Chapter 8

Daniel Chavez
Pablo Messina
Martín Sanguinetti

COVID-19, WATER AND THE STATE IN URUGUAY: DARK CLOUDS OVER A SUCCESFUL MODEL OF PUBLIC SERVICES DELIVERY

Uruguay seems to be an outlier in one of the world regions most affected by the pandemic, as it has (up to October 2020) contained the expansion of the coronavirus much better than other Latin American nations. The country's strong and long tradition of state-owned enterprises, a robust health care system and universal access to basic services are key factors in its success. Nevertheless, the rise to power of a right-wing and market-oriented coalition has generated dark clouds over the national utility responsible for water and sanitation, *Obras Sanitarias del Estado* (OSE), and other state-owned companies.

This chapter analyzes the objective reasons behind Uruguay's success against Covid-19 and the recent evolution of public services delivery, focusing on the expected impacts and prospects of a set of legislative and managerial initiatives launched by the government during the pandemic.

INTRODUCTION

At the time of writing this chapter, the Covid-19 pandemic continues to spread around the world. While the so-called second wave is generating a new series of confinements in several European countries, Latin America is becoming the most affected region, with more than eight million confirmed infections and almost half of all deaths worldwide. Unlike most Latin American countries, the spread of the virus in Uruguay has been slow, hospital capacity has not been over-stretched and there has been enough time to improve the responsiveness of the health system in the event of a future spike in infections.

Against this backdrop, Uruguay has generated interest from influential journalists and scientists who highlight the country's supposed "victory" in the fight against Covid-19 (*BBC News* 2020, *The Economist* 2020, Taylor 2020). From the perspective of one US researcher, the country's positive results are the product of its "well-organized and efficient public health system and Uruguayans' strong faith in government" (Spires 2020). At the end of September, a correspondent for *The Guardian* alleged that thousands of Argentines have "flocked" to Uruguay in the midst of a pandemic (Goñi 2020), noting that "[o]nce known as 'the Switzerland of South America' because of its high quality of life and its former banking secrecy laws, Uruguay has now become its New Zealand."

Another commentator (Pribble 2020) similarly argued that Uruguay's success can be explained by the fact that its citizens "have good reason to trust the system," considering the existence of an "expansive welfare state [that] provides near-universal access to pensions, child care, health care, education and income support for the poor." Crucially, and in contrast to places such as the United States of America where the disease has run rampant, "[p]olitical trust and support for democracy encourage people to follow public health recommendations, and a strong welfare state provides income support and reliable health care to help slow infection."

In this chapter, we argue that these positive results observed in the initial months of the pandemic are the legacy of Uruguay's history of strong state-owned enterprises that deliver essential services and help to define the politics, culture and economy of the country, a legacy that is now under threat. In contrast to many other countries featured in this collection, *Obras Sanitarias del Estado* (OSE) – a solidly established state-owned company with nationwide coverage – guaranteed access to essential water and sanitation services during the health crisis. However, the rise of a coalition of conservative parties with a neoliberal orientation that assumed government on March 1, 2020, has generated multiple dark clouds that threaten the universal provision of public services. This threat raises questions about Uruguay's ability to stem the advance of the coronavirus and other potential health crises in the future.

SUPPOSED URUGUAYAN EXCEPTIONALISM

Uruguay's apparent exceptionality in relation to its neighbours becomes even more evident when we consider that Uruguay borders two of the most affected countries: Brazil to the north and east – with 5,082,637 confirmed cases and 150,198 deaths – and Argentina to the west – with 883,882 infections and 23,581 deaths. With Uruguay's population of 3.5 million, as of October 12, 2020 there were 2,268 cases and 50 deaths. At the same time, Panama, another Latin American country with a similar population (4 million) has accumulated over 119,666 cases and 2,482 deaths in the same period.[1]

The first case of Covid-19 in Uruguay was recorded on March 13, 2020, in the country's capital, Montevideo. With support (or at least without opposition) from all political parties, the government decreed the cancellation of public events and the closure of bars,

[1] All these figures have been taken from the World Health Organization (WHO), with data updated daily: <https://covid19.who.int>.

churches, shopping centres, stadiums, theatres, concert halls and other crowded spaces. Classes in schools, high schools and universities were also suspended, and border controls with neighbouring countries were tightened. However, unlike other countries in the region, Uruguay never reached the level of total or compulsory lockdown. Classes have gradually been restarted at all levels of the education system, and from April onwards, the state authorized the gradual reopening of businesses and public service activities. In the context of the transition to the so-called *nueva normalidad* (new normal), both the government and the most representative institutions of civil society (in particular the trade unions and cooperatives) have promoted the use of masks, respect for physical distancing and voluntary isolation of people with the greatest health risks as forms of protection for the most vulnerable sectors. These measures are particularly important considering that Uruguay has the largest proportion of people over age 60 of any country in Latin America.

Quoting a state official, *The Guardian* suggests the following list of reasons as factors that explain Uruguay's achievements:

> Why we're so successful against the pandemic? Because the government called in the scientists and respected their advice. People saw that and in turn respected the government's recommendations to wear masks and socially distance without it ever having to be mandated. We have a solid democracy with economic rules that don't change with every new president, unrestricted press freedom, no corruption, a government-run fast internet across the whole country, powered by 100% renewable energy, a solid public health system, transparency, respect for the institutions and a strong respect for science (cited in Goñi 2020).

This particular relationship between society and the state is the legacy of more than a hundred years of state-led development. At the turn of the twentieth century, during the mandates of President José Batlle y Ordoñéz – a social democrat who feared the growing social and political conflict in the country and in the world, and who governed between 1903 and 1907 and from 1911 to 1915 – Uruguay approved several social-legislative reforms including unemployment insurance, paid maternity leave, divorce at the wife's request and the eight-hour workday. In the following decades, the working class also won a system of collective bargaining that enabled negotiation between trade unions, employers and the state to set wages and working conditions.[2] After a long process of economic, political and social regression in the post-war era, which culminated in a military dictatorship between 1973 and 1985 and a subsequent process of democratic reconstruction marked by social conflicts, the left-wing *Frente Amplio* (Broad Front) coalition was victorious in the presidential and legislative elections of November 2004 and took office in March 2005, ushering in the so-called *era progresista* (progressive era) (Garcé and Yaffé 2014).

Over a period of 15 years (2005-2020), during the Broad Front governments led by Tabaré Vázquez and José Mujica, labour rights and the tripartite negotiation framework that had been weakened in the previous decade were revitalized, with improvements in economic indicators, employment rates and working conditions, in parallel with the recognition of new social rights. The government also aimed to modernize and strengthen state enterprises and other public bodies that in previous decades had underpinned the development of the very particular Uruguayan model of the welfare state (Chavez and Torres 2013).

However, the "progressive era" ended on November 24, 2019, when Luis Lacalle Pou Herrera, the candidate of an alliance of right-wing parties known as the *coalición multicolor* (multicoloured coa-

[2] For a more detailed explanation of Uruguay's historical evolution as a country characterized by an enduring influence of the state on the economic and social order, see Caetano 2019.

lition) won the second round of the presidential elections.[3] Barely six months after assuming office on March 1, 2020, this right-wing coalition has already generated multiple dark clouds that seriously threaten the primacy of the state and the continuity of the Uruguayan model of public service provision.

STATE COMPANIES AND THE URUGUAYAN PUBLIC SYSTEM

One of the main components of Uruguay's strategy to deal with the pandemic has been its high capacity for early detection, surveillance and tracing. According to data from the first week of October 2020, 117 tests are carried out in Uruguay for every confirmed case of Covid-19, well above its neighbours in the Southern Cone: just 1.5 in Argentina and 19.7 in Chile.[4] These figures would not have been possible without the pre-existence of objective conditions: the strong role of the state in general and of public enterprises in particular. As two Uruguayan commentators summarize:

> At a structural level, the country has historically been characterized by the presence of a strong state. It has good pub-

[3] The "multicoloured coalition" is made up of the two historic traditional political groupings – the National Party and the Colorado Party – in alliance with the minority Independent Party and *Cabildo Abierto* (Open Assembly), a new party led by a former army commander that includes neo-fascist and other far-right components. The Broad Front, founded in 1971 and historically self-defined as a "democratic, popular, anti-oligarchic and anti-imperialist political force," is also technically a coalition – made up of more than 15 parties and an ideological spectrum that comprises communists, social democrats, various expressions of the radical left, and progressive liberals and Christian democrats – but in practice it functions as a unified party, with a common programme for all the national and local elections it has contested since its foundation.

[4] Data updated on a daily basis by the *Our World In Data* portal based on official sources: <https://ourworldindata.org/coronavirus-testing#tests-per-confirmed-case>. In the case of Uruguay, the scientific and technological capacity developed within the State has been fundamental, since the laboratories of the University of the Republic and other public bodies were responsible for processing 67% of the tests, with data updated to August 12, 2020 (Ubal and Demirdjian 2020).

> lic health coverage compared to the rest of the region. It has sanitation networks that reach the majority of its inhabitants, and almost universal access to drinking water. Since 2007, the country has had an integrated public-private health system created during the first government of the left-wing Broad Front coalition, which guarantees care for the population regardless of income. Another structural strength is the existence of a public university – the UdelaR [University of the Republic], which serves 86 percent of the country's university enrolment – and scientific institutions that put their developments at the service of society, and which ensured the availability of diagnostic tests already in the first months of the pandemic (Ubal and Demirdjian 2020).

This existence of a solid network of state institutions has meant that even before the start of the pandemic, Uruguay was already one of the few countries in Latin America – together with Cuba, Costa Rica and Colombia – that had reached the level of universal health coverage recommended by the World Health Organization, which means that "all people and communities can use the promotive, preventive, curative, rehabilitative and palliative health services they need, of sufficient quality to be effective, while also ensuring that the use of these services does not expose the user to financial hardship" (WHO 2020). The current model of healthcare was created between 2005 and 2009, with the introduction of an Integrated National Health System (SNIS), followed by the creation of the Integrated Health Care Plan (PIAS) and the introduction a financing structure through the National Health Fund (FONASA). The Uruguayan model is not perfect and has generated criticism from the left (which argues for a fully state-run system) and the right (which has criticized the supposedly excessive role of the state in the current system). Despite these criticisms, it has been able to successfully address the immense challenges posed by the pandemic (Ferreira Maia 2020).

Many years before Uruguay made headlines in the international media for its successful response to the pandemic, the country had already become a reference for researchers and social activists around the world interested in resistance to the privatization of public services. In 1992, the Uruguayan citizenry revoked a law enabling the privatization of the country's main public companies by popular referendum. In 2004, another popular consultation approved a constitutional reform that established water as a human right and prohibited its privatization, promoted by the water workers' union (the Federation of OSE Employees, FFOSE), together with other unions and popular organizations in the country that formed the National Commission in Defence of Water and Life (CNDAV) (see Santos et al. 2006).

In the period following the plebiscite, social organizations focused their struggle on ensuring compliance with the 2004 popular mandate that recognized the state as the sole provider of water and sanitation services, the design and implementation of other laws related to the water sector and the protection of water basins.[5] In recent years, the social movements have focused their actions on the repeal of a recent law on agricultural irrigation (Law 19,553), approved in 2018, which FFOSE and CNDAV believe violates the 2004 popular mandate.[6]

The services provided by OSE as a national public water and sanitation company have enabled Uruguay to boast very high coverage rates. Safe and practically uninterrupted drinking water service coverage reaches 96% of the population.[7] Access to water from

[5] Law No. 18,610, approved in 2009, establishes the general framework in which water management should be developed, regulating among other things the creation of a national water information system and the right to effective participation of civil society in the formulation, implementation and evaluation of water policies.

[6] Law No. 19,553 provides greater incentives for water reservoirs to be used for monoculture agribusiness, in addition to those already in use for rice production.

[7] As other researchers have observed, "Uruguay is one of the few countries in Latin America where citizens turn on the tap, fill their glass with water and drink it without having to think twice" (Spronk et al. 2014). In recent years, however, several

different sources covers 99.4% of the population, 95.2% of which obtain their services from OSE (OPP 2018). According to official data, basic sanitation coverage reaches 99.2% of the population, including 43% with access to safe sanitation (MVOTMA and SNAACC 2019). OSE is responsible for the sanitation of the entire country except for the capital, Montevideo, where the service is provided by the Departmental Government of Montevideo.

OSE'S BUDGET AND TARIFF STRUCTURE

From the creation of the company in 1952 until the early 1990s, water and sanitation services ran a deficit, and the negative balance was financed by transfers from general revenues. Nevertheless, unlike the other companies analyzed in this book, which are local or regional in scope, OSE operates at the national level. Due to the fact that OSE is a national utility, it can finance unprofitable services by cross-subsidizing operations and investments and adjusting tariffs at the national level.

The southern region, which includes the urban localities of the metropolitan area in the departments of Montevideo, Canelones, San José and Maldonado, where more than 70% of the population resides, generates operating income above its costs, which allows OSE to finance other areas of the country with lower population density. OSE has also established a tariff structure that allows for the cross-subsidization of households at different income levels, and between the industrial and commercial sectors and the residential sector.

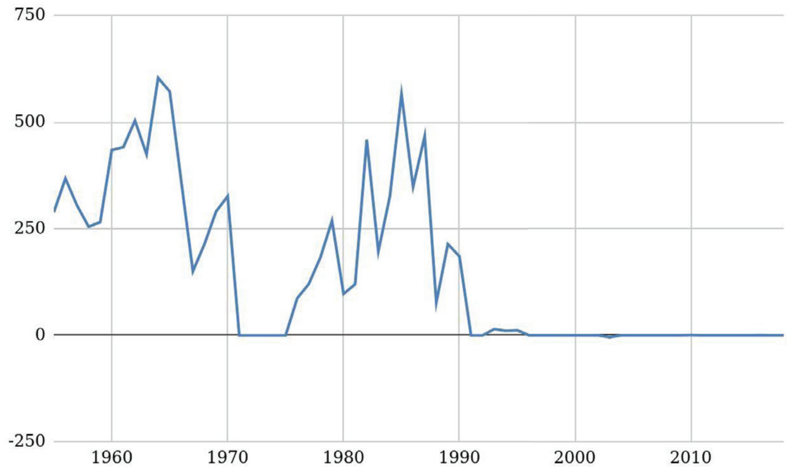
OSE has been praised for having a balanced budget. A recent report published by the Inter-American Development Bank (IDB) concludes that "with respect to the operation and maintenance

studies have highlighted the deterioration of water quality, which is evident in the excessive levels of phosphorous and nitrogen detected in the basins. The increasing risk of eutrophication would be directly related to intensive land use aggravated by agribusiness and monocultures (Kruk et al. 2015, Brazeiro et al. 2020).

(O&M) costs of the water and sanitation sector, operating revenues are sufficient to cover them, as well as the servicing of its debts." The same report add that "OSE is developing a process to improve the quality of its services and is in a position to support the leverage of the investments required to maintain potable water coverage, and to guarantee the collection and treatment of wastewater in the medium and long term in the interior of the country" (Maroñas et al. 2020).

Figure 8.1

OSE transfers from or to general revenues (in millions of 2010 pesos)



Source: Comuna (2020a), en base a datos oficiales.

While popular resistance prevented the auctioning off of state-owned companies from the Uruguayan state to the private sector in the 1990s, the government still implemented significant pro-market reforms in the water and sanitation sector. So-called *realismo tarifario* (tariff realism) was introduced in the early 1990s in OSE, modifying the level and structure of tariffs (Bertino et al. 2012). Under "tariff realism" OSE must cover all of its operating costs and investments in water and sanitation services, which also implies that these costs should be passed onto users who should pay for the full costs of water and sanitation services.

Recent comparative studies have observed that water and sanitation rates are higher in Uruguay than in other countries in the region (Lentini 2015, Brichetti 2019). From this perspective, it could be concluded that OSE is "inefficient." This narrow assessment, however, ignores a number of factors that must be considered to make such comparisons meaningful. In the words of a team of Uruguayan researchers:

> Many water providers do not incorporate investments into their costs, as these are either entirely absorbed or subsidized by the state, which is not the case at OSE. On the other hand, service quality and coverage are also important in the comparison. OSE has a service with very adequate continuity, both in terms of the quantity and time of service and its quality. In turn, it reaches the entire population, despite the fact that when the service is extended to less densely populated and dispersed locations the average costs increase. Therefore, it is good to think about improving water production and distribution processes, but we must be careful when comparing international tariff levels (Comuna 2020, 29).

There are a number of additional considerations to bear in mind when considering OSE's financial performance. First, OSE's services have expanded and improved significantly since its inception. In 1952, Uruguay had around 2,500 kilometres of drinking water networks; by 2018 the national network had extended to over 16,000 kilometres, reaching the remotest parts of the country. In addition, the sanitation networks in the country's cities and towns beyond the metropolitan area has expanded from 713 kilometres in 1952 to a total of 3,910 kilometres in 2018 (MVOTMA and SNAACC 2019).

Second, the weight of the wage bill in OSE's budget has varied over time depending on the technology available, the conception of public enterprises by different governments and the investments required to expand the service and cover the growing demand. Over the last three decades, however, the weight of salaries and social security contributions has decreased dramatically, dropping from 70% of costs in 1985 to less than 29% in 2018 (Comuna 2020a).

Third, since 2008, the costs of inputs for the treatment of drinking water, the expansion of the sanitation network and the costs of treating effluents have also increased. The sharpest cost increase can be seen between 2012 and 2015, when OSE began using activated carbon in order to clean up the country's waterways. Despite these increased input costs, in the five years prior to the pandemic (2015-2020), the overall operating budget remained stagnant, mainly as a result of staff reductions. These cost savings have been achieved by the hiring of *personal tercerizado* (temporary and contracted labour), that is, by the outsourcing of services, which rose from 725 million pesos (constant) in 2015 to 1,015 million in 2018 (OSE 2018).

In terms of its overall budget performance, between 2002 and 2010, operating revenues were higher than costs, which made it possible to pay for a good part of new investment with current revenues. Since 2012, however, revenues have not been sufficient to cover costs and OSE's investments have been financed with debt. These financial decisions have a long-term impact, as users are now paying for investments made with loans in previous years through tariffs.

An analysis of OSE's budgetary performance leads to the conclusion that although OSE recorded the highest levels of investment in the company's history in the past decade, additional investments are still necessary. In a report for the IDB, Maroñas et al. (2020) estimate that OSE would need to make an additional investment of around two billion dollars to reach its goal of universal coverage for sanitation and drinking water.

The regulatory body has estimated that the average water consumption of a typical Uruguayan family (three or four people) ranges from 10 to 20 m^3 per month (URSEA 2018). The establishment of a pricing structure that considers these volumes of water at an affordable price in order to achieve universality implies the consideration of a series of factors that are likely to be affected both by the economic crisis associated with the pandemic and by the new criteria for public policy defined by the new government.

A recent study (Comuna 2020a) shows that water rates have risen worryingly in recent years.[8] The signal is that intensive land use will continue to increase with consequent higher costs on water treatment. If plans to continue improving and expanding sanitation are fulfilled, operating and investment financing costs will also increase.[8] The Comuna's analysis also suggests with respect to the residential tariff structure, that there is a negative cross-subsidy between households considering their income level. This diagnosis, together with the very important changes that the new government left for public companies, presents possible dangers for water and other public services.

Currently, there is a *tarifa social* (social tariff) for residential consumption by the vulnerable population, which fluctuates between total exemption from water and sanitation service charges to tariff discounts (OSE 2020a). The bill discounts in force since April 2020 cover the following population groups:

1. Beneficiaries of social programmes of the Ministry of Social Development (MIDES) and households living in informal settlements that are considered to be in a situation of socio-economic vulnerability according to criteria established by the Ministry of Housing;
2. Retirees or pensioners with incomes not exceeding the lower amount of the Social Security Bank's retirement or pension scale;
3. Shelters authorized by the Ministry of Social Development;

[8] Tariffs for sanitation entail both a fixed and variable cost. The latter depends on the water payment, which from 2015 became 100% of that value. Therefore, increases in the variable water payment have a direct impact on the costs of sanitation.

4. Households with individual meters in rural areas with participatory water management by the community;
5. Rural households with water service provided by public taps with general meters in localities with participatory water management.

As the beneficiary population is small in size and the benefit does not exceed 15m^3 per household, it has little impact on OSE's budget, as Table 8.1 shows. The total social benefits are equivalent to 2.4% of the company's operating income, according to calculations based on the company's 2020 annual budget.

Table 8.1
Estimate of the impact of OSE's social tariffs on the 2020 budget

Social Plan	**Estimated amount for the 2020 budget (US$)**	**Impact on OSE's income (% of budget)**
MIDES Relief Plan	5,327,405	1.23
Informal settlements	5,009,810	1.16
Retirees and pensioners	129,013	0.03
Shelters	27,368	0.01
Other social bonuses	58,138	0.02
Total	*10,551,735*	*2.44*

Source: Source: Own elaboration based on OSE budget information systematised by Comuna (2020a)

From 2005 onwards (with the left in government), prices for the lowest residential water consumption brackets became substantially cheaper, while the highest consumption brackets increased, and fixed costs fell in line with average tariffs. However, in January 2016, OSE added a surcharge on the fixed charge to residential users who exceeded 15m^3 in their average water consumption. A year later, in January 2017, the company began charging the so-called *tarifa ambiental* (environmental tariff), reflecting the increased investments and operating costs associated with the deteriorating quality of raw water. In addition, since 2011, Law 18,840 has made it compulsory to connect to the sanitation network when available.

The changes in the tariff calculation that have been in effect since 2016 mean that the company charges an extra fee to those households that have an average of more than 15m^3 of water per month, affecting a fifth of the poorest households in the country (Comuna 2020a). On the other hand, the company charges for the entire price of the surplus block when consumption exceeds 15m^3, thus also affecting the poorest households. Furthermore, despite water being an essential good for life, it is not exempt from value added tax (VAT). At the same time, the increase in the fixed costs of water treatment and its reflection in the tariff is also retrograde in terms of social justice: it affects all the users, but with a greater impact on the poorest households than on the richest in proportion to household income.

The worsening of the economic crisis due to the pandemic could even mean that OSE's tariff system becomes a barrier to accessing water and sanitation. Although at present the payment for these services does not have a very significant impact on the budget of low-income households, the growing trend towards the commercialization of OSE and of all state-owned companies could include the elimination of the social tariff and an increase in service charges as a way to achieve full cost recovery, in accordance with the new government's approach to managing public enterprises to be analyzed in more detail in the following sections of this chapter.

Unlike many other governments, the Uruguayan authorities never ordered a strict lockdown at the beginning of the pandemic. However, a significant part of the population was confined to their homes, and subsequently retail commerce and demand was severely diminished. Lower economic activity also reduced demand for public services and affected the finances of OSE and other state-owned enterprises. At the beginning of the pandemic, in April 2020, seven of the largest state-owned companies (including the water utility) reported losses for a total equivalent to US$45.5 million (*Búsqueda* 2020a). In the following months, however, public enterprises demonstrated their economic resilience. By the end of the first half of the year, the accounts of most of the state-owned companies had already recovered or did not reveal very serious impacts: three companies (in the areas of telecommunications, electric power and oil refining and distribution) reported surpluses, and three (in the areas of water and sanitation, port administration and rail transport) declared losses; added together, however, they generated profits of nearly US$200 million for the January-June period, almost twice as much (US$107 million) as in the same period of the previous year. OSE, in particular, which had made almost US$7 million in "profits" in the first half of 2019, reported losses of less than US$4 million in the first half of the pandemic (*Búsqueda* 2020b).

The arrival of the coronavirus to the country coincided with a 10% increase in tariffs that was already planned for April, affecting the price of water, electricity and telecommunications services. Pressed by the social and political opposition, the OSE board that the new government had recently appointed offered postponements and additional payment flexibility for its customers as *medidas de emergencia* (emergency relief measures) to mitigate the economic and social impacts of the pandemic (OSE 2020b).

DARK CLOUDS OVER URUGUAY'S PUBLIC ENTERPRISES

Despite the fact that Uruguay has been in the news worldwide as a successful case of containing the pandemic, the medium- and long-term future is very uncertain. Uruguay will probably be less affected by the international post-pandemic economic crisis than other countries in the region, but the economic outlook is still very worrying. Tourism, which generates substantial income for the country during the summer (November to March), is expected to suffer a serious fall as a result of the closure of borders.

The rise to government in March 2020 of a coalition openly in favour of the commercialization of public services and the dismantling of the state apparatus as a whole – with demands for severe cuts in the budget of public companies – and the worsening of the economic crisis, are generating much concern in the trade unions movement and other social movements (see Messina 2020). The recent approval of Law No. 19,889, the *Ley de Urgente Consideración* (Law of Urgent Consideration, popularly known as LUC), provides that water rates will no longer be established by OSE, but by the regulatory agency (URSEA). This change mandates URSEA to update tariffs taking into account costs as the main criterion, a clear regression to the "tariff realism" approach. The LUC also establishes that the calculation of tariffs may not contain social considerations, and therefore the continuity of social tariffs, which although currently low and benefiting a small part of the population, may be cancelled altogether.

In this way, OSE and all state companies would return to the path of "tariff realism" that had lost intensity during the progressive governments of the Broad Front, and this trend can be expected to worsen as the economic crisis deepens and the accounts of the Uruguayan government deteriorate. The official assessment of the Gross Domestic Product (GDP) for the April-June period released at the end of September by the Central Bank (BCU) warned of a violent contraction in the level of economic activity associated with the health emergency, with a drop of more than 10% in the volume of goods and services produced in the country in the second quarter, compared to the same period in 2019 (*Búsqueda* 2020c), with a parallel intensification of social inequalities.

In a context of crisis, preserving or deepening social justice in access to water and other public services does not seem to be the new government's priority. At the time of writing, the Executive is sending Parliament the five-year national budget 2020-2024, which according to government spokespersons is *"un presupuesto de guerra"* ("a wartime budget") focused on defending the country's investment grade, which the risk rating agencies have maintained before and during the pandemic with the warning that they could remove it if the government does not implement a drastic fiscal consolidation plan (*UyPress* 2020).

The budget law reaffirms the same approach to public enterprises that had already been announced in late April and early May 2020, when the government presented new guidelines for the management of state-owned companies. The new criteria determining the budgetary administration of public enterprises are structured around indications for macroeconomic adjustments of a rather generic nature, without consideration of the specific reality of each company, thus making it clear that the aim is to collect as much revenue as possible to improve the macroeconomic accounts of the government and not to improve the economic or social efficiency of the water, energy and telecommunications utilities.

The government's new political orientation can be interpreted as a concerted offensive tactic to dismantle the network of state entities – from the public University of the Republic to the public health system and the national system of public enterprises – that international observers have identified as the main reason for the successful containment of the pandemic in Uruguay.

In particular, the new corporate governance approach affects the operational capacity of OSE and other state-owned companies by requiring a reduction in the number of budgeted staff and the elimination of current and future vacancies – allowing only one out of every three vacancies to be filled with new hires. In ageing workforces, as is the case with OSE and other public enterprises, this requirement means a drastic contraction of the number of workers. It also affects the hiring of outsourced staff, denying the option of automatic renewal of contracts and requiring a sharp reduction in the current number of contracted-out jobs (Comuna 2020b).

The draft sent to Parliament contains several articles that would have a serious impact on OSE and other public enterprises. In particular, Article 682 states that public enterprises "shall formulate their budgets in such a way as to meet minimum standards of return on their assets" (MEF 2020, 289). The same article states that the technical criteria for meeting this requirement must consider global indicators of the profitability of other companies active in the same field at the international level, in addition to requiring that the economic return of public companies should "in no case be less than the average cost of the state's public debt" (ibid.). Finally, the article adds that for the purpose of calculating the rate of return on equity, the methodology to be applied will take into account as income "tariff subsidies" derived "from laws, decrees and other regulatory provisions," while excluding "subsidies received from general revenues or affected revenues and, if any, surcharges charged on their tariffs as a result of their operation in monopolistic markets" (ibid. 290).

The concept guiding the budget bill is regressive for several reasons. According to the assessment made by a team of Uruguayan economists

> Firstly, it establishes as a fixed and immutable criterion the idea that public enterprises must have a positive rate of return. While this may be desirable in the long term, it has the constraint of reinforcing the commercial nature of SOEs by minimizing their potential as drivers of social and economic development. In this sense, the proposed mechanism strengthens the search for short-term profitability, thus inhibiting investment policies aimed at universalizing services or making long-term leaps in productivity. (Comuna 2020b, 5)

With this logic, Uruguay would not have reached a level of nearly universal access if OSE had had to apply this rule for the provision of water. Furthermore, the application of this approach contradicts the principle established in Article 47 of the Constitution of the Republic, which states that "the provision of potable water and sanitation services must be done by putting social reasons before economic ones" (IMPO n.d.). At the same time, the methodology and technical criteria to be applied by the national government to determine the minimum standards for the profitability of public companies are not made explicit, reducing the transparency of management. The inclusion of subsidies granted by companies to facilitate access to their services as part of revenues is also problematic, since although the proposal is conceptually correct in practice it is difficult to apply, with predictable theoretical and technical controversies regarding the "right price" and the nature of cross-subsidies or other types of subsidies that may exist.

The budget law responds to ideological prejudices evident in the mention of a *sobreprecio monopólico* (monopoly overprice), since in markets that enable economies of scale the monopoly price is not necessarily higher than if a more competitive regime were established. In the same vein, the requirement that the rate of return should be at least "the average cost of public debt" is also dangerous, since the cost of debt may increase or decrease for reasons totally unrelated to the management of public enterprises. If Uruguay were to suffer another bank run like the one in 2002, which shook the entire financial system, there would be a substantial increase in the cost of public debt. In the context of a global, regional and national economic crisis such as the one that might follow the pandemic, OSE and other public enterprises would be required to substantially increase their profitability. This logic is very much in contrast to what happened to state-owned companies in the 2002 crisis, which rather acted as "buffers" in the context of widespread economic crisis (Comuna 2020b).

In early October 2020, the PIT-CNT (*Plenario Intersindical de Trabajadores - Central Nacional de Trabajadores*: Labour Plenary - National Workers' Congress) – one of the strongest and most influential trade union movements in Latin America, with a long tradition of unity and class independence – decided to support a popular campaign to collect signatures to call a referendum against the LUC. It is curently coordinating actions with other social and political organizations – in particular the Federation of University Students, the Uruguayan Federation of Housing Cooperatives for Mutual Aid, and the Broad Front – and diverse personalities representing civil society. The coordination of popular struggles is also extending to the resistance against the five-year budget bill.

In consideration of the need for articulated responses to the challenges of the post-pandemic, and seeking to develop longer-term perspectives for social and economic recovery, the trade union movement decided in July 2020 to organize a deliberative process in 2021 with a spirit and objectives similar to those of the *Congreso del Pueblo* (People's Congress) of 1965 – a national conference organized by the Uruguayan trade union movement to elaborate a popular programme aimed at reversing the country's serious social and economic crisis of that time.

For the People's Congress of 1965, labour and student unions, cooperatives, agrarian organizations and churches agreed a programme of urgent demands (better salaries and pensions and access to housing, health and education) and proposals for structural transformations – such as agrarian reform, industrial policies, nationalization of banks and foreign trade, reform of the tax system, and the protection and expansion of public enterprises (see Nahum et al. 1990). The proposal for 2021 has been conceived as "a great social encounter for solutions, bringing together the national and popular majorities to take up the programmatic and historical initiative," the unions propose "to draw up a national project for the country and launch a democratic process based on the broadest participation of the working class for its effective realization" (PIT-CNT 2020). Within this framework, the survival and progressive reform of the public enterprises that deliver water, sanitation, energy, telecommunications and other essential services and which have contributed so much to containing the pandemic in Uruguay will surely be one of the central axes of the deliberative process.

REFERENCES

BBC News. 2020. Coronavirus en Uruguay: la singular y exitosa estrategia del país para contener la pandemia sin cuarentena obligatoria. May 29. https://bbc.in/35I3M8W (accessed September 24, 2020).

Bertino, M., Mariño, N., Querejeta, M., Torrelli, M. and Vázquez, D. 2012.

Historia de una empresa pública Uruguaya: 60 años de Obras Sanitarias del Estado (OSE). Montevideo, Uruguay: IECON-FCEyA-UdelaR.

Brazeiro, A., Achkar, M., Toranza, C. and Bartesaghi, L. 2020. Agricultural expansion in Uruguayan grasslands and priority areas for vertebrate and woody plant conservation. *Ecology and Society* 25(1): 15.

Brichetti, J.P. 2019. Panorama de las tarifas de agua en los países de Latinoamérica y el Caribe. BID infraestructura y energía IDB-TN-01656. Washington DC, United States: Banco Interamericano de Desarrollo (BID).

Búsqueda. 2020a. La pandemia castigó las finanzas de algunas empresas públicas. *Búsqueda* 2074. June 4. https://bit.ly/3os3LyN (accessed September 6, 2020).

Búsqueda. 2020b. Los entes comerciales e industriales aumentaron sus ganancias hasta junio. *Búsqueda* 2083. August 6. https://bit.ly/2J4akXU (accessed September 22, 2020).

Búsqueda. 2020c. Medición oficial confirmó desplome de la producción y el consumo. *Búsqueda* 2090. September 24. https://bit.ly/2HB1qR4 (accessed September 22, 2020).

Caetano, G. 2020. *Historia mínima de Uruguay*. Mexico City, Mexico: El Colegio de México.

Chavez, D. and Torres, S. (Eds.). 2013. *La Reinvención del Estado. Empresas públicas y desarrollo en Uruguay, América Latina y el mundo*. Ámsterdam and Montevideo: Transnational Institute (TNI).

Comuna. 2020a. El servicio de Agua Potable en Uruguay, su principal proveedor y el modelo tarifario. Documento elaborado por la Cooperativa de Trabajo Comuna para la Federación de Funcionarios de la OSE. Montevideo: Comuna. Montevideo, Uruguay: Cooperativa Comuna.

Comuna. 2020b. Empresas Públicas: Análisis de la Regla Financiera. Montevideo, Uruguay: Comuna and Fundación Rosa Luxemburgo.

Ferreira Maia, A. 2020. El Sistema Nacional Integrado de Salud rinde examen. *La Diaria*. July 31. https://bit.ly/3jvGoRf (accessed on September 18, 2020).

Garcé, A. and Yaffé, J. 2014. *La era progresista: hacia un nuevo modelo de* *desarrollo. Tercer acto*. Montevideo, Uruguay: Fin de Siglo.

Goñi, U. 2020. 'We're suddenly drowning in people': Argentinians flock to Uruguay amid pandemic. *The Guardian*. September 20. https://bit.ly/3kAUrpY (accessed September 22, 2020).

IMPO. Not dated. Constitución de la República. https://bit.ly/2Ts1a9E (accessed on September 4, 2020).

Kruk, C., Suárez, C., Ríos, M., Zaldúa, N. and Martino, D. 2014. Ficha: Análisis Calidad de Agua en Uruguay. Montevideo, Uruguay: Asesoramiento Ambiental Estratégico y Vida Silvestre Uruguay.

Lentini, E. 2015. El futuro de los servicios de agua y saneamiento en América Latina: Desafíos de los operadores de áreas urbanas de más de 300.000 habitantes. Washington DC, United States: Banco Interamericano de Desarrollo (BID).

Maroñas, C., Rezzano, N., Basani, M. and Sorhuet, S. 2020. El estado del Sector Agua, Saneamiento y Residuos Sólidos en Uruguay. Diagnóstico y perspectivas. Washington DC, United States: División de Agua y Saneamiento, Banco Interamericano de Desarrollo (BID).

MEF. 2020. Presupuesto Nacional 2020 – 2024. Proyecto de Ley. Montevideo, Uruguay: Ministerio de Economía y Finanzas (MEF).

Messina, P. 2020. Nuevo impulso privatizador: la LUC y las empresas públicas. *Hemisferio Izquierdo*. May 8. https://bit.ly/2JdIx7F (accessed on September 28, 2020).

MVOTMA y SNAACC. 2019. *Plan Nacional de Saneamiento*. Montevideo, Uruguay: Ministerio de Vivienda, Ordenamiento Territorial y Medio Ambiente (MVOTMA) y Secretaría Nacional de Ambiente, Agua y Cambio Climático (SNAACC).

Nahum, B., Frega, A., Maronna, M. and Trochón, Y. 1990. *El fin del Uruguay liberal: 1958-1973*. Montevideo, Uruguay: Ediciones de la Banda Oriental.

OPP. 2018. Objetivos de Desarrollo Sostenible. Informe Nacional Voluntario - Uruguay 2018. Montevideo, Uruguay: Oficina de Planeamiento y Presupuesto (OPP) - Presidencia de la República.

OSE. 2018. Informe de Gestion 2018. Montevideo, Uruguay: Obras Sanitarias del Estado (OSE).

OSE. 2020a. Decreto Tarifario Abril 2020. Montevideo, Uruguay: Obras Sanitarias del Estado (OSE).

OSE. 2020b. Resolución de OSE del 29 de julio de 2020. Montevideo, Uruguay: Obras Sanitarias del Estado (OSE).

PIT-CNT. 2020. Declaración de la Mesa Representativa del 8 de julio de 2020. Montevideo, Uruguay: PIT-CNT.

Pribble, J. 2020. Uruguay quietly beats coronavirus, distinguishing itself from its South American neighbors – yet again. *The Conversation*. June 15. https://bit.ly/34wtzla (accessed October 5, 2020).

Santos, C., Valdomir, S., Iglesias, V. and Renfrew, D. 2006. *Aguas en movimiento. La resistencia a la privatización del agua en Uruguay*. Montevideo, Uruguay: Ediciones de la Canilla.

Spires, B. 2020. How other countries reopened schools during the pandemic – and what the US can learn from them. *The Conversation*. July 22. https://bit.ly/2TrQp7i (accessed October 5, 2020).

Spronk, S., Crespo, C. and Olivera, M. 2014. La modernización y los límites del modelo de agua pública en Uruguay. In McDonald, D.A. (Ed.) *Servicios públicos en el Sur Global. Mirada crítica a nuevas formas de gestión*. Buenos Aires, Argentina: Clave Intelectual.

Taylor, L. 2020. Uruguay is winning against covid-19. This is how. *BMJ* 2020;370:m3575.

The Economist. 2020. Standing apart. How Uruguay has coped with covid-19. *The Economist*. June 18. https://econ.st/34vXytF (accessed October 5, 2020).

Ubal, N. and Demirdjian, S. 2020. Gestión, ciencia y Estado: el círculo virtuoso que permitió a Uruguay combatir el coronavirus. *La Diaria*. September 8. https://bit.ly/2TsSb83 (accessed October 2, 2020).

WHO 2020. Universal Health Coverage. https://bit.ly/38iWyLN (accessed October 2, 2020).