to the official resolution, the governor's petition was justified on the grounds that, from its creation in 1984, CAPA had faced constraints, including deteriorated infrastructure, lack of resources, pipeline leakage, non-accountable consumers (i.e. non-payment and illegal connections), old equipment, lack of specialised personnel, bureaucratic practices, and a general lack of expertise in water management. Financial resources were also inadequate to meet demand.¹⁷⁹ It was clear that the objective for which CAPA had been created in 1984 had not been met, and this persuaded local authorities to approve the governor's request. There were serious economic reasons for it, and it was made politically feasible by the state

¹⁷⁷ On previous federal policies encouraged in Aguascalientes see: Ma. Concepción Martínez Omana. 1994. *Aguascalientes: Un Ensayo de Descentralización*, México: Instituto Cultural Aguascalientes-Gobierno del Estado de Aguascalientes.

¹⁷⁸ During this month two sessions were held, Session 47 on May 10, and Session 48 on May 19, encouraged by the state governor Miguel Angel Barberena Vega (1986-1992). In both sessions the *ayuntamiento* approved the inclusion of private entities in CAPA's structure, none of the *síndicos* or *regidores* rejected or seemed interested in knowing how private schemes had to function. This was basically because the PRI had total control of the *ayuntamiento*.

¹⁷⁹ Presidencia Municipal de Aguascalientes (1988-1990) 1989. *Condiciones de los Servicios de Agua Potable y Alcantarillado*, Aguascalientes. México.

governor's control over the political machinery.¹⁸⁰

The First Privatisation Policy for the Water Utilities in 1989: A Service Contract Scheme

The first moves towards the implementation of a new set of public policies in Mexico were at a local level. Aguascalientes took the lead in applying alternative schemes that allowed private entities to be involved in the provision of the water services. An agreement allowing a mixture of partnerships amongst public and private bodies was signed on August 2, 1989, by state governor Miguel Angel Barberena Vega, and Jorge Antonio Ortega de León, General Manager of CAPA, representing the Municipality; and Enrique Valencia Sandoval, representing the recently-hired *Servicios de Agua Aguascalientes, S.A de C.V* (Aguascalientes Water Services, Limited Company).¹⁸¹ This private body, known as SAASA, represented an affiliate of ICA group (*Ingenieros Civiles Asociados*), which was heavily favoured by the federal government because of its association with the French company, *Générale des Eaux*.¹⁸² For this reason a holding company, *Operación y Mantenimiento de Sistemas de Agua S.A.*, or

¹⁸⁰ The PRI had total control of the state legislature and the *ayuntamiento*. Opposition parties represented only a small section of the political scenario.

¹⁸¹ Presidencia Municipal de Aguascalientes (1988-1990). 1989. *Contrato de Prestación de Servicios con SAASA*. August 02, 1989, Aguascalientes. México.

¹⁸² According to data obtained from *Générale des Eaux* (1998) this French group is a world leader in water supply, serving 40 million people around the world. It has presence in Europe in France, United Kingdom, Spain, Portugal, Italy, Germany, Hungary and the Czech Republic. It has also penetrated Asia, including China and Malaysia, as well as Australia and the Americas, where the United States, Puerto Rico, México (where it supplies 2.2 million people in part of México city and around 600,000 inhabitants in Aguascalientes city), Colombia and Argentina represent its bigger partnerships. (*Générale des Eaux* (1998) on the Internet www.generale-des-eaux.com accessed on May 10, 1998.

OMSA, was created. Evidence of this partnership was reinforced by *Générale des Eaux's* representative, Jean Michel Tiberi, in his statement that *since 1989 we have had a partnership with ICA group (OMSA) but without any physical presence in the municipality, which was increased during 1993 and 1994.*¹⁸³

According to the agreement the water services remained in public hands. Although CAPA was serving both as a regulatory body, and as the manager of the water utilities, it was unable either to make the rules or to elaborate them. Its functions included contracting, supervision, rehabilitation, infrastructure, conservation, and enlargement.

This first privatisation policy using a mixture of private and public participation in the form of a *contrato de servicios* (service contract) was presented in the form of a ten-year contract, due to run until 1999. It was an exclusively technical contract, with the private sector responsible for obtaining the raw water, for the water and wastewater reticulation systems, and for providing water treatment, as well as acting as an internal advisory group. Nevertheless, no investment or set tariffs were accorded at any stage, and this would pose a threat to SAASA's efficiency, as will be shown later.

However, SAASA did become involved in further areas of CAPA's structure, and four clear stages of this involvement can be identified. The first was granted during the government of Héctor Manuel del Villar Martínez

¹⁸³ Gobierno del Estado de Aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. México: Oficina de Coordinación de Asesores, pp. 201.

(1987-1989), with the last three heavily promoted during the presidency of Armando Romero Rosales (1990-1991), and concluded, after his resignation, under María Alicia de la Rosa López (1991-1992).¹⁸⁴ These mayors were all members of the PRI; their periods of government were all notable for privatisation policies; and all were subordinate to the governor of the state, Miguel Angel Barberena.

The First Stage (1989)

According to the contract signed in 1989, SAASA was authorised:

- To create detailed records of all consumers, including names, addresses, and water consumption; to maintain the water distribution; to operate the raw water source; to improve and control the quality of the water; and to remove blockages from the wastewater collection system (sewerage).

The Second Stage (1990)

The new local authorities, in power for the period 1990-1992, gave SAASA extra responsibilities, including:

- The provision of metering; issuing invoices; and charging for the rights to use the water services.¹⁸⁵

The Third Stage (1991)

The third stage came in the form of new resolutions, published in the

¹⁸⁴ Mayor Armando Romero Rosales resigned to run for a post in the state legislature. The *ayuntamiento* offered the appointment to Fermín Barba (vice Mayor), who declined. María Alicia de la Rosa López was serving at the state government as *Sub Secretario de Gobierno* (Under Secretary of Internal Affairs), but resigned, and was invested as mayor of the municipality of Aguascalientes. She clearly had support from the state governor Miguel Angel Barberena. She was only the second woman in power since 1957-59.

¹⁸⁵ CCAPAMA. 1998. *Evolución de la Contratación*, Aguascalientes. México.

POEA on March 3, 1991. The newly-created *Comisión de Agua Potable y Alcantarillado del Municipio de Aguascalientes* (Potable Water and Wastewater Commission for the Aguascalientes Municipality), or CAPAMA, superseded CAPA, and was granted the status of *organismo fiscal autonomo* (autonomous fiscal entity), with greater financial attributes and autonomy. The responsibility for approving water tariffs was transferred to CAPAMA, and the legal nature of the tariff changed, becoming a source of direct income for CAPAMA. Thus, water revenues were separated from local authorities' general budgets. However, the services were still functioning under federal, state, and local subsidies. It is questionable whether CAPAMA could be truly independent whilst relying on public funds (federal, state, and local subsidies) and remaining under political scrutiny, but no alterations to the relationships with SAASA were made. There was a clear intention to move ahead with further privatisation schemes.

The Fourth Stage (1992)

In 1992, CAPAMA and SAASA signed a new, and complementary, agreement, under which the private entity was encouraged to take on new operational responsibilities.¹⁸⁶ According to the official document, SAASA activities would be complemented by the following:

- The faculty to operate, maintain, administrate, and preserve the water and wastewater utilities, including the water treatment plants in the capital. For this purpose, CAPAMA agreed to place all the necessary

¹⁸⁶ Presidencia Municipal de Aguascalientes (1990-1992). 1992. *Convenio Complementario*. February 19, 1992, Aguascalientes, México.

resources at the disposal of SAASA.

This agreement represented the final stage in the movement towards the concession of the water utilities - the concession scheme was launched in 1993 after the arrival of the new local authorities. During 1992, Governor Miguel Angel Barberena (1986-1992), and the Mayor substitute María Alicia de la Rosa (1991-1992), had attempted, but failed, to make the concession. Table 4.1 summarises the path taken, from 1980 to 1993, towards the water utility concession scheme in the municipality of Aguascalientes.

Table 4.1
The Path Towards the Concession Scheme for the Water Utilities in the Municipality of Aguascalientes (1980-1993)

Year	Amendment
1980	Aguascalientes was granted 69 water utilities from federal authorities. The municipality provided the services by direct means.
1981	<i>Ley para Regular la Prestación del Servicio de Agua Potable.</i>
1983	Constitutional amendment to article 115, allowing the municipalities to use alternative schemes for the provision of public utilities, including private bodies.
1984	Inclusion of the first decentralised figure from local authorities (CAPA) to provide the water utilities.
1988	Creation of the <i>Ley del Sistema de Agua Potable y Alcantarillado</i> allowing private intervention for the water utilities provisions.
1989	First stage of privatisation policy using a <i>contrato de servicios</i> scheme granted to the private group SAASA (ICA group).
1990	Second stage granted to SAASA (ICA group).
1991	Third stage amendments modifying CAPA to CAPAMA.
1992	Fourth stage granting operational functions to SAASA (ICA group).
1993	- Creation of the <i>Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes.</i> - Concession Scheme.

Source: Own elaboration using data from the official resolutions.

4.2 Fighting for the Paternity of the Concession Scheme: The 1992

Elections

Public Utilities equal Private Interests: The First Attempt to grant the Concession Scheme in 1992

The private group SAASA made known its interest in obtaining the concession very soon after the granting of the third stage, and on February 28, 1992, presented a formal petition to state governor Miguel Angel Barberena, requesting the concession for the water utilities in the capital. SAASA aimed to gain greater control over the financial, commercial, and technical resources; in other words, to totally control the water utilities of the municipality of Aguascalientes.¹⁸⁷ On March 11, 1992, the state government passed an initiative to the state legislature in order to consider SAASA's petition. In fact, the state governor's support for this policy was a personal project, coming almost at the end of his administration.¹⁸⁸

The negotiations with SAASA were moving forward, backed up with the support of the state governor. However, in order to continue, a resolution from the *ayuntamiento* was needed. The state legislature followed the governor's instructions and, because of the legal impediment to the

¹⁸⁷ Gobierno del Estado de Aguascalientes. 1992. *Petición de SAASA*. February 28, 1992, Aguascalientes. México. It was sent directly to the state governor and signed by Ing. Raúl López Roldán, Executive Vice-president of SAASA.

¹⁸⁸ Gobierno del Estado de Aguascalientes. LIV State Legislature. 1992. It was signed by Enrique Pasillas Escobedo, *Secretario General de Gobierno del Estado de Aguascalientes* (General Secretary for the State Government) on March 11, 1992. It was sent by this dependency to Lic. Roberto Padilla Marquez, *Presidente de la Gran Comisión de la LIV Legislatura*, state legislature reference number 265.

preventing the body actually approving it, on April 3 it passed an initiative persuading local authorities to evaluate the case, and to return with a final resolution.¹⁸⁹

On April 22, 1992, the *ayuntamiento* returned the initiative. There was little debate, and the resolution was approved by fourteen votes, with just one abstention. The PRI was still the main political force in the *ayuntamiento*, and were thus able to ensure a 'fast track' decision. Even so, during this period there was no opposition from other parties - basically, no objections were raised regarding the water concession. Consideration of the core topics supporting the decision may help to explain why local authorities were so willing to move ahead with the concession programme in 1992.

- Administrative: A new ideological current in Mexico, sponsored by the federal government, proposed the privatisation of the public services in order to eliminate bureaucracy, provide insulation from political intervention, and encourage professional administration.
- Operations: It was believed that the private sector would be more efficient, encouraging better services at a lower cost. Special emphasis was placed on the water management system, where most complaints were concentrated.
- Financial: Transferring internal debts to the private sector was

¹⁸⁹ Signed on behalf of the state by Deputy Roberto Padilla Marquéz, *Presidente de la Gran Comisión* (President of the Greater Commission) during the LIV legislature. Returned on April 3, 1992 with expedient I-E-3-92 and with serial number 14521.

considered financially beneficial to the municipality. It was supposed that no further expenses would have to be met by local authorities.

- Legal, local, and state laws would be modified in order to maintain the integrity of the society and the service provided by the private entity.

It is also necessary to consider that the decisions were made in line with national currents (divestiture policies), and that economic factors represented the main variable in the concession scheme. In this context, the *ayuntamiento* judged that the concession for the water utilities was supported and legally feasible. It is important to note the speed with which these resolutions were made. It took less than a month for the state legislature to consider the petition from the state government to legally (not operationally) form the concession. The *ayuntamiento* approved it in only a few days. Clearly, it is reasonable to ask how it was possible that a decision to privatise a public utility was made without the decision-makers actually knowing the facts.

Nineteen Ninety-Two represented the last year in office for the state governor, mayor, and state legislature, putting them under pressure to make a quick decision. At the same time, the start of electoral campaigns for these posts meant that state and local officials wished to make a resolution in order to avoid jeopardising the PRI candidates. Furthermore, and crucially, it was necessary to obey any decision from a higher level of government - in this case from the governor, Miguel Angel Barberena. However, it was necessary to obtain the approval of state legislature, due to the legal impediment faced by the *ayuntamiento* that prevents it from granting resolutions exceeding its legal period of government (three

years).¹⁹⁰

The Paternity of the Concession Scheme: The Influence of the Political Actors in the 1992 Elections

On May 6, 1992, the *Comisión Legislativa y Puntos Constitucionales* (Legislative Commission and Constitutional Matters) of the LIV State Legislature passed a resolution postponing indefinitely any pronouncement regarding the concession of the water utilities. This was a major change, since the commission had previously supported the concession. Thus, the concession scheme came to a sudden halt, even though the *ayuntamiento* had already approved it according to their instructions.¹⁹¹

The key to this sudden change on the part of the state legislature was the elections. The PRI candidate for governor, Otto Granados Roldán, who was heavily supported by the Mexican president Carlos Salinas de Gortári (1988-1994), realised that the concession would stay longer than public officials. He wished to ensure that he would have total control of it from the beginning, in order to strengthen his own position in negotiations.

Thus, Otto Granados Roldán chose the concession scheme as a personal policy for his administration, with direct support from the Mexican president. Evidence for this came from Enrique Pasillas Escobedo, General Secretary of Government during the governorship of Miguel Angel

¹⁹⁰ See: Presidencia Municipal de Aguascalientes (1990-1992).1992. *Sesión del Ayuntamiento*. April 22, 1992, Aguascalientes, México. The document was signed by the *Regidores* Juan Pablo Ruiz de la Rosa, José García Franchini and José Manuel Rosales Cortes.

¹⁹¹ The document was signed on May 6, 1992 by four members of the *Comisión Legislativa y Puntos Constitucionales*, deputies Roberto Padilla Marquéz, Mario Garza, Sylvia Palomino Topete and Alfredo González González.

Barberena (1986-1992), who stated in an interview that *the approval of the concession scheme was suddenly stopped due to internal negotiations amongst the state governor Miguel Angel Barberena, state legislature, federal authorities (CNA and SHCP) and candidates from the PRI (Otto Granados and Fernando Gómez).*¹⁹²

The aim was to pass responsibility for the concession to the future state governor, mayor, and the coming legislature. The PRI candidates considered that the water policy might have been controversial, and did not want to go into the elections with the issue alive. It is evident that the decision to apply the concession during the coming government was taken while PRI members were campaigning for the public posts. They had control of the state and were confident of winning all the posts.

Otto Granados Roldán was elected as governor, with Fernando Gómez Esparza as the new mayor. Both brought new sets of public policies (privatisation) supported through federal bodies, specially designed to be identified as the new face of Mexican politicians, of a new form of public management at this level. The private sector was also extremely interested in the development these policies. Elections for the state legislature resulted in a massive victory for the PRI, in which they gained 20 out of 25 seats. This guaranteed the level of discipline necessary to

¹⁹² Enrique Pasillas Escobedo previously served as *Secretario General de Gobierno* (General Secretary of Internal Affairs) --1991-1992-- with the former governor Miguel Angel Barberena (1986-1992). Later, he run succesfully (PRI) for a post in the LV State Legislature.

implement any decision from the elected governor.¹⁹³

The Situation of the Water Utilities in 1992

As the 1990-1992 municipal term, and the electoral campaigns for the next term, were coming to an end (the last quarter of the year 1992), discussions about the concession were still ongoing in the corridors of political power. However, the Mexican public was unaware that decisions had already been taken regarding the future of the water utilities.

Important evidence regarding the failure of previous privatisation schemes (service contracts) appeared in a document presented to the general public and the *ayuntamiento* by Juan Pablo Ruíz de la Rosa, who served as the *Regidor* (PAN) for the water utility commission during the 1990-1992 administration.¹⁹⁴ He rejected the mixed public and private partnership between CAPAMA and SAASA, and argued that only two options for provision of the water utilities were feasible. First, total responsibility should be returned to the municipality, to provide the service by direct means; or, second, the concession must be implemented. Overall, the first option was the preferred policy.

The document defined the concession initiative as a policy serving only private interests, and PAN ideology prevented any consideration of private

¹⁹³ Otto Granados Roldán took office on November 22, 1992. He was elected with a huge majority (72.02 per cent of the votes) to serve a six year term (1992-1998). Fernando Gómez Esparza, won the elections with 68.65 per cent to serve a three year period (1993-1995). He took office on December 31, 1992.

¹⁹⁴ Presidencia Municipal de Aguascalientes. 1992. *Evaluación del Servicio de Agua Potable y Alcantarillado* (1990-1992), Aguascalientes. México.

participation. It also showed the conditions of the water utilities during the 1990-1992 period of government, arranging them under five main headings:

- 1) Water Supply. The lack of resources (economic and technical) to improve the water supply infrastructure had generated irreparable problems (non-paying customers and pipeline leaks, amongst others). The conditions had not been markedly improved, either - there was still not 24-hr availability of water. The sources of supply were facing serious problems, needing immediate attention.
- 2) Wastewater. The city had 850 km of sewers that were more than 40 years old and carrying both wastewater and excess rain water inflows. The problem was worse during periods of heavy rain, when all the sewers overflowed, thus posing a health hazard.
- 3) Water Quality. The potable water represented only 55 per cent of the total extracted, even though the municipality had the treatment capacity to deal with 94 per cent of the supply. The municipality still used chlorination in order to make it drinkable. Critically, 55 per cent of all water put into supply was lost through pipeline leakage. The pipelines were more than 40 years old and frequently damaged by the public urban services infrastructure.
- 4) Financial Scheme. Three main problems were detected: water leaks, invoicing procedures, and charging mechanisms. All impacted on the quality and quantity of the service provided, representing a burden on local finances.
- 5) End Users. There were 74,000 registered users in 1989, a figure that

rose to 105,000 by 1992. There had been a considerable increase in the number of complaints, as well. Tariffs represented the main area of concern, along with the constant errors in individual water measurement, so that water receipts did not reflect actual consumption.

These official descriptions show that the water utilities had been little improved between 1984 and 1992. The creation of a decentralised public figure (CAPA) in 1984, and the inclusion of privatisation schemes in 1989 (service contracts), had not solved the problem. One must ask, therefore, why so little had been achieved - despite the implementation of alternative schemes (public *and* private) - and why local and state authorities were so keen to move forward with the concession scheme?

One can assume that solving problems at a local government level does not rely exclusively on potential solutions. Political factors always play a part, as our examination of the early stages of the concession scheme has shown. Even so, it is necessary to point out that local necessities in Aguascalientes grew at a greater rate than financial, technological, or human aid for the provision of the water utilities. Between 1982 and 1992, in particular, there was huge population growth in the municipality of Aguascalientes, and public funds did not match this growth. This affected the overall results of the private intervention (SAASA), particularly because the public responsibility for capital investment in the water utilities was not fulfilled.

In explaining why PRI candidates were willing to implement the concession of the water utilities, the elected Mayor Fernando Gómez Esparza argued

in a personal interview that *the elected governments favoured the concession of the water utilities of the city's capital, due to the fact that while they were on campaigns a main petition represented the public concern about the water utilities, not necessarily the means to provide it (private or public) but the service itself. At that time, the provision of the water services represented a clear political demand that had to be solved by the elected governments.*¹⁹⁵

The PRI considered that the concession scheme would solve the problems facing the municipality. The risk of failure seemed small because of the level of support from federal authorities, especially considering the close relationship between the elected governor, Otto Granados Roldán, and the Mexican president, Carlos Salinas de Gortári, who was promoting the concession. Furthermore, the interest shown by the private sector (ICA group) seemed to guarantee success.

This confidence belied the results achieved by 1992, which pointed to a lack of efficiency on the part of SAASA, even if the main reasons for poor performance were a lack of public capital investment, a lack of regulation, and the obsolete technical, financial, management, and operational conditions of the services granted to the private company, limiting their capacity to improve matters.

¹⁹⁵ The interview was held at his private office in Aguascalientes on January 20, 1998.

4.3 The First Stage of the Approval of the Concession for the Water

Utilities: '93, the Year of a Final Resolution

The Political Ideology behind the Concession Scheme

The preliminary negotiations (governor-mayor) regarding whether to move forward with the concession had already been concluded, but approval was still necessary from the state chamber of deputies and the *ayuntamiento*, since the previous form of service contract did not endorse the concession scheme. As has been seen, the decision had been taken months earlier, during the electoral campaigns, influenced in particular by the governor and mayor elect. The first stage of local and state authorities' official lobbying for the concession began in early 1993. It must therefore be asked why they considered the concession scheme to be a policy that had to be launched during their period of government?

The new governor immediately made clear his intention to favour privatisation schemes. His *Plan Estatal de Desarrollo 1992-1998* (State Developing Plan) declared the intention of his government to grant a concession of the water utilities in order to improve their provision in the state. The plan was to start with the capital, whilst also giving consideration to the remaining municipalities.

In his inaugural speech, on December 31, 1992, Mayor Fernando Gómez Esparza declared that his government intended *to propose the concession of the water utilities to the private sector*. He justified this intention by pointing to the lack of quality in the services and to the financial constraints facing the municipality (CAPAMA) in their provision. These constraints included disproportional current costs, debt repayments, lack

of public investment, excessively low water tariff, and a high level of subsidy. He also considered that national trends were moving towards *government with greater regulatory functions and fewer executive functions*.¹⁹⁶

Nevertheless, he did not suggest the application of a privatisation scheme during his electoral campaign, or in the *Plan de Desarrollo Municipal 1993-1995*.¹⁹⁷ He did briefly describe the water utility conditions of the capital, but emphasised the economic, technological, and administrative constraints.¹⁹⁸ Governor Otto Granados Roldán supported the mayor's decision by declaring that *a world-wide tendency to privatise public utilities has arrived in Mexico, and Aguascalientes is not an exception*.¹⁹⁹ Later, he stated that there were even plans in the medium term to privatise other public utilities, such as city cleaning.²⁰⁰

These declarations make clear the close relationship between the governor and the mayor. They also indicate that the concession of the water utilities was decided during the campaign. Otherwise, it would not make sense that both elected candidates would suddenly discover the benefits of

¹⁹⁶ Iniciativa Privada Manejara el Agua Potable. *El Sol del Centro*. January 1, 1993.

¹⁹⁷ The main topics during Fernando Gómez Esparza's campaign were: urban development, more and better public utilities, public safety, water utilities and to have total regulatory control of the municipality of Aguascalientes.

¹⁹⁸ Presidencia Municipal de Aguascalientes. 1993. *Plan Municipal de Desarrollo 1993-1995*, Aguascalientes, México.

¹⁹⁹ Iniciativa Privada Manejara el Agua Potable. *El Sol del Centro* January 1, 1993.

²⁰⁰ On privatisation programs in México see: Jacques Rogozinski. 1997. *La Privatización en México: Razones e Impactos*. México: Trillas.

privatisation as soon as they came to power. However, it was the state governor, Otto Granados Roldán, who had the greater interest in applying the concession scheme. It represented a personal policy for his period of government, and was promoted using his personal relationship with the Mexican president, Carlos Salinas.²⁰¹ It can be assumed that the new mayor was acting under the governor's instructions from the day he took office. The aim was to persuade the *ayuntamiento* and the state legislature to approve the concession for the water utilities in the capital as soon as possible as a way to implement federal policies regarding privatisation schemes.

A Rushed Start by Local and State Authorities: Why was the Concession Scheme approved in 1993?

Soon after Fernando Gómez took office as mayor, the state legislature and the *ayuntamiento* began fulfilling all the legal requirements in order to pass the concession scheme. Discussions by the newly-elected *ayuntamiento* (1993-1995) began at its first extraordinary session on January 15, 1993, only 15 days after the mayor's announcement proposing concession schemes for the water utilities.

It is important to emphasise that the PRI represented the majority in the *ayuntamiento*, with 7 *regidores*. One of the two *síndicos* was a member of

²⁰¹ Poder Ejecutivo del Estado de Aguascalientes. 1992. *Plan Estatal de Desarrollo 1992-1998*. Aguascalientes: Los Retos Frente al Siglo XXI, Aguascalientes. México. See especially section regarding the Estudios del Agua (Water Studies) pp. 173-180.

the PRI, the other was Felipe González González (no political affiliation) serving on the exchequer commission on behalf the private sector.²⁰² Opposition parties were represented by only three members (PAN, PRD, and PFCRN) out of 12. One of these was the *Regidor* (PAN) for the water utilities commission, Fernando Herrera. At this first session only opposition *Regidores* questioned the initiative; PRI members were clearly following instructions. By the end of the session the *ayuntamiento* had agreed on the creation of a commission to evaluate the concession proposal.²⁰³ On January 19, 1993, the state legislature modified article 97 of the *Ley Orgánica Municipal del Estado de Aguascalientes*. The state governor pushed the reform forward, allowing the municipalities to make such concessions. He argued that the federal government had been encouraging this trend and that Aguascalientes would be a pioneer in the privatisation of public utilities.²⁰⁴ As mentioned above, the close relationship between the governor and the Mexican president were well known, and the first visit of Carlos Salinas to Aguascalientes came right on time: he inaugurated a wastewater treatment plant using private

²⁰² No Debe Ser Bandera Política la Privatización del Agua, Dice FGG. *El Hidrocálido*. January 26, 1993.

²⁰³ Presidencia Municipal de Aguascalientes (1993-1995). 1993. *Sesión de Cabildo No. 3*. Enero 15, 1993, Aguascalientes. México. The members of the commission to evaluate the water privatisation were Mayor Fernando Gómez Esparza and three other *Regidores*: Fernando Herrera, Roberto Martínez and Socorro Ramírez, representing Water and Wastewater, Exchequer and Internal Affairs commissions.

²⁰⁴ Autorizan a Concesionar Servicios. *Hidrocálido*. January 20, 1993. and Participación de la IP en las Tareas Publicas. *El Sol del Centro*. January 20, 1993.

capital.²⁰⁵

According to official documents, the *ayuntamiento* passed an important resolution approving the water concession on January 25, 1993.²⁰⁶ In this session, the PRI members passed the initiative, with only the opposition *regidores* voting. The *ayuntamiento's* decision to grant the concession can be summarised as follows:

- The municipality faced economic constraints: internal public debt represented a burden of 92 MNP, including debts to SAASA, BANOBRAS, state and federal governments, and other institutions (described in detail later).²⁰⁷ The water utilities (CAPAMA) accounted for almost 87 per cent of the total public internal debt.²⁰⁸ It was also necessary to implement reasonable pricing and to recover costs. Future investment in the services was emphasised. The *ayuntamiento* estimated that, by the end of the *trienio* in 1995, there would be a debt of around 189 MNP if the water utilities continued to be provided via public means (CAPAMA).²⁰⁹

Furthermore, the federal government had decided to cut all subsidies for

²⁰⁵ El Presidente Estará aquí el Jueves. *El Heraldo de Aguascalientes*. January 24, 1993.

²⁰⁶ Presidencia Municipal. 1993. *Sesión Extraordinaria de Cabildo*. Acta No. 4. Enero 25, 1993. Aguascalientes. México.

²⁰⁷ Presidencia Municipal. 1993. *Deuda Pública del Municipio de Aguascalientes al 4 de Enero de 1993*. Aguascalientes. México, published in *El Sol del Centro*. January 14, 1993.

²⁰⁸ El Monto de la Deuda Pública Municipal: \$92 mil Millones. *El Sol del Centro*. January 12, 1993.

²⁰⁹ La Deuda en Agua Subirá a 189 Millones NP en 1995. *El Heraldo de Aguascalientes*, January 27, 1993.

this utility for cities with more than 80,000 inhabitants.²¹⁰ Without federal subsidies, local authorities would have to increase the water tariff, inevitably leading to social problems. Nonetheless, increases were contemplated even with the concession (as mentioned above).

- There were also technological and environmental problems, including over-exploitation of the ground water, water leakages, non-paying customers, and a lack of micro and macro water measurement.

The public body CAPAMA was primarily responsible for the weak local finances and the water infrastructure. The clear intention was to mobilise public opinion in favour of the concession scheme by emphasising the financial and technological constraints facing the municipality. The local authorities also argued that there was public demand for the concession, expressed during the electoral campaign for mayor.²¹¹

However, the real reason for the decision to grant the concession was political,²¹² in particular the desire of the governor to stay in step with federal policies, and the local authorities were, therefore, simply following instructions. Paradoxically, although the critical circumstances facing the municipality were evident, the real reason behind the concession scheme was not. The *municipality* of Aguascalientes had been selected by the

²¹⁰ Cubren Formalidades Legales Para Pasar el Agua a La IP. *El Sol del Centro*. January 27, 1993.

²¹¹ A Concesionar el Agua. Línea Privada. *El Heraldo de Aguascalientes*. January 31, 1993.

²¹² Aprobó el Municipio Privatizar el Sistema de Agua Potable. *El Sol del Centro*. January 26, 1993, Concesión, Con Serias Condiciones. *El Hidrocálido*. January 26, 1993, Autoriza el Cabildo Concesionar el Agua a Particulares. *El Heraldo de Aguascalientes*. January 26, 1993.

Mexican president Carlos Salinas to pilot the application of a concession scheme for the water utilities. The programme was then to move on to the 100 most important cities in Mexico, thus influencing on 95 per cent of the total population.²¹³ This shows us the importance of its implementation, but begs the question of why Aguascalientes was chosen. For the purposes of this research two sets of reasons will be considered:

- Internal: the municipality of Aguascalientes had all the political and economic characteristics necessary to establish the path towards further privatisation schemes in other municipalities in Mexico. The strategic geographic and economic activities of the state were located in the municipality of Aguascalientes, and almost 70 per cent of the total population, accounting for 74.22 per cent of the economic activity in the state, were concentrated there.²¹⁴ The official party (PRI) had total control in all the municipalities, in the state legislature, and held the governorship. The political and economic stability of the state were also important determinants, and distinguished Aguascalientes from most other Mexican municipalities.
- External: the economic achievements of federal authorities, and their tendency towards privatisation policies, facilitated the launch of the first concession scheme in Mexico, with federal support through the World Bank prerogative and initiative. The most influential variable,

²¹³ A broad description demonstrating federal support is presented in the coming chapters.

²¹⁴ Presidencia Municipal de Aguascalientes. 1993. *Plan Municipal de Desarrollo (1993-1995)*. Aguascalientes. México.

however, was the close relationship between the governor, Otto Granados, and the Mexican president, Carlos Salinas.

It is clear that up to this point the *ayuntamiento* had simply been following instructions, approving a policy over which it had no control. Public opinion recognised this and the PRI faced a loss of credibility. PRI *Regidor* Herminio Ventura found it necessary to deny categorically that *we were authorising something already decided and that the ayuntamiento was serving as a puppet of the state and local authorities.*²¹⁵ The public was also quickly realising that privatisation schemes did not guarantee success. Since the introduction of SAASA in 1989, very little had been achieved, and the water utilities were in the same, or perhaps in an even worse, condition.

In the meantime, while the water concession was still under debate, the Mexican president Carlos Salinas visited Aguascalientes for the second time, for the XVI PRI national assembly. A few days later he declared in Mexico City that *Otto Granados Roldán, despite his being recently elected... has dedicated all his energy, his enormous talent, social vocation, to serve his fellow citizens....*²¹⁶ For a Mexican politician to be flattered by the Mexican president is a clear sign of being one of his favourites. Presidential support makes it easier to make an impact in the local context. It can be translated into public admiration and the submission of political colleagues. On January 29, 1993, the state

²¹⁵ Desde la Redacción. *El Heraldito de Aguascalientes*. January 26, 1993.

²¹⁶ Aguascalientes en el Animo Presidencial. *El Sol del Centro*. January 28, 1993.

legislature passed a resolution authorising the *ayuntamiento* to grant the concession of the water utilities, including the water treatment plants. It was passed by all the PRI members, as well as two opposition members (PARM and PFCRN). Only the members representing PAN, PRD, and PPS voted against.²¹⁷

This approval allowed the municipality to make progress with the elaboration of the concession title (contract) and to select a private entity via an auction mechanism. The application of the concession scheme for the water utilities was now at the first stage of approval. However, further endorsement by the state legislature - of the contract and the private body in charge of the water utilities - was still necessary.

Privatisation and Concession: Two Words in the Political Debate

The approval of the concession scheme led to a debate about the terms 'privatisation' and 'concession'.²¹⁸ Enrique Pasillas Escobedo, leader of the PRI faction in the state legislature and a former collaborator of governor Miguel Angel Barberena, declared the official judgement of the LV Legislature to be that concession *does not mean to privatise or to break down*.²¹⁹ At the same time, members of the PARM and PFCRN insisted that the proposal *was not to privatise the water utilities but to make a*

²¹⁷ This resolution was published in the *Periódico Oficial del Estado de Aguascalientes* on January 31, 1993.

²¹⁸ The terms were confused because of the definition of privatisation as selling the whole public utility. One evidenced in Chapter One that privatisation is a specific policy allowing private intervention for the provision of public utilities; a concession scheme is a mechanism relying on a formal privatisation policy.

²¹⁹ Vo.Bo. A Concesionar el Agua. *El Hidrocálido*. January 30, 1993.

concession of it. One can see, therefore, the degree of confusion generated by the officials involved in the privatisation initiative.

It is not surprising that the general public was also confused. Indeed, Juan Rodríguez Martínez, a PARM Deputy, argued that *the privatisation programme for the water supply has been surrounded by a lack of information...The society is confused due to the fact that local and state authorities have not been able to explain the necessity to make the concession.*²²⁰

Governor Otto Granados Roldán, however, continued to maintain that *private participation in the provision of public services is welcomed... This trend represents a world tendency that should not scare us.*²²¹ It is clear both that he considered the concession of the water utilities as a personal project and that there was a very clear identification of Aguascalientes with presidential policies. President Carlos Salinas actually instructed the mayors of the most representative cities *to make concessions for water and garbage collection. Aguascalientes was the first to implement this policy as, according to Mayor Fernando Gómez, we will follow presidential recommendations.*²²²

²²⁰La Privatización del Servicio de Agua, Paso Necesario Para Mejorar la Economía. *El Heraldo de Aguascalientes*, January 31, 1993.

²²¹ La IP Puede Aportar Servicios de Excelente Calidad, *El Heraldo de Aguascalientes*. January 31, 1993.

²²² Seguirán los Alcaldes Todas las Recomendaciones Presidenciales, *El Sol del Centro*. August 19, 1993.

4.4 The Concession Scheme: A Free Road to Implementation

The Role of SAASA (ICA group) in Obtaining the Concession Scheme

Local authorities had now to elaborate the concession title or contract, and to select the private body that was to be in charge of the concession. Since 1992, SAASA had made public its intention of obtaining total control of the water utilities. One can assume that *if money calls money, analogically, water calls water*.²²³ Local investors were also interested (*Aguas de Aguascalientes SA de CV*), arguing in support of themselves that *there is not much capital but a lot of spirit instead*, as well as international companies such as the French *Lyonnais des Eaux*, and the top Mexican construction company *Gutiérrez S.A (GUTSA)*.²²⁴

Despite the interest of other parties, Mayor Fernando Gómez declared that *SAASA was ahead to obtain the concession due to the fact that it had been working for many years on the water utilities in the city capital*.²²⁵ At the same time, public opinion (media, local inhabitants, opposition parties, and social representations) started to question SAASA's efficiency.²²⁶ The poor results obtained since SAASA's partial integration with CAPAMA, in 1989, were used as arguments against its obtaining the concession.

²²³ This phrase appeared in: Hidrocalidas, *El Hidrocálido*. February 7, 1993.

²²⁴ La IP Local, Aspira a Operar el Servicio de Agua. *El Heraldo de Aguascalientes*. February 4, 1993.

²²⁵ Saasa, en Ventaja Para Obtener la Concesión. *El Hidrocálido*. February 19, 1993.

²²⁶ These groups included: *La Asociación de Abarroteros y Pequeños Comerciantes de Aguascalientes (AAPC)*, *Federación Estatal de Agrupaciones Populares (FEAP)*, *Vecindades Unidas* and the *Unión de Usuarios del Agua*. Political parties were headed by the PAN, PRD, PFCRN and PT. Local newspapers included: *El Sol del Centro*, *El Hidrocálido*, *Página 24*, *El Heraldo de Aguascalientes* and the weekly *Tribuna Libre*.

Complaints included unjustified charges, illegal stoppages of potable water, a lack of quality control, and an increased number of pipeline leaks. SAASA was perceived as a selfish private company detrimental to the public interest. CAPAMA was also accused of working for private interests rather than for the municipality. Questions arose concerning CAPAMA's public debt and non-control of the public utility. The accusation was that it was being used by the private body SAASA in order to exploit consumers. It was commonly assumed that the concession would be assigned to SAASA without the use of an auction mechanism, since it had been involved since 1989, and the agreement did not expire until 1999. It was also supported by state and local authorities. The economic factors constraining local finances, and the prospect, under the terms of the concession, of transferring the internal public debt of CAPAMA to the private body, also strengthened SAASA's position.²²⁷ According to official documents, by 1993 the internal debt from the municipality to SAASA was of the order of 19 MNP.²²⁸ Since the municipality had to indemnify this money to SAASA, it is clear who held the advantage in the negotiations. Even when privatisation policies were little known, the euphoria over

²²⁷ Concesión, Pero con Pasivo Actual. *El Hidrocálido*. January 16, 1993.

²²⁸ Presidencia Municipal. 1993. *Cuenta Pública* 1993, Aguascalientes. México, published on the El Sol del Centro. January 14, 1993.

privatisation soon became evident. An official bulletin from the *Presidencia Municipal* (1993-1995) stated that *the Mayor Fernando Gómez Esparza announced that his administration intends to make the concession of the water and wastewater services (due in a very short time), the sanitary stuff, city cleaning and the slaughterhouse.*²²⁹ The fourth presidential visit, on July 22, 1993, added to this mood. It was extremely clear that presidential support was behind any policy decisions made in the state.²³⁰

Rushing the Concession Scheme: The Economic Argument

The economic constraints on the municipality of Aguascalientes expedited the concession. One must therefore consider why the local authorities were so keen to use economic justifications. According to Mayor Fernando Gómez, *if in the following days the concession is not approved...The municipality will enter a severe crisis of economic resources.*²³¹ In the short-term, the municipality's financial difficulties could only be eased by obtaining fresh resources. This would be achieved, of course, by granting the concession; consequently, the full legal implications were not considered. At that time, only two potential groups, SAASA (represented by ICA group) and GUTSA, remained interested in the concession,²³² as

²²⁹ Presidencia Municipal de Aguascalientes. Concesiónaran agua, limpia y rastro. *El Hidrocálido*. September 18, 1993.

²³⁰ Cuarta Visita Presidencial. *El Sol del Centro*. July 22, 1993.

²³¹ La Concesión del Agua, inaplazable. *El Hidrocálido*. July 6, 1993.

²³² Un Descuido Puede Desplomar Los Servicios Públicos. *El Heraldo de Aguascalientes*. July 30, 1993.

well as certain local investors, but little was achieved in the negotiations - according to the mayor because of the internal debt to be absorbed by the private entity, and the necessity that a further 320 MNP be invested in the water utilities.²³³

Official sources laid special emphasis on the critical financial circumstances facing the municipality, with arguments mentioning an economic subsidy from public funds of more than 100 per cent.²³⁴ In 1993, the municipality's public debt reached 100 MNP, and the water utilities (CAPAMA) still represented the main concern. The *ayuntamiento* considered that, with or without the concession, there would have to be a price increase of around 35 per cent.²³⁵ Federal authorities like the CNA supported the municipality and Martín Molina Ochoa, then CNA representative in Aguascalientes, stated that *it is urgent to make the concession of the water to avoid further problems*. Later he emphasised that *the water utilities are subsidised 100 percent...while a cubic meter is charged around one new peso (98 cents) its extraction and conduction costs double*.²³⁶

According to Mayor Fernando Gómez, the situation was even more extreme. He argued that *the cubic meter is set on a medium fixed basis at 98 cents while the real cost is 2.80 new pesos*. This would mean that the

²³³ Sigue Pendiente lo de la Concesión del agua. *El Hidrocálido*. August 3, 1993.

²³⁴ Mayor al 100% el subsidio al agua. *El Hidrocálido*. September 25, 1993.

²³⁵ Concesionada o no, el agua encarecera. *El Hidrocálido*. September 22, 1993.

²³⁶ Es Urgente Concesionar el Agua Para Evitar Problemas. *El Heraldo de Aguascalientes*. October 3, 1993. The other declaration was obtained in: Subsidio del 100% en el suministro del agua entubada. *El Hidrocálido*. October 3, 1993.

water tariff would have to be increased by 290 per cent for the utility to become self-financing and profitable.²³⁷ Such declarations explain the federal interest in applying the privatisation programme in Aguascalientes - clearly, privatisation was seen by the federal authorities as a solution to local level water supply problems.

At that time, all levels of government agreed on the privatisation of the water supply and were working together toward its implementation. Local enterprise groups, though complaining about its monopolistic nature, also supported the programme, and others such as the CANAIVE, CANACO, and CANIRAC were keen on privatisation policies and even accepted the water tariff increases. Thus, all the representative private actors in Aguascalientes strongly supported the concession scheme. The local media were publishing, on a daily basis, statements regarding the concession scheme, but their main function was to disseminate information about their concerns regarding the water supply.²³⁸ Local inhabitants were persuaded of the benefits of the programme, and of the urgent need to make the concession due to the financial constraints facing the municipality. The idea of a new form of government, focused on the more efficient provision of the water utilities, was also emphasised.

²³⁷ Se Requiere Aumentar en 290% las Tarifas Para que sea Autofinanciable el Agua Potable. *El Heraldo de Aguascalientes*. October 6, 1993.

²³⁸ Acepta la IP el aumento en el agua. *El Hidrocálido*. October 19, 1993. Listo el Texto que Entregara a la IP, El Servicio de Agua Potable. *El Sol del Centro*. October 10, 1993. The groups included the Centro Empresarial de Aguascalientes, represented by Alfredo Reyes Velázquez (first Presidente Municipal of the opposition in Aguascalientes 1996-98) and Manuel Reed Segovia (vice-president of this organisation and later designated as general manager of CAPAMA during Alfredo Reyes Velázquez' presidency).

However, the public was never informed about what this would consist of, or of the effects of the concession.

The Final Resolutions Granting the Concession Scheme to SAASA (ICA Group): The Lack of an Auction System

The first reverse suffered by SAASA (ICA group) came when the *Presidente de la Gran Comisión del Congreso del Estado*, Enrique Pasillas Escobedo, announced that the *Aguas de Aguascalientes S.A. de C.V.* enterprise, established by local investors, would be in charge of the concession of the water utilities.²³⁹ At this stage, however, the LV state legislature still needed to validate the concession by approving the legal initiative for the water utilities and, subsequently, the *título de concesión* (contract). On October 18, 1993, the state legislature scheduled two agreements regarding the concession scheme for further consideration during this period of sessions (four extraordinary sessions in the last quarter of 1993).

- The first was *La Iniciativa de Ley de los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes* (Law Initiative for the Potable Water, Wastewater, and Treatment Systems of the State of Aguascalientes), which was to supersede the 1988 *Ley del Sistema de Agua Potable y Alcantarillado*.

This law was intended to make available to the private sector all water,

²³⁹ A la IP local, la Concesión del agua. *El Hidrocálido*. October 16, 1993.

wastewater, and treatment services of all state municipalities, in accordance with the *Plan Estatal de Desarrollo 1992-1998*. The main goal, though, was to legalise the concession of the water utilities in the capital. The law provides evidence of the intention of state governor Otto Granados Roldán to privatise all the water services of the state. Aguascalientes was clearly following presidential objectives using privatisation policies.

This helps us to explain why SAASA exerted considerable pressure in order to obtain the concession. Managing the water utilities of the state capital would not bring an enormous income, but would facilitate the obtaining of the concessions for the rest of the state. It would also put the ICA group (SAASA owner) in an advantageous position as regards obtaining the water utilities concessions in other Mexican municipalities. The General Director of CAASA, Humberto Blancarte, stated later that *we were not just looking for Aguascalientes or the state municipalities...We wanted to become the leaders in the provision of the water utilities in Mexico...In which Mexico city was one of our main goals.*²⁴⁰

- The final point was the resolution concerning the *Título de Concesión de los Servicios de Agua Potable, Alcantarillado, Tratamiento de Aguas Residuales y su Reuso en el Municipio de Aguascalientes* (Concession Title of the Potable Water Utilities, Wastewater, Treatment Plants, and Reuse in the Aguascalientes Municipality).

²⁴⁰ The interview was held at CAASA headquarters on January 20, 1998. Aguascalientes, Ags, México.

On October 19, 1993, the state legislature received the concession title (contract) from the Mayor of the capital, Fernando Gómez Esparza. This stated in detail the conditions of the contract. To the surprise of some members, the ICA group (SAASA) was granted the concession,²⁴¹ with the justification that *SAASA's experience and presence in the city capital guarantees the success of the concession scheme.*²⁴²

The group made up of local investors (*Aguas de Aguascalientes SA de CV*) was suddenly erased from the scenario. It is clear that negotiations between SAASA and all levels of government (state government and municipality) had been ongoing since the early discussions on 1992. The resolution favouring local investors had been no more than a diversion to make the public believe that an auction bid was taking place. This never happened: the intention had always been to grant the concession to this private group (ICA).

In looking for the causes of this situation, it should be remembered that the precarious condition of the water utilities, and the risk inherent in an auction system where other interested parties could back off, placed SAASA (ICA) in a favourable negotiating position. An anonymous source, who played a key role during the concession process, argued that the aim was to endorse the water concession to the ICA group, which had a

²⁴¹ A 20 años será la Concesión de agua. *El Hidrocálido*. October 19, 1993.

²⁴² Agua Concesionada. *El Hidrocálido*. October 6, 1993.

partnership with the world's leading private water supply company, *Générale des Eaux*. The burden on public finances, along with direct orders from the federal government, made it impossible to consider any alternative.

Nevertheless, no major complaints were received from the other private enterprises that had expressed an interest in the concession scheme. The Mexican Under Secretary of Finance and Public Credit, Martín Werner, later stated that *the concession for the water utilities was given in Aguascalientes without using an auction system. This far from honest practice clearly jeopardised the concession scheme...*²⁴³

On October 19, 1993, the *Ley de los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes* (Law of the Potable Water, Sewer, and Reparation Systems of the State of Aguascalientes) was passed (decree 60).²⁴⁴ All 20 PRI members and one from the PARM (who became independent) voted in favour of the resolution. The remaining opposition parties, PAN, PPS, PFCRN, and PRD, voted against.²⁴⁵

This represented the last step before final approval of the concession. Nonetheless, there is no official record that the contract was authorised

²⁴³ The interview was held at the Mexican Embassy in the United Kingdom on June 27, 1997.

²⁴⁴ It was published in the *Periódico Oficial del Estado de Aguascalientes* on October 20, 1993.

²⁴⁵ Aprobada la Ley Estatal de Agua potable y Alcantarillado. *El Heraldo de Aguascalientes*. October 20, 1993.

earlier by the *ayuntamiento*, clear evidence of the subordination of the PRI representatives into passing an initiative promoted by the state governor without considering the legal mechanisms.²⁴⁶ The creation of this law also evidenced the rashness exhibited at all levels of government in their haste to legalise the concession title or contract.

The legal contract, *Título de Concesión de los Servicios de Agua Potable, Alcantarillado y Tratamiento de Aguas Residuales y su Reuso en el Municipio de Aguascalientes* (Concession Title of the Potable Water Services, Sewer, and Residual Waters Treatment and its Reuse in the Municipality of Aguascalientes) was passed on October 21, 1993, at the last session of the extraordinary period. It was published (decree 62) in the POEA on October 24, and took effect on November 1.²⁴⁷ All the PRI members, representing the majority in the state legislature (80 per cent), approved the concession scheme. The five opposition members voted against.²⁴⁸ Table 4.2 illustrates the evolution of the approval of the concession scheme during 1993, according to the official resolutions published in the POEA and the sessions held by the *ayuntamiento*.

²⁴⁶ During the period of government of Fernando Gómez (1993-1995) there are no public records from the *sesiones de cabildo* (city hall sessions) in the form of *minutas de trabajo*, only official documents providing partial evidence of how the contract was authorised.

²⁴⁷ It is important to note that this official newspaper did not include the annexes of the title, and thus, the public remained unaware of the details.

²⁴⁸ Tratan de Garantizar 'Agua para las décadas siguientes'. *El Heraldo de Aguascalientes*. October 22, 1993.

Table 4.2
Evolution of the Concession Scheme for the Provision of the Water Utilities in the Municipality of Aguascalientes (1993).

1993	Amendment
	First Stage
January 15	First session of the <i>ayuntamiento</i> creating a commission to evaluate the proposal for the concession scheme.
January 19	Modification to article 97 of the <i>Ley Orgánica Municipal del Estado de Aguascalientes</i> by the state legislature, allowing the municipality to make the concession of the water utilities.
January 25	The <i>ayuntamiento</i> authorised the concession of the water utilities in the municipality of Aguascalientes.
January 31	The state legislature (decree 32) empowered the Mayor Fernando Gómez to represent the <i>ayuntamiento</i> to prompt the concession of the water utilities.
	Second Stage
October 19	The state legislature received the formal petition (concession title) from the <i>ayuntamiento</i> to grant the concession to ICA group (SAASA owner).
October 20	The state legislature approved (decree 60) the <i>Ley de los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes</i>.
October 24	The <i>Título de Concesión de los Servicios de Agua Potable, Alcantarillado y Tratamiento de Aguas Residuales y su Reuso en el Municipio de Aguascalientes</i> (Concession Title) was granted to ICA (decree 62).

Own Elaboration using data from the official resolutions.

Concluding Note

It is clear that Aguascalientes took the lead in applying privatisation policies to the water supply in Mexico, and that after the first programme was introduced, two different privatisation schemes were used. The first was in the form of a *contrato de servicios* (service contract), in four different stages from 1989 to 1993; the second, from October 1993, was a concession of the water utilities.

The common factor, from the launch of the first privatisation scheme until the concession scheme was approved in 1993, was the lack of knowledge about privatisation theory (a lack of know-how). The critical circumstances facing the water utilities (human, technological, hydrological, and economic) jeopardised any private effort to improve the services until the last stage (1992). Another important aspect is the absence of any exchange of experiences (socialisation) at this level. It is, unfortunately, common for Mexican municipalities to implement new policies without external support. The three-year municipal period is also often too short a period in which to evaluate these policies.

Official arguments justifying the concession of the water utilities point to two main considerations. Firstly, economic constraints and the financial burden on the municipality. The water tariff was under-priced and increases would be unavoidable. The goal was to pass the responsibility for the increases to the private sector. The local authority clearly wanted to wash their hands of any social or political conflict resulting from this decision. Secondly, the lack of water infrastructure and the dramatic hydrological situation facing the state were further incentives to use

alternative privatisation policies - i.e., concession schemes. It was supposed that expanding the role of private entities in the provision of the water utilities through privatisation would solve the economic difficulties of the municipality of Aguascalientes, and impact positively on a rationalisation of the service.

However, the most important factor was the influence of federal decisions. Political factors (never mentioned by any authority) played the critical role. First, governor Miguel Angel Barberena Vega (1986-1992) promoted the scheme in accordance with federal ideologies. Later, governor Otto Granados Roldán promoted the concession, clearly considering it a personal project. Aguascalientes was selected to implement this policy, with the intention being to apply similar schemes in the 100 most important cities in Mexico. The decision had already been taken and local authorities were expected to justify it, presenting a unified front with federal authorities. This explains the real facts behind any economic or technical justifications.

In the case of Aguascalientes there were serious concerns regarding the concession scheme. A public monopoly became a private monopoly, with no auctions or bids considered, and no competition allowed. Local authorities kept the normative and regulatory framework, but with little chance to be truly independent of other levels of government.

Moreover, the efficiency of the private group would inevitably be jeopardised by public inefficiencies and irregularities. Furthermore, the public was allowed very little involvement in the evolution of the privatisation schemes. Local and state authorities even confused the terms

'privatisation' and 'concession'.

In summary, these developments represent important evidence for economic theorists, or sceptics, regarding the application of privatisation policies at a local level. The economic feasibility of any privatisation programme relies on the political interests involved. Economic considerations play an important role, but considering how local authorities in Mexico operate, one must assume that they are subject to political decisions. Our case study represents a clear example. From the launch of the first privatisation scheme in 1989, until the concession scheme, the same economic arguments were used. The privatisation policy introduced to solve these problems achieved little. This could help us to explain why Aguascalientes decided to privatise in stages. Finally, the results obtained highlight just one main variable - politics.

In the next chapter, this thesis will look in greater detail at the above arguments. It will explore the development of the concession scheme (contract conditions) from the implementation of the policy in October 1993, concentrating especially on the remaining period of government of Fernando Gómez Esparza (1993-1995).

Chapter Five

The First Water Utilities Concession in Mexico: From Theory to Practice (1993-1995).

Introduction

The aim of this chapter is to describe the development of the concession scheme for the water utilities in the city capital of Aguascalientes. The case study is presented in three stages: the start of the concession in late 1993, and the years 1994 and 1995. In section 5.1, the administrative and legal structure of the concession is examined, highlighting the links between the former water management body, SAASA, and the new, privately-owned entity. Section 5.2 examines the background to the water services and explains the politics of the concession programme. The presidential role is also examined, as are the hydrological characteristics of the city capital at that time (Oct. 1993) - highlighting the critical circumstances that faced local authorities. This section will also explore the interim period, when the concession had been approved but was not yet in private hands. Section 5.3 looks first at the beginning of the concession in 1993, and then at the year 1994. This includes a description of national and local trends influencing upon the programme. Section 5.4 considers a third stage - the year 1995. It looks at electoral trends in the city capital and explains the role and impact of the concession upon these trends. This section aims to describe the effects upon local inhabitants of the circumstances described in the previous section, and to examine the consequences and dramatic changes in the political arena. For these

purposes one must concentrate upon the last period of the Fernando Gómez Esparza government (1993-1995). The concluding section provides an overview of the entire chapter.

5.1 The Context of the Water Concession: As a Private Entity

The Administrative Structure

As stated earlier, the concession for the water utilities was made on October 21, 1993, as a result of the local authority's decision to transfer total responsibility for the provision of the service to a private entity. An examination of how the administrative framework of this concession was constituted will reveal how the former water management body, SAASA, was linked with the new, privately-owned entity, and with clear presidential support.

The new private body granted the concession for the water and wastewater services of the city capital was the *Comisión de Aguas de Aguascalientes Sociedad Anónima* (Limited Company for the Water Commission in Aguascalientes), or CAASA. This body superseded SAASA but included it in its organisation. Both were subsidiaries of the transnational ICA group and the French company *Générale des Eaux*, which took over operative functions as *Operación y Mantenimiento de Sistemas de Agua S.A.*, or OMSA (Figure 5.1).

The federal body, CNA, responsible for water regulation throughout the state, was headed by Martín Molina Ochoa. The regulatory framework of the water utilities in the city capital was concentrated in CAPAMA, an autonomous and independent body intended to protect the interests of the

municipality.²⁴³ OMSA, a subsidiary of the ICA and *Générale des Eaux* partnerships, was represented by Ignacio Castro Castellanos. The CAASA subsidiary appointed Pedro González Martínez as the General Manager and Enrique Valencia Sandoval as SAASA manager, to serve as the legal representatives in the city capital. CAASA took responsibility for the administrative and financial aspects of the concession, whilst the SAASA group was re-contracted to concentrate on the operational functions.²⁴⁴ Thus, CAASA obtained the administrative control that had earlier rested with CAPAMA, and SAASA simply moved into a partnership in which it performed similar functions.

The ICA holding became the first beneficiary of the concession scheme, with support from all levels of government. Among the major shareholders was Gilberto Borja, a leading Mexican businessman who had been heavily favoured during the *sexenio* of Carlos Salinas (1988-1994), and who had been implicated in the funding scandal surrounding the 1994 presidential elections.²⁴⁵ In a personal interview, a top official of the federal government argued that the way in which the water services concession

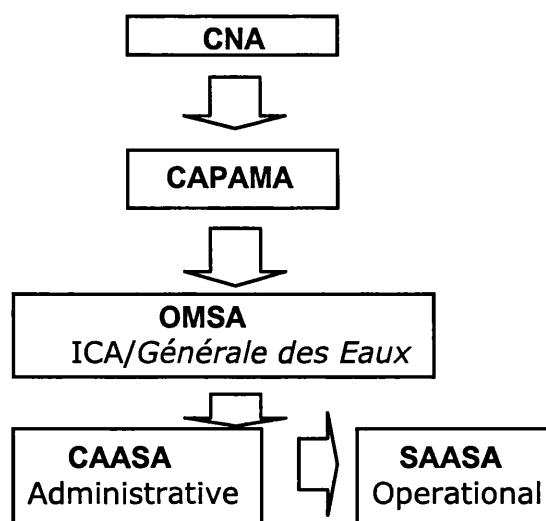
²⁴³ Presidencia Municipal (1993-1995). 1994. *Comisión de Agua Potable y Alcantarillado del Municipio de Aguascalientes*, Programa 1994, January 11, 1994, Aguascalientes, México.

²⁴⁴ According to a personal interview with Ing. Humberto Blancarte, General Manager of CAASA and SAASA, OMSA has two other subsidiary bodies: *Servicios de Agua Potable S.A* (Water Potable Services S.A.), or SAPSA, which controls the water and wastewater services in a form of *contrato de servicios* in part of Mexico City; and *Agua Potable S.A* (Potable Water S.A.), or APSA, which is responsible for water privatisation contracts in México. Thus, OMSA serves approximately 3 million inhabitants in Mexico.

²⁴⁵ To find more about this argument see: Andrés Oppenheimer. 1995. *México en la Frontera del Caos. La Crisis de los Noventa y la Esperanza del Nuevo Milenio*, México: Javier Vergara Editor.

was given to ICA (no auction) was a clear case of political favouritism.

Figure 5.1 Water Rights Hierarchy for the Concession Scheme in the Municipality of Aguascalientes (1993-1999).



The Legal Framework of the Concession

The legal framework for the concession of the water utilities in the city capital makes clear the support from all levels of government, and the obvious intention to move ahead with further privatisations in other municipalities (see table 5.1).

The Mexican constitution is the first body in which the concession of the water supply legally rests. The articles specified describe the mechanisms available for the provision of public utilities at local government level, and the constitution allows private bodies to play a role here through privatisation schemes. The second body is the State Constitution of Aguascalientes, in which Article 66 allows local authorities to permit the concession of water utilities. Likewise, the *Ley Orgánica Municipal del Estado de Aguascalientes* also allows the municipality to make contracts with private entities. The *Ley de Los Sistemas de Agua Potable*,

Alcantarillado y Saneamiento del Estado de Aguascalientes defines the participation of private entities in the provision of public services, especially as regards the water utilities. The concession title represents the final document, stating all the financial, administrative, and legal aspects of the concession.

Table 5.1
Legal Framework for the Water Utilities Concession in the Municipality of Aguascalientes (1993)

Law	Articles
• <i>Constitución Política de los Estados Unidos Mexicanos.</i>	+ Article 25, paragraph four + Article 28, paragraphs four, nine, and ten + Article 115, Fraction III
• <i>Constitución Política del Estado de Aguascalientes.</i>	+ Article 66
• <i>Ley Orgánica Municipal del Estado de Aguascalientes.</i> (January, 1993)	+ Article 58, Fraction XL, 97, 109, and 110
• <i>Ley de los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes.</i> (October, 1993)	+ Article 49, Fraction I, 50, 51, 52, 53, 58, and 60
• <i>Título de Concesión (Contrato)</i> (October, 1993)	+ Whole Document

Own Elaboration using data from the official resolutions

The above laws represent the main framework supporting the concession scheme. State and local laws were mainly approved in 1993, reflecting the fact that the concession for the water utilities was a policy identified with Otto Granados Roldán, state governor from 1992 to 1998. However, federal authorities had been considering privatisation schemes for the provision of public utilities at local government level since 1983.

The Concession Title (Contract)

The most controversial and influential part of the privatisation programme is the concession title. The following resolutions were taken from the original document,²⁴⁶ and represent, for the purposes of this research, the core body of the contract, which will be discussed in the following chapters. Briefly stated, CAPAMA assumed the responsibility:

To provide the public services of potable water, wastewater and residual water treatment plants and its reuse, in the municipality of Aguascalientes, likewise allowing to make use of the public municipal goods in accordance to the actual concession needed for the provision of the above services...In order to be able to operate, maintain, rehabilitate, enlarge and administrate the potable water systems, wastewater and its treatment, including the generation of invoices and charging of users.

The following points represent the basic conditions of the concession title:

- The objective of the concession is to provide the services according to the law. This includes planning the project, construction of the infrastructure, and its operation and maintenance. However, it excludes the water treatment plant located to the south of the city.
- The concession period will be for 20 years and may be extended for a similar period. At the end of the agreed period, including any extension to the concession, all the assets accumulated by CAASA to provide the

²⁴⁶ Presidencia Municipal de Aguascalientes (1993-1995). 1993. *Contrato de Concesión*. October 21, 1993, Aguascalientes, México.

water services will be passed to the municipality. It can exclude some of them as stipulated in the contract, but these can be acquired (*valor en libros*) by local authorities.

- The municipality can terminate the contract if actions taken by the private body are considered dangerous to society or to jeopardise the provision of the public service. In such a case the municipality must assume all the faculties granted in the concession title. This point became the focus of discussion amongst local politicians.
- The private entity is not allowed to use any asset as collateral for credit. At the end of the concession period the private body must return all the assets and respond to any damage. Nonetheless, CAASA was allowed to sub-contract the operational area of the water services. As stated earlier, SAASA was re-hired in this capacity.
- The municipality is not allowed to serve as a guarantor of any payment or debt contract. A trust under the observance of the national development bank - NAFINSA - will be constituted during the concession period, to approve all the financial resources (incomes and expenditures) to which the municipality will be a party.²⁴⁷
- The services must be provided on terms and conditions that guarantee their continuity, regularity, clarity, and generality, in order to benefit the end user. In the case of any irregularity the municipality is allowed to impose an economic sanction or fine on the private body. This rather vague point was used by politicians and social groups to pressure

²⁴⁷ The Trust was named *Comité Técnico del Fideicomiso* No 918-7 or 'CONA' and included representatives from the Municipality, CAPAMA, CAASA, NAFINSA and *Banco Mexicano*.

CAASA, with arguments about the quality and quantity of the services provided by this body.

- CAASA must pay the CNA for the rights to extract the water, as this federal body is responsible for assigning the water sources. Since the only water supply for the municipality are the wells localised around the city, CAASA is responsible both for the quality of the water and for making any investment to improve it.
- The regulatory framework (CAPAMA) will remain in public hands, to guarantee the provision of the services in accordance with the concession title. For this purpose CAPAMA has access to all the documents and equipment in the power of CAASA, and is allowed to audit the financial, commercial, and technical assets. It is empowered to approve any technical enlargement or rehabilitation work, to monitor the quality of the water and charges made for the rights to use the services, and to receive complaints. The normative faculty of supervision and fines charges is subject to the private entity criteria.
- The private body has to return to the municipality 10 per cent (rights for the concession) of all the revenue generated in each specific time period. It must pay according to the total of the invoices even when it has not been able to recover the full sum. Thus, the municipality will have an extraordinary income that will be used to create a contingency fund. The fund can be used to finance works not considered in the concession title, to subsidise water tariffs, and to obtain financial support in case of any contingency. However, in practice, the municipality subsidised CAASA by returning 80 per cent, receiving in

real terms only 20 per cent of the 10 per cent agreed.²⁴⁸

- The private entity must exhibit a surety of 10 MNP during the concession period against any violation of the contract on the private sector side.
- CAASA promised fresh investments worth 300 MNP for the next 20 years of the contract for major infrastructure rehabilitation.
- According to the contract, CAASA forecasted income worth 2,799 MNP, operative costs of 2,103 MNP, and a profit of 404 MNP during the 20 years of the contract; however, in the first two years there would not be any profit.²⁴⁹
- All the debt payments or liabilities are absorbed by the private entity. Thus, all the internal debt from CAPAMA, which represented a great financial burden to the municipality, was transferred totally to CAASA, which also acquired substantial liabilities via federal funding through development banks (BANOBRAS and NAFINSA).
- The water tariff is constituted according to three categories:²⁵⁰
 1. Domestic: subdivided according to social-economic factors as A, B and C;
 2. Commercial;
 3. Industrial.Payment for the services is due every two months, and the private entity is allowed to cut the services if more

²⁴⁸ This information was obtained from the *Regidor* (PAN) Edna Lorena Pacheco, who headed the water commission in the *Ayuntamiento* (1996-1998).

²⁴⁹ Manuel Díaz Flores and Rodolfo García del Castillo. 1995. *Innovación Financiera en Gobiernos Locales: El Caso del Municipio de Aguascalientes*. (DAP No.35). México: CIDE, pp.36.

²⁵⁰ The water tariff is established according to a specific formula in annexe F of the concession title.

than two receipts are overdue.²⁵¹ Any extra costs generated from CAASA inefficiencies causing a decrease in incomes will affect its finances and not the water tariff. Charges are indexed to the national inflation rate, in order to guarantee financial incomes and real prices. The contract stated that there would be increments of 10 per cent every two months for a total of 11 periods starting from January 1994. The basic water rate on the above date was 0.98 NP per cubic metre, and the minimum consumption rate was set at 40 cubic metres. The tariff was to be increased as stated above until November 1995. By this time, according to the concession title, it was to be set at a basic rate of 2.78 NP per cubic metre (an increase of 280 per cent), and for the remaining 18 years of the concession there would be no increases other than for inflation. The increments were to be set automatically, according to the following considerations: recovery of debt payments; infrastructure investments; operational and administrative expenditures; payments to federal and local bodies; taxation from federal, state, or local laws; generation of a reasonable profit for the private entity; and recovery of the operational deficits from the first periods of the concession. Any amendment to the tariff would require approval from the *Consejo Directivo* (Administrative Board) of CAPAMA, and must be in accordance with the following points: non-anticipated increases in the investment amounts for rehabilitation or enlargement; decrease of federal, state, or local contributions under the terms of the contract;

²⁵¹ According to the concession title, 97 per cent of the water consumption in the municipality is in the first category, 2.5 percent and 0.5 per cent are consumed in the remaining two categories respectively.

increase in the payments required for the concession rights or *contraprestaciones*; any other eventuality with negative impact on CAASA finances for the provision of the services; or any decrease in the investments according to the contract, whereby the water tariff must be adjusted downwards. State and local authorities' buildings and infrastructure were excluded from making any payment for the water services, whilst a discount of 50 per cent was to be considered for pensioned persons.²⁵²

In fact, however, the water tariff was extended beyond these considerations. For the purposes of our research this represents the most controversial point, and presents an interesting opportunity for further analysis of the politicisation and economics of the concession programme. Local authorities seemed to gain most from the agreement, although the public was unaware of the real conditions of the contract. In a public lecture, the Mayor, Fernando Gómez Esparza, justified the concession title on the grounds that:²⁵³

²⁵² This Administrative board was published on the *Periódico Oficial* on December 18, 1993. The basic structure included a *Consejo Directivo*, *Consejo Consultivo* (made up by members of the *Cámara de Comercio*, *Consejo Patronal de la República Mexicana*, *Cámara de la Industria de la Transformación*, *Cámara de la Industria de la Construcción*, *Cámara de la Industria del Vestido*, *Colegio de Ingenieros Civiles* and four members representing the users) a *Comisario* (represented by the *síndico* of the exchequer) and a *Director General* (manager of CAPAMA) formed by *Dirección Técnica*, *Dirección Jurídica* y *Unidad Administrativa*.

²⁵³ *Presidencia Municipal de Aguascalientes (1993-1995)*. 1993. *Manejo del Servicio de Agua Potable y Alcantarillado en el Municipio de Aguascalientes*. Lecture presented by the Mayor Fernando Gómez Esparza on October 5, 1993, Aguascalientes. México.

The above mechanisms guarantee the provision of an efficient service: the financial constraints facing the municipality are solved; more resources are liberated to invest in other public services; the administrative structure of the municipality is reduced; and we fulfil the constitutional mandate to become a regulatory body in the management of the service.

This statement provides clear evidence that the local authorities were optimistic about the implementation of the programme. This was to change later, when all levels of government started realising that a policy that was supposed to solve a problem did, in fact, lead to bigger ones.

5.2 The Background to the Programme

The Water Services Conditions: A Private Challenge

Before any discussion of the programme itself, it is necessary to understand just what the private entity was acquiring by means of the concession. According to official sources, by 1990 about 89.70 per cent of the inhabitants of the municipality were in urban areas (the city capital). The potable water provision in the entire municipality (urban + rural areas) covered 96 per cent of the total inhabitants, compared to 97 per cent in the city capital (urban area). The wastewater provision covered 91 per cent and 96.6 per cent respectively. Ninety-four per cent of the water consumed in the municipality was classified as acceptable as well as potable.²⁵⁴

²⁵⁴ *Ibidem.*,

Water metering was estimated to be effective for only 55 per cent of the total provision, the remaining 45 per cent being non-accountable through illegal connections, non-payment, or leakage. By 1993, the number of registered users was about 109,825, of which 103,984 were located in the city capital, including the 8,560 in the rural areas. The industrial and commercial sectors represented 440 and 5,401 respectively.²⁵⁵

According to official documents other than the concession title, the only water sources for the city capital are underground reservoirs. This water is supplied to the city through 158 wells, of which 121 are located in the city capital. Around 66 million cubic meters per annum are extracted and distributed through a pipeline approximately 900 kilometres long. Consumption is around 350-400 litres per day per inhabitant.²⁵⁶

The water sources represent a serious threat to the city capital, as there is over-exploitation of around 90 per cent of the underground waters. That is, the city extracts 90 per cent more water that can be naturally recharged, so that, on average, wells have to go 3 to 4 metres deeper every year. In addition to concerns about sufficient quantity, water extracted from depths of up to 500 metres can be highly polluted. The over-extraction has increased operational costs and caused serious malformations in the urban areas. There is also a lack of macro measuring.

²⁵⁵ *Ibidem.*,

²⁵⁶ *Ibidem.*,

The Politics of the Concession Scheme

A number of political actors expressed support for the approval of the concession title by the state legislature, particularly during the 10-day interim period when the concession had been approved but was not yet in private hands. Opposition parties, on the other hand, questioned (indeed, fiercely opposed) the initiative.²⁵⁷ The local deputies from the opposition parties (PAN, PARM, PDM, and PFCRN) stated that *they [would] resort to mobilising the society in order to force the state legislature to give up on the resolution.*²⁵⁸

The aim in politicising the concession programme was to link it with PRI resolutions and ideology. Opposition parties saw the chance to gain a political advantage by questioning the concession. Just days before the concession title was passed, a *plantón* (guard) was held. Militants from the *Frente Estatal de Acción Popular* (FEAP - State Front of Popular Action), represented by their leader, Rodolfo Solano González, attempted to heighten the tension around the final resolution of the concession title.²⁵⁹ External actors with a presence in the city capital exerted pressure at all levels of government in order to take advantage of public dissatisfaction with the policy.

At the same time, the leader of the LV State legislature (who represented

²⁵⁷ The State Legislature deputies against this resolution were: Antonio Ortega Martínez (PRD), Ricardo Avila Martínez (PAN), Francisco Jauregui Dimas (PPS), Rafael Macías de Lira (PFCRN) and Juan Rodríguez Martínez (PARM).

²⁵⁸ Politización del Asunto de la Concesión. *El Hidrocálido*. October 23, 1993.

²⁵⁹ Privatización del Agua. *El Sol del Centro*. October 24, 1993.

the interests of the state governor), Enrique Pasillas Escobedo, was justifying the water utilities concession. He stated that *acting against this resolution represents irresponsible behaviour; favouring the project is to look after the interest of Aguascalientes.*²⁶⁰ It can be assumed, however, that rather than looking after Aguascalientes he was simply following orders from the state governor, who ensured that the state legislature (PRI deputies), and particularly its leader (who had clear links with him), were politically responsible for the concession programme. This assumption is reinforced by the views expressed by PRI members interviewed for this research.

The leader of the congress also argued that this policy *per se* would prevent major problems, and that it was in accordance with state government policy on the water services: *this is what the governor Otto Granados Roldán is doing, to prevent: like the popular creed says, it is better to prevent than to lament.*²⁶¹ It is evident that this policy was linked with state beliefs and policies, and that other public institutions, and lower ranking officials, were just the instruments used to justify it.

At the time the contract was moving forward only two forms of ideology prevailed in Aguascalientes: support for, and opposition to, the concession programme. PRI members were pitched against a coalition of those against the programme. The arguments in favour were expressed by the

²⁶⁰ Agua Asegurada Para Futuras Generaciones. *El Sol del Centro*. October 22, 1993.

²⁶¹ Tratan de Garantizar “Agua Para Las Décadas Siguietes”. *El Heraldo de Aguascalientes*. October 22, 1993.

Bishop of Aguascalientes, Rafael Muñoz Nuñez, who supported the resolution, stating that *the concession from the water services represented a great measure by local authorities...It is better to pay a little bit more, to make a true sacrifice to guarantee its supply, than in a few years not having the services...Any criticism against this resolution is not well-founded.*²⁶² It seems that the links between the leader of the state legislature (his religious faith was well known in Aguascalientes) and the local clergy were functioning effectively. All sorts of organisations began to form opinions and make statements about different aspects of the concession programme.

The Presidential Role in Promoting the Concession for the Water Utilities

On October 29, 1993, the *Secretario de Hacienda* (SHCP), Pedro Aspe Armella, considered as a potential PRI candidate for the 1994 elections, headed a conference on the water resources in Aguascalientes called *Taking Care of the Water Today, Everyone Compromise.*²⁶³ Present at this event were the General Director at the *Comisión Nacional del Agua* (CNA), Fernando González Villareal; General Director of *Nacional Financiera* (NAFINSA), Oscar Espinoza Villareal; and the President of the ICA group (who obtained the water services concession in the city capital), Gilberto Borja Navarrete. Public officials representing other public funding sources, such as the national development bank (BANOBAS) and other areas of the SHCP, also attended, thereby indicating the relevance of the water

²⁶² Preferible la Concesión a la Sequía. *El Hidrocálido*. October 26, 1993.

²⁶³ El Estado: Fragua de Planes Federales. *El Sol del Centro*. October 30, 1993.

utilities concession to a large population.

At the conference, Pedro Aspe Armella made explicit the federal support for the concession with his statement that *under the leadership and vision of the governor of the state Otto Granados Roldán, gives an example at a national level to make concessions to the private sector for the services of drinking water, wastewater and its treatment.*²⁶⁴ He stated further that *today we attended the conference in which local authorities transferred the integral concession of the drinking water, wastewater and its treatment services...This is the first case in our country in which the participation from the private sector is not limited to the management or operation, it includes the investment in infrastructure over a long period.*²⁶⁵ The objective was clear: to ensure federal approval and support for the transfer of the city capital's water services. He went on to state that *Aguascalientes is the pioneer of the concession of the water services to private entities...It is the beginning of a process that must be extended to the whole country...For the above purposes the federal government has a fund of 4,000 MNP.*²⁶⁶

In order to guarantee the evolution and success of the concession, a restructuring of credits from federal institutions was agreed. NAFINSA gave a credit line of 107 MNP to the new private entity to enable it to

²⁶⁴ *Ibidem.*,

²⁶⁵ *Ibidem.*,

²⁶⁶ Concesionaran el agua en todo México. *El Hidrocálido*. October 30, 1993.

absorb the municipality's (CAPAMA) internal debt.²⁶⁷ The private body would also invest 35 MNP and re-negotiate debts from previous administrations with BANOBRAS.²⁶⁸ Economic aid was granted to the ICA group in order to achieve the best results in the short, medium, and long term.

The aim was to start the concession programme with no financial pressures, and to make a good impression in Mexico and abroad. As Pedro Aspe argued, *We came with the people from BANOBRAS because it is our belief that it is necessary to learn and to push this programme throughout the country.*²⁶⁹ These arguments were also supported by the *Delegado Estatal* (State Representative) of BANOBRAS, Dr. Arturo Durán García, who stated that *this institution has financial resources to push further privatisation programmes of public utilities.*²⁷⁰

The above analysis reinforces the argument put forward in this research. Public policies at local government level in Mexico are subject to federal decisions. In this sense, all local development is tied up with federal resolutions, particularly when specific policies are considered as strategic to the country's development. The privatisation programme was a product of this federal influence. Any other interpretation of the concession

²⁶⁷ No mas Subsidios Distorsionantes a Costa de los Pobres. *El Heraldó de Aguascalientes*. October 30, 1993.

²⁶⁸ El Municipio no le paga a Banobras desde julio 92. *El Hidrocálido*. October 29, 1993.

²⁶⁹ El Estado: Fragua de Planes Federales. *El Sol del Centro*. October 30, 1993.

²⁷⁰ Apoyo a la Privatización de los Servicios Públicos. *El Heraldó de Aguascalientes*. November 19, 1993.

programme can only represent the justifications used for it, rather than the real aims behind it.

5.3 The Evolution of the Concession Programme

1993: Private Management of the Water Utilities in Mexico

The private body (CAASA) officially took charge of the water utilities on November 1, 1993,²⁷¹ but there was politicisation of the concession scheme from the very beginning. According to official documents, the November 8, 1993 session of the *ayuntamiento* saw the start of a permanent campaign by *regidores*, especially those from opposition parties, against its own regulatory body.²⁷² A *Regidor* of the PAN, Fernando Herrera Avila, was in charge of the commission of the water services. Members of this political party worked together, making things difficult for the *ayuntamiento* and the state legislature.

At the same time, the *Presidente del Centro Empresarial de Aguascalientes* (CEA), Alfredo Reyes Velázquez, and the vice-president of this organisation, Manuel Reed Segovia, started to question the water tariff and its impact upon society.²⁷³ These individuals were pursuing further political ambitions, to be discussed later on in this thesis.

Nonetheless, the greater development of Aguascalientes and the high

²⁷¹ Desde hoy rige la concesión del agua. *El Hidrocálido*. November 1, 1993.

²⁷² Presidencia Municipal (1993-1995). 1993. *Sesión de Ayuntamiento*. November 8, 1993, Aguascalientes, México.

²⁷³ Preocupa al CEA un Posible Incremento Generalizado en Las tarifas del Agua. *El Sol del Centro*. November 09, 1993.

expectations of its governor Otto Granados Roldán gained national attention. Even the former United States Secretary of State, Henry Kissinger, stated on a trip to Aguascalientes that, *the development reached in Aguascalientes is fantastic...The state governor is young and talented, with great experience and good relationships in Mexico and the USA.*²⁷⁴

It is significant that the North American Free Trade Agreement (NAFTA) negotiations lay ahead. Mexico was seen as a potential entrant to this circle of first world countries - in other words, the possibility of forming commercial partnerships with the United States of America and Canada loomed large. The Mexican president, Carlos Salinas, and his cabinet were fulfilling all the necessary requirements to move ahead in this aim. Privatisation policies represented a clear vision of development for local authorities and Aguascalientes led the way for their implementation. This was the view nationally and internationally, even if it was not shared locally.

The governor of the state was at the peak of his political career and had support from all levels of government. Any decision by the state authorities was accepted, and the close relationship between Carlos Salinas (who was perceived as the great moderniser of Mexico) and his collaborator since SPP times, Otto Granados Roldán, was seen as synonymous with the positive development of Aguascalientes.

²⁷⁴ Fantástico el Progreso de Aguascalientes: Kissinger. *El Herald de Aguascalientes*. November 05, 1993.

Support for the above argument is given by the fact that, on November 26, 1993, the fifth presidential visit to Aguascalientes in less than 12 months took place. The Mexican president was heading the second national conference on housing. The presence of six secretaries of state, including three potential candidates for the Mexican presidency (Luis Donaldo Colosio, Manuel Camacho Solís, and Pedro Aspe Armella), 31 governors, and the most influential businessmen in Mexico made a great impact on the local political arena. The governor of Aguascalientes was hosting a political gathering that could impress any politician in Mexico, especially as the president was showing open approval for his administration.²⁷⁵

A few days later, on November 28, 1993, Luis Donaldo Colosio Murrieta (former national president of the PRI, who declined his support for Otto Granados Roldán to run for governor) was selected as the PRI candidate for the presidential elections. The governor of Aguascalientes expressed his satisfaction with this candidature as *the most fortunate decision made by the PRI*,²⁷⁶ proof of his belief that his political future and policies would be successful under the protection of the official candidate and potential future Mexican president.

Thus, by the end of this first period (1993), opposition parties represented the major opponents to the concession programme. Social and local enterprise organisations (mainly represented by members of opposition

²⁷⁵ CSG Preside Hoy, Aquí, la Reunión de la Vivienda. *El Heraldo de Aguascalientes*. November 26, 1993.

²⁷⁶ Colosio Candidato: Una Garantía. *El Sol del Centro*. November 29, 1993.

parties) also started to question the concession title, and put pressure on the local authorities to take action against CAASA. On the other hand, the concession scheme received support from all levels of government. The PRI controlled the state, and the national political and economic context represented a perfect scenario for the success of the concession scheme. Furthermore, local and state authorities were proud to be the first to apply such a scheme.

1994: A Year of Political and Economic Turmoil

The beginning of 1994 was marked by a series of events that would decide the future of Mexico, including that of Aguascalientes. First, the NAFTA agreement tied Mexico into commercial relationships with other countries; then, in the south of the country, came insurrection from the *Ejército Zapatista de Liberación Nacional* (EZLN). Both developments impacted on the political and economic arena, although federal authorities still retained some degree of control. By this time, Mexico was once again considered by the international community as a third world country, with obviously under-developed structures.²⁷⁷ On March 23, 1994, the PRI candidate for the presidential elections, Luis Donaldo Colosio Murrieta, was assassinated. This event had an extremely adverse affect on national and international confidence in Mexico, especially as regards investment. The first suspicion that this was a weak economy reliant on speculative investments impacted upon the country's public finances. The fact that

²⁷⁷ Andrés Oppenheimer. 1995. *México en la Frontera del Caos. La Crisis de los Noventa y la Esperanza del Nuevo Milenio*. México: Javier Vergara Editor.

power was highly concentrated in the hands of the Mexican president did manage to restore *some* degree of confidence, though. A few days later Ernesto Zedillo Ponce de León (Colosio's campaign manager) was "democratically" elected as the new presidential candidate of the PRI. However, despite his success in those elections, the weakness of the PRI was now evident.

A month later, on September 28, 1994, the General Secretary of the PRI, José Francisco Ruíz Massieu, was assassinated. Many theories were put forward, and public opinion linked the assassinations with elite Mexican politicians. International investors started to panic and public finances faced a serious threat. The government of Carlos Salinas and the PRI began to attract further severe criticism.

Mario Ruíz Massieu, brother of the recently assassinated José Francisco, and the deputy *Procurador de Justicia* (PGR) were in charge of the investigation. He later declared that the government and PRI members were responsible for the assassination. This marked the start of an economic crisis. International investors were in a state of panic and more than US\$ 1.5 million left the country in one day. The Mexican president also lacked credibility, as public opinion saw him as linked to both assassinations. This further undermined confidence in the country, leading to even greater financial instability.

On November 1, 1994, Ernesto Zedillo Ponce de León became the new Mexican president. Negotiations to devalue the Mexican peso took place before he took office, but the former president decided to pass the responsibility to him. On December 22, 1994, the Mexican peso devalued

and inflation rates started to grow. This affected sharply upon personal finances, provoking general dissatisfaction with the government and the PRI. In 1995, Raúl Salinas, brother of the former president, and Mario Ruíz Massieu were jailed by the government, the former for masterminding the assassination of Jose Francisco Ruíz Massieu, the latter for corrupt practices.

How, then, did these developments affect Aguascalientes, and in particular the concession of the water supply? During 1994, the Mexican economic and political contexts changed dramatically. Aguascalientes represented a clear bastion of the PRI, and the governor of the state, Otto Granados Roldán, was linked with the former Mexican president Carlos Salinas. The fall in prestige of the Mexican president adversely affected the local inhabitants' opinion of government in general, and particularly the State Governor, Otto Granados Roldán, and the PRI. The concession scheme, inevitably, came to be viewed as the result of federal and state policies. This influenced upon the local political arena, influencing the politicisation of the concession scheme.

Local Level Influences

At the beginning of 1994, the contract delimited the increments for the water tariff for eleven bimesters, as a means to set the water tariff steadily closer to real costs. The scheme agreed in the contract - indexation of the tariff to the inflation rate - suggested an uncertain future, although in previous years the Mexican government had managed to calm inflation and federal policies were enjoying greater credibility at all levels of government. The first increments on the water tariff were

modest, and not heavily influenced by inflation. However, at the same time, CAASA was responsible for the first time for water receipts, occasioning greater confusion due to the lack of accurate water measurement. Receipts did not correspond to consumption. Political and social organisations were severe in their judgement of CAASA, assuming that it actually intended to overcharge.²⁷⁸

Furthermore, CAASA was acquiring liabilities supported by the development bank, NAFINSA, as accorded by the contract. At the same time, it constituted, according to the concession title, a trust supervised by this federal body. It was allowed to issue public debt in order to balance its finances, using the ICA group as collateral.²⁷⁹

During this period, CAASA and CAPAMA were facing a lack of credibility. The public body, CAPAMA, was learning how to regulate the water services using a trial and error technique, and the local inhabitants were severe in their judgement of CAPAMA's inefficiency. Meanwhile, CAASA was trying to justify the water increments and other impacts upon the local inhabitants. It argued that only 76,000 users, out of a possible 121,000, had measuring instruments, a fact that was adversely affecting its finances.²⁸⁰ Nevertheless, the unpopularity of this body was such that bomb threats

²⁷⁸ Hasta en 500% aumentaron el predial. *El Hidrocálido*. January 27, 1994.

²⁷⁹ Presidencia Municipal (1993-1995). 1994. *Contrato de Fideicomiso Irrevocable de Administración y Garantía Numero 918-7 Constituido en Nacional Financiera, S.N.C.* April 19, 1994. Aguascalientes. México.

²⁸⁰ De 121 mil Usuarios, Solo 76 mil Tienen Medidor, Dice CAASA.. *El Sol del Centro*. May 31, 1994.

were received at its office.²⁸¹ The *Delegación Estatal* (state representation) of the federal body *Procuraduría Federal del Consumidor* (PROFECO - Consumers Federal Attorney) stated through its representative, Baltazar Bonilla Padilla, that CAASA was abusing the water charges and affecting the economy of the consumers...More than 50 per cent of the complaints received are about this body and TELMEX (Mexican Telecommunications).²⁸² Thus, the water tariff increases were affecting on this private entity even at this early stage. It occasioned great unpopularity, and was the main target of those who sought to influence public opinion.

Social representation organisations, such as the *Asociación de Abarroteros y Pequeños Comerciantes* (Association of Grocers and Small Businesses), represented by Antonio Hernández Esparza, began to exploit public dissatisfaction about the water tariff,²⁸³ whilst opposition parties like the PRD, PAN, and even certain PRI organisations were also acting against the water price rises.²⁸⁴ However, whatever interest there may have been in finding ways to benefit society was clearly linked with political ambitions. Meanwhile, PRI members of the *ayuntamiento*, state legislature, and

²⁸¹ Evacuan Nuevamente CAASA por Otra Amenaza Criminal de Bomba. *El Heraldo de Aguascalientes*. June 08, 1994.

²⁸² Se le acumulan las denuncias a la concesionaria de agua en la PFC. *El Hidrocálido*. June 13, 1994.

²⁸³ Marcha de Protesta por las tarifas de Agua. *El Heraldo de Aguascalientes*. May 31, 1994.

²⁸⁴ Caasa no se mide en sus cobros por la utilización del recurso. *El Hidrocálido*. April 21, 1994.

federal bodies were justifying the increments, in particular by attempting to raise awareness amongst the inhabitants of the city capital regarding the lack of water.²⁸⁵

The Mayor, Fernando Gómez Esparza, made a declaration that *the ayuntamiento will not concede more public services to private management...It does not matter that in most developing countries it represents a common practice... Here we have to be guided by reality and, basically, in tune with the popular sentiment.*²⁸⁶ From being one of the biggest supporters of privatisation policies, he suddenly became an opponent.

How can one explain this shift? In a personal interview he argued that *the public was affected by the concession programme for the water services, especially as regards the water tariff. Besides, the national context changed dramatically and this policy represented a political threat for the PRI candidates in the coming elections.* It is safe to assume that public opinion mattered, and that rather than being interested in solving the problems affecting the concession, he was trying to clean his hands in order to minimise the negative effects on his political career.

The 1994 elections represented an important test of the affects of the factors hypothesised above. The PRI representatives for senators, federal

²⁸⁵ Festejaron en el Estado el Día Mundial del Agua. *El Sol del Centro*. March 20, 1994.

²⁸⁶ No mas Concesiones. Hidrovisor. *El Hidrocálido*. July 4, 1994.

deputies, and presidential candidates *narrowly* won all the posts.²⁸⁷ The state's political preferences were changing, exposing the increasing weakness of the PRI. Opposition parties moved ahead in Aguascalientes, taking advantage of the circumstances prevailing at a national level.

The First Year of the Concession: An Analysis

The results of the first twelve months of the concession scheme were summarised in a survey co-ordinated by Agustín Morales Peña from the *Hidrocálido* newspaper.²⁸⁸ He found that 100 per cent of the people in Aguascalientes did not consider that there had been any major improvement in the water services. The same percentage argued that the private body provided a bad service with an unjustified water tariff, and that it caused discomfort with its permanent urban works. As regards the advantages obtained from the concession, only 31 per cent argued that the services were available for those who could afford them. The remaining 69 per cent saw no advantage. Regarding the disadvantages, 82 per cent mentioned the increase in prices, 10 per cent argued that there was more bureaucracy due to the lack of competition, and the remaining 8 per cent pointed to excessive, unjustified, and illegal drinking water cuts in the city capital.

Clearly then, there were two core concerns among the public: the increased prices on the water tariff; and the absence of any perceived

²⁸⁷ Candidates for Senators were Oscar López Velarde Vega and Fernando Palomino Topete. The candidates for federal deputies were Héctor Hugo Olivares Ventura and María del Socorro Ramírez Ortega. The candidate for the Mexican presidency was Ernesto Zedillo Ponce de León .

²⁸⁸ Perspectiva. *El Hidrocálido*. October 24, 1994.

advantage gained by private management of the services. These views contradict earlier justifications from local authorities regarding the water services, and give clear evidence of public dissatisfaction with local authority policy. This explains why political and social representations were heavily involved in questioning the water tariff, and in exerting pressure to negotiate a new contract.²⁸⁹ The *Regidor* (PAN) for the water and wastewater services, Fernando Herrera Avila, was particularly active in this regard. At the same time, however, PRI members at the State legislature and the *ayuntamiento* also saw the political advantage in censuring CAASA for the water tariff increases.²⁹⁰ The main goal was to attract voters for the next elections for the state legislature and for local mayor in 1995.

The year concluded with a major devaluation of the Mexican peso. The country was plunged into a severe economic crisis that impacted dramatically upon local inhabitants. Federal, state, and local authorities experienced a lack of credibility; furthermore, the PRI experienced the greatest unpopularity in its history.

Thus, the politicisation of the scheme during 1994 was closely linked with national developments. Furthermore, the new water charges contradicted the public perception of good government, and were incompatible with the

²⁸⁹ Partidos Políticos, Contra Injustos Aumentos al Agua. *El Sol del Centro*. December 9, 1994.

²⁹⁰ Costo Social y Económico muy Alto en el Servicio del Agua., *El Sol del Centro*. December 12, 1994. Diputados Piden Cuentas a Capama. *El Hidrocálido*. December 26, 1994; Exigirán Diputados Cuentas Claras a la Concesionaria del Agua Potable. *El Sol del Centro*. December 21, 1994.

prevailing culture of non-payment.²⁹¹ The private group CAASA was seen as a public menace, serving only private interests, and CAPAMA was classed as inefficient. The public was not impressed by local authority endorsement of CAPAMA's efficiency, which cited annual investment worth 21.8 MNP, rehabilitation of the water and wastewater lines, and major rehabilitation work on urban infrastructure, water equipment, and wells by December, 1994.²⁹² Moreover, opposition parties and social organisations saw the chance to attract public sympathy by criticising the concession programme and its supporters. The aim was to discredit the PRI members involved in order to obtain a political advantage.

5.4 1995: The Water Utilities as an Electoral Issue

The Effect of the Economic Situation on the Concession Scheme

The critical economic situation affecting the country undoubtedly had a negative influence on the last year of Fernando Gómez Esparza's government. In 1994, CAASA faced a financial struggle to meet the repayments for previous issues of public debt. According to official documents, it received a further credit line to guarantee the payment of

²⁹¹ This argument is supported by the results of a survey from 'Perspectiva', *El Hidrocálido*. December 15, 1994. 90 per cent of local inhabitants rejected the water increments, and were unaware of the increments every two months; 85 per cent argued that the increments would impact negatively on local people's finances; 15 per cent expressed great dissatisfaction with the situation. The survey also mentioned that 50 per cent of water consumers approved CAASA services, whilst the same percentage complained about a lack of availability.

²⁹² Fernando Gómez Esparza. 1994. *Segundo Informe de Gobierno*. Presidencia Municipal de Aguascalientes, Aguascalientes, México.

former liabilities.²⁹³ Nonetheless, members from the trust managing CAASA's financial resources (headed by NAFINSA) were having intensive discussions. According to official acts of the sessions, the main goal was to tackle the financial difficulties affecting both private and public entities.²⁹⁴ The debts absorbed by CAASA came to represent a serious threat to its finances, as these were indexed to inflation, which rose steeply. As a consequence of this economical turmoil, *Générale des Eaux* increased its presence in the municipality, although it was involved only in operational functions.²⁹⁵

CAASA members proposed further economic incomes in the form of federal subsidies and direct contributions, as well as the necessity to increase the water tariff and to renegotiate the contract in order to adjust it to the new national economic realities.²⁹⁶ However, René Romo Medina, on behalf of the municipality, argued that the potential political consequences were such that consideration of the water tariff increases

²⁹³ Grupo Financiero Inver-México. Banco Mexicano. 1995. *Contrato de Apertura de Crédito en Cuenta Corriente que Celebran: CAASA, Banco Mexicano y Constructoras ICA, S.A de C.V.* April 12, 1995. México, Distrito. Federal.

²⁹⁴ According to internal documents of NAFINSA. 1995. Sessions 3/95, 4/95, 5/95, 6/95 and 7/95. Aguascalientes, México.

²⁹⁵ Gobierno del Estado de aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. México: Oficina de Coordinación de Asesores del C. Gobernador, pp. 201.

²⁹⁶ According to official documents of NAFINSA this technical trust was formed by René Romo Medina (*ayuntamiento*), Miguel Angel Godinez and José Luis Becerra (CAPAMA), Pedro González M and Enrique Valencia Sandoval. Also involved were Jorge Rubio Oramas, Carlos Cortes and Héctor Ramírez (CAASA), Octavio Novelo and Aurora Angel (NAFINSA Trustee), Federico Carstens (Banco Mexicano-Trustor-) and Horacio Vargas Alonso (NAFINSA- Trustor).

must be deferred until after the election period.²⁹⁷

Overdue credits with NAFINSA and other financial institutions meant that CAASA was under financial pressure. Federal subsidies were paid late, and in part only, serving only to pay the interest on previous credits. At the same time, the municipality was, according to its internal comptroller, René Romo Medina, facing financial difficulties. He argued that the municipality's annual budget was equal only to debt services, thus affecting any financial contribution. Inflation was rising, and since major liabilities were index-linked, this created a chain reaction. Nonetheless, he stated that further subsidies from federal (CNA and SHCP), state, and local authorities would be considered, due to the relevance of the programme and the interest of the federal government in applying this scheme throughout Mexico.

CAASA continued to exert pressure for an increase in the water tariff, to compensate for the accumulated deficit in its finances.²⁹⁸ The Mayor, Fernando Gómez Esparza, was reluctant to agree to this because of the likely political effects.²⁹⁹ Water cuts were implemented for non-payment,

²⁹⁷ According to the session 4/95 from this trustee.

²⁹⁸ The municipality negotiated with CAASA to postpone the payment from the 10 per cent (rights of the concession) accorded on the concession title of the total invoices according to the session 4/95.

²⁹⁹ According to internal documents from CAASA, the Mayor Fernando Gómez Esparza received a letter from Pedro González Martínez, General Director of CAASA on May 16, 1994. It stated the necessity to increase the water tariff and to re negotiate the concession title in order to solve the financial problems. Later, on June 8, 1995, the General Director of this body Pedro González Martínez wrote again to the Mayor Fernando Gómez Esparza, arguing the urgent necessity to increase the water tariff and to absorb the internal debt of CAASA using federal, state, local and own contributions.

thus persuading political and social organisations to take legal action against CAASA.³⁰⁰ The same problems prevailed during 1995, Fernando Gómez Esparza's last year in office. He rejected any increment in the water tariff with the clear intention of avoiding any political difficulty.³⁰¹ Nonetheless, the effect this had on the concession scheme had a dramatic effect on the political arena in Aguascalientes, too.

The Role of the Concession Programme in the Fall of the PRI

During this year elections took place for mayors in all the eleven municipalities, including the city capital, and there were also elections for the state legislature in Aguascalientes. The effects of the water services concession on the elections for mayor in the city capital help to identify and explain the wider consequences, and the role of the concession in the fall of the PRI.

Between May and August 1995, the attention of the electorate was focused on two candidates.³⁰² The PRI candidate was Enrique Pasillas Escobedo, a well-known and wealthy politician linked with the State Governor, Otto Granados Roldán.³⁰³ He had previously served as leader at the LV State Legislature, in which the concession of the water services was

³⁰⁰ CAASA Cancela el Servicio de Agua y Viola la Ley. *El Heraldo de Aguascalientes*. June 6, 1995.

³⁰¹ According to internal documents from CAASA its General Director, Pedro González Martínez sent a petition letter on November 8, 1995, to the General Director Fernando Gómez Esparza. He mentioned the financial struggles facing CAASA due to the deficits generated by the underestimated water tariff's.

³⁰² The candidate from the PRD was Antonio Ortega.

³⁰³ He served on previous governments as *Secretario General de Gobierno* during Miguel Ángel Barberena governorship (1991-1992), afterwards became state deputy (PRI) and leader of the LV legislature (1993-1995).

passed, and his candidature was seen by the electorate as a reward from the state governor for his loyalty. However, his close relationship with the concession of the water services in fact contributed to his defeat.

In a personal interview he asserted that *I definitely lost the elections for two main reasons; first the water concession (water increments basically) and second my links as a former leader of the state legislature in which the concession title was approved including the PRI label...Nonetheless, the economic scenario affecting the society, and the lack of prestige of the PRI at the time, as well as the politicisation of the water services, affected my campaign.* After his defeat, he was relocated by the state government and was appointed General Director of the *Instituto de Vivienda del Estado de Aguascalientes* (IVEA - State Housing Institute of Aguascalientes).

The other high profile, and in this case victorious, candidate, was Alfredo Reyes Velázquez, better known as “*El mosco*” (mosquito), of PAN. He had an entrepreneurial background with links exclusively in the business sector.³⁰⁴ However, he had been politically active in previous years in order to obtain the PAN candidacy for the city capital. His political campaign used, and focused upon solving, the problems caused by the water concession as they affected local inhabitants.³⁰⁵ Indeed, his core campaign promise was to return the control of the water services to the municipality. This was advocated on technical, economic, and ethical

³⁰⁴ Alfredo Reyes Velázquez served as President from business organisation COPARMEX (1993-1994) and the *Consejo Empresarial de Aguascalientes* (CEA).

³⁰⁵ His campaign leaflets proposed the following points: to reduce the water tariff, improve public safety, promote jobs, support tourism promotion, improve the resources from the municipality, protect the environment and to promote sports and culture.

grounds.³⁰⁶

The State Governor, Otto Granados Roldán, was Alfredo Reyes Velázquez' greatest political enemy. He maintained that the PAN proposal was immoral and populist, and that the initial debt of 100 MP absorbed by CAASA could not be re-absorbed by the municipality without causing its collapse.³⁰⁷ Reyes emphatically rejected these arguments, giving the electorate an unqualified guarantee that, if elected, the PAN would revoke the concession and return responsibility for the services to the municipality.³⁰⁸ In sum, the PAN proposal was to revoke the concession, cut the price of the water supply (and thereby assume the risk of debt), and to create a decentralised body to manage the service.³⁰⁹

In the media war between PRI members and Alfredo Reyes Velázquez, the PAN candidate had a clear advantage, since the PRI was explicitly linked with the concession programme and avoided public debates on this subject, diverting criticism onto the private body, CAASA. Meanwhile, the PAN populist strategy to attract voters by revoking the water concession and reducing the water tariff was achieving success. Public forums were used to raise local inhabitants' awareness about the water services, and

³⁰⁶ La Concesión del Agua se Debe Revocar y Expondrá AN Elementos de Fondo. *El Sol del Centro*. June 9, 1995.

³⁰⁷ *Ibidem.*,

³⁰⁸ Promesa de Campaña de Alfredo Reyes Velázquez. *El Sol del Centro*. June 16, 1995.

³⁰⁹ Alfredo Reyes Velázquez. 1995. *Plan de Gobierno Municipal 1996-1998*. Aguascalientes. México.

thus to persuade the electorate to vote for PAN.³¹⁰

During the 1995 campaign, each political party treated the concession of the water services as the main issue, criticising PRI members for approving it. Members of the PRD and PPS supported the idea - clearly intending to further their political careers somewhat.³¹¹ Even the PRI candidate argued that *the members from the state legislature must revise as soon as possible the concession title*.³¹² His electoral campaign was focused on this point, and on the restructuring of the management of the water service.³¹³ It is clear that his views changed according to the political circumstances that prevailed, an indication of the degree of politicisation reached by the water concession. Nonetheless, he had little chance of success, since he was seen as the first person in Aguascalientes to have supported the concession.

On August 6, 1995, the PAN's anti-politics strategy and the people's desire for "change" helped Alfredo Reyes to win the election, with a clear majority of 52.12 per cent compared to 31.86 per cent obtained by Enrique Pasillas Escobedo from the PRI. This represented the first defeat of the PRI in the city capital. PAN candidates also won three other

³¹⁰ Propone el PAN Foro de Propuestas Para Solucionar el Problema del Agua Potable. *El Sol del Centro*. June 16, 1995.

³¹¹ Pedirá la Oposición a la Corte Que Revise la Concesión del Agua. *El Heraldo de Aguascalientes*. June 7, 1995.

³¹² PAN y PRI politizan el asunto del agua: manifestación para exigir menores cobros. *El Hidrocálido*. June 10, 1995.

³¹³ Enrique Pasillas Escobedo. 1995. *Propuesta de Gobierno para el Municipio de Aguascalientes 1996-1998*, Aguascalientes, México.

municipalities out of 11 in the state, and a majority in the state legislature with 13 (55 per cent) out of 27 seats (the PRI obtained 11, and the PRD, PT, and PFCRN each won one seat).

The Arrival of the PAN: Electoral Promises and Later Contradictions

The electoral success of the PAN marked the beginning of the new local politics surrounding Aguascalientes, especially in the city capital, even though their electoral promises were abandoned almost immediately. A leading member of the party in Aguascalientes later stated that the strategy had been to win the elections by promising to return responsibility for the water services to the municipality, and to reduce the water tariff. After the elections, they would maintain pressure upon CAASA in order to negotiate a new contract.

The mayor elect soon realised the dramatic situation facing the water concession. His first declaration after the elections omitted any reference to revoking the concession. However, he continued to consider reducing the actual water tariff.³¹⁴ Later, he again insisted on the abolition of CAPAMA or CAASA, with the *ayuntamiento* absorbing the functions of the former, and the municipality taking responsibility for the provision of the water services.³¹⁵ He also opted for populist actions such as writing to local newspapers, urging CAASA to avoid cutting the supply of drinking water.³¹⁶

³¹⁴ Agua Barata?. En 3 Minutos. *El Hidrocálido*. August 10, 1995.

³¹⁵ Como, Cuando, Donde. *El Hidrocálido*. September 1, 1995.

³¹⁶ The above letter was published in the *El Sol del Centro* on October 5, 1995 and the *Heraldo de Aguascalientes* in October 6, 1995.

The announcement by CAASA that it was almost bankrupt generated a great deal of public disquiet.³¹⁷ In response, the Mayor elect Alfredo Reyes *announced his firm intention to cancel the concession title granted to CAASA...due to the greater anomalies as regards the water tariff...besides evidence of a greater inefficiency and a lack of financial resources.*³¹⁸ The state president of the PAN, Jorge Zamarripa, supported him, declaring that *we will legislate according to the promises made in campaign...such as revoking the concession title.*³¹⁹

On November 15, 1995, the elected local deputies formed the LVI legislature of the state legislature. The water commission was made up of Alfredo Gómez and Fernando Herrera Avila, both members of PAN, the latter of whom resigned as a Regidor (1993-1995) of the water commission to run (successfully) for the state legislature; Adán Pedroza (PFCRN) and Alfredo González G (PRI); and Juan Raúl Vela (PT) and Fernando Alferez (PRD). From the beginning of this legislature actions against CAASA were unveiled almost daily.³²⁰

Social pressure groups (*Unión de Usuarios del Agua, Unión Campesina Democrática, Asociación de Abarroteros y Pequeños Comerciantes*) pressured the state legislature to fulfil campaign promises. The state

³¹⁷ Pedirán al Congreso que Investigue la Administración de CAASA. *El Heraldo de Aguascalientes*. October 13, 1995.

³¹⁸ Se Acabara la Concesión para Caasa. *El Hidrocálido*. October 25, 1995; Aumentos del 10, 20 y 30 por ciento en Impuestos. *El Heraldo de Aguascalientes*. October 25, 1995.

³¹⁹ *El Sol del Centro*. November 5, 1995.

³²⁰ Los Usuarios Afectados Ilegalmente, Pueden restablecer su Servicio de Agua y Drenaje. *El Sol del Centro*. November 24, 1995.

legislature did not hesitate and, supported by members of the water commission, they publicly broke the seals used by CAASA to cut off the supply of potable water to defaulting users,³²¹ arguing that the increments and the cuts to the service were unconstitutional. CAASA was unable to charge the last increment (11th) on the water tariff, as agreed in the concession title, or to index the inflationary period of 1994 to 1995.

By the end of 1995 it was clear that CAASA had not fulfilled the minimum conditions (operational, financial, rehabilitation) established in the concession title. The public bodies had failed to fulfil their obligations as laid down in the contract, for water price increases, subsidies, and debt payments. As a result, the private body was considered to be in danger of losing the concession. This did not prevent Enrique Valencia, however, manager of CAASA, from declaring that *we are going to give up the concession... But in twenty years.*³²² In a further statement he even presented the budget for 1996.³²³ However, the most significant contradiction was expressed by Manuel Reed Segovia, former president of CANACINTRA (1994) and vice president of COPARMEX (1992), who was going to head CAPAMA in Alfredo Reyes' administration.³²⁴ He argued that *CAASA is not going to leave Aguascalientes...we are considering a few*

³²¹ *Grupos Violentaron Sellos de Caasa*. November 24, 1995.

³²² CAASA Entregara el Título de Concesión Pero Hasta Dentro de 20 años: Valencia. *El Sol del Centro*. December 2, 1995.

³²³ Fin al Suspenso: Se Queda la Concesionaria de Agua. *El Hidrocálido*. December 11, 1995.

³²⁴ Manuel Reed Segovia was appointed as *Director de Medio Ambiente y Recursos Naturales* and later on (March, 96) became Manager of CAPAMA.

*changes to the concession title as regards the water tariff besides its legal relationship with the municipality...it is very important to keep the concession scheme in Aguascalientes because it will be implemented in the coming years in the 100 most important cities in Mexico.*³²⁵ Thus, PAN campaign promises evaporated, whilst the PAN and the elected candidates (state legislature and mayor) were playing 'yo-yo' with every declaration. All of them had contradictory versions regarding the concession scheme. In particular, the elected mayor, Alfredo Reyes, was adopting different postures according to daily demands. Once again, a populist government was in place. Once again, there was a lack of knowledge regarding the water concession.

Concluding Note

The introduction of the water concession in *Aguascalientes* was driven by the desire of the Mexican government to fulfil the requirements of international institutions (the World Bank and its subsidiaries), and thus join a select group of developing countries. Local and state authorities were thus following federal resolutions, but were also influenced by international trends and policies.

It is clear from the administrative structure that the municipality intended to favour the ICA group, which would then move ahead with further concessions throughout Mexico. Similarly, the legal framework shows the willingness of all levels of government to support the scheme, and to

³²⁵ Anuncia el PAN que Caasa se queda. *El Hidrocálido*. December 22, 1995.

encourage further concessions programmes throughout the country.

The concession title or contract is the most convincing proof of the politicisation of the privatisation programme. The level of subordination and the rush to apply the concession scheme persuaded local authorities to sign a contract with clear disadvantages for all parties involved. The water tariff was a particularly contentious area, and the indexation to inflation generated great disquiet amongst local inhabitants. Campaigns to revoke the concession scheme impacted heavily on the electoral preferences in the city capital, to the advantage of the opposition parties. Meanwhile, the regulatory body (CAPAMA) showed a lack of control and independence in applying the agreements in the concession title, and liabilities acquired by CAASA resulted in great pressure on all levels of government to contemplate further subsidies for the water utilities.

Unexpected events at the national level had a dramatic affect on the water concession. There was significant politicisation of the concession, culminating in the first defeat for the PRI in the local elections. The elections for state legislature, and for mayor in the city capital, demonstrated a clear desire for change on the part of the electorate. Thus, from the launch of the concession scheme in October 1993, until the end of the administration that had supported it in 1995, the weaknesses of the concession title, combined with the advantages granted to CAASA, made politicisation inevitable, to the advantage of the PAN. The next chapter will analyse the period of government following the election of the PAN.

Chapter Six

The New Political Hegemony in the Municipality of Aguascalientes: An Evaluation of the Affects upon the Water Concession (1996)

Introduction

This chapter examines the new political hegemony in the city capital and describes how, as mentioned in the previous chapter, electoral promises regarding the concession scheme were not met. In section 6.1, the beginning of the term of office of Mayor Alfredo Reyes will be examined, concentrating on the first quarter of 1996 (January-March), and then upon the rest of this most significant and controversial year in terms of the evolution of the concession scheme. Section 6.2 identifies the social and political organisations influencing the fall of the concession scheme, and analyses the political reverse suffered as a result of the rescue initiative; while section 6.3 focuses upon the influence of interest groups in the promotion of the scheme, sets out the conditions under which CAASA was able to regain the concession, and the political affects of revoking the rescue initiative. In other words, the section will examine the re-emergence of the concession scheme in the form of a new concession title. Section 6.4 examines the process of approval of the new concession title, demonstrating the dominance of the PAN at all four stages, and describing the core modifications that took place. The concluding section presents an overview of the chapter.

6.1 The Arrival of the Panista Government in the Municipality of Aguascalientes: Electoral Promises; Governance Contradictions

The New Political Hegemony

The term of office of the new PAN Mayor, Alfredo Reyes Velázquez, officially commenced on January 1, 1996, to run for a three-year period.³³⁰ At the same time, a clear PAN majority was confirmed within the *ayuntamiento*, with two PAN *síndicos* and 10 *regidores*, including the *Regidor* for the water utility commission, Edna Lorena Pacheco.³³¹ Of the six opposition members, two represented the PRI, and the PRD, PT, PFCRN, and PVEM each had one representative. Carlos Gonzales García replaced Miguel Angel Godínez Antillón as manager of CAPAMA, a position now in the gift of the mayor, thus bringing the regulatory body under political scrutiny and highlighting the lack of real autonomy. The new PAN hegemony in the *ayuntamiento* and the state legislature gave that party an opportunity to revoke previous PRI decisions, which had been determined by political expediency rather than real local necessities. During this period of government (1996-1998) the PRI became an opposition party with little real political power.

The State Governor, Otto Granados Roldán, was still the main political actor, but the PRI minority on the LVI State Legislature (11 seats out of

³³⁰ As is common in Aguascalientes, the ceremony investing the new mayor was held one day before the official commencement of his term on December 31, 1995.

³³¹ Is important to note that since 1970-73 *Ayuntamiento* PAN *Regidores* have acted as the representatives for the water utility commission. Thus, the water utilities policies have been under the scrutiny of this political party.

27) meant that his role as promoter of the concession scheme dwindled. Moreover, the loss of prestige of former Mexican president Carlos Salinas, with whom he had been closely associated, further damaged Otto Granados' standing. His style of policy-making and state governance was an exact copy of the former Mexican president's style - based on a close circle of collaborators and excluding the wider society. The new political scenario in the state meant that the governor was facing an end to this autocratic system. Nonetheless, the influence of Otto Granados on the evolution of the concession scheme remained significant.

The First Challenge to Fulfil Electoral Promises: The Early Contradictions

The first signs of decisions contrary to electoral promises were evident in the inaugural speech of Mayor Alfredo Reyes, in which he gave special attention to the water utilities. Three alternatives were to be considered:

- to reduce the water tariff to fair and affordable levels, with a proposal to the state legislature to modify the concession title;
- to revoke the concession scheme and evaluate the possibility of a new proposal or *remunicipalizar* (giving back total responsibility to the municipality);
- to replace the private group CAASA (ICA and *Générale des Eaux* partnership) controlling the concession.

Thus, the electoral promise to revoke the concession title as the first aim of his government was mentioned only as a possibility.³³² He even stated

³³² Presidencia Municipal de Aguascalientes. 1996. *Toma de Protesta de Alfredo Reyes Velázquez*. December 31, 1995, Aguascalientes, México.

in public interviews that *I never promised to revoke the concession scheme...Local media distorted my proposal which was focused on adapting the concession title according to the new national and local realities*. This dramatic shift was reinforced by Edna Lorena Pacheco, *Regidor* (PAN) for the water utilities (1996-1998), who told me that *Alfredo Reyes never promised to revoke the concession scheme but to adjust the concession title*.

It is clear that Alfredo Reyes had been aware of the critical circumstances facing the water utilities since the elections (August 1995). Official documents show that, from mid-1995, he was trying to negotiate a solution with CAASA, irrespective of electoral promises.³³³ Furthermore, CAASA had, since early 1995, been pressuring the municipality to adjust the water tariff according to the new economic scenario, and to modify the concession title.³³⁴ For political reasons - that is, the electoral campaigns - Mayor Fernando Gómez had passed the responsibility to the new government. The discussions soon moved to the federal level, which persuaded Mayor Fernando Gómez and mayor elect Alfredo Reyes to continue with the concession scheme.³³⁵

Alfredo Reyes evidenced this dramatic shift in his position even before he came to power, almost reaching an agreement with CAASA days before he

³³³ Gobierno del Estado de Aguascalientes. 1996. *El Agua Potable de Aguascalientes: La Búsqueda de Soluciones*. June 18, 1996. Aguascalientes. México.

³³⁴ CAASA. 1995. *Modificaciones Propuestas a las Bases del Título de Concesión*. November 13, 1995. Aguascalientes. México.

³³⁵ *Ibidem.*,

assumed office.³³⁶ He declared on local television that:

*The federal government rejects the idea of remunicipalizar, due to the negative effect on the programmes for the water utilities in the 100 most important cities in Mexico...however, it will not withdraw economic support... On the contrary, the federal government proposes a negotiated solution amongst all the parties...In which further federal economic support could be considered...In this sense, it is essential to fix a political posture to persuade the society to keep the concession scheme, as corresponds to the interests of the federal government...the position of the Ayuntamiento 1996-1998 is not against the concession scheme, but the way it was applied.*³³⁷

The electoral promises to reduce the water tariff, to revoke the concession scheme, and to *remunicipalizar* the water utilities were not translated into governmental action. At this stage, Alfredo Reyes was clearly following instructions from federal authorities. According to official documents,³³⁸ meetings took place with the SEGOB after he won the elections and an agreement was almost reached in January 1996.³³⁹ The aim was to

³³⁶ CAASA.1995. *Propuestas de Reformas al Título de Concesión*. November 13, 1995. Aguascalientes. México.

³³⁷ The program went out on the local channel 2 (Televisa) at 1:00 P.M on December 23, 1995, conducted by Mario Mora.

³³⁸ Gobierno del Estado de Aguascalientes. 1996. *El Agua Potable de Aguascalientes: La Búsqueda de Soluciones*. July 18, 1996, Aguascalientes, México.

³³⁹ Presidencia Municipal de Aguascalientes. 1996. *Convenio Complementario*. January 22, 1996, Aguascalientes, México.

negotiate with CAASA, with mediation from the federal authority and the CNA. The core areas under discussion,³⁴⁰ supported by local authorities, were:³⁴¹

- The concession schemes would not be revoked and an extension period of ten years would be granted to CAASA. Mayor Alfredo Reyes also requested that this private group change its name in order to avoid any social problems when presenting it to the public as a 'new' organisation.
- Mayor Alfredo Reyes recognised that it was impossible to reduce the water tariff. However, he proposed a subsidy (representing 2.6 MNP monthly) to the water tariff for six months. It would then be set according to the national inflation rate and the current costs incurred by CAASA to provide the water utilities. The aim was to persuade the public that he was fulfilling his campaign promise, by effecting a temporary reduction.
- In order to keep the concession scheme, further economic contributions from federal, state, and local authorities, and from the CAASA group, were established, amounting to 160 MNP. The municipality also agreed to receive only two per cent of the water rights charged to CAASA, instead of the ten per cent agreed in the concession title. Both accords contradict promises made during Reyes'

³⁴⁰ The participating officials were the *Sub Secretario de Gobernación*, Arturo Nuñez and the *Director General de Gobierno*, Juan Burgos Pintado.

³⁴¹ Gobierno del Estado de Aguascalientes (1992-1998).1996. *El Agua Potable de Aguascalientes: La Búsqueda de Soluciones*. July 18, 1996, Aguascalientes, México.

electoral campaign, when he emphasised that he would never reduce public incomes in order to finance CAASA.³⁴²

It is clear that the public was unaware of this possible agreement, and that the state government, state legislature, and the *ayuntamiento* did not participate. It was legally, financially, and technically impossible to fulfil electoral promises. Clearly, a spectacular solution had to be found.

The Economic Pressures Jeopardising the Concession Scheme: The Failure to Fulfil Campaign Promises

The critical economic inheritance from former Mayor Fernando Gómez had a considerable effect on CAASA finances, and PAN's electoral promises were no longer on the agenda. The economic constraints on CAASA obligated the municipality to put aside their electoral promises and PAN ideology.

A significant factor in CAASA's financial difficulties was the large number of defaulting users, not surprising given the ban on disconnections (overdue payments on the water receipts had reached almost 25 MP). Other factors included the liabilities absorbed from CAPAMA, operational deficits (because the water tariff had not been adjusted to reflect real prices), and the credits obtained to finance these liabilities.³⁴³ By early 1996, liabilities obtained in 1995 through NAFINSA and *Banco Mexicano* represented a serious threat to the concession scheme. According to CAASA, the core

³⁴² Apunte del Nuevo Municipio Libre. *El Sol del Centro*. October 25, 1995.

³⁴³ El Rescate no Revoca la Concesión. *El Hidrocálido*. March 30, 1996.

factors affecting the concession scheme at that time were the following:³⁴⁴

- Negotiations to find a solution for the water utilities had been in progress for almost a year (May 95-January 96), but with no results.
- Financial conditions were worsening by the day, with liabilities and operational deficits estimated to reach about 7 MNP per month.
- Income obtained via the water tariff was not sufficient to cover CAASA's costs.
- The concession title required the municipality to pay the deficits generated by not adjusting tariffs to real prices, but the municipality had not complied with this since 1995.
- The concession scheme was surrounded by political conflict generated by the municipality.
- In December 1995, the new local authorities had proposed a new agreement, but this was suddenly cancelled during the first week of January 1996 without considering any other proposal.
- Mayor Alfredo Reyes and his collaborators had persuaded CAASA to make extra financial sacrifices and had publicly anticipated water tariff reductions for the first six months. The aim was to promote public acceptance of the concession scheme. Nonetheless, the municipality jeopardised these efforts by not fulfilling the agreement reached in December 1995.

This document also included a new complementary agreement adjusted

³⁴⁴ According to an internal document prepared by the General Director of CAASA, Pedro González Martínez, and forwarded to Alfredo Reyes on January 23, 1996.

and prepared by CAASA, which described the necessary amendments to the contract in order to continue with the concession scheme. This was an exact copy of the December 1995 agreement. At the same time, the financial trust supported CAASA's arguments regarding the lack of economic resources jeopardising the concession scheme.³⁴⁵ CAASA was struggling to cope with overdue payments (estimated at 2.5 MP) to the *Comisión Federal de Electricidad* (CFE), and the provision of potable water to the city was at risk, since the CFE was prepared to cut the electricity to the water sources.

Thus, local authorities were aware that they could not continue with populist solutions that did not look like solving the real problems facing the water utilities. What could be questioned at this stage is the role of CAPAMA, since, as noted, its regulatory autonomy was subject to instructions from higher levels (mayoral resolutions according to federal instructions). CAPAMA's role in enforcing both the public and the private sides of the concession title was not fulfilled, and the body's weakness meant that it could not be justified as part of the water utilities structure.

³⁴⁵ The first session of the *Comité Técnico del Fideicomiso* No 918-7 'CONA' was held on January 11, 1996. It was formed by José de Jesús Muñoz and Noé Aguilera Prieto (Municipality), Carlos González García and Rodrigo Reyes Pérez (CAPAMA), Pedro González, Pedro Martínez, Jorge Rubio Oramas and Enrique Valencia Sandoval (CAASA). This trust also included representatives from NAFINSA and *Banco Mexicano*.

6.2 The Rescue Initiative for the Concession Scheme: A Populist

Initiative?

The Role of Social Demands Pressuring Local Authorities to Fulfil Electoral Promises: The Fall of the Concession Scheme?

The populist style and ideology of Alfredo Reyes had been established by actions such as the creation of the *Miércoles Ciudadano* (Citizen's Wednesday), whereby civil servants, including the mayor, personally attended to petitions from the local public.³⁴⁶ This was intended to serve as a direct link between the inhabitants and public officials, but it had clear political implications since public funds were used in order to discount the public utilities. The water utilities represented the primary concern of the public, and the objective was to calm local agitation by granting discounts on the water receipts, amounting in some cases to 60 or 70 per cent.³⁴⁷

From the beginning of Alfredo Reyes' administration there had been public pressure for local authorities to implement electoral promises.³⁴⁸ The promise to reduce the water tariff was partially fulfilled due to an agreement made between former Mayor Fernando Gómez and federal authorities, as part of a deal whereby from the start of 1996 the *Impuesto*

³⁴⁶ The *Miércoles Ciudadano* started on January 17, 1996.

³⁴⁷ Agrupaciones Políticas y Sociales por la Remunicipalización del Servicio del Agua. *El Sol del Centro*. January 6, 1996.

³⁴⁸ On the proposed reduction see: Presidencia Municipal de Aguascalientes. 1995. *Toma de Protesta de Alfredo Reyes Velázquez*. December 31, 1995. Aguascalientes. México.

al Valor Agregado (IVA - Value Add Tax) would no longer be charged by federal authorities, representing an immediate saving of 15 per cent on the water receipt. Alfredo Reyes promoted this as an achievement of his own government.

The *Consejo Consultivo* (Board of CAPAMA) passed an initiative from Mayor Alfredo Reyes (under CAASA scrutiny) granting an extra reduction of five to ten per cent on the water payments in the poorest areas (zone A).³⁴⁹ The tariff was also adjusted to reflect a flat rate on domestic water consumption ranging from 40m³ to 70m³.³⁵⁰ However, the public remained unaware that this measure was to remain in force for only six months, and that the subsidy was financed by public funds.³⁵¹ The goal was to persuade citizens that electoral promises were being met, whilst postponing a final resolution on the role of CAASA and negotiating a new concession title in the first half of 1996.³⁵² The CAPAMA board also approved charging the water receipts monthly instead of bimonthly,³⁵³ and CAASA was no longer

³⁴⁹ The Consejo Cosultivo was formed by the Mayor Alfredo Reyes, Carlos González García (CAPAMA) Francisco Valdés de Anda (Municipality Internal Affairs Secretary), José de Jesús Muñoz Gutiérrez (Secretary of Finances from the Municipality), the manager of the CNA in Aguascalientes Martín Molina Ochoa, a representative of the Usuarios del Agua and the president of the Colegio de Ingenieros de Aguascalientes Refugio Mascorro. The SEDESOL (Federal) and SEDESO (state) authorities were also represented.

³⁵⁰ This measurement increased the fixed domestic consumption accorded in the concession title (contract) from 40m³ to 50m³ and from 50m³ to 70m³. Thus, the new flat measurement was set at 50m³ to 70m³ but at prices of 40m³ to 50m³.

³⁵¹ Ajustes y Beneficios Para la Población Consumidora de Agua Propone el Alcalde. *El Sol del Centro*. January 5, 1996.

³⁵² Los Diputados Panistas en Plena Actividad: JMG. *El Sol del Centro*. January 14, 1996.

³⁵³ En adelante, facturación mensual de uso del agua. *El Hidrocálido*. March 3, 1996.

allowed to disconnect users in arrears.³⁵⁴

However, reducing the water tariff was evidently not the main issue; social organisations were more interested in obtaining a political gain by pressuring local authorities to revoke the concession and, afterwards, to *remunicipalizar* the water utilities. The *Frente de Organizaciones Ciudadanas* (FOCA),³⁵⁵ a partnership amongst 16 social and political organisations, delivered an ultimatum to Alfredo Reyes, stating that *if we don't have a concrete solution...we will mobilise to demand the resignation of the mayor*.³⁵⁶ Other organisations³⁵⁷ were involved in daily marches and meetings against CAASA and the mayor, protesting at the overdue water bills and abuses (potable water disconnections) by CAASA, and demanding that the local authorities get rid of this private body.³⁵⁸ Mayor Alfredo Reyes offered a compromise by promising a definitive solution by March 31, 1996, instead of at the end of the six months as earlier proposed.³⁵⁹ Pressure groups were, therefore, obtaining results. The PRD party took advantage of the political circumstances surrounding the concession

³⁵⁴ Probable Auditoria a la Pasada Administración. *El Hidrocálido*. January 4, 1996.

³⁵⁵ The political parties supporting this organisation were PFCRN, PDM, Foro Democrático and PVEM; social groups included Barzón, Transbarzón, Unión de Usuarios de Agua Potable y Servicios, Asociación de Abarroteros y Pequeños Comerciantes and Ferrocarrileros Jubilados.

³⁵⁶ Cumple AR o se va: 16 Organizaciones. *El Hidrocálido*. January 6, 1996.

³⁵⁷ It was integrated by *Federación Estatal de Acción Popular* (FEAP), *Federación Estatal de Organizaciones Independientes* (FEOI), *Asociación de Abarroteros y Pequeños Comerciantes* (AAPC) and *Unión Campesina Democrática* (UCD).

³⁵⁸ Se Violentan Cada Día Mas las Protestas Contra Abusos de CAASA en Cobros del Agua. *El Sol del Centro*. January 24, 1996.

³⁵⁹ El 31 de Marzo, la decisión respecto del agua. *El Hidrocálido*. January 25, 1996.

scheme,³⁶⁰ as did other political organisations (PRI, PVEM, PFCRN, and PT). The PAN was the only political institution supporting decisions from the mayor, and this party now stood alone in the midst of the political turmoil.

The *remunicipalizar* of the water utilities was rejected once again by Mayor Alfredo Reyes, who argued that *we don't want to have constitutional problems*.³⁶¹ At the same time, negotiations between CAASA and the *ayuntamiento* were progressing. A solution was almost reached but, while it was supported by federal bodies (CNA and SEGOB), the State Governor Otto Granados Roldán was reluctant and it was, therefore, finally unsuccessful. The political war between governor Otto Granados and Mayor Alfredo Reyes prevented a solution being found. *Regidores* from the opposition (PRI, PRD, PVEM, PT, and PC) were even involved in discussions with the governor to pressure the mayor to resign.³⁶² As already demonstrated, the only settlement that could satisfy political and social demands would be to *remunicipalizar*. Mayor Alfredo Reyes was suffering a lack of credibility, and was being pushed by his political rivals to agree to this option.

The Fall of the Concession Scheme

As noted, the federal authorities had sought, ever since the election of the

³⁶⁰ No mas Irregularidades en el Servicio de Agua. *El Heraldo de Aguascalientes*. February 4, 1996.

³⁶¹ Descartada la Desprivatización del Servicio de Agua Para no Meternos en Broncas Constitucionales: Reyes Velázquez. *El Heraldo de Aguascalientes*. February 15, 1996.

³⁶² En Gobernación se Demostrara la Voluntad Política de las Partes. *El Sol del Centro*. March 14, 1996.

PAN government, to avoid any action against CAASA, in order not to jeopardise federal policies. The SEGOB mediated between CAASA and Mayor Alfredo Reyes during intensive negotiations; achieving a solution that was unexpected, and that took state and federal authorities, as well as CAASA, by surprise.³⁶³ On March 28, 1996,³⁶⁴ Mayor Alfredo Reyes demonstrated to the *ayuntamiento* a change of ideological stance, arguing that *today's proposal aims to crystallise and to make a reality one of my greatest campaign promises...attending the demand from the Aguascalteenses to solve the dramatic problem affecting their economy... the declaratoria de rescate (rescue initiative) to CAASA has been decided.*³⁶⁵

The *ayuntamiento* passed this initiative at a 'secret session', with 14 votes (12 PAN, and two from the PT and PRD) for, and four against (PRI (two), PVEM, and PFCRN).³⁶⁶ Thus, the *ayuntamiento*, as well as the board of CAPAMA, legalised the municipality's assumption (via CAPAMA) of absolute control of the water utilities in the capital. Local authorities supported the rescue initiative in article 58 of the *Ley de Los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes* and in Article 60, fraction III, of the *Ley Orgánica Municipal*. The aim was to avoid the

³⁶³ Línea Privada. *El Heraldo de Aguascalientes*. April 7, 1996.

³⁶⁴ Rescate del Servicio del Agua. *El Sol del Centro*. March 29, 1996.

³⁶⁵ Presidencia Municipal de Aguascalientes (1996-1998). 1996. Secretaría del H. Ayuntamiento 1996-1998. *Diario de Debates 1996*. Acta No.13/96. March 28, 1996. Aguascalientes. México.

³⁶⁶ The *Regidores* who voted against this resolution were: Miguel Angel Juárez Frías (PRI), José Antonio García González (PRI), Jaime Davila Cleto (PFCRN) and Ma. Del Carmen Esparza Hernández (PVEM).

legal aspects established in the contract by means of obtaining control of the water utilities but evading the responsibility of CAASA liabilities.³⁶⁷

Alfredo Reyes justified his decision at a ceremony considering 'social demands', arguing that CAASA was entangled in a severe financial imbalance occasioned by its own administrative deficiencies, resulting in inadequate provision of the water services and affecting negatively on the local economy.³⁶⁸ The rescue initiative stipulated that the municipality would take over the concession granted to CAASA, which would return all the assets used to provide the water services, including all the operative, technical, and administrative functions; thus, CAASA and its subsidiaries (including SAASA) would lose any prerogative over the concession. CAPAMA would absorb the rights and obligations of CAASA, excluding liabilities, and compensation to CAASA would be considered on the basis of expert evaluation. The rescue would not affect any statutory rights of the employees or the service provision. The *comisión de rescate* (rescue commission) comprised,³⁶⁹ by invitation of the mayor, representatives

³⁶⁷ According to the contract, if both entities agree to cancel the concession of the water utilities, the municipality will absorb CAASA's liabilities. However, if the municipality considers that CAASA is not fulfilling the contract (financially, operational or administrative) and thus jeopardising the provision of the service creating a social imbalance, it has the right to cancel the water concession without absorbing any CAASA liabilities.

³⁶⁸ Presidencia Municipal de Aguascalientes (1996-1998). 1996. Secretaría del H. Ayuntamiento 1996-1998. *Diario de Debates 1996*. Acta No.13/96. March 28, 1996. Aguascalientes. México.

³⁶⁹ The *Comisión de rescate* or *comisión plural* was intended to be formed by Roberto Díaz Ruiz (President of the CEA), Felipe González González (as a compromised citizen with Aguascalientes), the representatives of PAN (Jorge Zamarripa), PRI (Fernando Gómez) and PRD (Cecilio Avila), the titular of the CNA (Martín Molina) and the titular of the Comisión Estatal de Agua Potable y Alcantarillado –CEAPA– (Pedro de Jesús Toledo) besides the representatives of FOCA (Antonio Hernández, Alfredo Cervantes, Rodolfo Solano and Felipe Hinojoso) and two members from the *Comité Municipal de Colonos*.

from social organisations headed by Manuel Reed (former titular head of the *Secretaría de Medio Ambiente y Recursos Naturales* in the municipality), who was appointed General Manager of CAPAMA.³⁷⁰ The rescue was conditional upon the following points:

- The conditions of the contract were to be modified.
- CAASA was to adopt an integral, efficient, and equitable financial system for the provision of the water services.
- The water tariff was to be adjusted.
- CAASA was to make a financial contribution to correct its financial imbalance.
- There was to be an extra contribution from CAASA towards investments to rehabilitate the hydraulic infrastructure.

Thus, in legal terms, there was a partial rescue of the concession in that the municipality was willing to reinstate it. Alfredo Reyes stated that *the administrative rescue of CAASA does not revoke the concession title nor does it imply the failure of this scheme in the operation of the water services in Aguascalientes or in the rest of the country.*³⁷¹

This decision generated considerable legal controversy. Article 58 of the *Ley de Los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes* (on which the rescue was suppose to rely) refers

³⁷⁰ Manuel Reed Segovia was appointed titular of CAPAMA on April 2, 1996 replacing Carlos González García.

³⁷¹ El Rescate no Revoca la Concesión. *El Hidrocálido*. March 30, 1996.

to a total, definitive, and absolute rescue (*remunicipalización*).³⁷² Furthermore, the contract does not allow for a temporary or partial rescue of the concession scheme.³⁷³ Nonetheless, local officials, headed by Manuel Reed (General Manager of CAPAMA and titular head of the rescue commission), Carlos González (former General Manager of CAPAMA and titular head of the *Secretaría de Medio Ambiente y Recursos Naturales* of the municipality), Francisco Javier Valdes de Anda (*secretary of the ayuntamiento*), and Guillermo Ulises (municipality) took over CAASA headquarters, assuming the operative and administrative controls as well as control of the water sources in the municipality.³⁷⁴ At the same time, local authorities announced a new set of water tariffs, establishing prices at the levels set after the last increments of 1995.

The Effects of the Rescue Initiative: The Supporters

It is clear that Mayor Alfredo Reyes was pressured by social and political organisations to move forward regarding the rescue of the concession. However, his motivation in challenging federal policies was to secure his own political advancement. He never contemplated revoking the concession, but used the rescue as a strategy through which to improve

³⁷² La Ley No Prevé Un Rescate Temporal: Es Remunicipalización. *El Sol del Centro*. April 2, 1996.

³⁷³ For more information see: concession title articles 36 and 37, the *Constitución Política del Estado de Aguascalientes* article 27 fraction IV, *Ley Orgánica Municipal* 97 and 100 and the *Constitución Política de los Estados Unidos Mexicanos* articles 14 and 16; and articles 52, 53, 57 and 58 from the *Ley de Los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes*.

³⁷⁴ Reasume el Municipio el Control del Agua. *El Hidrocálido*. March 29, 1996 and Caasa podría ampararse o de plano irse de la ciudad. *El Hidrocálido*. March 30, 1996.

his own standing, and that of the PAN. He had nothing to lose by the rescue of the water services, and a failure to accomplish it would have resulted in pressure for him to resign (Table 6.1).

These arguments are supported by the fact that the first effect of the rescue initiative on the local inhabitants was, as expected, positive. A survey carried out by CESMA revealed that 67 per cent of the inhabitants knew that the municipality had regained control of the water utilities, and 85 per cent of this group supported the mayor.³⁷⁵ Seventy-five per cent agreed with the rescue initiative, and 70 per cent considered that they would benefit from the measure. There was also an immediate defence of the measure from PAN state headquarters, with the statement that *the National Action Party expresses its total support...to the rescue initiative for the water services...it represents an answer to electoral promises.*³⁷⁶

At a meeting attended by 2,000 local PAN members, Alfredo Reyes stated that *the problems facing the water utilities represent an inheritance from corrupt people who treat us as if we generated the problem.*³⁷⁷ He was supported by PAN Local Deputy Fernando Herrera, who declared that *the PRI is going, we are going to take them out, we are going to kick them from Aguascalientes.*³⁷⁸ There was, therefore, a clear offensive against the

³⁷⁵ Centro de Estudios Sociales del Municipio de Aguascalientes (CESMA). 1996. *Resultados del Estudio de Opinión Acerca del Rescate de CAASA por la Administración Municipal de Aguascalientes*. March 30, 1996, Aguascalientes, México.

³⁷⁶ A La Opinión Pública. *El Heraldo de Aguascalientes*. March 26, 1996.

³⁷⁷ El Problema del Agua no esta Resuelto el Problema Apenas Empieza: Alfredo Reyes V. *El Sol del Centro*. April 1, 1996.

³⁷⁸ *Ibidem.*,

PRI. In fact, the new PAN hegemony in the state was operating in a manner which recalled previous PRI practices. For example, the PAN majority in the *ayuntamiento* and the state chamber ensured that no PRI initiative could be successful; there was an open campaign to discredit PRI members; and a deterioration in the relationship between the mayor and the governor. The concession scheme was to be manipulated in order to decrease the influence of the PRI amongst the electorate. The municipality gained support from business boards, PAN members, and at some stages from the general public (as shown by the CESMA survey). Most of the supporting organisations had links with Alfredo Reyes. He was a member of business organisations and a former president of two of them (CCE and COPARMEX). It is also important to consider that supporters' interests were affected because of the perceived impossibility of recovering overdue payments from CAASA.³⁷⁹ Goods and services provided by local investors, especially from the construction side, amounted to 20 MP.³⁸⁰ Nevertheless, members of some of these groups, including CCE and CEA, remained opposed to the rescue initiative. Social organisations (FOCA) were also active, and PAN members, favouring any resolution from the mayor, were in open battle against the PRI and other opposition parties and organisations against the rescue initiative.

³⁷⁹ Lo Importante es que ya se Sereno Todo: Noriega Aguilar. *El Heraldo de Aguascalientes*. April 3, 1996.

³⁸⁰ El Rescate será la ruina de muchos. *El Hidrocálido*. April 1, 1996.

Table 6.1 Independent Citizens, Political, Social, and Civil Groups Supporting the Municipality of Aguascalientes Rescue Initiative (1996).

Political Parties ³⁸¹	PAN	President of the CDE Jorge Zamarripa, members from the ayuntamiento and Local Deputies.
Business Organisations ³⁸²	CCE CEA and COPARMEX	- President Rogelio Noriega Aguilar - President Roberto Díaz Ruíz.
	CANACO CNIC	- President Luis Miguel Rentería. - President Ricardo Magdaleno R.
Local Institutions	Comisión del Rescate del Agua Consejo Consultivo de CAPAMA.	- Titular Head Manuel Reed Segovia. - Mayor Alfredo Reyes Velázquez.
National Organisations ³⁸³	AMMAC	President Ramón Galindo
Social Organisations ³⁸⁴	FOCA (including A.A., FEAP, UCD, AEACP and FOCL.	Headed by Rodolfo Solano, Antonio Hernández, and Alfredo Cervantes.
	Consejo Municipal de Colonos	Teodulo Castañeda and Felipe Carrillo.
Independent Citizens ³⁸⁵	Senator Clergy	- Enrique Franco Muñoz (PAN). - Bishop Rafael Muñoz Nuñez.
	Influential Inhabitant	Felipe González González with links to PAN and business organisations; also a member of the Comisión de Rescate del Agua.

³⁸¹ Anuncia el PAN un Mitin de Respaldo al Alcalde Reyes Velázquez Para el Domingo. *El Heraldo de Aguascalientes*. March 30, 1996 and El Rescate del Agua no Significa Remunicipalización. *El Heraldo de Aguascalientes*. March 30, 1996.

³⁸² Apoyaran los Empresarios el Rescate del Agua. *El Heraldo de Aguascalientes*. April 2, 1996, Necesaria Readecuación del Título. *El Hidrocálido*. April 15, 1996, Habrían Negado el Amparo al Apéndice de ICA. *El Hidrocálido*. April 13, 1996 and El Unico Medio Para Meter en Cintura a CAASA fue el Rescate, Opina Ricardo Magdaleno Rgz. *El Heraldo de Aguascalientes*. April 16, 1996.

³⁸³ Desplegado de la Asociación Mexicana de Municipios de México, A.C. *El Sol del Centro*. April 1, 1996.

³⁸⁴ Lo importante de la decisión municipal fue la voluntad para acabar con los abusos. *El Hidrocálido*. April 4, 1996 and Al Rojo Vivo el Caso del Agua. *El Sol del Centro*. March 31, 1996.

³⁸⁵ Comunicado de Prensa. *El Sol del Centro*. March 30, 1996. Felipe González y Roberto Díaz Aceptaran, si se Oficializa, la invitación a la Comisión Plural. *El Heraldo de Aguascalientes*. March 30, 1996 and La Autoridad Municipal Esta Haciendo lo Posible por Resolver el Problema del Agua. *El Heraldo de Aguascalientes*. April 1, 1996.

Also, whilst local citizens like Felipe González (later to become state governor (PAN) 1998-2004) and the Bishop of Aguascalientes Rafael Muñóz (who supported PAN “behind the scenes”) were influential, they had clear political interests behind their support. This evidence leads us inevitably to the conclusion that the rescue commission was constituted largely of organisations or individuals supporting Alfredo Reyes or linked with PAN.

Although supposedly 'plural' in composition, social interests were to be represented by Manuel Reed (head of CAPAMA and member of PAN), whilst other members included: Felipe González G. (independent citizen linked to PAN); Luis Miguel Rentera (President of CANACO linked to Alfredo Reyes); Rogelio Noriega (President of the CCE linked to Alfredo Reyes); Rodolfo Solano (representative of FOCA and linked to the municipality); Jorge Zamarripa (President of the CDE of the PAN); Teoduló Castañeda; and Felipe Carrillo (both elected from the *Consejo Municipal de Colonos* promoted by Alfredo Reyes). Martín Molina of the CNA represented federal authorities. The only member from an opposition party was Cecilio Avila (President of the CDE of the PRD), since the state president of the CDE of the PRI and former mayor, Fernando Gómez, had declined the offer to join. Thus, the commission was highly politicised, and represented the interests of the PAN and Alfredo Reyes completely.

The Political Reverse of the Rescue Initiative: The Opponents

The strategy to rescue the concession brought an immediate response, in the form of a coalition of opposition political parties and social organisations. Two ideologies prevailed within these groups: one pro the

state government and pressuring local authorities to abandon the rescue initiative; the other promoting the extremist idea of carrying out a *remunicipalizar* of the water utilities (Table 6.2). The common aim of all the above organisations and political parties was to discredit PAN members and Mayor Alfredo Reyes. There was a clear political advantage to be gained by putting pressure on the mayor. Since the weakness of the concession scheme first became clear in 1995, social and political organisations had come to the fore, first against the PRI and later against the PAN. It is clear, therefore, that the turmoil generated by the water utilities was being used simply as a pretext for the support or opposition of any local authority decisions. The real aim was to obtain a political gain by criticising any act of the party in power.

There was fierce opposition towards the PAN authorities from the PRD, PFCRN, PT, PVEM, and PRI. At the beginning of the PAN government, they were pressuring the mayor to fulfil campaign promises. When the rescue initiative was proposed, however, they opposed it, defining it as an *act of political illusion*.³⁸⁶ Social organisations (including the 16 organisations that made up the APDC) were also determinedly against the rescue initiative, and were supported by a petition of 19,000 signatures. These groups defined the rescue plan as *a unilateral and populist decision that does not guarantee any solution*.³⁸⁷

³⁸⁶ Es un Acto de Ilusionismo Político lo que Hizo el Ayuntamiento. *El Heraldo de Aguascalientes*. March 30, 1996.

³⁸⁷ Decisión Populista y Unilateral que no Garantiza del Problema: AP. *El Hidrocálido*. March 30, 1996.

The local trade union (FTA) played an important role, arguing that the rights of CAASA workers (600 employees of whom 400 were members of this union) had been jeopardised because of the legal impediment to recognising CAPAMA as the new employer. However, according to Manuel Reed, general manager of CAPAMA, and later in charge of CAASA (during the rescue initiative), none of these employees belonged to any trade union.³⁸⁸

Considering that the water concession was used as an instrument to make progress politically, one can assume that here again, for opponents of the rescue initiative, the objective was to destabilise the new political scenario in the capital rather than to look for a real solution. Even governor Otto Granados Roldán had been reluctant to reach any agreement, or to participate in any negotiations between federal and local authorities and CAASA. Alfredo Reyes stated that *we all played our part, excluding the governor...It will be good to know if he is willing to meet the demands of 72 per cent of the state inhabitants that represent the municipality.*³⁸⁹ The governor's disapproval was a result of his hostile relationship with Alfredo Reyes and with the PAN in Aguascalientes. He was clearly trying to avoid giving any assistance in order to minimise the possibility of reaching an agreement that could be interpreted as a political gain for Alfredo Reyes and the PAN, especially since elections were due during 1997 and 1998.

³⁸⁸ A la Opinión Pública. *El Sol del Centro*. April 3, 1996.

³⁸⁹ Rescataron el Agua..! Y Luego..?. *El Sol del Centro*. March 30, 1996.

Table 6.2 Social, Political and Civil Organisations against the Municipality of Aguascalientes Resolution for the Rescue Initiative (1996).

Political Parties ³⁹⁰	PRI PRD PFCRN PVEM PDM PT PPS PARM	• President of the CDE and former Mayor Fernando Gómez. • President of the CDE Cecilio Avila and Local Deputy (LVI Legislature) Fernando Alferez Barbosa. • President of the CDE Adán Pedroza E. • Rodolfo López García. • President of the CDE René Campos Zambrano. • President of the CDE Juan Raúl Vela González. • Manuel de Jesús Banuelos H. • President of the CDE Jorge García D.
Social Organisations ³⁹¹	APDC UUASP/FEOI Barra de Abogados	• Rodolfo López García. • Elias Castillo. Alfredo Cervantes and Ramón Báez. • Juan José Martínez Gallegos.
Business Organisations ³⁹²	CANAIVE CANACINTRA	• President Ernesto López Valdivia • President Edgardo Romo Muñoz
Union Workers ³⁹³	FTA-CTM LCA SNOI CROC	• Senator Jorge Rodríguez León. • Isidoro Armendariz García. • Ismael Martínez Sánchez. • Refugio Marín.

Source: Own Elaboration using data from different publications.

³⁹⁰ Acto de Autoridad que no se baso en los procedimientos establecidos: Gómez. *El Hidrocálido*. April 2, 1996. Es un Acto de Ilusionismo Político lo que Hizo el Ayuntamiento. *El Heraldo de Aguascalientes*. March 30, 1996, Empresarios e Invitados a la Comisión Ciudadana del Agua son Empanizados. *El Sol del Centro*. March 2, 1996, No Cuenta con Consensos de la Población ni del Congreso: AP. *El Heraldo de Aguascalientes*. March 30, 1996 and El Rescate del Agua es Espectacular Pero Insustancial Señalan en el PARM. *El Sol del Centro*. March 31, 1996.

³⁹¹ Solución inmediata, contundente y seria demandan organizaciones al manifestarse. *El Hidrocálido*. March 31, 1996. Manifestaciones de Descontento son Provocadas por el Problema del Agua. *El Sol del Centro*, March 29, 1996 and Si fue sin Acuerdo, Tendrá que Indemnizar a CAASA: Abogados. *El Heraldo de Aguascalientes*. March 30, 1996.

³⁹² No es Seguro que Bajen las Tarifas, Resuelto el Lío del Agua. *El Heraldo de Aguascalientes*. April 9, 1996 and La Canacintra no respalda el método invocado para rescatar la concesión. *El Hidrocálido*. April 4, 1996.

³⁹³ A La Opinión Publica. *El Hidrocálido*. April 2, 1996, Manejo Populista ha Dado el Alcalde del PAN al Problema del Agua: IAG. *El Sol del Centro*. April 1, 1996 and Lo que la Ciudadanía Quiere es que se Solucione Realmente el Problema del Agua. *El Sol del Centro*. April 3, 1996.

6.3 The Rise of the Concession Scheme: A New Concession Title

The Role of Interest Groups in Applying Pressure to Revoke the Rescue Initiative

Interest groups (state government, local business associations, the ICA group, and social organisations and opposition parties) played a fundamental role in pressuring local authorities to revoke the rescue initiative. This section will seek to identify the real aim behind revoking the rescue initiative, especially considering the key role of federal authorities in obtaining a solution.

The discussion so far has made clear the inexperience of Mayor Alfredo Reyes in local politics, and his shift in ideological stance regarding the water concession. The political and social turmoil generated by his unilateral decision to rescue the concession scheme provoked a serious threat to all levels of government. The immediate response from the ICA group (CAASA) was to take legal action against the municipality by arguing for protection in the form of *habeas corpus* (rejected by the judge).³⁹⁴ This private group argued that an excessive act of power - ignoring the financial, operative, and technical justifications used by the municipality to rescue the concession - was actually taking place. The municipality was at a clear disadvantage in negotiations with CAASA due

³⁹⁴ The legal action was solicited to the judge in Aguascalientes on April 9, 1996. However, the second judge of the State District rejected the injunction claimed by CAASA and SAASA on April 10, 1996. The same day this private body reached an agreement with the municipality. For more detail see the document prepared by Manuel Reed: *Presidencia Municipal de Aguascalientes. 1996. Reunión Informativa. Comisión Plural para el Rescate de la Concesión del Servicio de Agua Potable y Alcantarillado del Municipio de Aguascalientes.* April 13, 1996. Aguascalientes. México.

to the weak legal position of the rescue initiative. An earlier presidential policy, supported by the new Mexican president, was also jeopardised by this action. Since 1995, President Ernesto Zedillo Ponce de León (1994-2000) had demonstrated his desire to continue with concession schemes covering public utilities at a local government level. According to the *Plan Nacional de Desarrollo Urbano y Vivienda 1995-2000*, such schemes were to represent a common technique used to provide water utilities throughout the Mexican municipalities.³⁹⁵

The interest from federal authorities, headed by the SEGOB (a clear sign of federal interest and the degree of politicisation of the water utilities in Aguascalientes), and represented by the *Sub Secretario de Gobernación*, Arturo Nuñez, and the *Director General de Gobierno*, Juan Burgos Pinto, encouraged lower levels of government to find a solution (i.e., to revoke the rescue initiative). The federal interest in continuing with the concession scheme also persuaded the State Governor Otto Granados Roldán that he had no choice but to collaborate with Alfredo Reyes, who publicly invited the governor to serve as a mediator.³⁹⁶ Furthermore, local authorities, as well as members of the ICA group (CAASA), became involved in the search for a final agreement.

The first sessions were held almost immediately after the rescue initiative was announced, with the exclusive aim of revoking it. The official *minutas*

³⁹⁵ Presidencia de la República. 1995. *Plan Nacional de Desarrollo Urbano y Vivienda 1995-2000*. México: Dirección General de Comunicación Social.

³⁹⁶ Invitan al GE a ser parte de la solución del problema del agua. *El Hidrocálido*. April 2, 1996.

de trabajo reveal participation from members of the municipality (the Mayor Alfredo Reyes, the *Secretario General de Ayuntamiento* Francisco Javier Valdez de Anda, and the *Síndico* Leobardo Gutiérrez), CAPAMA (titular Manuel Reed), CAASA (General Manager Pedro González, the Manager of SAASA Enrique Valencia and the legal representative of these bodies Pedro Martínez), the state government (the *Secretario General de Gobierno* Jesús Orózco Castellanos and the *Sub Secretario General de Gobierno* Luis Fernando Muñoz López), and federal authorities (the *Comisión Nacional del Agua* Deputy Director, Cesar Herrera).³⁹⁷

It is important to note that the State Governor Otto Granados Roldán was represented by members of his cabinet and did not participate personally in the negotiations. This was a clear symbol, in the context of Mexican politics, of his disapproval of the PAN government and its policies. The recently constituted *Comisión del Rescate* was not included (Manuel Reed did participate but as General Manager of CAPAMA) and was suddenly dissolved by Alfredo Reyes to incorporate some members on the board of CAPAMA.³⁹⁸ This is confirmation that this commission never represented a serious or genuine attempt to solve the water problems. All of the social organisations that had appeared spontaneously on the political scene, and which did not participate directly in any definitive meetings, met the same

³⁹⁷ According to the official documents (*minutas de trabajo*) the firsts session using the state government as a mediator was held on April 3. Further sessions were held on the 4 and 10 April; May 11,13,14,15,25; and June 3, 6, 12 and 24 1996.

³⁹⁸ De un Plumazo Borraron la Comisión Plural del Rescate. *El Hidrocálido*. April 9, 1996. The *Comisión de Rescate*, or *Comisión Plural*, was intended to be integrated with the Board of CAPAMA.

end. Political parties were also excluded from the negotiations. In fact, CAASA and the municipality were the only parties involved, with mediation by the state government.

The Fall of the Rescue Initiative

The willingness of Alfredo Reyes to revoke the rescue initiative was evident from the first session (April 3), in which the mayor announced his intention to revoke it.³⁹⁹ Thus, it is clear that Alfredo Reyes had two different faces: one for the real negotiations and the other for the public, who were told that *the ayuntamiento is evaluating the possibility of remunicipalizar the services*.⁴⁰⁰ At the third meeting, on April 10, the municipality agreed, under certain conditions, to revoke the rescue initiative. At the same time, all assets reverted to CAASA from local authorities. The municipality justified the return of the water utilities to CAASA on the grounds that this private body had agreed to certain conditions (as imposed on the rescue initiative), and consequently further support could be considered from federal, state, and local institutions.⁴⁰¹

The conditions were as follows:

- the modification of the conditions of the contract and its annexes

³⁹⁹ Gobierno del Estado de Aguascalientes. 1996. *Minuta de Trabajo de la Primera Reunión de Negociaciones con la Mediación del Gobierno del Estado entre las Autoridades del H. Ayuntamiento y CAASA para Resolver el Problema de la Prestación del Servicio Público del Agua Potable y Alcantarillado en el Municipio de Aguascalientes*. April 3, 1996, Aguascalientes, México.

⁴⁰⁰ No hay decisión sobre futuro del Agua. *El Hidrocálido*. April 8, 1996.

⁴⁰¹ Gobierno del Estado de Aguascalientes. 1996. *Minuta de Trabajo de la 3ra Reunión de Negociación con la Mediación del Gobierno del Estado entre las Autoridades del H. Ayuntamiento y CAASA para Resolver el Problema de la Prestación del Servicio Público del Agua Potable y Alcantarillado en el Municipio de Aguascalientes*. April 10, 1996, Aguascalientes, México.

according to the agreements reached under the title of *síntesis de los cambios propuestos al título de concesión*; the adoption of an integral, efficient, and equitable financial system for the provision of the water utilities; the restructuring of the water tariff according to new modifications to the consumption rank (lowering the minimum consumption); the contribution of financial resources to modify its economic structure; and the capacity to re-invest in new infrastructure and repair of the existing one.⁴⁰²

- CAASA must make a fresh financial contribution worth 40 MP: 30 MP for existing liabilities and 10 MP for fresh investment. In consequence, and under specific conditions, federal subsidy worth an extra 40 MP would be considered through the CNA in order to pay CAASA liabilities, and 60 per cent of the payments made by CAASA for the rights to extract water to the CNA would be returned as direct and extra subsidy. The municipality would also contribute a total of 40 MP of indirect subsidy, investing 13 MP during the rest of 1996 and 1997 in water infrastructure. It would also re-absorb former liabilities from BANOBRAS transferred to CAASA in 1995, worth 27 MP. The state government would generate an extra subsidy worth 40 MP to rehabilitate the financial schema of the concession. In total, this package represented financial support or subsidies from all levels of government worth 160 MP against CAASA's debt - estimated at around 230MP and mainly owed to the infrastructure development bank,

⁴⁰² Exigen el Saneamiento Financiero a CAASA. *El Hidrocálido*. April 16, 1996.

*Banco Nacional de Obras y Servicios (BANOBRAS).*⁴⁰³

In view of the agreements reached through these negotiations, one can assume that the only objective of the rescue initiative - which, according to official sources, cost the tax payer 3.5 MP - was to convince the public that Alfredo Reyes was fulfilling a campaign promise.⁴⁰⁴ The municipality agreed to respect all the previous accords with CAASA that had been reached before Reyes announced the rescue initiative. The financial conditions imposed on CAASA did not differ from those established during previous negotiations, mediated by the SEGOB and the CNA, as discussed earlier.

However, the general public were unaware of Reyes' previous negotiations with CAASA, and believed former agreements to be new achievements. The rescue initiative was an attempt simply to revalidate the image of Alfredo Reyes and, consequently, of the PAN in the municipality, and to rush CAASA and state authorities into modifying the contract. However, as noted earlier, the actual financial and political results pointed in another direction, putting further pressure on Reyes to revoke it.

The state authorities played a key role, and were supported by State Governor Otto Granados Roldán, who encouraged CAASA and the

⁴⁰³ Se Busca Financiamiento para el Agua. *El Sol del Centro*. May 4, 1996.

⁴⁰⁴ Presidencia Municipal de Aguascalientes. 1996. *Diario de Debates 1996*. Secretaría del H. Ayuntamiento 1996-1998. Acta No. 20/96. Tomo I, pp. 225, Aguascalientes, México. The financial burden absorbed by the municipality, representing 3.5 MP, is accounted for by the period in which CAPAMA took over CAASA responsibilities and confronted its operational costs such as wages and salaries, power, and rent.

municipality to reach a new agreement. What interest, therefore, did the governor have in mediating (using state government officials) these meetings? It is clear that federal authorities, encouraged by international institutions willing to invest in the modernisation of the water infrastructure (World Bank and BID), persuaded the state government to move towards finding a solution.⁴⁰⁵ It can be concluded, therefore, that all the economic aid granted to resolve CAASA's financial difficulties was granted in order to avoid possible negative repercussions upon federal policies, which might jeopardise the implementation of further privatisation schemes in the Mexican municipalities. It is important also to consider that a large part of CAASA liabilities were owned by federal institutions. Furthermore, the State Governor Otto Granados Roldán legitimised his image and credibility, and proved that without the governor's support, local politics does not work.

Even when the future of the water utilities had been decided, the local inhabitants were unaware that CAASA was going to regain the concession. There was daily speculation until April 18, when it was officially announced that the rescue initiative was to be revoked.⁴⁰⁶ The initiative, proposed by Alfredo Reyes, was passed in the *ayuntamiento* thanks to the PAN majority.⁴⁰⁷ The opposition parties (PT, PC, PVEM, PRD, and one member

⁴⁰⁵ Negocios. Sequía en el negocio del agua. *El Financiero*. May 19, 1996 and En Riesgo, el Financiamiento del BID Para la Concesión del Servicio del Agua en México. *El Financiero Occidente*. June 17, 1996.

⁴⁰⁶ Reintegraron instalaciones a Caasa. *El Hidrocálido*. April 19, 1996.

⁴⁰⁷ Presidencia Municipal de Aguascalientes. 1996. *Diario de Debates 1996*. Secretaría del H. Ayuntamiento 1996-1998. Acta No. 18/96, Aguascalientes, México.

of the PRI) rejected the petition, and there was one abstention from the remaining *regidor* of the PRI, later on the Board of CAPAMA.⁴⁰⁸ Three legal impediments remained: the modifications to the concession title had to be approved by the *ayuntamiento*, and the state legislature had both to modify the *Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes*, and to revalidate the new contract.

The Repercussions of Revoking the Rescue Initiative: The Political Aims

As has been shown, the decision to revoke the rescue initiative was made by CAASA and the municipality by means of state mediation but without the consent of local inhabitants or social and political organisations. By the time the negotiations regarding the new contract began, PAN was the only party involved in the process. Alfredo Reyes confirmed this with his statement that *the reforms to the concession title reached 99 per cent...I did not allow the participation of regidores from the opposition, because they were contaminating the environment.*⁴⁰⁹ However, the PAN was facing internal conflicts, which postponed modifications to the concession title and contributed to the confusion of local inhabitants regarding the future of the water utilities. At the same time, Alfredo Reyes was experiencing external pressure to reach a solution (from the national committee of the PAN). Juan Miguel Alcántara stated that *the water conflict is damaging the party (PAN); due to this, a fast political solution*

⁴⁰⁸ to find the members from this regulatory board see: CAPAMA. 1996. *Acta de la Sesión Extraordinaria del Consejo Directivo de la Comisión de Agua Potable y Alcantarillado del Municipio de Aguascalientes*. April 18, 1996, Aguascalientes, México.

⁴⁰⁹ A Propósito. *El Herald de Aguascalientes*. July 2, 1996.

must be found, as it will be by means of remunicipalizar (regaining control over the water utilities).⁴¹⁰ The *Regidor* (PAN) Eduardo Suárez stated that *the final modifications have been delayed because there is not consensus amongst the síndicos and regidores*.⁴¹¹ Nevertheless, Alfredo Reyes suddenly discovered the benefits of an open economy, and dismissed his core campaign promise of revoking the concession scheme. He argued; *that alternative, it does not fit in a country whose model is focused on globalisation, the liberation of controls and where the government, by its own financial disability, can no longer attend directly to certain services, even though it is its responsibility to regulate them, to guarantee and to provide them through third parties*.⁴¹² The euphoria then prevalent over privatisation was an important tool for his administration, without regard for electoral promises. According to this new political and economic ideology of Alfredo Reyes, the water utilities will never be returned to public management.

The immediate response from opposition parties was to resist the modifications to the concession title, on the grounds that *CAASA is the only beneficiary*. These parties were excluded from the negotiations, and only the PRD participated at a later stage.⁴¹³ Even the private sector

⁴¹⁰ Revolotea el Fantasma Remunicipalización. *El Hidrocálido*. July 4, 1996.

⁴¹¹ Urgen Cambios de Fondo y no de Forma en la Concesión del Agua. *El Heraldo de Aguascalientes*. June 21, 1996.

⁴¹² No hay vuelta de Hoja: Caasa se queda. *El Hidrocálido*. July 8, 1996.

⁴¹³ Devuelve el Alcalde la Concesión del Agua a Caasa. *El Heraldo de Aguascalientes*. April 19, 1996.

(CCE), through Rogelio Noriega, who had previously lent strong support to the mayor, argued that *it is true that the society will have to pay for the financial rescue of CAASA... nonetheless, it was the only option.*⁴¹⁴ The mayor's reply was that *the ones who made this problem were the previous administration --- PRI...what we are doing now is just solving the problem inherited from them.*⁴¹⁵ As has been shown, the battle between PAN and its opposition parties still represented the real political issue behind the fight over the water utilities. The influence of CAASA in the negotiations was also heavily questionable. Meanwhile, social organisations (UUAP, APDC) were making it difficult for Alfredo Reyes to move forward with the modifications to the concession title, promoting a *juicio político* (political judgement) against him.⁴¹⁶

In order to minimise the effects of the failure to meet the campaign promise to reduce the water tariff, CAASA and CAPAMA introduced the *programa de cancelación de adeudos* (debt cancellation programme), the idea of which was to eliminate overdue receipts.⁴¹⁷ This was used as a strategy to placate the public, and there were also internal negotiations promoted by *regidores* to favour members of their own parties. However, the core promise to reduce the water tariff (representing the main reason

⁴¹⁴ Rasposa censura de Canacintra por la farsa del rescate fugaz. *El Hidrocálido*. April 20, 1996.

⁴¹⁵ El Impacto Social del Regreso de la Concesión a CAASA es Satisfactorio. *El Sol del Centro*. April 20, 1996.

⁴¹⁶ Con Usted. Procede el Juicio Político? *El Heraldo de Aguascalientes*. July 12, 1996.

⁴¹⁷ Programa Cancelación de Adeudos CAASA y CAPAMA Para mas de 35 mil usuarios de Agua. *El Sol del Centro*. July 3, 1996.

to revoke the concession scheme) did not last long. The manager of CAPAMA, Manuel Reed, soon announced unavoidable increments to the water tariff for the coming months, arguing that the inflation rate had severely affected the provision of the water services. Indexation to the inflation rate meant that, in theory, this should have been automatic. This added to public dissatisfaction with the new concession title.⁴¹⁸ In the meantime, the manager of SAASA, Enrique Valencia, and the general Manager of CAASA, Pedro González, (General Manager of OMSA, subsidiary of ICA and *Générale des Eaux* water concessions) were replaced by Humberto Blancarte Alvarado. Taking charge of CAASA and SAASA, he urged the municipality to hurry up and make the modifications to the new concession in order to start the 40 MP financial programme previously agreed.⁴¹⁹ The rescue of the water utilities and the delay to the modifications of the contract thus generated a great deal of political instability and uncertainty regarding the future of the concession scheme, and provided extra ground for those against the PAN government and its policies to campaign upon.

⁴¹⁸ Ante lo Costoso del Sistema de Operación del Servicio del Agua Obliga a Subir Tarifas: MR. *El Sol del Centro*. July 12, 1996.

⁴¹⁹ Sin nuevo título no habrá mas inversiones. *El Hidrocálido*. July 3, 1996.

6.4 The Dominance of the PAN in the State: Recalling Previous PRI

Practices

The New Paternity of the Concession Scheme: A PAN Prerogative

The control by PAN of the *ayuntamiento* and the state legislature recalled previous PRI dominance, as did the practices they used to pass the concession title. Alfredo Reyes managed, during secret meetings, to persuade the PAN faction inside the *ayuntamiento* and the state legislature to pass his initiative; opposition parties were excluded from this process.⁴²⁰ In order to explain how PAN dominance was used to return the concession scheme to CAASA, this section will look at the process in four stages.

- **First Stage**

The return of the concession scheme to CAASA was subject to modifications to decrees 32, 89, and 62. On August 30, the state legislature passed, by a slight majority (13 votes from the PAN and two from the PRI in favour; five from the PRI, one from the PRD, one from the PT, and the remaining from the PC against, with four PRI abstentions), the reform of decree 32, extending the period of the concession from 20 to 30 years, amongst other financial and operational amendments.⁴²¹ There were modifications to decree 89, allowing CAASA to effect the financial guarantee in accordance with article 1 of this decree; and to decree 62, establishing the financial conditions of the concession scheme and its

⁴²⁰ Descartada ya la Remunicipalización del Servicio de Agua. *El Heraldo de Aguascalientes*. July 10, 1996.

⁴²¹ Seguirá la Mafia del Agua Potable. *El Sol del Centro*. September 14, 1996.

period of duration.⁴²² These were published by decree 44 in the *Periódico Oficial del Estado de Aguascalientes (POEA)* on September 15.⁴²³

- **Second Stage**

The most controversial element was the modification, on September 13, to the *Ley de los Sistemas Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes*. This was published, by decree 47, in the *Periódico Oficial* on September 15. One of the most substantial modifications was the creation of *organismos municipales* (municipality boards) for the provision of the water utilities in the state. These would act as either direct providers, using a *consejo directivo* (executive board); or, where there was a concession, through a regulatory *supervisor ciudadano* (citizens' supervision board), made up of representatives from federal, state, and local authorities, and social representations.

CAPAMA would have no further place in the water structure in the state. In the light of previous experience, it can be assumed that the aim behind these amendments was primarily political. By passing responsibility for the turmoil to the newly-created board, and consequently to the state legislature, the municipality could escape its own responsibility. The law was passed with 13 votes from PAN, two from the PRI, and one from the PT. The PC, PRD, and six members of the PRI voted against, with three PRI abstentions.

⁴²² Decrees 32, 89 and 62 were previously published by the *Periódico Oficial del Estado de Aguascalientes* on January 31, 1993, January 30, 1994 and October 24, 1996 respectively.

⁴²³ Nos Receto AN 30 Años de Agua Cara. *El Sol del Centro*. August 31, 1996.

- **Third Stage**

The final document was due ten months after the arrival of Alfredo Reyes. On October 11, the modifications to the concession title were approved by the *ayuntamiento* with 12 votes from the PAN and one from the PT. There were votes against from the PRI (two), PFCRN, PVEM, and PRD, which emphasised the PAN's unfulfilled campaign promises.⁴²⁴ Whilst the final document was being prepared, Alfredo Reyes used all the PAN force in the state to avoid any confrontation with the opposition that could jeopardise the concession scheme. The political doctrines of the PAN took precedence over any other social or political ideology or solution to the problem: they believed that the new contract represented the best deal for the local inhabitants.

- **Fourth Stage**

The final approval for the concession scheme came on December 13, and was published by decree 65 in the POEA on December 29, 1996. At this session, the 13 PAN Deputies, supported by one from the PRI, passed the initiative returning control over the concession of the water utilities to the private group CAASA under the ICA and *Générale des Eaux* partnership. The remaining deputies, without any intervention from any political party, rejected it.

At each of these stages the PAN majority prevailed, in collusion with members from the PRI. At the first stage, the goal was to modify decrees

⁴²⁴ Presidencia Municipal de Aguascalientes. 1996. *Diario de Debates 1996*. Secretaría del H. Ayuntamiento 1996-1998. Tomo II. Acta 33/96. October 11, 1996. Aguascalientes, México.

32, 62, and 89, and the water law, to cope with the proxy modifications of the concession title. The co-operation of the PRI at later stages begs the question of why that party was interested in promoting this reform. The *Oficial Mayor* (chief administrative officer) of the LVI State Legislature, Miguel Angel Nájera, argued that State Governor Otto Granados Roldán was behind this support; he encouraged PRI members to pass the initiative for two reasons. He wanted to avoid jeopardising federal programmes, and to continue with further concession schemes in the remaining municipalities; and he was concerned to pass the political consequences of modifying the water law, and later of approving the concession title, to the PAN.

The New Concession Title: The Core Amendments

The new concession title was intended, according to the *Regidor* for the water utilities, Edna Lorena Pacheco, to adapt the conditions of the concession scheme according to municipal necessities. It would match demand and availability of the hydraulic resources; guarantee an equitable, regular, and efficient provision of the water utilities; and consolidate a just administrative relationship between the municipality and CAASA. For these purposes, 42 out of 46 conditions were modified.⁴²⁵

Mayor Alfredo Reyes argued that *it is considered an exportable work in support of the programme of president Zedillo, since all cities with more than 80 thousand inhabitants will make concessions for the water services...the adjustments to the concession title will be complemented*

⁴²⁵ *Ibidem.*,

with the reforms proposed to the *Ley de Aguas Nacionales*.⁴²⁶ It can thus be assumed that the new agreement was reached under federal scrutiny, using previous experience to avoid repeating earlier mistakes.

An examination of the core amendments illustrates the ways in which CAASA was favoured. Even so, the municipality was actively trying to persuade local citizens of the benevolence of the new contract. The most relevant of the modifications,⁴²⁷ for this case study, were the following:

- The concession scheme was extended from 20 to 30 years, subject to CAASA's efficiency in the provision of the services.
- In case of proven serious deficiencies, there could be partial intervention (previous notification) into any of CAASA's internal functions for no more than 90 days. If no accord could be reached, the concession could be terminated by mutual consent, or it could be terminated unilaterally if CAASA failed to fulfil any of its obligations. In that case the municipality would absorb the total responsibility for provision of the services. In any contingency CAASA must indemnify its workers. The figure of *patrón sustituto* (employer substitute) was also introduced.
- The water tariff was to be formulated according to the maintenance

⁴²⁶ Avaladas en 99% Reformas al Título de Concesión del Agua: ARV. *El Heraldo de Aguascalientes*. July 2, 1996.

⁴²⁷ Presidencia Municipal de Aguascalientes. 1996. *Diario de Debates 1996*. Secretaría del H. Ayuntamiento 1996-1998. Tomo II. Acta 33/96. October 11, 1996. Aguascalientes, México.

and operative costs and return on CAASA's investment capital, and fixed according to: a) the inflation rate as established on the *Indice Nacional de Precios al Consumidor* (INPC), b) CAASA investments, c) tax payments, and d) operative deficits generated during previous years actualised at real prices. It would also include grants to the social fund, concession rights (ten per cent of the invoices) and rights to exploit the water sources, and the charges made by state authorities for usage of the treatment plants. The tariff also included the following modifications: the reduction of the minimum consumption from 40m³ to 20m³; the introduction of a *tarifa con memoria* (charge for exact consumption after 20m³), which eliminated the *cobros escalonados* (scaleable charges) and was indexed to the inflation rate to reflect the effects on CAASA operational tools (electricity, gasoline, and salaries, amongst others); the creation of a *Fondo de Apoyo Social* (social fund aid); the stipulation that the tariff would be revised every four years or when necessary, and that charges would be due every two months but calculated in monthly instalments; all levels of government were to be required to pay for water services; overdue users were to be required to pay an interest rate of CETES (28 days) but would not have their water services entirely suspended; and the municipality was to reimburse CAASA for any deficit occasioned by the impossibility of adjusting the water tariff, and to exhibit a surety worth 15 MP to the SHCP, actualised annually accordingly to the INPC, notwithstanding the statement in the contract that CAASA would not be profitable until year 18 of the concession. In fact, other ICA subsidiaries, including SAASA,

were profitable.

- CAASA could sub-contract only in specific circumstances approved by the municipality. Also, the CNA would reimburse 60 per cent of income from the rights to extract the water.
- The three levels of government (federal, state, and local authorities) would participate by proposing solutions to the ever-present problem of finding alternative water sources. Also, CAASA must monitor the quality of potable water and, for the first time, pay the state government for the use of the water treatment plants.
- The municipality would charge ten per cent of the rights of the concession but return 80 per cent of this for water investments and electricity payments, the remaining 20 per cent to be used to finance the *Fondo de Apoyo Social*.
- CAASA must present its audited financial reports to the municipality when requested, must recognise a financial ceiling for debt, and must exhibit a surety to local authorities to be actualised annually, worth 15 MP.
- Any urban growth and consequent necessary investments in the water utilities would be absorbed by the privately-run companies responsible for house building or *fraccionadores*, excluding only rehabilitation works.

Further, the board of CAPAMA authorised the water tariff (valid until December 1996) to be set at a minimum consumption of up to 20m³, at \$28 for zone A, \$35.5 for zone B, and \$46.5 for zone C domestic properties, \$60 for the industrial areas, for commercial users \$47 and for

the rural areas \$16; each additional m³ consumed would be charged according to a different tariff.

Even so, these modifications did not result in any considerable reduction. Compared to prices in December 1995, the only benefit was for consumers of less than 40m³ - basically those in domestic zone A (daily consumption of around 300 to 400 litres per inhabitant).⁴²⁸ For all other users, there were considerable increments for consumption greater than 50m³. The promise to decrease the water tariff was thus no more than demagogy, since this was clearly economically impossible.⁴²⁹

The new contract invited further questions regarding the aims behind returning the concession scheme to CAASA. It is not the aim of this research to make an exhaustive analysis of the modifications, but Alfredo Reyes' promises to find a solution that would benefit the whole society evaporated completely with the arrival of this concession title. Instead, he contributed only to solving the financial problems facing CAASA. A clear example of this was the revaluation of the water tariff authorised under the new contract. At the start of 1997 this represented a nominal increase of 32 per cent; from February 1997 it was to be adjusted monthly until the end of the year according to the INPC, leading to additional increments of seven per cent in real terms at the start of 1998 and 1999,

⁴²⁸ Siguen las Dudas del Pueblo Sobre el Servicio del Agua. *El Sol del Centro*. May 3, 1996.

⁴²⁹ For more detail see: Presidencia Municipal de Aguascalientes 1996-1998. 1996. *Comisión Plural para el Rescate del Servicio de Agua Potable y Alcantarillado del Municipio de Aguascalientes*. April 13, 1996, Aguascalientes, México.

in addition to a monthly indexation (INPC) until the end of the concession. Thus, the rescue initiative only generated false expectations and contributed to greater politicisation. The financial burden accumulated by CAASA, and the impossibility that the municipality could absorb this, made it unrealistic for CAPAMA to reassume responsibility for the services. Any attempt to abolish CAASA could only have been for the purposes of political expediency. Table 6.3 presents data on the evolution of the concession scheme during 1996. The dates refer to official sessions of the *ayuntamiento* and the state legislature.

Table 6.3
Evolution of the Concession Scheme for the Water Utilities in the Municipality of Aguascalientes (1996).

1996	Amendment
January 1	Arrival of Alfredo Reyes Esparza representing the first opposition government (PAN) in the Municipality.
March 28	The <i>Ayuntamiento</i> approves the <i>Declaratoria de Rescate</i>, reversing the concession scheme to the Municipality.
April 18	The <i>Ayuntamiento</i> returns the concession scheme to CAASA under certain conditions and modifications to the concession title (contract).
August 30	The state legislature passes the initiative (decree 44) to reform decrees 32, 62 and 89 to cope with the concession title.
September 13	The state legislature adjusts, by decree 47, the <i>Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes</i> (decree 60).
October 11	The <i>Ayuntamiento</i> passes the modifications of the concession title.
December 13	The state legislature endorses the modifications to the concession title and legally returns the concession scheme to CAASA.

Own Elaboration using data from the official resolutions

Concluding Note

The arrival in power of the former opposition party (PAN) was no guarantee that campaign promises would be met, especially as these were focused on reducing the water tariff, revoking the concession, and the *remunicipalizar* of the water utilities. The elected mayor, Alfredo Reyes, was inexperienced, indecisive and entirely politically motivated, and the government simply reproduced the undemocratic behaviour and practices of the previous administration.

The dominance of PAN, and their failure to fulfil campaign promises, encouraged the arrival on the political scene of a variety of social organisations and political parties, aiming to exploit social dissatisfaction and destabilise the PAN government. The water utilities were used and politicised by any and all political groups in order to benefit from the public dissatisfaction with the PAN - basically, it was clear that the first political benefits would be reaped by whichever group was perceived to have resolved the problems. The PAN response was clearly populist and political, rather than realistic, but the actual result was a political reverse for that party, and CAASA was put in a favourable position in which to negotiate a new contract. The municipality's financial obligations to CAASA made the reversal of the concession unavoidable.

Thus, the arrival in power of an opposition party does not necessarily mean better government, especially in the context of the rigid political structures that have prevailed during the last 70 years in the Mexican municipalities. Campaign promises, and a people's desire for 'change', are core factors in gaining power, but the evidence here shows that campaign

promises are not necessarily equal to governmental actions. Policies are linked to interests and not to necessities. The re-integration of the concession scheme with the private body CAASA proves two definitive hypotheses. First, the concession scheme resisted the politicisation generated around the water utilities. Second, the municipality cannot move forward without considering the concession scheme for the water utilities, since its own development is tied to it. The next chapter will investigate whether the modifications granted to the concession title resulted in better services and lower costs, and will examine the subsequent political affects.

CHAPTER SEVEN

The Effects of Political Change on the Future of the Water Concession: The Dominance of the PAN in Aguascalientes - Setting the Scene (1997-1998)

Introduction

This chapter will focus on the development of the water utilities concession during 1997 and until the end of the elections period in 1998. Section 7.1, focusing on 1997, first examines the affects upon the local inhabitants of the two core modifications granted to the concession title by PAN prerogative. Later, it examines the hydrological conditions facing the water utilities, and explains the affects of the water tariff upon local inhabitants. Section 7.2 looks at the events surrounding the federal elections period in 1997, highlighting the predominance of the PRI whilst also noting the opposition parties, specifically the PAN and PRD. After looking at the results, it examines the further politicisation of the concession scheme caused by the tariff referred to above, and then looks at the uncertain future facing the scheme by the end of 1997. Section 7.3 considers the events of 1998, in particular the rise of the PAN in the state. For this purpose, it concentrates upon explaining the role of partisan groups, who politicised the arena by promoting an audit of the private group, CAASA. In Section 7.4, it concentrates on the last period of our research by focusing upon the fall of the PRI and the rise of the new political hegemony in the state with the arrival of the PAN. Firstly, the section explains the results of these local elections. Later, it analyses them and attempts to explain how the PAN gained power. Finally, this section

describes the characteristics of the water utilities, by 1998, and their future. The final section presents an overview of the water concession, and draws conclusions.

7.1 1997: New Concession Title, New Collateral Effects, and One Winner: The PAN.

The Effects of the Modifications to the Concession Title (Contract)

Elections for federal deputies were planned for the summer of 1997 (June 6), and the run-up to them was marked by political effervescence. The affects of the new concession were still politically unpredictable for the PAN, but were already progressing. To put it another way, the water tariff had already been increased, but the backlash from this had not yet materialised. Consequently, this section will attempt to identify the effects of the modifications granted to the concession title on the local political arena.

As already noted, mixing water and politics creates a lethal cocktail for any political party. Therefore, the modifications granted to the concession title by PAN prerogative must be evaluated with consideration of two main actions carried out at the start of 1997. First, an amendment was introduced abolishing the regulatory body CAPAMA, and replacing it with a new *organismo supervisor ciudadanizado* (citizen's board).⁴³⁰ The *ayuntamiento* passed by majority the creation of the new body, the

⁴³⁰ As established in the modifications granted to decree 47 of the *Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso en El Estado de Aguascalientes* on September 15, 1996.

Comisión Ciudadana de Agua Potable y Alcantarillado del Municipio de Aguascalientes (CCAPAMA - Citizen's Commission for the Potable Water and Wastewater of the Aguascalientes Municipality). The former regulatory body CAPAMA suffered two main modifications: first, a letter C was added to its name,⁴³¹ and second, its board included representatives from federal, state, and local authorities, besides local organisations (employee boards and council representatives).⁴³² However, the *ayuntamiento* neglected to pass this reform to the state legislature for its revalidation, and it became legal only after eight months.⁴³³

The second amendment was to the imminent increases in the water tariff (32 per cent plus an inflation actualisation) established in the concession title and which were due to start at the beginning of 1997. The CCAPAMA authorised the following water tariffs for consumption up to 20m³: domestic zone A \$39.21, zone B \$49.73, zone C \$65.14, commercial \$70.13, and industrial \$84.16; for the rural sector, up to 30m³ consumption would be charged at \$39.21. Additional consumption would be charged according to a different tariff. The new structure of the water tariff also included state and local official dependencies, such as churches, schools, hospitals, public parks, and gardens, all of which were assessed

⁴³¹ Presidencia Municipal de Aguascalientes 1996-1998. 1997. *Diario de Debates 1997*. Secretaría del H. Ayuntamiento 1996-1998. January 15, 1997. Session 48/97. Aguascalientes. México.

⁴³² To find out about the members of the Comisión Ciudadana see: Presidencia Municipal de Aguascalientes 1996-1998. 1997. *Diario de Debates 1997*. Secretaría del H. Ayuntamiento 1996-1998. January 15, 1997. Session 48/97. Aguascalientes. México.

⁴³³ CCAPAMA no Existe. *El Heraldo de Aguascalientes*. September 19, 1997.

for a water tariff equal to domestic tariff B. Nevertheless, some subsidies were considered for hospitals and schools.⁴³⁴ These figures represented substantial increases compared to the December 1996 figures, and prove two main hypotheses of this research: Firstly, that the PAN and Alfredo Reyes' campaign promises were only a strategy to gain power. They exploited the dissatisfaction of the local inhabitants regarding the granting of the water concession to the private group CAASA, specifically with regard to the water tariff. Even when the PAN campaign promises and government actions (revoking the concession scheme) were used as a strategy to reduce the water tariff, the reduction was subsidised by local authorities during 1996 in order to minimise the negative effects on the electorate. It is clear that local authorities recognised the impossibility of implementing populist policies, such as a long-term direct subsidy of the water tariff, in order to obtain a political gain. Secondly, the role of CAASA in the negotiations, and the subsequent modifications to the concession title, proved to be of benefit initially to this private group. Nonetheless, it is necessary to consider that the former conditions might well have worse for the municipality.

Thus, the concession scheme was fixed according to PAN ideology and political philosophy. This view is reinforced by Alfredo Reyes' statement that *the water utilities are a decisive factor in the coming elections...it is*

⁴³⁴ CCAPAMA. 1997. *Tarifas de Agua, Valor Abril de 1997*. Aguascalientes. México, as published on the *El Sol del Centro* on April 1, 1997.

*going to be a decisive factor but for the good, because there have been achievements from the government to solve the problems and to tie CAASA's hands to avoid abuses.*⁴³⁵ Although his comments focused on what he believed to be great achievements, it is evident that the PAN strategy in promoting the benefits of the new concession title was designed to make progress in the coming elections.

The Critical Hydrological Circumstances Facing the Water Utilities: An Extra Factor Affecting Efficient Provision of the Services, Adding a Political Implication

Although the city capital of Aguascalientes is considered by the national research institution, INEGI, and revalidated by the CNA, as among the municipalities with the most extensive coverage of potable water (98 per cent) and wastewater (97.8 per cent) in Mexico; and although the state is one of the top two states, with 98 per cent of potable water and 94 per cent of wastewater coverage⁴³⁶ (the estimated national average is 84 per cent for potable water, and 67 per cent for wastewater),⁴³⁷ the very precarious condition of the water utilities in the city capital of Aguascalientes prompted local authorities to consider further investments in the sector.⁴³⁸ Not only the water *utilities*, but the actual natural

⁴³⁵ Podría Desaparecer la Concesión del Agua. *El Hidrocálido*. March 10, 1997.

⁴³⁶ Just behind the Distrito Federal which represents the first city (not municipality) with the most extensive coverage of water and wastewater services in México. To find more see: Nuestro Estado en, 2 lugar nacional en agua. *El Hidrocálido*. December 8, 1997.

⁴³⁷ INEGI. 1997. *Estadísticas: Aguascalientes*. Aguascalientes, México.

⁴³⁸ This argument is reinforced by an interview given by the president to the *Asociación Mexicana de Hidráulica in Aguascalientes* published in: Red de agua potable, obsoleta. *El Sol del Centro*. June 11, 1998.

resource itself, faced dramatic conditions (over-exploitation, pollution, and low water quality). For our purposes, this section will seek to discover how the conditions of the water utilities undermined confidence in the concession scheme, encouraging a permanent politicisation. See Table 7.1 for details of the water conditions in the city capital of Aguascalientes.

Table 7.1 Conditions of the Water Services in the Municipality of Aguascalientes (1997)

Coverage of Potable Water Supply	98% (state media 98%)
Coverage of Wastewater Services	97.8% (state media 94%)
Water Uses	78 % agricultural 22 % domestic, industrial, and services
Annual Water Extraction	574 million of M ³
Annual Deficit	274 million of M ³
Deep Water Extraction	300-600 metres
Annual Subsidence	3-4 metres
Number of Wells	137 urban 37 rural
Daily Water Extraction	2.6-3 M ³ x second
Inhabitant's Water Consumption	350-400 litres
Percentage of Water Lost in the Process	55-65 per cent of the water extracted (leakage and illegal connections)
Number of Users	146,000
Yearly Water Billing	36 million m ³ out of 80 million m ³

Own Elaboration using data from Gobierno del Estado de Aguascalientes. 1996. Agua: Desafíos y Oportunidades para el Siglo XXI. Memorias del Seminario Internacional sobre la Gestión Eficiente del Agua. Aguascalientes, México and INEGI. 1997. Estadísticas: Aguascalientes. Aguascalientes, México.

After the turbulence generated by the PAN government regarding the future of the water utilities came to an end with the return of the concession scheme to CAASA (Dec. 13, 1996), the collateral affects from the financial problems facing local authorities and CAASA irremediably affected the water utilities. This was not simply a financial problem but also a logistical and hydrological one, which gained in relevance after the concession scheme was returned to CAASA. General Manager Humberto Blancarte stated that *the wastewater services present a serious*

*deterioration putting at risk the potable water (due to the potential risk in the mix of residual and potable water)... As a consequence of the large procedure that took the rescue initiative and the modifications to the concession title. Because of the lack of investment and attention during that period (almost a year), he considered applying to the World Bank for an extra credit, worth 40 MP, with the aim of tackling the severe deterioration (in 75 per cent of the cases) occasioned by the age of the wastewater pipelines. These were on average more than 50 years old, whereas their useful life was 25–30 years, and many had suffered ruptures caused by subsidence (earth movements occasioned by the over-exploitation of underground waters).*⁴³⁹

At the same time, the possibility of abolishing the water concession once more entered the political debate. As Alfredo Reyes argued, *I'm not interested in what CAASA managers said...the bottom of their arguments is to obtain greater increments on the water tariff...Nonetheless, in the case of a failure of the concession scheme affected by an abrupt devaluation or by CAASA pressures to obtain increments on the water tariff, the ayuntamiento is in a much better position compared to last year to reassume the water services...besides, we have tied the hands of CAASA to avoid any abuse on the water charges.*⁴⁴⁰

⁴³⁹ Corre Peligro la Potabilidad del Agua. *El Hidrocálido*. February 16, 1997, Nada impedirá que se agote el acuífero. *El Hidrocálido*. March 9, 1997 and Peligro de Contaminación del Acuífero. *El Hidrocálido*. April 26, 1997.

⁴⁴⁰ Podría Desaparecer la Concesión del Agua. *El Hidrocálido*. March 10, 1997.

The main role in promoting the politicisation was now played by CAASA, which made clear its intention to proceed with higher tariffs in order to obtain greater revenues. Jean Michel Tiberi, a top manager of the French company *Générale des Eaux* (CAASA partnership), argued that the average water tariff for domestic use represented less than half its cost.⁴⁴¹ However, the lack of availability of potable water, permanent dissatisfaction with the water tariff, and the deficient provision of the water utilities encouraged the public to question the role of CAASA in the whole process.

Furthermore, an even greater problem was now discovered (or at least, was now considered in more detail). It was realised that local variables were affected by one common denominator: the over-exploitation of the underground waters. This over-exploitation of the only source available for the city affected costs and the availability of services. Extracting the water from greater depth requires greater consumption of electricity and other assets (personnel, equipment, gasoline), which in turn impacts on the water tariff. Thus, the deterioration of the underground water is linked to increases in costs and to water availability.

Figures in Table 7.1 show that the over-exploitation of the ground waters has caused a growing annual deficit of 274 million cubic metres, with 574 million cubic metres extracted annually, and only 300 million naturally replaced. Also, the wells go deeper, by between four and five metres,

⁴⁴¹ Gobierno del Estado de Aguascalientes. 1996. *Agua: Desafíos y Oportunidades para el Siglo XXI*. Memorias del Seminario Internacional sobre la Gestión Eficiente del Agua. Aguascalientes. México.

every year. The water is extracted at around 300 to 600 metres (in 1950, it was extracted at 30 metres), using 174 wells (137 in urban, and 37 in rural areas, of which 90 per cent work 24 hours a day, extracting around 2,660 litres per second), affecting the quality and the price of the water and ensuring that the subsidence that has caused severe damage to the urban infrastructure continues to grow worse.

Because Aguascalientes is located in dry territory, potable water is suffering an excessive consumption of 350 to 400 litres per inhabitant (not including pipeline leakage), comparing badly to cities in France and England, in which the figure is around 200 litres. Thus, as demonstrated, the hydrological conditions are a significant factor affecting the price and provision of water, and promoting its politicisation. The above figure does not contrast dramatically with 1989 and 1993 data (discussed earlier), but do show that minor improvements had been accomplished by 1997.⁴⁴²

Another problem was the contamination of the potable water caused by the leaks in the wastewater pipelines. Since the city capital has an inverse arrangement of wastewater and potable water pipelines, the wastewater pipeline runs over the potable water, occasioning constant infiltration. Furthermore, the water treatment plants lose a high percentage of the treated water in the process.⁴⁴³ In making the link between the

⁴⁴² The above figures were obtained from interviews with the *Regidor* of the water utilities Edna Lorena Pacheco, the General Manager of CAASA Humberto Blancarte, the Manager of the CNA in Aguascalientes Martín Molina and the Manager of CCAPAMA Manuel Reed Segovia.

⁴⁴³ *Altas Pérdidas en el Tratamiento del Agua. Página 24.* October 30, 1997.

hydrological facts and the water tariff, the lesson is clear: the water tariff increases in proportion to the damage caused to the water aquifer. Greater damage requires more energy and assets to extract the water, affecting its quality and the availability of the service. Financial resources are channelled to improve the service, thus affecting the water tariff and consequently establishing the path to politicisation of the water utilities.

The difficult conditions facing the water services in most of the Mexican municipalities, accompanied by the paternalist government, have created a chain effect (corruption, inefficiencies, high costs and subsidies, the non-paying culture, and irrational use) in which the water resources have been seriously damaged. Consequently, the justifications used, at all levels of government, for the implementation of privatisation policies are jeopardised by the unrealistic set of expectations also created. Unfortunately, there is no theoretical framework that guarantees any kind of success for these policies. Since 1989, when the first scheme using private bodies was allowed in the city of Aguascalientes, and the launch of the first concession scheme in 1993, with the subsequent financial and political turmoil, few improvements have been achieved by means of the concession. Consequently, there has been a great deal of dissatisfaction on the part of local inhabitants, and a dramatic affect on the political arena and, specifically, the official party.

The Political Effects of the Unfulfilled Promise of the PAN Municipality to Reduce the Water Tariff

The unfulfilled promise to reduce the water tariff led to a negative perception of PAN strategies and CAASA practices by the public, thus

promoting further politicisation. Also, the role played by the municipality since the concession scheme was given back to CAASA had been to resist any decision from this private group. The common denominator in their relationship was conflict, with daily declarations disqualifying each other's previous public announcements regarding the water utilities, specifically concerning the water tariff. On the one hand, with elections in view, the municipality was trying to minimise the affects of the monthly increments in the water tariff. On the other hand, CAASA wished to obtain a fast financial reimbursement by pressuring the municipality to approve greater increments in the water tariff and financial contributions. In order to explain this development it is necessary to pose the question: "What was the political affect on CAASA and the municipality of the imminent increases in the water tariff?"

Local inhabitants can be expected to identify the benefits of the concession scheme according to two main determinants: first, the water tariff; and second, the availability of the service (what you get for what you pay). Neither of these aspects had been tackled since 1993 by either the PRI or the PAN government. As a result, during 1997, those two factors increased in importance, affecting the provision of the water services in the city (due to the politicisation generated). Both were affected by one common variable: money.

The critical hydrological conditions facing the underground water sources have further complicated the situation. About 50 per cent of the water extracted is lost in the pipelines – urban and residential - (43.5 million m³ out of 87 million m³ extracted), directly affecting the water tariff and its

efficient provision. Furthermore, the lack of investment means that there is no efficient micro (domestic) or macro – source of supply (wells) - measurement, and only 35 per cent of the water extracted is invoiced. This promotes non-rational and illegal use (non-paying users represent 10 per cent of the 146,000 registered) that further affects the already declining water sources.⁴⁴⁴

Thus, an under-estimated water tariff has chain effects (economic, hydrological, service provision) which inevitably lead to politicisation of the concession scheme. On the other hand, charging cost-based prices causes greater political problems. Finally, it is clear that the perception, by users, of a fair price for the water tariff determines the feasibility, at the first stage, of the water concession. Considering this point, one can assume that the water tariff has been the common denominator in the politicisation of the water utilities.

In this regard, the general manager of the CNA argued that *the tariffs for water consumption will be adjusted as many times as needed during the year [1997]...this is how it is established on the concession title and must be done according to the inflation costs.*⁴⁴⁵ As a result, political parties (PRD) argued that *in spite of the promise of fair water tariffs, they are fair*

⁴⁴⁴ The above data was obtained through interviews with the manager of CCAPAMA Manuel Reed and the General Manager of CAASA Humberto Blancarte during the last quarter of 1997.

⁴⁴⁵ Nuevo Golpe Para los mas Pobres; Aumentaran las Tarifas del Agua Cuantas Veces se Requiera en el año: M.Molina. *El Heraldo de Aguascalientes*. April 12, 1997.

but to CAASA not for the inhabitant.⁴⁴⁶ Also, the precarious conditions of the pipelines became evident; as did the affect upon the inhabitants. This added to the sense of dissatisfaction with the water tariff that predominated.

At the same time, CAASA was disconnecting overdue users from the water services, by means of promoting a water culture. This created great discomfort amongst the local inhabitants, and even health problems. Furthermore, it appeared that CAASA was acting contrary to the *Ley de Salud del Estado de Aguascalientes* (Health Law of the State of Aguascalientes).⁴⁴⁷ The scarcity of potable water was affecting different sectors of the city every day,⁴⁴⁸ and this, in combination with the constant increments in the water tariff (a new price was established in June) had clear political implications for the PAN candidates in the coming elections.⁴⁴⁹ CAASA was also once again facing financial difficulties due to an estimated 58,000 overdue accounts, worth 15 MP.⁴⁵⁰

⁴⁴⁶ En Cuestión de Agua Estamos Peor que Antes: Las Tarifas son Justas Pero Para CAASA, no Para los Ciudadanos, Dice el PRD. *El Heraldo de Aguascalientes*. April 25, 1997.

⁴⁴⁷ According to article 111 of this law, disconnecting the potable water service are subject to rules established in the *Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes*. To find more see: Es Criminal que se Corte el Agua por Falta de Pago. *El Heraldo de Aguascalientes*. May 11, 1997 and Son Legales, subraya Caasa, los “cortes” de agua a los deudores. *El Hidrocálido*. September 12, 1997.

⁴⁴⁸ Pura Palabrería y las Colonias, Centro y Fraccionamientos Están sin Agua Potable. *El Sol del Centro*. May 15, 1997.

⁴⁴⁹ CCAPAMA. 1997. Tarifas de Agua, Valor Junio de 1997. Aguascalientes. México. The water tariff was adjusted for the minimum consumption of 20m³ in zone A \$39.67, zone B \$50.31, zone C \$65.90, commercial \$70.96 and industrial \$85.15.

⁴⁵⁰ 58 mil usuarios no liquidan el agua. *El Hidrocálido*. June 30, 1997.

7.2 The Political Rise of the PAN in the State: Reducing the Influence of Opposition Parties Among the Electorate

The Role of the Concession Scheme in Federal Elections: A PAN Identification

Federal elections for deputies (1997-2000) were held on July 6, 1997. Although federal and local elections are quite separate, they share one common variable: the concentration of votes on the urban side and the influence of the city capital on the final results. The political affects of the concession scheme, now in PAN hands, were not what might have been expected. Even when this political party was identified with the water tariff increments, it obtained two strategic positions on the federal congress. It won II district by uninominal election (direct vote),⁴⁵¹ and it was represented by Benjamín Gallegos Soto, the mayor substitute (1996-1998), former state deputy, and ex president of the CDM of the PAN in the municipality. In addition, the PAN obtained one proportional representation seat designated to the former president of the CDE of the PAN, Jorge Humberto Zamarripa. As well, the PRD obtained one seat (PR) for the federal congress represented by Angelica de la Peña G.

Even though these PAN members had been active in previous years favouring the concession scheme and supporting the municipality decisions, Benjamín Gallegos (who later became sceptical about the concession scheme) won the II district with 42,985, or 40.10 per cent, of the votes. These were concentrated in the city capital but represented a slight majority over the PRI candidate Jesús Armado López Velarde

⁴⁵¹ By the 1997 federal elections Aguascalientes' political circumscription had increased by one district.

Campa, who obtained 40,696, or 37.96 per cent, of the electoral preferences, and the PRD candidate Cecilio Ávila García, who polled 13,792 votes (12.87 per cent).⁴⁵²

The remaining two districts were won by the PRI candidates, who obtained two seats for the federal congress. The candidate elected for the I District was Oscar González Rodríguez, who obtained the greatest advantage (17,291 votes) by means of the corporate vote in the rural area: 40,287 compared to 22,996 for the PAN and 9,244 for the PRD.

The final elected representative for the III District was the former mayor responsible for the water concession, Fernando Gómez Esparza, who was elected with a slight majority (2,579 votes). He polled 41,105 votes compared to 38,526 for the PAN and 14,290 for the PRD candidates.

One can identify two main reasons for the resurgence of the PAN, the permanency of the PRI, and the political moves of the PRD. First, the votes obtained by the PRI in the 1997 elections were determined by the PRI corporatist vote outside the city area, mainly in the I and III districts, and the candidates shaped the people's perception.

The huge majority obtained by Oscar González was linked to his popular influence in the state and his control over the rural vote. Nevertheless, as a result of the urban vote, Fernando Gómez, although a popular figure (according to the polls at the time, 71 per cent of the public recognised him), and despite being selected as the best mayor that Aguascalientes had ever had, obtained the post with only a slight majority. His

⁴⁵² Instituto Federal Electoral. Resultado de las Elecciones de 1997 en Aguascalientes, accessed through the Internet on www.ife.org.mx/wwworge/ags.htm, on August 1998.

responsibility for the concession scheme, besides his PRI label, minimised his appeal to the electorate. Consequently, the PAN's dominance played a fundamental role in neutralising his influence.⁴⁵³

Second, the economic burden from the constant increments in the water tariff lessened the influence of this political party. Its candidate, Benjamín Gallegos, won the post by a slight majority; nonetheless, the PAN remained, and the PRD moved forward, representing a threat to the PRI in the coming 1998 elections. In this sense, the constant politicisation of the water concession, now by PAN prerogative, did not affect the PAN, but decreased the influence in real terms of the PRI, and impulsed the PRD compared to the 1994 elections. Thus, the *voto razonado* (conscious vote) and people's desire for change were making themselves known.⁴⁵⁴

An important outcome of these federal elections in the national context was the decline of the PRI from being the dominant party on the LVI legislature (1997-2000). Nonetheless, none of the political parties obtained a majority inside it (251 seats to obtain the majority or 334 seats to approve constitutional reforms). From 500 seats (including uninominal and proportional representatives) the PRI obtained only 239 (compared to 300 in previous elections), PAN 121, PRD 125, PT 7, and the PVEM

⁴⁵³ Crisol. 1997. *Crece el Optimismo en la Ciudad*. Año VII, Numero 99. Agosto 21, 1997. Aguascalientes. México.

⁴⁵⁴ For the results of the 1994 elections for federal deputies see: PAN. Asuntos Electorales. Resultados Federales 1997, accessed through Internet on www.pan.org.mx/electoral/r_fed97.htm, August 1998.

achieved eight.⁴⁵⁵ For the first time in more than 65 years Mexico was facing the fall of the official party within this body. This development marked new tendencies at a national level and established the precedent for the PRD and the PAN as the second and third political forces inside this federal congress.

The Effects of the Water Tariff: Signs of Further Modification of the Concession Title?

After the elections, further attention was paid to the invariable monthly increments in the water tariff and the affects of these on the inhabitants. As discussed, this represented the most controversial aspect of the concession scheme. The weakness of the municipality's efforts to enforce the modifications to the concession title, proves our earlier arguments regarding the favourable position of CAASA leading to a greater politicisation. Consequently, it is now necessary to seek to identify the effects of the increments on the water tariff after the election period.

By the time the political effervescence of the federal elections had come to an end, the PAN strategy was to prepare the land for the coming elections in 1998. The other political parties were aiming in the same direction but via different means. The main variable in dispute was the water tariff and its collateral effects. The increments in the water tariff had led to almost 50 per cent of users being in debt to CAASA. These overdue accounts

⁴⁵⁵ Instituto Federal Electoral. 1998. *Elecciones de Diputados por Mayoria Relativa: 97*, accessed through the Internet on www.ife.org.mx, August, 1998. The PAN web page on www.pan.org.mx/electoral/97integcamaradip.htm, gives an interesting analysis of the results.

were worth 53 MP, and prompted a chain reaction, jeopardising the feasibility of the concession scheme by adding an extra financial burden to CAASA, affecting investment in the sector and consequently promoting its politicisation amongst social and political representatives.⁴⁵⁶ In this sense, the water tariff recalled previous errors.

The *Regidor* (PVEM) María del Carmen Esparza stated that *by the time the PAN faction signed the modifications to the concession title...we were defined by CAASA managers as mentally retarded because everything was on their side.*⁴⁵⁷ Even assuming that CAASA has some clear advantages (subsidies, investment participation, federal support, and a lack of a truly regulatory body) its permanency is linked with the revenues obtained by the water tariff. Thus, CAASA was applying almost any available alternative to persuade local inhabitants to pay for water services. There was an increase in drinking water disconnection's, leading to a legal dispute that became a political matter, with subsequent attempts to modify the water law to prevent CAASA from doing this.⁴⁵⁸

CCAPAMA and CAASA launched a programme granting discounts of up to 35 per cent to overdue users. The programme had positive results in the short-term, but soon encouraged everyone not to pay in order to secure

⁴⁵⁶ Financieramente se hunde la Concesionaria de Agua. *El Hidrocálido*. July 26, 1997.

⁴⁵⁷ CAASA no corre ningún riesgo al suministrar el agua potable. *El Heraldo de Aguascalientes*. July 15, 1996.

⁴⁵⁸ The dispute generated was linked to the rules established for disconnecting the potable water in the *Ley General de Salud del Estado de Aguascalientes* and the *Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes*. To find more about these legal contradictions see: Aberración jurídica permite 'cortes' del agua. *El Hidrocálido*. September 9, 1997.

the discount.⁴⁵⁹ Later, after pressure from the social organisation, FEOI, the Mayor, Alfredo Reyes, made the clearly populist move of proposing to the leader of that organisation, Alfredo Cervantes García, that the municipality use the *fondo de contingencia* (contingency fund) to subsidise overdue payments to CAASA. It was supposed that this would benefit 2,000 families from the less developed sectors.⁴⁶⁰ Ironically, however, the mayor emphasised that every user must pay for the water services with no exemptions. Nonetheless, the *Miércoles Ciudadano* played a fundamental role in promoting further discounts on the water bills for almost every user, including residential areas in which most of the 15,000 unauthorised users are located. Also, CCAPAMA representatives attended to more complaints than did any other local body.⁴⁶¹ As a response to the municipality measures, in which CAASA and CCAPAMA, with PAN support, were trying to recover overdue charges, the PRI saw the chance to promote the non-paying culture among the local inhabitants. Clearly, in their belief, the ends justified the means.⁴⁶² As a result, arguments about the feasibility of maintaining the concession scheme and modifying the

⁴⁵⁹ Amenaza CAPA con Sancionar a morosos. *El Heraldo de Aguascalientes*. August 7, 1997. For the results achieved with this measure see: 14 de 50 mil morosos ya pagaron a Caasa. *El Hidrocálido*. September 4, 1997.

⁴⁶⁰ Pagará el Ayuntamiento a CAASA todo lo que adeudan dos mil familias pobres. *El Heraldo de Aguascalientes*. September 25, 1997.

⁴⁶¹ Si no quieren corte de agua, ¡paguen!. *El Heraldo de Aguascalientes*. September 25, 1997. See also: Presidencia Municipal de Aguascalientes (1996-1998). 1997. *Segundo Informe de Gobierno*. Anexo Estadístico. Aguascalientes. México.

⁴⁶² Reed acusa al PRI de impulsar la cultura de no pago del agua. *El Hidrocálido*. August 25, 1997.

concession title erupted daily, signifying a clear battle of interest between the PAN and opposition parties. The common factors were the excessive water tariff, abuses by CAASA, and the critical financial struggles facing this private body.⁴⁶³

The End of 1997: Evidencing an Uncertain Future for the Concession Scheme

In the last quarter of 1997, the municipality experienced greater pressures as the water tariff became the major topic. This section will now attempt to find out how the municipality was affected by this development. This will show the lack of an autonomous regulatory body, and the disadvantages faced by the municipality with the new concession title.

Old arguments once again came to the fore, as Mayor Alfredo Reyes emphasised that *CAASA could be substituted...nonetheless, the concession scheme will remain.*⁴⁶⁴ Once more, the municipality sought a political battle with the CAASA, conscious that this private body provoked great dissatisfaction amongst the inhabitants of the city, that there were continuous protests against it,⁴⁶⁵ and that it had been in danger of losing the concession scheme due to the unfulfilled actualisation of a surety worth 15 MP. Later, the failure of federal, state, and local bodies to fulfil promised investment worth 160 MP made the pressure on the concession

⁴⁶³ La concesión podría cancelarse. *El Heraldo de Aguascalientes*. September 5, 1997.

⁴⁶⁴ No es Inviabile el cambio de Concesionario. *El Hidrocálido*. October 24, 1997.

⁴⁶⁵ Masiva protesta por cobros impagables en el agua; exigen que sea retirada la Concesión. *El Hidrocálido*. October 23, 1997 and Aumentan Manifestantes del FEOI Cada Miércoles Ciudadano: ACG. *El Sol del Centro*. October 23, 1997.

even more unbearable.⁴⁶⁶ The manager of CAASA, Humberto Blancarte, argued that *there were no intentions for CAASA to solicit the extinguishing of the concession....even when the three levels of government did not fulfil their promises.. due to this, we have not called in the surety of 15MP because the state government has not contributed and in consequence we haven't done it.*⁴⁶⁷ In CAASA's view, any unfulfilled promise has collateral effects affecting it directly and leading to the possible non-fulfilment of promises by this body.

According to the concession title, if any of the parts fail to fulfil the previous financial accords, the concession title can be modified. In the case of CAASA, it can lose the concession scheme. The figures show that the state government only contributed 5 MP out of 40 MP promised and, in a clear political move for the 1998 elections; the CNA contributed 35 MP out of the 40 MP and the municipality was thus forced to obtain further federal participation.⁴⁶⁸ This represents clear evidence reinforcing our arguments about the lack of a truly independent regulatory body (CCAPAMA) - a view supported by its General Manager, Manuel Reed, in a personal interview. He stated that *all the parts have been non fulfilling earlier accords making it difficult to apply the law to each of them.*⁴⁶⁹ In

⁴⁶⁶ Pueden Cancelar Concesión. *El Heraldo de Aguascalientes*. September 8, 1997.

⁴⁶⁷ No solicitarán extinguir la concesión. *El Heraldo de Aguascalientes*. September 18, 1997.

⁴⁶⁸ The data was obtained though an interview with the Regidor for the water utilities Edna Lorena Pacheco on December 9, 1997 in Aguascalientes, México.

⁴⁶⁹ The interview was held on January 15, 1998 in Aguascalientes, México.

the absence of a truly regulatory body, the society obtains few benefits and CAASA faced serious problems in efficiently providing water services. Daily problems such as contamination of the potable water, inefficient invoice mechanisms, and lack of public attention are rarely sanctioned by the regulatory body, the aims of which are political rather than enforcing. As noted earlier, the financial schemes included in the concession title fell below CAASA expectations, adding an extra financial burden to the concession scheme that affected the water utilities. However, federal bodies granted extra financial contributions to the water utilities through the *Ramo XXVI* (changed to *Ramo XXXIII*) and the programme called APAZU.⁴⁷⁰ Furthermore, the national programme *Fondo Bancario de Protección al Ahorro* (FOBAPROA), used earlier to save the privatised banks, was another tool used to help correct the critical financial situation affecting CAASA and, consequently, the inhabitants. Local authorities were negotiating with the federal government, via the SHCP, to re-absorb 65-70 per cent of CAASA's liabilities, worth 230 MP, and consequently to become a partner with about 30 to 35 per cent.⁴⁷¹

In this way, by direct public (paternalist) intervention in the structure of CAASA, the privatisation scheme would be partially reversed into public hands. The federal government would be partially involved in the public utility, thus evidencing a shift of policies to ones promoting a backward

⁴⁷⁰ Permanente Esfuerzo para mejorar la red de agua. *El Hidrocálido*. November 19, 1997.

⁴⁷¹ Demandan condonar 60 % de la deuda bancaria de Caasa. *El Hidrocálido*. November 7, 1997 and La SH, socia de la Concesión si Fobaproa absorbe la deuda. *El Hidrocálido*. December 1, 1997.

(private to public) movement from that proposed by the privatisation theory. However, this course of action did not prosper during 1997.

As a foretaste of the following year's difficulties, the deterioration of the hydrological sources had become more evident by the end of 1997. Three of the most important wells collapsed and 50 urban and 26 rural wells were severely over-exploited, adding an extra political and financial implication for 1998, in which greater financial resources would be needed to tackle the dramatic circumstances facing the water utilities.⁴⁷²

7.3 1998: The Effects of the Concession Scheme Favouring the Rise of the PAN in the State

Partisan Perspectives on the Concession Scheme: The Elections Target

The start of 1998 presented two challenges for state and local authorities: first, the local elections; and second, to minimise the negative effects on the electorate of the water tariff increments. This section will look at how local authorities (PAN) encouraged a further politicisation 'against' CAASA in order to minimise the affects of the water concession upon the electorate.

Since the main determinant of public perceptions regarding the water concession, CAASA, and the municipality is not the privatisation scheme *per se*, but the water tariff and availability,⁴⁷³ 1998 commenced with

⁴⁷² Nebuloso Horizonte para la Dotación de Agua. *El Hidrocálido*. December 31, 1997.

⁴⁷³ These arguments are reinforced by a survey prepared by CESMA. 1998. *April*, Presidencia Municipal de Aguascalientes 1996-1998, Aguascalientes, México.

struggles over the first price increases since the 54.93 per cent rise during the previous year.⁴⁷⁴ At the same time, the *Miércoles Ciudadano* programme of direct subsidies reached 100,000 inhabitants.⁴⁷⁵ The question this raises is: How many votes did it represent for the PAN? The constant battle against water disconnections, supported by the *Regidor* (PAN) for the water utilities, Edna Lorena Pacheco, incited further conflict amongst PAN-opposition factions. At the first session of the *ayuntamiento*,⁴⁷⁶ the *Regidor* Judith Baca was expelled from the PAN, and became an independent, because of apparently 'immoral practices' in her private life. In an open response she fought back against the PAN, arguing that she had been forced by internal interests to vote in favour of the concession scheme in 1996, despite the fact that the municipality would not be receiving federal assistance, putting the city capital into financial bankruptcy, and thus affecting more public utilities.⁴⁷⁷

⁴⁷⁴ According to the concession title (96) the water tariff was to be increased at the start of 1998 and 1999 by an extra 7 per cent besides the monthly indexation to the INPC. Thus, the water tariff for the minimum consumption of 20m³ was set in January 1998 at \$46.70, compared to \$43.10 in December, 1997 for domestic A; for domestic B it was \$59.20 compared to \$54.70; for domestic C the tariff reached \$77.50 in contrast to \$71.70. For commercial use the tariff was established at \$83.50 in contrast with the previous \$77.20 and for the industrial sector the tariff reached \$100.20 compared to the previous \$92.60. To find more on the increment per centage during 1997 see: CCAPAMA. 1998. *Informe Definitivo de Auditoria a La Empresa Concesionaria de Aguas de Aguascalientes S.A de C.V. (CAASA)*. July 18, 1998, Presidencia Municipal de Aguascalientes, Aguascalientes, México, pp. 4.

⁴⁷⁵ Presidencia Municipal de Aguascalientes. 1998. Aguascalientes en Acción. *Official Gazzete*. January, 1998, No. 17. Aguascalientes, México.

⁴⁷⁶ Auspicio el PAN "cortes de agua": PRI. *El Hidrocálido*. January 6, 1998; also, Cortes de agua, insensible actitud. *El Heraldo de Aguascalientes*. January 6, 1998.

⁴⁷⁷ Nos Obligarón a votar a favor de CAASA. *El Heraldo de Aguascalientes*. January 17, 1998.

The concession was further politicised as a result of political and social pressures during the local electoral year. Social organisations like the FEOI organised marches against CAASA,⁴⁷⁸ arguing an excessive water tariff and lack of availability of the service.⁴⁷⁹ The social pressure group ADC argued that CAASA profits were of the order of 70 MP,⁴⁸⁰ assuming that 160,000 registered users generated that income.⁴⁸¹

As a result of social pressures, opposition political parties (PRI) perceived the advantage of using CAASA as the target - they would obtain votes by claiming that this private body was in complicity with the municipality, arguing that it was essential to audit this private group and, consequently, disapprove the PAN concession scheme.⁴⁸² CAASA's response, through the local media, was to discredit any such claim, arguing that it was working according to the concession title and that no profits would be generated until the 18th year of the concession.⁴⁸³

As one can see, the strategy of using CAASA was a determining factor in the coming elections. In response, local authorities and PAN members

⁴⁷⁸ Frente Estatal de Organizaciones Independientes represented by Alfredo Cervantes García.

⁴⁷⁹ '¡CAASA Robando, y el Mosco, Apoyando!'. *Página 24*. January 13, 1998.

⁴⁸⁰ Agrupación de Defensa Ciudadana headed by Erasmo Díaz González.

⁴⁸¹ Cruel Saqueo de CAASA al Pueblo. *El Sol del Centro*. January 20, 1998.

⁴⁸² Pedirán se Audite a CAASA. *Página 24*. January 21, 1998.

⁴⁸³ The private group CAASA advertised its position in local newspapers. See: CAASA Actúa con Base en lo Estipulado en el Título de Concesión. *El Heraldó*. January 27, 1998 and CAASA Obtendrá Utilidades Hasta el Año 18 de Concesión. *El Sol del Centro*. January 21, 1998.

were discrediting any social or political arguments.⁴⁸⁴ In a clearly political move, because the municipality had known about CAASA irregularities (further described in the audit results) earlier than any other social or political representation, the PAN majority inside the *ayuntamiento* balanced the political costs and passed, by PAN prerogative, an initiative aimed at auditing CAASA by means of public (local) authorities and with the endorsement of civil bodies (local organisations).⁴⁸⁵ Mayor Alfredo Reyes emphasised that in case of any irregularity there would be economic sanctions and the possibility of *remunicipalizar* the water utilities.⁴⁸⁶ Anticipating the results, the *Regidor* (PAN) of the water utilities, Edna Lorena Pacheco, started to shift position by arguing that CAASA was not coping with the concession title.⁴⁸⁷ At the same time, the General Manager of CCAPAMA, Manuel Reed, declared that the *ayuntamiento* would defend the concession scheme but not CAASA practices.⁴⁸⁸

Both of these close collaborators of the mayor denied the possibility of *remunicipalizar*. The PAN majority in the *ayuntamiento* was trying to

⁴⁸⁴ No hay Complicidad Entre CAASA y el Municipio: Edna Lorena Pacheco. *Página 24*. January 22, 1998.

⁴⁸⁵ According to a confidential document from the Presidencia Municipal de Aguascalientes in which the financial results from CAASA on 1997 evidenced clear signs of financial and operational problems.

⁴⁸⁶ Auditará el Municipio a CAASA. *Página 24*. February 3, 1998, Auditarán a CAASA, la empresa administradora de los servicios de agua potable en Aguascalientes. *El Financiero*. February 7, 1998 and La auditoría a CAASA aclarará todo. *El Heraldo de Aguascalientes*. February 17, 1998.

⁴⁸⁷ CAASA no Está Cumpliendo con el Título de Concesión. *Página 24*. February 17, 1998.

⁴⁸⁸ No a la Remunicipalización del Servicio de Agua Potable: Manuel Reed Segovia. *Página 24*. February 17, 1998.

revalidate its image among the voters, recognising that any result from the audit would be potentially negative for their compact group. The failure of the PAN-style concession scheme and of its permanency as a political flag was publicly recognised. Mayor Alfredo Reyes, in response, argued that he had not solved the problems facing the water utilities but that he would leave the basis for this solution, to be implemented by the coming administration.⁴⁸⁹

The 1998 Elections: The Actors

In the midst of the potential turmoil caused by the expectation of the results of the CAASA audit, political parties nominated their representatives for public posts in the coming elections. This section will now look at the main political actors in the 1998 local elections, concentrating exclusively on the candidates from the city capital for state governor and mayor.⁴⁹⁰

In the most rigid system of selection, and against the candidate of State Governor Otto Granados Roldán,⁴⁹¹ the CEN of the PRI, by 'unanimous' decision, nominated the well known *dinosaurio* (PRI member from the old guard) Héctor Hugo Olivares, son of the former governor Enrique Olivares

⁴⁸⁹ Reconoce A. Reyes que no ha resuelto el problema del agua. *El Herald de Aguascalientes*. March 10, 1998.

⁴⁹⁰ For an interesting description of the candidates see: Francisco Ortiz Pinchetti. 1998. *Candidatos de reacomodo: un panista en el PRD y un priista en el PAN; en el PRI, un dino*. Proceso Magazine, sección reportajes, No. 1126. Mayo 31, 1998. México; also, Guillermo Correa. 1998. *En el palenque electoral de Aguascalientes, PRI y PAN amarran navajas, sin poder asegurar quién va a ganar*. Proceso Magazine, sección reportajes, No 1134. July 26, 1998 and Más empleo y mayor seguridad, oferta común para Aguascalientes. *El Nacional*. August 2, 1998.

⁴⁹¹ It was mentioned that the state governor candidate was his Secretary of Social Development Armando Romero Rosales.

(1962-1968). He had waited 18 years for the nomination, and had served as senator (twice), and federal deputy (twice) amongst other top federal, state, and party posts. His selection left behind seven potential candidates, including senators, deputies, and public officials from the official party who were pressuring for a democratic selection process.⁴⁹² He was also supported by the social groups *Generación Fuerza 21* and H2O, and focused his campaign on social participation and governance.

The PRD suffered from a lack of political figures and nominated Alfonso de Jesús Bernal, a noted academic, who had formerly stood as PRI candidate for the governorship (1980), and served as a PAN local deputy (1995-1998), although he had never joined either party officially.⁴⁹³ He was also supported by the group *Opción Ciudadana*. With no political manifesto his campaign was focused on three promises: to speak the truth, to exercise honesty in the public administration, and to act with justice and within the law. It is important to remember that, while local deputy, his duties had included representing the state legislature on the board of CCAPAMA. He was the board's *ciudadanisation* ideologist, and a clear enemy of its

⁴⁹² The remaining candidates were: the Federal Deputy Oscar González, Federal Deputy Fernando Gómez, Senator Oscar López Velarde, Senator Fernando Palomino, Jorge Rodríguez (leader from the *Confederacion de Trabajadores de México* -CTM- in the state), Augusto Gómez and The Secretary of Social Development at the State Government Armando Romero Rosales.

⁴⁹³ El Diputado Bernal Sahagun renunció al PAN: será candidato del PRD en Aguascalientes. *La Crónica Newspaper*. April 29, 1998 and Dejan AN: Bernal Sahagún por el PRD. *El Sol del Centro*. April 29, 1998.

General Manager, Manuel Reed, who left the job to run (successfully) for a local post on the state legislature.⁴⁹⁴ This reinforces our arguments regarding the highly politicised management of the water regulatory body, which is influenced by opportunism ideologies and is used to promote individual public figures. Its manager is in the spotlight every day, exercising influence. An official survey estimates that CCAPAMA has an approval rating of 7.4/10 from the local inhabitants, whilst CAASA is perceived as the body primarily responsible for the water utilities.

The PAN candidate for State Governor was Felipe González, who had only recently joined the party (January 1998). Despite speculation about his PRI background, he beat federal deputy Benjamín Gallegos to win the internal candidacy with 80 per cent of the votes. The PAN candidate represented a non-political ideology, with a business background (groceries) and links to business organisations (CANACO, COPARMEX, and USEM), the clergy, and the former State Governor of Guanajuato and PAN presidential candidate (2,000-2,006) Vicente Fox. His candidacy was also supported by the social group "Macabeos", and core campaign promises focused on economic development, credits for the self-employed, promotion of a social market economy in which the government is only the promoter and generator of development, and the establishment of a fair financial distribution system for federal funding.

⁴⁹⁴ Appointed to take charge of CCAPAMA was Mario Alfonso de la Mora López, former controller at the municipality supervising the quality of the works from CAASA and CAPAMA. He was ratified on May 4, 1998 by the *Ayuntamiento*.

As part of González' former duties in 1996, he had played a key role in the rescue initiative for the water utilities, participating on the plural commission as an independent citizen. There had been speculation that he was promoting his candidacy under a PAN strategy and support. As a result of his candidacy, two local deputies, Anselmo Sotelo and Enrique Pimentel, linked to the PRD candidate, resigned from the PAN, arguing anti-democratic selection of candidates. Thus, the PAN lost its relative majority in the LVI State Legislature, instead finding itself and the PRI with 11 members each (out of 27).⁴⁹⁵

The only woman competing for the post was Martha Esperanza Campos, a solicitor and former civil servant at the *Procuraduría General de la República* (PGR) at the state government. She represented the PT-PVEM coalition, and focused her campaign on tackling government impunity and promoting greater public safety. However, the real battle was between the PAN and PRI candidates.

The PRI candidate for Mayor in the city capital was Armando Romero Rosales, a former state official and mayor (1990-1992, resigned 1991). He obtained 52 per cent of the votes, beating the other three competing for the candidacy. His core campaign promises were to increase public safety and to resolve the problem of charges for the water services. It is relevant to note that, with the former State Governor Miguel Angel Barberena (1986-1992), he promoted the privatisation process by granting extra responsibilities (second stage of the concession) to the ICA group, which

⁴⁹⁵ En Igualdad de Circunstancias el PRI y el PAN en el Congreso del Estado. *El Sol del Centro*. May, 14 1998.

later obtained the concession.⁴⁹⁶ The PRD nominated José Luis Gutiérrez Lozano, financial advisor of the PAN candidate Felipe González. He had stood as a PAN pre-candidate for mayor (1995), and federal deputy (1997), and had sought the PAN pre-candidacy for mayor this time, but his lack of success led him to join the PRD, with the support of that party's candidate for governor. His core promises were to radically transform public management, to work together with the people to solve the problems of employment, and to solve the problems of water and public safety.

The PAN nominated a former PRI supporter, Luis Armando Reynoso Femat, who has a business background. He competed against the other six to obtain the candidacy.⁴⁹⁷ He made clear his disapproval of the PAN government in the city capital and of the Mayor, Alfredo Reyes. His main message was to save moral values. Finally, and with little chance of being elected as mayor of the city capital, Gabriela Martín was nominated by the coalition PT-PVEM.

This list of candidates points to two main determinants for our case of

⁴⁹⁶ The elected candidate in the internal PRI elections, beat by 2 to 1 his closest rival, Jesús Álvarez, who obtained 27 per cent of the total votes. The businessman Roberto Díaz also participated, obtaining 13 per cent, and the remaining 8 per cent was obtained by the Secretary of the FTA Alfredo González. To find more see: Romero Rosales, candidato del tricolor al Ayuntamiento de Aguascalientes. *El Nacional*. May 26, 1998 and Armando Romero ganó la candidatura del tricolor a presidente municipal con el 52% de los votos emitidos. *Página 24*. May 26, 1998.

⁴⁹⁷ The CDE of the PAN registered as pre candidates: the local deputies Fernando Herrera, Humberto David Rodríguez and Jesús Martínez, the Secretary of the Ayuntamiento Francisco Valdés, Audómaro Alba and José de Jesús Jimenéz and the elected Luis Armando Reynoso Femat. To find more see: Se registran 7 aspirantes panistas a alcaldes. *El Heraldo de Aguascalientes*. March 17, 1998.

research. Firstly, the main political promises were to generate more jobs and better public safety, leaving behind the controversial water concession. Secondly, all the political actors had one thing in common: surprisingly, at some stage of their political careers, they had all been linked to the PAN (excluding PRI candidates) or to another political party. The majority of state governor and mayoral candidates had also been involved with the concession of the water utilities in the city capital, either by participating directly or by promoting it as a way to move forward politically. It is also relevant to consider that no political manifesto considered how to solve the problems facing the water utilities and the concession scheme; only a few comments were made concerning the water resources, along with unrealistic electoral promises to lower or freeze the water tariff.⁴⁹⁸

A Final Overview on the Concession Scheme by PAN Prerogative: The Results of the Audit of the Private Group in Charge (CAASA)

The results of the audit were delayed for a few months due to the legal imposition from CAASA in the form of *habeas corpus*. However, the political campaigns were still running. The audit demonstrated that which has been suggested throughout this research - that is, the favourable position enjoyed by this private group by the time the concession scheme was reversed in 1996, the poor results achieved by means of the concession until 1998, the lack of a truly autonomous regulatory body

⁴⁹⁸ For example the PRI candidates. To find more see: Un acto de justicia social resolver el problema del abasto de agua y tarifas. *El Sol del Centro*. July 14, 1998.

(CCAPAMA), the failure of that body to take control over the monopoly transferred to CAASA, and the incompetence of local authorities (including members of the *ayuntamiento* and state legislature) in the elaboration and approval of the concession scheme by PAN majority. All of these factors had, in turn, affected the local inhabitants and the feasibility of the concession scheme, leading to a continuous politicisation.⁴⁹⁹

According to the official and final resolution, the core outcomes were disproportionate to what had been agreed. For example, CAASA did not have any assets or employees. The services were sub-contracted to the filial enterprise, SAASA, and through them to other entities (mainly ICA subsidiaries), affecting the operational costs and accountability of CAASA, which served as a holding company. Profits generated were kept by these sub-contracted ICA enterprises, affecting the financial condition of CAASA, which was technically bankrupt.⁵⁰⁰ Other major findings refer to the unfulfilled efficiency goals. The collection of water invoices assumes a decrease of 21 per cent (to March 1998, the overdue payments dated back, on average, in excess of 28 months). In consequence, revenue decreased by 32.21 per cent and thus the operational costs suffered a loss

⁴⁹⁹ CCAPAMA. 1998. *Informe Definitivo de Auditing a La Empresa Concesionaria de Aguas de Aguascalientes S.A de C.V. (CAASA)*. July 18, 1998, Presidencia Municipal de Aguascalientes, Aguascalientes, México.

⁵⁰⁰ Some of the re hired services were: *bacheo* (pot hole refurbishment), *cambios de tomas* (rehabilitation of domestic water sources), *desinfección de equipos* (equipment disinfection), *análisis físico químico* (physicalchemical analysis), *monitoreo* (monitoring), *reparación de equipos* (equipment repair), *talleres externos* (external workshops), *mantenimiento preventivo* (preventive maintenance) and *Videograbaciones* (videofilming). Some of the ICA companies subcontracted were: OMSA Agua Potable, Servicios de Agua Potable S.A. de C.V (both companies under *Générale des Eaux* partnership), Maxipistas S.A de C.V., ICA Fluor Daniel, ICA Construcción Urbana and Equipos Nacionales S.A de C.V.

of 1.91 times the projections.⁵⁰¹ Furthermore, the evidence shows that the water lost in the process represented 62 per cent (compared to the 50 and 30 per cent estimated by CAASA), of which only 26.19 per cent was accounted for and billed. Of the water extracted, only 18.66 per cent generated sufficient revenue to cover costs. The water tariff was running 26.36 per cent behind real costs, and of the invoices generated during 1997 only 57 per cent were paid, accounting for an extra 15 per cent in overdue invoices. Thus it is evident that CAASA, by means of the concession scheme, lost control (legally) over the water utilities and thus the financial projections became invalid.

The official resolution by the local authorities stated that, *while CAASA presents losses, and the ayuntamiento responds to the political and financial costs, the subsidiaries operate profitably...with this level of debt and actual costs it will be necessary to adjust the water tariff, which is socially unacceptable.* The local authorities accepted that *the actual conditions of the contract are non equitable...this situation was not detected during the rescue initiative in 1996 due to the lack of information at the time compared to what we have now, thanks to the modifications effected on the concession title that have allowed this auditing.*⁵⁰²

There was also conclusive information regarding the transfer of CAASA

⁵⁰¹ A technical bankruptcy is considered when income does not cover the costs incurring to a deficit. By 1998, CAASA had lost two thirds of its *capital social* (investment capital) and consequently is into a financial deficit.

⁵⁰² CCAPAMA. 1998. *Informe Definitivo de Auditing a La Empresa Concesionaria de Aguas de Aguascalientes S.A de C.V. (CAASA)*. July 18, 1998, Presidencia Municipal de Aguascalientes, Aguascalientes, México, pp. 13 and 14 (Conclusions).

liabilities worth 300 MP (revalidated by the Mayor Alfredo Reyes) by using the federal programme, FOBAPROA.⁵⁰³ Thus, federal authorities moved one step forward by means of absorbing the financial burden from CAASA, and one backwards, in that the justification to apply concession schemes at a local level had been promoted by federal authorities.⁵⁰⁴ It is evident that the essence (private versus public efficiency) of the privatisation theory was erased with this action, whereby privatisation beliefs no longer justified the presence of private entities in the provision of public monopolies.

As a consequence of the irregularities uncovered by the audit, there was an intense battle, involving CAASA versus CCAPAMA and the *ayuntamiento*, and with each discrediting the others resolutions. As a result of this battle, the board of CCAPAMA lowered the water tariff by ten per cent at the beginning of August (coincidentally, during election time) to compensate the users.⁵⁰⁵ Also, local authorities delimited the necessity

⁵⁰³ To find more see: *Ibid.*, pp. 14 and Sobreprotección municipal a la Concesionaria. *El Hidrocálido*. February 6, 1998 and El que la SHCP Absorba Deuda de CAASA, Revela que el Municipio y la Concesionaria son Cómplices. *Página 24*. February 7, 1998.

⁵⁰⁴ The Mayor Alfredo Reyes gave the FOBAPROA position in: El agua, pozo sin fondo. *El Heraldo de Aguascalientes*. July 7, 1998.

⁵⁰⁵ Both public and private entities have been answering (using official and public channels) and using any argument available to justify actions previously taken. Some of the internal documents in the power of CCAPAMA exemplifying this trend are serial numbers: AJ.67-564\98, Dg.134-1325/98, 98-936/98, AJ.55-444/98; from the municipality: Of.C.M101/98 and Of.C.M 091/98;, from CAASA the document with folio number GG/266/98.

to review annexe G of the concession title and CAASA itself,⁵⁰⁶ arguing that *the objective is to operate under a fairer operational agreement on the areas of hard labour, material, furniture and equipment, sub contracts, affiliates, taxes and efficient collection charge and operational parameters.*⁵⁰⁷

In this sense, the *ayuntamiento* has openly accepted the very many inefficiencies surrounding the concession title, including those of the regulatory body CCAPAMA in ensuring that CAASA and other levels of government fulfil the conditions established. Thus, the failure of the rescue initiative and the PAN-style concession title is evident. Therefore, it was not just the CAASA management and operation that was at fault, but also both public (federal, state, and local) and private organisms mislead the public about the stark reality facing the water utilities in the city capital.⁵⁰⁸ The raw information shows that the results achieved by means

⁵⁰⁶ The new water tariff was set for the minimum consumption of 20m³ at \$ 44.30 on domestic A compared to the previous tariff in July, 1998 set at \$49.20; on domestic B the tariff was \$ 56.10 compared to \$62.40; on domestic C \$73.50 compared to \$ 81.80; for commercial use \$ 79.20, and industrial \$ 95.0, compared to \$ 88.10 and 105.70 respectively the previous month (July 1998). For every m³ consumed over 10 m³ the tariff varies according to a specific formula.

⁵⁰⁷ CCAPAMA. 1998. *Informe Definitivo de Auditing a La Empresa Concesionaria de Aguas de Aguascalientes S.A de C.V. (CAASA)*. July 18, 1998, Presidencia Municipal de Aguascalientes, Aguascalientes, México, p. 14.

⁵⁰⁸ A clear example is the 160MP worth of extra contributions, of which the state government still owes \$35.8MP, the CNA \$2.5MP and federal authorities are still below what was promised. Also, the municipality, via the absorption of former CAASA liabilities, besides CAASA, has invested the 40MP agreed showing interest in meeting the agreement. To find more see the internal document from CCAASA prepared on May 14, 1998 with reference number GG/266/98.

of the concession were negative for the local inhabitants. Both PRI and PAN ideologies failed to cope with social expectations, instead following partisan ideologies.

This can be seen by examining both concession titles (1993 and 1996), in which the only common denominator is not the transfer from public to private provision, but the politicisation of these contracts; the problem is not who provides the water services, but how the users are affected by their provision, especially in terms of prices and the availability of the service. Thus, local and state officials' use of a trial and error system in learning how to make concessions for the water utilities in Mexico has encouraged the use of Aguascalientes' city capital as a practice laboratory. The city capital has, consequently, had to cope with greater economic, social, and political pressures, making it vital that the newly-elected authorities reach a solution by means of negotiating a new concession title. This could well result in the continuing politicisation of the concession scheme, given that partisan ideologies could remain dominant over local necessities (especially when one takes into account that the PAN could dominate the political scenario).

7.4 The Fall of the PRI and the Rise of the PAN in the State and the City Capital: Transferring Unfulfilled Responsibilities to the Newly-Elected Governments

The 1998 Elections: The Final Results

The 1998 local elections in Aguascalientes saw the fall, and the greatest historical defeat, of the official party, and clearly showed the arrival of the

PAN in the political arena.⁵⁰⁹ These elections, which were considered the most important, competitive, and close run in the history of Aguascalientes, involved historic numbers in all aspects. They included the posts for state governor, mayors of all the municipalities (eleven), and uninominal deputies for 18 local districts in the state. According to official sources, the nominal list of electors was the highest ever in the state. There were 515,743 (99.61 per cent) potential voters, of which 70 per cent were in the city capital, 52.78 per cent were women, and 47.22 per cent men. The young population (18-39) was estimated at 64 per cent of the 517,747 registered on the *padrón electoral* (electoral roll).⁵¹⁰

The elections were held on August 2, and despite predictions of a narrow PRI victory, or a PAN-PRI tie, the PAN candidates obtained the majority of posts.⁵¹¹ The PAN gained the post of state governor with 182,362 votes, or 52.38 per cent; retained the city capital with 130,616 votes or 52.83 per cent, and obtained a majority in the state legislature with 12 elected

⁵⁰⁹ The electoral data was obtained through the following sources: IFE. 1998. *Elecciones: Aguascalientes* on the Internet, www.ife.org.mx ; Recibió FG constancia de Mayoría. *El Herald de Aguascalientes*. August 10, 1998; Pan 4, PRI 4 y PRD 1, el reparto de las diputaciones plurinominales. *El Herald de Aguascalientes*. August 10, 1998; Para el tricolor, cinco de los once Ayuntamientos de Aguascalientes. *El Nacional*. August 4, 1998; Luis Armando Reynoso recibió constancia de mayoría y lo acredita como Alcalde electo. *El Sol del Centro*. August 7, 1998, and Cómputo final de la elección. *El Sol del Centro*. August 10, 1998; Cerrada contienda entre PRI y PAN en Aguascalientes. *El Universal*. August 1, 1998, and Hasta el consejo electoral prevé contienda cerrada. *La Jornada*. August 1, 1998.

⁵¹⁰ Instituto Federal Electoral. 1998. *Estadísticas del Padrón Electoral and Estadísticas del Padrón Nominal*, accessed through the Internet on www.ife.org.mx/RFE/estadist/html/ags.html, on August, 1998.

⁵¹¹ Some of the surveys showing a clear PRI dominance or a PAN-PRI tie were published in: Mantiene PRI ventaja de 10 puntos porcentuales en Aguascalientes. *El Nacional*. June 25, 1998; No se sujetarán a concertaciones los triunfos del PRI en Aguascalientes: Romo. *El Nacional*. July 21, 1998, and Cerrada lucha PRI-PAN en Aguascalientes. *El Nacional*. July 22, 1998.

deputies and four obtained via proportional representation, giving them a total of 16 out of 27 seats. It also won in six municipalities (including the city capital), resulting in 87.94 per cent of the state population coming under direct PAN administration.⁵¹²

The official party suffered an irreversible loss. It obtained only 130,592 - or 37.51 per cent - of the votes for state governor and 35.96 per cent - or 88,917 votes - for city capital mayor. It won only six seats by direct vote at the state legislature, and obtained four by proportional representation, to become the second force in the state. The party also obtained the remaining five municipalities (of which two were previously governed by the PAN) to govern 12.06 per cent of the total state population.⁵¹³

The PRD, far from representing a threat, only achieved 23,519 votes (or 6.75 per cent, 50 per cent less than in the 1997 elections) for state governor, and 6.88 per cent, or 17,041 votes, for city capital mayor. Through proportional representation it gained one seat on the state legislature. The coalition PT-PVEM achieved 1.95 per cent (6,775) of the votes for state governor, and failed to gain any seats for the state legislature by proportional representation.

These results show the high level of participation in the elections process,

⁵¹² The municipalities won by the PAN were Aguascalientes concentrating 67.55 per cent of the total population, Asientos with 4.15 per cent, Calvillo accounting for 5.99 per cent, Jesús María with 6.31 per cent, San Francisco de los Romo with 2.07 per cent and Tepezalá with 1.87 per cent. The per centage data was obtained from: INEGI. 1996. *Anuario Estadístico del Estado de Aguascalientes*. INEGI-Gobierno del Estado de Aguascalientes. México.

⁵¹³ *Ibidem.*, The municipalities are: El Llano (1.66%), Pabellón de Arteaga (3.67%), San José de Gracia (0.83%) including the two former PAN municipalities; Cosío (1.41%) and Rincón de Romos (4.49%).

and consequently the difficulty of reversing the results. The number of abstentions was the lowest ever, at 32.4 per cent; 348,177 electors took part; and the city capital accounted for 243, 515 valid votes, or 70 per cent of the total votes cast.⁵¹⁴ This unprecedented mass participation impacted directly on the PRI, erasing that party's influence.

The remaining political parties showed a decrease in real terms of their persuasive power and were relegated to third place in the case of the PRD and fourth for the PT-PVEM coalition. These parties remain political forces in the state but are far from representing a threat to the PAN. These elections were also considered the most closely observed, by social, NGO's, and private entities, in the history of the state.⁵¹⁵

The Electoral Results: The Influence of the Anti-Political Candidates and the Effects of the Conscious Vote

The electoral results evidence a clear tendency in the state favouring the PAN and shunning the PRI. However, the questions remain of why the PRI lost, and consequently, how and why the PAN won. In answering these

⁵¹⁴ The remaining missing votes are represented by 4, 889 void votes and 40 votes to non registered candidates, that in sum with the votes obtained by the political parties totals 100 per cent of this figure.

⁵¹⁵ Data from the IFE headquarters mentions that 8, 643 party representatives were distributed among the state. There were 7, 928 *funcionarios de casilla* (electoral officials); the population voted on 991 *casillas* (897 basic and 94 extra ordinaries). The elections also included participation from 296 electoral observers from ONGs and private bodies. To find more see: Cerrada contienda entre PRI y PAN en Aguascalientes. *El Universal*. August 1, 1998 and Hasta el consejo electoral prevé contienda cerrada. *La Jornada*. August 1, 1998.

questions, this section will discover a dramatic change in the electoral political context, evidencing a new political culture in the state. It will highlight the role played by both external and internal factors, and look at the affect on the electorate of the modifications to the concession scheme. There is no single definitive reason for the results of this electoral process, but a common trend can be identified. Since the real electoral battle was between the PRI and the PAN, the people's desire to 'change' the party in power, but to maintain the same economic strategy, led to a *voto razonado* (conscious vote). The electorate voted against the PRI, and against opposition candidates identified as inexperienced and without a specific economic policy, which could therefore jeopardise the state's development. Thus, the PAN candidates, promoting an entrepreneurial and alternative vision of government, were the beneficiaries.

In seeking to explain these trends, and the reasons for the PRI defeat, it is arguable that the State Governor Otto Granados Roldán became the party's worst enemy, as his unpopularity and lack of political touch jeopardised the PRI candidates. In particular, his rigid policy-making mechanisms, which excluded the public and potential electorate, resulted in massive social disaffection. The exclusion of the young political community in the state and the break with the old political guard (Olivares Santana's gangs) encouraged greater enemies, whilst his constant political battle against PAN policies and politicians also had an adverse effect on his government. Furthermore, his relationship with the disgraced former president, Carlos Salinas, to whom he owed his candidacy, identified him with the obsolete political system, despite his recognised administrative

skills and successful economic policies.

Another major factor was the unfair selection of Héctor Hugo Olivares by the most orthodox and rigid PRI mechanisms. This caused a great deal of unrest and disunity within the party, with negative affects on the electorate. Furthermore, the perception of the PRI's candidates was linked with the old corrupt, paternalist, and corporativist political system, and was incompatible with the ideologies of voters in a progressive state like Aguascalientes. The unexpectedly high level of participation of urban voters was also extremely important (as stated by a PRI campaign member), eliminating at once the PRI influences. Another apparent factor was the rumour of a PRI-PAN arrangement having been formulated 'under the table' - the candidacy of Armando Romero fitted this scenario and suffered the consequences; conversely, however, this rumour did not affect the PAN candidate.

In looking for reasons for the PAN victory, one can find chain effects influencing the state governor and mayoral elections, in which the common denominator was to be in the right place at the right time. The business profile of Felipe González and Luis Armando Reynoso fitted the new trend in Mexican politics, whereby an anti-political ideology met the electoral perception of good potential candidates who could form good governments. Their role as critics of the system won the support of the electorate and the economic and political turmoil during recent months revalidated their postures.

The clergy also played a key role, using the 'hand of God' in the electoral process. The characteristics of the state, with the votes concentrated in

the city capital, and the large proportion of young people and women voters, were also determining factors. The influence of the PAN in the adjoining Panistas states of Jalisco and Guanajuato also shows that the political changes in Aguascalientes reflect national currents. Finally, it is necessary to consider that the closely monitored and transparent elections did not allow any possibility of the PRI altering the balance of the results. Even if it seems to contradict previous discussions, an important lesson can be drawn from these elections: the permanent politicisation of the water concession, and its inherent problems, did not represent a threat, either for the PAN or for the PRI candidates, and was not used as a political flag to de-legitimise any political party. Rather, the electoral results pointed in another direction, whereby a local desire for change persuaded the electorate to cast a conscious vote regardless of perceptions about the constant politicisation of the water concession.

A Final Overview of the Water Utilities: An Unsolved Problem and a Continuing Challenge to the Elected PAN Administration

There is still an unsolved problem on the political agenda: the concession of the water utilities has not proved to be of benefit to the local inhabitants. This represents an important challenge to the elected government and to future administrations. Since the problems facing the water utilities have not been solved by any political party, the future remains uncertain, and it is clear that a realistic solution is still far away. As stated by the Mayor, Alfredo Reyes: *if I had had the support from the state governor in 1996, the private body (CAASA) would not be here... considering that its presence was induced by the Mexican presidency, it*

*was decided not to give up with the concession scheme, nonetheless, the future governments (elected) can take other measures.*⁵¹⁶ This declaration came right on time for the purposes of this case study. It helps to prove the core points discussed in this empirical case of study: the failure of the concession scheme, under either PAN or PRI prerogative, to solve the problems facing the water utilities; unmet electoral promises; lack of control over the concession scheme by local authorities; implementation of privatisation policies by federal authorities at any social cost, and supported and encouraged by the state governor as personal projects. It also proves that the development of the city capital has been tied to federal and state whims. The future is still in the hands of the newly-elected governors, upon whom relies the solution of the concession scheme. It remains to be seen whether local authorities will be prepared to challenge these trends. Ultimately, one experience is definitive - all local policies lead to the same end: politics.

Concluding Note

The inclusion of a *Comisión Ciudadana* in the structure of CAPAMA, which is intended to serve as the regulatory body for the water utilities, represents an unrealistic and meaningless board with limited functions. Despite its legal function - to force any level of government or CAASA to

⁵¹⁶ The above declaration was in: Alonso y Asociados en Comunicación. *Buenos Días Aguascalientes*. August 10, 1998. Aguascalientes, México, p1.

fulfil any agreement established on the concession title or laws - it is jeopardised by the politicisation within it. The independence of this body is subjected to political considerations instead of real necessities. It was also made up of people without knowledge of the water problems facing the municipality, and more interested in the politics surrounding it. In fact, the partisan ideologies inside this body represent the dominance of the PAN in the state as a whole.

Therefore, the PAN-style modifications to the concession title make the concession scheme extremely vulnerable to external factors (macro-economic variables). Any economic turmoil (abrupt devaluation of the Mexican peso) would represent a serious threat to the survival of the concession scheme, directly affecting the water tariff and its politicisation. Thus, one can assume that the modifications granted are still far from solving the problems that face the water utilities, and highlight the inability of the PAN to meet electoral promises.

The users' perceptions of the merits of a concession scheme are mainly determined by two factors: first, the water tariff; and second, the availability of supply. With regard to the precarious condition of the water utilities and resources, this research observed a chain reaction whereby the over-exploitation of the underground waters is linked to cost increases, encouraging constant price rises, low water quality, and scarce availability, in turn putting the health of the inhabitants at risk. This results in a never-ending politicisation, becoming ever deeper due to the lack of any serious study of the water utilities and their resources, and more especially to the absence of any willingness from the government to

solve the problem from the roots up. The results achieved by the concession by 1998 were revealed dramatically by the auditing of CAASA, reaffirming our arguments and pointing to one common denominator: private means did not cope with the expectations, but only became an important electoral and political weapon. The application of further concession schemes for the water utilities in Mexico is thus still far from being a national policy, despite initial federal intentions.

An important political lesson can be drawn from the slight victory of the PRI in the 1997 federal elections - the narrow victory achieved by the PRI in those elections was the first sign of the decline of that party. Despite the involvement of the PAN with the problems regarding the water concession, the electoral consequences were not as severe as they had been in 1995. Even later, the 1998 local elections were determined not by the effects upon the local inhabitants of the water utilities concession, but by the rejection of the old PRI. In this sense, the politicisation of the water utilities moved to a second level, in which the most important variable was linked to getting rid of the PRI, rather than to the effects of PAN policies and politics. Thus, one can assume that an anti-PRI current in Aguascalientes unified the people to vote against the PRI and to support the PAN, even though this political party had not solved the most important problem for which it was elected to sort out in 1996. The lack of results, and the unfulfilled electoral promises, were not a threat in this election as they had been in the 1995 elections.

To sum up, neither PRI nor PAN governments have proved willing to solve the problems facing the water utilities and resources, and have instead

only encouraged greater politicisation. The lack of a truly regulatory body, and of a fair contract, plus a solution to resource abstraction, rights, and reallocation, has affected first the local inhabitants, and then the feasibility of future privatisation schemes for the water utilities in Mexico.

CHAPTER EIGHT

Conclusions

Local Governments, Privatisation Policies, and Water Utilities in Mexico: Is this the Responsibility of the State or the Private Sector?

Introduction

This thesis has analysed the implementation, undertaken in an attempt to further the privatisation ideology, of the first water concession in Mexico. This development, promoted by the neo-liberal ideology of the federal government, has encouraged an ongoing debate about the formation of public policy, and thus the thesis has examined the relationship between an economic theory embracing privatisation and politics. This debate has as many approaches as the social sciences can provide, focusing on, for example, the presidential system, interest groups, economic theories, or even the collateral effects of globalisation. At the local level in Mexico, the main issues lie in explaining the broad heterogeneity amongst the municipalities, and the shadow of the federal government over local politics and policies. Economic policies at this level have been analysed according to descriptive approaches or legal perspectives.

There is a widespread belief that government bureaucracies or state-owned utilities are inefficient, in contrast to a more efficient private sector. In conditions in which the market is supported by stable economic variables, normative and regulatory frameworks, competition and democratic practices, there *is* evidence of this supremacy. However, in general, the real aims of any policy innovation or implementation appear

to be political. In practice, both sectors exhibit strengths and weakness. The private sector must make profits in order to provide investment capital, while the public sector must balance a reasonable income and respond to consumer demands. Thus, both approaches have inherently political connotations. Nevertheless, almost all the literature, and in particular that relating to the local level, concentrates on the financial aspects of privatisation. The aim here has been to widen the debate and to discuss the effects in political, rather than economic, terms. The privatisation programme is forced, at every stage, to balance political and economic goals that are subject to specific federal prerogatives, limiting the scope and autonomy of the municipalities. Thus, our investigation of privatisation contributes to knowledge of the Mexican political system and policy-making at the local level.

The case study was chosen for its relevance in identifying the policy-making decision and implementation, and later the effects and changes, brought about by a federal experiment (the first water concession) at a local level. The case of the water concession in the municipality of Aguascalientes demonstrates how an economic policy aimed at solving a problem at a local level brought with it greater economic, political, and social problems that affected the internal life of the state and thus the municipality; however, the question of just how many of these problems would also have arisen in public hands cannot be ignored. As a result, this economic policy accelerated a political transformation at the state and municipal levels of government, pressured by the arrival to power of a former opposition party with a new set of ideologies. The effects were felt

in the internal political, economic, and social life of the municipality, and also influenced upon federal projects. In addition, the case study challenges the theory that privatisation policies, *per se*, enhance the development (economic, social, and political) of municipalities. This final part of the thesis also aims to draw some final conclusions from the experience gained through this case study.

8.1 The Water Concession PRI-style: A Menace to the Public Interest?

The PRI Political Machinery: A Useful Tool to Influence Local Politics

The official party played a key role in the implementation of the first water concession in Mexico. After the modifications to article 115 of the Mexican constitution became law in 1984, the first steps at local level, propelled by neo-liberal ideology, were made in Aguascalientes. One must therefore seek to find out how the privatisation beliefs were developed until the water concession was granted, and in so doing, one will be able to draw some final conclusions.

Our case study has shown that the municipality of Aguascalientes took the lead in applying privatisation policies concerning the water supply in Mexico, and that after the first programme was introduced, two different privatisation schemes were used. The first was in the form of *contrato de servicios*, in four different stages from 1989 to 1993; the second, from October 1993, was a concession of the water utilities. Both were made under PRI auspices.

The common factor, from the launch of the first privatisation scheme (1989) until the concession scheme was approved in 1993, was the lack of

knowledge about privatisation. The critical circumstances facing the water utilities (human, technological, hydrological, and economic) jeopardised any private or public effort to improve the services. Another important factor was the absence of any exchange of experiences (socialisation) at this level. It is unfortunately common for Mexican municipalities to implement new policies without external support. The three-year municipal period is also often too short to evaluate these policies.

Official arguments justifying the concession of the water utilities were based on two main considerations. First, the utilities had been operating under serious economic constraints, with a high level of subsidy and financial burdens on the municipality. The water tariff was under-priced and increases would be unavoidable. The goal was to pass the responsibility for the increases to the private sector, and the local authority clearly wanted to wash their hands of any social or political conflict resulting from this decision. Second, the lack of an effective water infrastructure, inexperienced management, and the dramatic hydrological situation facing the state were further incentives to implement privatisation policies. It was supposed that expanding the role of private entities in the provision of the water utilities would solve the economic difficulties of the municipality, and influence positively on a rationalisation of the service. In fact, the concession scheme never actually tackled these problems, but instead brought with it greater problems.

However, the most important factor was the influence of federal decisions. Political factors (never mentioned by any authority) played the critical role. First, governor Miguel Angel Barberena Vega (1986-1992) promoted

the scheme in the form of a service contract in accordance with federal ideologies. Later, governor Otto Granados Roldán promoted the concession, clearly considering it a personal project. Aguascalientes was selected to implement this policy, with the intention being to apply similar schemes in the 100 most important cities in Mexico. The decision had already been taken and local authorities were expected to justify it, presenting a unified front with federal authorities. This explains the real facts behind any economic or technical justifications.

In the case of Aguascalientes, there were serious concerns regarding the concession scheme. A public natural monopoly was transferred to become a private monopoly, with no auctions or bids considered, and no competition allowed. Local authorities kept the normative and regulatory framework, but with little chance to be truly independent. Furthermore, the public was allowed very little involvement in the evolution of the privatisation schemes. Local and state authorities even confused the terms 'privatisation' and 'concession', which could explain the level of misinterpretation evident at the time the decision was made (e.g., a public official confused the terms and, in consequence, the inhabitants were less informed of exactly what was taking place). Nevertheless, neither local nor state authorities ever represented a threat to its implementation; the high degree of subordination at both levels ensured that federal instructions would be followed.

These facts represent important evidence for economic theorists or sceptics on the application of privatisation policies at a local level. The economic feasibility of any privatisation programme relies on the political

interests involved. Economic considerations play an important role, but considering how local authorities in Mexico operate, one can assume that they are subject to political decisions. Our case study is a clear illustration of this. From the launch of the first privatisation scheme in 1989, until the concession scheme, the same economic arguments were used. The privatisation policy introduced to solve these problems achieved little. The scheme in Aguascalientes never achieved its intended goals, and the results obtained point to one main factor: political decisions. Finally, and fundamentally, federal support is always a key variable for success, especially when a policy is implemented as an experiment to move forward in other municipalities.

The Experience of the PRI Water Concession: An Overview

In view of the PRI influence on the local political arena, one must explore, and draw some final conclusions regarding, the development of the concession scheme from the implementation of the policy to the end of the period of PRI control.

By the time the water concession was formally approved by state and local laws in Aguascalientes, this policy was seen as a major development. The Mexican government was keen to apply the scheme in order to be able to fulfil the requirements of international institutions (World Bank and its subsidiaries), and thus join a select group of developing countries. In this sense, local and state authorities were following federal resolutions but were also influenced by international trends and policies.

The municipality granted the concession scheme with the clear aim of favouring the ICA group, whose subsidiary SAASA was initially hired as a

private entity in charge of the water management in the municipality using a service contract scheme. This was the first step towards this company obtaining the water concession for its newly-created CAASA subsidiary, with the intention of going on to gain further concessions for the water supply in other cities in Mexico. ICA's major shareholder, and former president of this group, Gilberto Borja, took advantage of good relationships with the federal government, and especially with president Carlos Salinas de Gortari, and the company benefited from its partnership with the leading French company *Générale des Eaux*. In order to back up the federally-supported privatisation movement, evidence supporting the concession scheme was found in the legal framework, a move which showed the willingness of all levels of government to comply with the scheme. In particular, it was pointed out that the Mexican constitution allowed private entities to provide public utilities. The clear aim was to encourage further concessions programmes throughout the country.

The contract was the most controversial aspect of the scheme, and contributed most to its politicisation. The level of subordination and the rush to apply the concession scheme, especially from PRI members, persuaded local authorities to sign a contract with clear disadvantages. A public policy aimed at improving the quality and quantity of the service dramatically altered the political environment, resulting in greater economic and political pressures. The treatment of the water tariff was particularly contentious. The staged increments were a first step towards setting the tariff at a rate comparable with real costs. However, the indexation to the inflation rate generated great disquiet among the local

inhabitants. At the same time, campaigns by social and political organisations to revoke the concession scheme affected heavily upon the electoral preferences in the municipality, to the advantage of the opposition parties. The private body, CAASA, was the first and most seriously affected, and was used as a focus for local disaffection with the water services. Many different types of organisations, and even members of the PRI, saw the opportunity to obtain a political advantage by criticising CAASA, and thus, the water concession.

One of the most serious flaws of the water concession was the weakness of the regulatory body (CAPAMA), which showed a lack of control and independence in applying the agreements on the concession title. In fact, CAPAMA was financially tied to, and receiving orders from, the municipality. It was therefore used as a political weapon, serving partisan ideologies with only limited autonomy.

The liabilities acquired by the private body CAASA were a further factor promoting the politicisation of the scheme, and evidencing the lack of control over it. The requirement to pay the municipality the internal debt of CAPAMA, by issuing public bonds, and to obtain fresh resources for the concession scheme, resulted in greater pressure on all levels of government to contemplate further subsidies for the water utilities.

The local political arena was also highly influenced by events at the national level. The fall in prestige of the Mexican president, Carlos Salinas, and the PRI, assassinations, financial instability, and a major devaluation (94), had a dramatic affect on the water concession. There was significant politicisation of the concession, culminating in the first defeat for the PRI

in the local elections. The elections for state legislature, and for mayor in the municipality, show a clear desire for change on the part of the electorate.

The PRI Lessons: A Summary

The PRI influence on the first water concession in Mexico encompasses both the rise and fall of the use of neo-liberal privatisation ideology concerning the water utilities in Mexico at local level, at least during the presidential term of Carlos Salinas (1988-1994). Federal support vanished and the privatisation movement suddenly came to a halt.⁵¹⁷ Nevertheless, the legacy of this policy remains in our case study. In order to define its relevance for future administrations, one must now focus on the PRI-style first water concession in Mexico, and its consequences.

From the launch of the concession scheme in October 1993, until the end of the administration that had supported it in 1995, two main factors influenced its politicisation. The first was the weaknesses of the concession title or contract together with the inadequacies of its elaboration, including the underestimation of future political and economic scenarios surrounding the concession scheme.

The second was the public criticism directed against the 'advantages'

⁵¹⁷ As reviewed earlier, only our case of study, which represents the municipality of Aguascalientes and the case of Cancun Isla Mujeres remains as a legacy of privatisation beliefs in the form of concession schemes for the water utilities in Mexico. Nevertheless, alternative mechanisms such as service contracts for the operative or administrative services are identified in the Mexican case.

granted to CAASA to manage the water utilities, including federal support in the form of direct credits and subsidies (which never came on time and in full), the adjustment of the water tariff to suit the needs of the private body (which was never adjusted according to the contract), and the lack of a truly regulatory body. These factors provoked great discontent among the local inhabitants, affecting them economically and having a consequent affect on the political scenario for the PRI. The biggest winners from the concession scheme were the recently-elected PAN members, whose party was seen as most likely to improve the municipality . Nonetheless, its campaign promises differed greatly from its later practices.

8.2 The Water Concession, PAN-style: Reproducing Earlier Practices

The Nature of the Water Concession under PAN Prerogative

The period of the water concession under PAN control highlights the other side of the coin, whereby politics and policies of a former opposition government influenced the development of the water concession, adding an extra political connotation. This section will explore how the water concession influenced the electorate to elect a former opposition party, and how the PAN-style water concession developed.

The rise to power of a former opposition party marked the beginning of the new electoral tendencies not just in the municipality but in the entire state of Aguascalientes. Inevitably, the water concession as implemented by the PRI was used by the PAN as a political flag to attract voters, and its messianic campaign promises considered briefly a chord with the

electorate, which voted for the PAN out of a desire for a better quality of life - to get rid of PRI practices and policies and to move forward with a solution to the water concession. Ultimately, however, the politicisation of the water concession benefited not the public, but this political party. The PAN majority inside the *ayuntamiento* and the state legislature was no guarantee that campaign promises would be met, especially as these were focused on reducing the water tariff, revoking the concession, and the *remunicipalizar* of the water utilities. Nevertheless, the PAN victory does prove that an economic policy aimed at benefiting the inhabitants did at least encourage the process of democratisation, which was heavily influenced by the politicisation surrounding the water concession.

The populist political campaign and promises brought electoral success, but once in power the new mayor, Alfredo Reyes, evidenced a clear inexperience, lack of decision-making skills and, in particular, the presence of political aims behind every government action. Thus, the former rigid mechanisms of government practised by the PRI (lack of consensus with other political parties; *mayoriteo*, following political doctrines instead of local necessities, media campaigns against opposition parties, submission to higher levels of government, and negotiations 'under the table') were reproduced by the newly-elected PAN. Aguascalientes moved from one rigid and hegemonic system of government to an inexperienced party democracy recalling the previous practices - a trend that is affecting most of the Mexican municipalities facing similar political transitions. Thus, the evidence shows that the bringing to power of a former opposition party is no guarantee of new

policies and practices.

The fall of the concession scheme proved the dominance of the PAN, but they failed subsequently to meet their campaign promises, as can be seen in the elaboration of the new concession title. The issue encouraged the arrival on the political scene of a variety of social organisations and political parties, aiming to use social dissatisfaction with unfulfilled PAN promises to destabilise the PAN government. The water utilities were used and politicised by any and all political groups in order to benefit from the public dissatisfaction with PAN: it was clear that the first political benefits would be reaped by whichever group was perceived to have resolved the problems. The PAN efforts to reach a solution made it clear that the rescue initiative was a populist action, initiated by the newly-elected mayor, Alfredo Reyes, on the grounds that the financial instability of CAASA forced the municipality to rescue the water utilities in the public interest. The real aims were to politically revalidate the PAN in the state, and to promote Alfredo Reyes himself; and to obtain control of the water utilities without assuming the liabilities from CAASA. The legal support for this action (the rescue initiative) was controversial but represented the best chance of questioning this initiative, occasioning even greater politicisation and the beginning of a permanent campaign against the PRI. However, the actual result of the initiative was a political reverse quite contrary to Reyes' expectations.

In fact, the private group CAASA was put in a favourable position to negotiate a new contract, and what was supposed to benefit the end users encouraged greater disadvantages. The municipality's financial obligations

to the ICA and *Générale des Eaux* partnership group (CAASA) made the restoration of the concession to this private group unavoidable, and together with federal support, this explains why CAASA has always managed to avoid any confrontation. The modifications to the contract support our arguments regarding the benefits granted, in theory, to CAASA.

The Outcomes of the PAN Water Concession

As a result of the political turmoil generated by the inconsistency of the PAN policies, the concession title was modified and granted again, in moves reminiscent of PRI practices towards the same private group (ICA). The aim was clearly to modify the conditions of the concession title and to erase any trace of the former government. Thus, the elaboration of this new concession title had the seal of the recently-arrived PAN government. The modifications to the concession title were marked by a series of partisan ideologies held by the new government. For example, the inclusion of a *Comisión Ciudadana* in the structure of CAPAMA, intended to serve as the regulatory body for the water utilities, is practically meaningless, having only limited powers. Despite its legal function to force any level of government or CAASA to fulfil any agreement established on the concession title or laws, it is jeopardised by internal politicisation, and its independence is subject to political considerations instead of real necessities. It was also made up of people without knowledge of the water problems facing the municipality, and more interested in the politics of the situation. In fact, the partisan ideologies inside this body reflect the dominance of the PAN in the state as a whole.

Therefore, the PAN modifications to the concession title make the concession scheme extremely vulnerable to external factors (macro-economic variables). Any economic turmoil (abrupt devaluation of the Mexican peso) would represent a serious threat to the survival of the concession scheme, directly affecting the water tariff and the politicisation of it. Thus, it can be assumed that the modifications granted are still far from solving the problems facing the water utilities, and highlight the unwillingness of the PAN to meet electoral promises.

The users' perceptions of the merits of a concession scheme are mainly determined by two factors: first, the water tariff; and second, the availability of the resource. The transfer of the water utilities from public to private depends on the affects on these two variables, and politicisation increases proportionate to these affects. In turn, this affects the perception of good government.

In the case study a chain reaction was identified, whereby the exploitation of the ground water is linked to operative cost increases, encouraging constant increases in the water tariff, low water quality, and water shortages, putting at risk the health of the inhabitants. This results in a never-ending politicisation, becoming ever deeper due to the lack of any serious study of the water utilities and resources, and more especially to the absence of any willingness from the government to solve the problem from the roots.

In this case, however, the PAN did not suffer electorally as might have been expected. Rather, the narrow victory achieved by the PRI in 1997 was the first sign of the decline of that party. Despite the involvement of

the PAN with the problems regarding the water concession, the electoral consequences were not as severe as they had been in 1995. Further on, the 1998 local elections were determined not by the affects upon the local inhabitants of the water concession (water tariff increases), but on the rejection of the old PRI.

The politicisation of the water utilities was passed to a second level, in which the most important factor was linked to removing the PRI, rather than to the affects of PAN policies and politics, e.g., the rescue initiative concerning the water concession. Thus, one can assume that an anti-PRI current in Aguascalientes unified the people to vote against the PRI and to support the PAN, even though this political party had not solved the most important problem for which it was elected to solve in 1996. The lack of results, and the unfulfilled electoral promises, were not a threat in this election as they had been in 1995.

Overall Conclusions: The Effects of PAN Policies and Politics

Most literature concerning transition governments argues that opposition parties are willing to alter the balance of the political scenario in which are operating. In our findings there is clear evidence that the arrival to power of an opposition party does not necessarily mean better government, especially in the context of the rigid political structure that has prevailed during the last 70 years in the Mexican municipalities. Campaign promises and people's desire for 'change' are core factors in gaining power, but the evidence here shows that campaign promises are not necessarily equal to government actions. Policies are linked to interests and not to necessities. Our case study illustrates that the reintegration of the concession scheme

with the private body, CAASA, proves two definitive hypotheses. First, the PAN-style contract resisted the politicisation generated around the water utilities, challenging policy-makers about the outcome obtained previously with the PRI, which was heavily politicised and contributed to its political fall. Second, the municipality could not move forward without considering the concession scheme for the water utilities, since its own development is tied to it. Thus, after being seriously questioned by social and political organisations, as well as by local inhabitants, it returned as an essential privatisation scheme that could be modified according to circumstances.

One must assume that the municipality is tied to the concession scheme permanently, due to the political and economic costs of getting rid of it. Nevertheless, the experience of the first water concession in Mexico demonstrates that neither PRI nor PAN governments have been willing to solve the problems facing the water utilities and their resources. The lack of a proper regulatory body, and of a fair contract for both parties (public-private), has affected first the local inhabitants, and subsequently the feasibility of future privatisation schemes for the water utilities in Mexico.

Our case study provides important evidence regarding who benefits from privatisation ideology, albeit that there is no conclusive answer; rather, the perception of benefits depends upon one's standpoint. Privatisation could be seen first to benefit the municipality, by eliminating a financial burden, while the lack of regulatory frameworks means that there is, potentially, a high level of benefit to be gained by the private enterprise in charge of the services. It is even arguable, as noted in our case study, that the main beneficiary was the opposition party fighting to obtain

control of the municipality, who used the concession scheme as a political banner. Looked at in this way, it can be seen that an economic policy served to encourage the democratic process - economics transformed political aims and means. However, one must keep in focus the crucial point that society, supposedly the main intended beneficiary of these schemes, is always the last to receive any benefit. Privatisation at a local level, and specifically in this case study, serves partisan beliefs first, with no account taken of real local necessities and demands regarding the water utilities. This is a common disease at this level, in which local politics and policies are easily cheated and manipulated to benefit anyone but the first user.

Lessons to Draw from the First Water Utilities Concession in Mexico: Is it the Responsibility of the State or the Private Sector to Ensure Efficient Provision?

Having analysed both PRI and PAN legacies concerning the water utilities, the obvious questions are: 1) who is responsible for the provision of water utilities in Mexico?; and, 2) given a case study that points to a failure of the first water concession scheme in the country, is it the responsibility of the state or the private sector to create conditions in which privatisation will be effective?

From an official and legal perspective the state has the intrinsic responsibility for the provision of public utilities in Mexico. According to such rhetoric, most of the public services are provided by public means, and the state is fully responsible, through the three levels of government, to ensure both its efficiency and the adequate provision of services. Thus, most of the water utilities in Mexico are provided by public means due to

their implicit relevance to and effect on the local inhabitants,⁵¹⁸ and one can identify this public utility as the most important and controversial. Paradoxically, the water utilities have less-developed characteristics compared to other services, e.g., water utilities require greater (i.e., more capital-intensive) and faster solutions than do other infrastructure improvement or financial investment programmes undertaken by federal, state, or municipal means.⁵¹⁹

Having identified that the state has the responsibility in the first instance, one must then ask just who becomes responsible when private involvement is permitted? The results obtained suggest that the state, through regulatory policies in which federal, state, and local laws provide the 'muscle', should control and monitor the public utilities.⁵²⁰

In this sense, the private body in charge of the water utilities has an inherent responsibility to cope effectively with the contract - even when one considers that such companies have to maintain costs-based prices, and to make a profit for their investors. It is arguable that profit-seeking

⁵¹⁸ Official sources can be found in: INAP (coed.). 1994. *Manual de Servicios Públicos Municipales*, INAP-BANOBRAS, México, pp. 99-116, INAP (coed.). 1995. *La Administración de Servicios de Agua Potable y Alcantarillado*, México: INAP-CEDEMUN-SEGOB and INAP.1993. *La Administración del Servicio de Agua Potable y Alcantarillado*, Guía Técnica 22, México: INAP.

⁵¹⁹ For an ecological perspective of the water utilities in México see: OECD. 1997. *Biotechnología Para Uso y Conservación del Agua*, (taller de trabajo, 1996). México: OECD-CONACYT.

⁵²⁰ For a discussion using a view from the consumers of the water utilities in México see: Rodolfo García del Castillo. 1998. *Los Servicios de Agua Potable, Electricidad y Telecomunicaciones. Una Óptica desde los Consumidores*, Chile: CONSUPAL.

enterprises are far superior institutions through which to ensure efficient production, of course; however, where competition is completely absent, it is difficult to test private capabilities regarding public purposes. It is also important to consider that the water utilities have special features that governments must take into account - when designing both contracts and their supporting policy frameworks - if private sector participation is to succeed. (For example, systems for allocating scarce raw water resources amongst alternative users - domestic, industrial, commercial, and agricultural - are often under-developed or incompatible with the efficient use of these resources.)

Clearly, the success of private participation in the water utilities depends to a large degree upon the quality of the policy framework that the government constructs in response to such issues. A failure to adequately address them will increase the risk that the government will be unable to find a partner for its preferred form of private sector participation, or that a private sector arrangement will fall short of the government's broad policy objectives. Overall, however, the use of private intervention points to one obvious conclusion: privatisation policies are far more than a simple variable. They need deep study in order to be successful, due to their inherently political nature that transforms the scenario in which they are applied.

Appendix 1: A Note on Primary Sources and Methodology

The aim of this section is to describe how this research employed specific data and procedures in order to test our hypothesis. For this purpose, there are two main types of tools that were used to achieve this; the first of which - primary sources - explain the premeditated and non-interpretative material or data.⁵²¹ This 'category' was further subdivided into two specific sections: namely, documentary sources and interviews. All the material used for this purpose is cited in the bibliography.

The second 'tool type' employed in this thesis embraces the methodology applied, which relied on diverse mechanisms and a non-specific theory set. Nonetheless, one can identify two basic frameworks through which to explain the methodology used - firstly, encompassing the background to the thesis from chapters one to three and, secondly, by building our research employing both historical and bibliographical perspectives until recent time. Both sections encouraged the author to use different methodology mechanisms with a specific set of objectives according to the case under examination.

⁵²¹ For a broad description on the use of primary sources see: Bell, Judith. 1987. *Doing Your Research Project*, Milton Keynes: Open University Press.

1. Primary Sources

1.1 Documentary Sources

- *Official and Non-Official Publications and Documents*

This research considers the development of the first privatisation programme for the water utilities in Mexico carried out on a municipal level. Essentially, it is presented and discussed in fourteen different charts throughout the thesis (see list of tables and figures); however, because our thesis deals with a specific case of study, the official and non-official publications and document sources are divided into four core areas.

Firstly, the introductory chapter contains an important analysis of the situation that approaches things from a national perspective. In order to achieve this, the data employed comes largely from official material and expert writings (both published and non-published). The main official documents come from the *Presidencia de la República 1988-1994 and 1994-2000*, *Secretaría de Hacienda y Crédito Público*, *Diario Oficial de la Federación (DOF)*, and the official party *Partido Revolucionario Institucional (CEN del PRI)*, and include documents from other political parties like the *Partido Acción Nacional (CEN del PAN)* and the *Partido de la Revolución Democrática (CEN del PRD)*. These official documents are also divided into two 'types': firstly, expert opinions, largely obtained from writings from the CIDE, World Bank, OECD, BANOBRAS, CNA, CEDEMUN, INAP, INEGI, and internal publications from governmental agencies, think-tanks (LSE experts in Mexico), and academics (both national and international, and including unpublished or forthcoming research material from these institutions); and, secondly, commercial (non-official) literature

obtained primarily through non-specialised centres (libraries) and defined in the bibliography.

Next, this section addresses national trends regarding the public utilities and the use of privatisation schemes as they relate to the Mexican constitution, represented by chapter two, uses various official publications and reports, and the data examined here - including statistical, descriptive, qualitative, and quantitative information - comes from various sources. This involved researching the Mexican constitution, state, and local laws, as well as federal programmes from the 1994-2000 government, including the *Plan Nacional de Desarrollo 1995-2000*, *Programa Hidráulico 1995-2000*, and *Programa Nuevo Federalismo 1995-2000*. In addition, official sources such as the CD-ROM, *Los Municipios de México: Información para el Desarrollo* (1997) from the CEDEMUN-Secretaría de Gobernación, the *Programa de las 100 ciudades* (1994b) from SEDESOL, and other governmental documents like the *Estadísticas Nacionales* (1998) INEGI (CD-ROM), the *Federalismo y Desarrollo* gazette from Banobras, and writings on *Los Municipios de México* and *Servicios Públicos Municipales* from the INAP, were also consulted. Finally, certain other official material, obtained through specialised publications, including writings and internal documents from the CNA, CIDE, *Colegio de México* (COLMEX), INAP, Banobras, and commercial publications in the field, were also employed.

A third section - one focused exclusively on chapter three - provides a more descriptive outlook, identifying the economic and political background of our case study of the city of Aguascalientes, Ags, largely by

means of official publications from local authorities, such as official transcripts from city hall sessions, mayoral speeches, statistical municipal data, and *informes de gobierno* (annual mayoral addresses to the city) covering various years. Other sources of data consulted here include state documents (state government and chamber of deputies) concerning work sessions within the municipality and internal documents and memorandums, including data from the *Periódico Oficial del Estado de Aguascalientes* (POEA).⁵²² Other major official sources included the *Anuario Estadístico Municipal del Estado de Aguascalientes* and the *Cuaderno Estadístico Municipal Aguascalientes* (both covering various years and published by the INEGI), and the results of different federal, state, and local elections, from which the *Elecciones Aguascalientes* (again covering various years) from the IFE were invaluable. Relevant information regarding hydrological conditions applicable to our case study was gleaned from the CNA's vast literature upon the subject, including the *Ley de Aguas Nacionales* (1997). Finally, other official and commercial sources assisted with the construction of this chapter. For example, the *Instituto Cultural Aguascalientes* (ICA), and the *Coordinación de Asesores del Estado de Aguascalientes 1992-1998*, both provided publications and working documents regarding major topics in the state of Aguascalientes.

⁵²² The POEA is an official publication which is concentrated in to publicise new state legislation as well as changes in the existing one. It includes modifications or new laws to any of the municipalities conforming the state.

Chapters four to seven examine the start of the first water privatisation in Mexico - i.e., the concession scheme in the city of Aguascalientes. These chapters constitute the core section of the thesis, in which the privatisation programme is analysed from its conception in 1989 to the period covering the 1998 elections. In order to achieve this effectively, this section uses a great deal of both unpublished and official material.

From the various sources employed, the most relevant data was obtained from the state and local authorities in the state and city of Aguascalientes, including internal and classified documents and memorandums, official agreements and accords, laws and fiats, official gazettes, leaked documents, information gleaned from 'behind the scenes', speeches, statistical data, and audit results. In addition, certain 'external' sources, such as private individuals working at CAASA headquarters (the private company managing the water concession), were able to provide classified information, much of which was vital. Notwithstanding this, however, a great deal of information in this section comes from research centres (CIDE, INAP, and Banobras) and libraries in Aguascalientes, Ags (both state and local libraries). Finally, chapter eight discusses the overall results of our findings, and thus relies exclusively upon the preceding chapters.

- *Newspapers and Magazines*

One of the greatest challenges facing the author in this endeavour, largely thanks to the lack of accurate historical information available in the field in question, was the need to sift through newspaper and magazine library sources (both locally and nationally) in order to build this research. In fact, most of the empirical evidence examined or quoted in the literature, and

the core arguments and hypotheses, either come from or are corroborated by such sources.

Firstly, empirical material regarding local or state issues concerning Aguascalientes and linked to our specific area of research were consulted in the *archivo municipal* (city library) in the city of Aguascalientes, at the Aguascalientes State Library “*Torres Bodet*”, the Aguascalientes chamber of deputies library, and the *Instituto Cultural Aguascalientes* library. The main local newspapers used were the *Hidrocálido*, *El Heraldo de Aguascalientes*, *El Sol del Centro*, and *Página 24*, as well as the magazine *Crísol* and the official statistical review, CESMA.

Secondly, unpublished and published material regarding national trends of relevance to this thesis were found in Mexico City at the federal chamber of deputies’ and senators’ libraries, the *Biblioteca de México*, and the library facilities of the CIDE, ITESM, *Colegio de México*, IBERO, CEDEMUN BANOBRAS, INAP, and ITAM academic and research centres. The core national newspapers used were *La Jornada*, *Reforma*, *El Financiero*, *El Economista*, *El Universal*, *Excelsior*, and *Uno más Uno*, and the magazines consulted included *Proceso*, *Epóca*, *Nexos*, *Contenido*, and *Vuelta*. Some of the journalistic and academic materials were found in the *El Municipal* newspaper and journals like *Gestión y Política Pública*, *Federalismo y Desarrollo*, *Hacienda Municipal* and *Sociológica*. Finally, archival work was carried out in the *Archivo General de la Nación*.

Thirdly, a number of the international newspapers and magazines listed in the bibliography were obtained through the LSE and British libraries. Some of the publications consulted included *The Financial Times*, *The Guardian*,

The New York Times, *The Wall Street Journal* (including the magazines), *The Times*, *The Economist*, *Euromoney*, the *Harvard Business Review*, and those of The Economist's Intelligence Unit. Specialised ones looked at included *CEPAL*, the *Journal of the American Water Works Association*, the *Economic Journal*, Price Waterhouse publications, *Privatization Review*, *Public Administration*, Reason Foundation publications, and articles from the World Bank and its subsidiaries.

- *Electronic Data*

All the Internet resources (world wide web, electronic mail, and chat tools) were of immense value. Much official and non-official data, and publications, interviews, biographies, statistics, and speeches, were obtained thanks to the LSE's network facilities in London. Statistical and electoral data was obtained, from the INEGI and IFE, largely via the world wide web. Information from the CNA, CONAPO, and SHCP was also gleaned through their web pages, as was that from various private national and international organisations. Invaluable data was obtained from *Alonso y Asociados en Comunicación* which, via e-mail, provided daily synopses from the most important newspapers and magazines (both local and national) used in this research. A number of other local and national Mexican newspapers and magazines were also consulted via the Internet, as were most of the international newspapers, magazines, and journals employed. Finally, relevant CD-ROMs and/or other forms of electronic data were obtained through the LSE library, the Institute of Latin American Studies (ILAS), and the British Library (all in London), as well as the CNA, IFE, INEGI, BANOBRAS, CIDE, and CEDEMUN libraries in Mexico City.

1.2 Interviews

- *Non-Structured Interviews*

All interview data used in this research was elicited via informal, non-structured interviews conducted without the use of any specific qualitative or quantitative tools. Such interviews provided both 'off the record' material and some what more 'official' information.

Informal discussion with local inhabitants and daily users of the water services, ranging from those in the less-developed areas to those in the industrial and commercial sectors, was also of value. In order to facilitate this, the author spent several months in the city of Aguascalientes, providing an opportunity to get a look at the water situation from a consumer's perspective, and to experience, first-hand, the economic, political, and social problems. It is important, however, to stress that most of the relevant data in this regard was obtained off the record.

The author conducted a total of twenty-four unstructured interviews during the period 1995-1999 in London, Madrid, Mexico City, Guanajuato, and Aguascalientes, Ags. These were held with 'official' individuals, ranging from local civil servants to mayors, state deputies, governors, federal deputies, senators, under-secretaries of state, officials from political parties, and with academics, researchers, private agents, and relevant entrepreneurs. In four cases a pledge of absolute confidentiality was guaranteed, and consequently only the positions and dates of these interviews are listed below. Indeed, many informal interviews with mayors, *síndicos*, and *regidores* from different municipalities

(*ayuntamientos*) were also held; however, these were only for evaluation purposes and thus are not listed.

Interviews

- Agustin Morales Peña: researcher and General Manager of the *Hidrocálido* newspaper. Interviewed in the city of Aguascalientes, Ags, on November 23, 1998; in London on October 20, 1998; and in Madrid on October 15 and 16, 1998.
- Edna Lorena Pacheco: former *Regidor* of the water utilities during the 1996-1998 period of government in the city of Aguascalientes, Ags. Various interviews during the period 1997-1999.
- Enrique Pasillas Escobedo: former PRI candidate for mayor in the city of Aguascalientes. Interviewed in Madrid, Spain, on the 10 and 12 September, 1998; and in Aguascalientes, Ags, on January 13, 1996, November 21, 1997, and March 15, 1999.
- Fernando Gómez: former mayor of the city of Aguascalientes during the 1993-1995 period and federal deputy for the 1997-2000 period. Interviewed in Aguascalientes, Ags, on February 12, 1998.
- Humberto Blancarte: General Manager of CAASA. Interviewed on January 20, 1998, in Aguascalientes, Ags.
- Ignacio Vázquez Torres: Guanajuato state senator for the period 1994-Present. Consulted in San Miguel de Allende, Gto, on 10 January, 1998; and in London on 13, 14, and 15 May, 1998.
- Jose Aben Amar Herrera: Local Deputy in the Guanajuato State Chamber 1997-Present. Interviewed in Irapuato, Gto, on January 7, 1998.

- Julio Velasco: entrepreneur and industrialist from the water extraction industry. Interviewed in Irapuato, Gto, on 15, 17, and 18 January, 1998; and in London on 23, 24, and 25 October, 1998.
- Luis Alberto Pérez Aceves: former high official at the Secretariat of Finance and Public Credit, NAFINSA, and BANCOMEXT, and General Director and co-owner of IXE banking services, Mexico City. Various interviews during the period 1995-1998.
- Martín Molina: General Director at the CNA for the state of Aguascalientes. Interviewed in Aguascalientes, Ags, on January 14, 1998.
- Martín Werner W: Under-Secretary of State from the Secretariat of Finance and Public Credit. Consulted in London on June 27, 1997.
- Miguel Angel Nájera: *Oficial Mayor* from the LVI Legislature. Interviewed in Aguascalientes, Ags, on 15 and 27 November, 1998.
- Pedro Ferríz de Con: Deputy President of MVS News. Interviewed in London on 25 October, 1998.
- Rodolfo García del Castillo; Researcher at CIDE, Mexico City. Interviewed in Mexico City on 13 and 18 February, 1998.
- Vicente Fox Quesada: Guanajuato's state governor 1994-Present and PAN presidential candidate (2000-2006). Interviewed in London on 5 June, 1997; and in Leon, Guanajuato, on 24 November, 1998.
- Victor Rodríguez: General Director of *Televisa Centro*. Interviewed on 30 November, 1997, and 15 January, 1998, in Aguascalientes, Ags.
- Armando Sandoval P: academic and researcher at the *Universidad de Guanajuato*. Interviewed in Guanajuato, Gto, on 7 December, 1996.

- Mark Evans: academic and Director of the Politics Department at the University of York, U.K. Various interviews during the period 1995-1998.
- Manuel Reed Segovia: General Director of CCAPAMA. Interviewed on 15 January, 1998, in Aguascalientes, Ags.
- Juan Raúl Vela: Aguascalientes Local Deputy from the LVI State Legislature. Interviewed in Aguascalientes, Ags, on 5 November, 1997.

Confidential Interviews

- Interview A: senior official at the CEN del PRI. Interviewed in Mexico City on 13 November, 1998.
- Interview B: senior official at the CDE del PAN in Aguascalientes. Interviewed in Aguascalientes, Ags, on 16 January, 1998.
- Interview C: senior Civil Servant at SHCP. Consulted in Mexico City on 11 December, 1998.
- Interview D: senior Civil Servant at the CNA. Interviewed in Mexico City on 01 December, 1998.

It is relevant to mention that, due to the impossibility of including all the information provided by the above interviews, some of this data was not included in the text. Nonetheless, all the arguments and information obtained helped the author to visualise specific point of debate in this thesis. Finally, other interview material came from such sources as national and international magazines and newspapers, theses, official publications, TV media, and other secondary sources.

- *Bibliographical Data*

The bibliographical data analysed and presented in this thesis comes from various sources. The most relevant data obtained through official sources, such as the CEDEMUN-INEGI census from the *Secretaría de Gobernación*, provided historical information regarding the Mexican municipalities and their provision of public services. The IFE covering various years provided electoral references of great value (*Elecciones Federales, Estatales y Locales: Aguascalientes*). Historical data from the state and city of Aguascalientes, from which state and local authorities provided a wide range of documents, was also useful, as was information from the INEGI (for example, the *Estadísticas: Aguascalientes*), which provided the author with comprehensive information regarding certain economic, social, and political aspects of the case in question. In a more specialised sense, the CNA was extremely useful, as were a number of other research centres - like the CIDE, Banobras, INAP, and COLMEX, in Mexico City.

2. Methodology

Though this thesis focuses upon one specific empirical case in order to test its primary hypothesis, it would be unrealistic to use a single method or approach in order to facilitate this. Rather, it is necessary to consider that the results one obtains are down to different causes and, consequently, to use a number of different methodologies.

This thesis required two different sets of historical and bibliographical analysis data and, consequently, has been divided into two parts - chapters one to three, and chapters four to seven. The conclusions discussed in chapter eight encompass aspects of both sections. The first

part includes historical data regarding the provision of public utilities by the Mexican municipalities. As well as researching the facts concerning the privatisation programmes within a national context, we here describe, in great detail, the economic and political facts surrounding our particular case study. This endeavour required the building of a suitable frame of reference, while tables presenting electoral results required a great deal of patience and further elaboration in order to corroborate all the results, as was also the case with the economic references used in this section.

The second part perhaps required even more elaboration, because of the necessity to create a historical background for our particular case study. It is this section (i.e., chapters four to seven) in which the historical development of the first national water privatisation is surveyed, from its early beginnings to the present day.

- *The results of analysing the data*

The lack of material evaluating the role of the private sector in the provision of public utilities gives a great deal of relevance to the charts presented in chapter two. In addition, the CEDEMUN-INEGI census - used as the main tool to determine the relationship between the private sector and the provision of public services - demonstrated great incongruencies and is discussed in the thesis. The main problem here was the need to interpret the outcomes obtained, and examine the methods used, in such surveys. The same applied to the electoral results obtained from various official and non-official sources - these showed different outcomes, and even the official bodies (IFE) employed confused terms and numbers.

Notwithstanding the above, however, an added value of the thesis is represented by the compilation of material and by the way in which the case study is dismembered step-by-step. The core discussion, contained within chapters three to seven, strives to understand the process from its earliest beginnings and to discover the facts that lie *beneath* the surface. Overall, then, the result of this research is a useful tool with which to understand other privatisation programmes in Mexico, and a resource that will, therefore, be of immense use in future local government studies.

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- Economic Policy
- Euromoney
- European Economic Review
- European Journal of Political Research

- Financial Management
- Financial Times
- Harvard Business Review
- Interamerican Development Bank
- International Review of Law and Economics
- Journal of European Public Policy
- Journal of Political Research
- Juridical Review
- Lloyds Bank Annual review
- New York Times
- Newsweek
- Oxford Review of Economic Policy
- Policy Research
- Political Quaterly
- Price Waterhouse
- Privatization Review
- Public Administration
- Public Administration and Management
- Public Policy
- Reason Foundation
- The Economist
- The Wall Street Journal
- Third World Quaterly
- Time
- United Nations
- Utilities Law Review
- Utilities Policy
- Water Resources Research
- World Bank
- World Development

3.2 National (México)

- Contenido
- El Economista
- El Financiero
- El Municipal
- El Nacional
- El Universal
- Época
- Excélsior
- Federalismo y Desarrollo
- Gestión y Política Pública
- Hacienda Municipal
- La Jornada
- Nexos
- Proceso
- Reforma
- Sociológica
- Uno más uno
- Vuelta

3.3 State and Local (Aguascalientes)

- Alonso y Asociados en Comunicación
- Crisol
- Cesma
- El Heraldo de Aguascalientes
- El Hidrocálido
- El Sol del Centro
- Página 24

3.4 Selected Laws and Fiats

- Constitución Política de los Estados Unidos Mexicanos.
- Constitución Política del Estado de Aguascalientes.
- Ley de Agua Potable, Alcantarillado, Saneamiento y su Reuso del Estado de Aguascalientes.
- Ley de Aguas Nacionales.
- Ley de los Sistemas de Agua Potable, Alcantarillado y Saneamiento del Estado de Aguascalientes.
- Ley de Salud del Estado de Aguascalientes
- Ley del Sistema de Agua Potable y Alcantarillado del Estado de Aguascalientes.
- Ley General de Bienes Nacionales.
- Ley General de Deuda Pública.
- Ley General de Equilibrio Ecológico y Protección al Ambiente.
- Ley Orgánica Municipal del Estado de Aguascalientes.
- Ley para Regular la Prestación del Servicio de Agua Potable y Alcantarillado.
- Periódico Oficial del Estado de Aguascalientes (POEA).
- Diario Oficial de la Federación (DOF)
- Título de Concesión Para la Prestación de los Servicios Públicos de Agua Potable Y Alcantarillado y Tratamiento de Aguas Residuales y su Reuso en el Municipio de Aguascalientes (October, 93)/(October, 96).