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Economic Commission for Latin America and the Caribbean

**Proceedings of the Workshop on Issues
in the Privatization of Water
Utilities in the Americas**
*(Santiago, Chile, October 4-6, 1995)**

* Document not subjected to editorial revision.

**PROCEEDINGS OF THE
WORKSHOP ON ISSUES IN THE
PRIVATIZATION OF WATER UTILITIES
IN THE AMERICAS**

Vinio Floris and Terence Lee, editors

**4-6 October 1995
Santiago
Chile**

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Abstract

Most countries throughout the Americas are in the process of restructuring their economies, promoting deregulation and decentralization in order to improve their efficiency in the use and management of their human and natural resources. International corporations are showing a great interest in acquiring or leasing water utilities and foresee very attractive future opportunities. It is clear that privatization will bring economic prosperity to investors and provide cost efficient services to users, but there is concern for the effects of privatization on environmental sustainability, and for its possible ethical, socio-economic and cultural repercussions. The effort and the goals of privatization of water-related services are so singular that an arena to discuss the problems, mechanisms and alternatives is needed. The purpose of the workshop was to act as a forum for such a discussion by identifying, analyzing and evaluating the technical and institutional aspects of privatizing and regulating water utilities in the Americas in the context of sustainable development. Special attention was given to the analysis of the environmental consequences and sustainability of privatization. The specific topics discussed were: (i) the participation of the private sector in the provision of water-related services and the protection of the environment; (ii) the role of the government and non-government organizations in privatization; (iii) institutional and legal aspects of the privatization of water resource management activities; (iv) participation of multinational companies in the management of privatized water-related services in Latin America and the Caribbean; and (v) case studies and experiences in the Americas and Europe. The workshop was attended by experts from Canada, the United Kingdom, the United States, and various countries of the region, as well as by representatives of international organizations.

Introduction

Privatization of urban and rural water utilities in the Americas has become a somewhat of a silent revolution, but one that is ever more evident in the daily life of the population of the hemisphere. There are expected changes in policies for financing and operating rural irrigation systems, hydroelectric power generation facilities and mining operations, and urban drinking water and waste water treatment plants, as well as, for distribution systems. These changes will also have a large impact in the way we deal with the environment and on the practice of water resources professionals through a trend toward centralizing the ownership and operation of water services by multi-national corporations. The private sector, in turn, will aggressively use new technology to increase efficiency and profit.

Most developing nations throughout the Americas are in the process of restructuring their economies, promoting deregulation and decentralization in order to improve their efficiency in the use and management of their human and natural resources. These changes are especially apparent in the water sector. On the other hand, the developed nations and corporations based in them are showing a great interest in acquiring or leasing these water utilities and foresee very attractive (i.e. profitable) future opportunities. Important flows of capital and skills are being mobilized and users are expecting to receive benefits from the free market economy, with services at excellent price performance levels never seen before in the region. Companies from the US, as well as several European nations, are taking advantage of the opportunities being offered and many enterprises are directly or indirectly taking part in this massive, but "silent" revolution.

Although, it is clear that privatization will bring economic prosperity to investors and provide cost efficient services to users, there is a concern for the effects of privatization on environmental sustainability, and for its possible ethical, socio-economic and cultural repercussions.

All of the advantages of privatization which have been expressed above have to confront reality. The effort and the goals of privatization of water-related services are so deep and complicated that an arena to discuss the problems, mechanisms and alternatives is needed. The intention of the workshop was to act as a forum for discussion, analysis and evaluation of the issues relating to privatization, the regulation of private participation and the future consequences and challenges for water resources professionals in the context of sustainable development.

Having the event in Chile provided the participants with the in situ experience and background of a country which, for several years, has been among the most active in the privatization process and where there is a growing concern for the related environmental and socio-economic issues. The event was successful because it provided an excellent opportunity to share problems and solutions among “buyers and sellers”, international and regional institutions, consultants, government agencies and water resources professionals in general.

I. ORGANIZATION OF WORK

Place and date

1. The Privatization Task Committee member of the American Society of Civil Engineers (ASCE), International Water Resources Activities Committee, Water Resources Planning and Management Division and the United Nations Economic Commission for Latin America and Caribbean (ECLAC) jointly organized a Workshop on Issues in the Privatization of Water Utilities in the Americas from 4 to 6 October, 1995 at ECLAC Headquarters in Santiago, Chile.

Objective

2. The purpose of the workshop was to identify, analyze and evaluate the past, present and future technical, socio-economic, environmental, legal, ethical and institutional features of privatizing water utilities serving urban and rural areas throughout the Americas. Special attention was given to the analysis of the environmental consequences and sustainability of privatization. The topics discussed were:

a. The participation of the private sector in the provision of water resources services (water supply and sanitation, irrigation, hydropower) and the protection of the environment.

b. The role of the government and non-government organizations in privatization.

c. Institutional and legal aspects of the privatization of water resource management activities.

d. Participation of multinational companies in the management of privatized water resources services in Latin America and the Caribbean.

e. Case studies and experiences in the Americas and Europe.

Attendance

3. The workshop was attended by experts from Canada, the United Kingdom, and the United States as well as from various countries of the region, and representatives of international organizations (see list of participants in annex 2).

Officers and Agenda

4. The workshop was presided by Vinio Floris (ASCE) and Terence Lee (ECLAC) in its plenary sessions. Moderators were appointed for each discussion session.
5. There was no formal agenda. The workshop was organized according to the programme contained in Annex 3.

Opening Meeting

6. At the opening of the workshop, Mr. Gert Rosenthal, Executive Secretary of ECLAC, welcomed the participants, especially Mr. Rodrigo Carazo, and welcomed this initiative in cooperation between the United Nations and a professional society of the nature of the ASCE. He pointed out that ECLAC had been carrying out a number of activities relating to the process of privatization in the different countries of the region. He emphasized that privatization of former activities within the public sector had to be of benefit of society as a whole and that ECLAC was concerned to follow the policies of governments in the extension of the role of the private sector. He hoped that the discussions in the workshop would explore the possible alternatives for private participation and discuss the safeguards necessary to protect the public interest. Finally, he stressed once again the significance of this cooperation effort between ECLAC and the ASCE.

II. ACCOUNT OF PROCEEDINGS

7. The workshop proceeded with the presentation and discussion in plenary of a series papers on distinctive aspects of private participation in the provision of water-related public services. The papers are to be found in two addenda to this report.
8. The first session opened with an analysis and evaluation of the experience of the market-based water management in Chile. The presentation gave rise to a lively exchange of views of the pros and cons of the system applied in Chile and of its possible practical implications and lessons for other countries in the Americas. This discussion set the tone for the rest of the workshop.
9. A series of presentations followed discussing concepts, principles and the implementation of privatization in both in terms of general concepts and in particular cases. In both these presentations and in the following discussion emphasis was placed on the fact that an ample range of possibilities existed for private participation in the provision of services, in addition to the transfer of ownership. It was pointed out, however, that any privatization process in water supply and sanitation was bound to be a complex affair.

10. In the second plenary session, the presentations were largely concerned with the question of beneficial use as requirement in water markets and the experience of privatization and regulation of water supply and sanitation companies in the United Kingdom and the United States. In the ensuing discussion, the possibility of alternative means of managing public services and the importance in any policy urging incorporation of the private sector of clearly understanding why the policy was being considered was stressed.

11. The third plenary session, and the address by Mr. Carazo, focused on the social and environmental aspects of privatization. Some concern was expressed about possible negative consequences. In general, however, the comments of the participants were far more positive and benefits were foreseen from greater private participation.

12. In his address to the workshop, Mr. Felipe Sandoval, Minister, CORFO, explained the nature of the proposed system to allow private participation in water supply and sanitation services in Chile, currently under discussion in the Congress. He also described in some detail the proposed modifications in the system of regulation applied to water supply and sanitation in Chile.

13. In the two following plenary sessions, a series of papers were presented on case studies in Argentina, Canada, Chile, United Kingdom and Venezuela.

III. CONCLUSIONS FROM THE DISCUSSIONS IN THE WORKING GROUPS

14. The participants agreed that the workshop had been a success and that both the papers presented and the discussions following these presentations had been very valuable. There had been an enlightening exchange of experiences. It was also generally agreed that the seminar had served to improve the participants knowledge of matters relating to private participation in the provision of public services based on water.

15. The experiences of the countries presented in the workshop suggested the importance of governments having clear objectives for what they are trying to achieve by increasing private participation. It is necessary, therefore that they have information on the alternatives available.

16. In this respect in the discussions of private participation:

1. The discussion should not be limited to simply the privatization of assets. It is better to treat the matter as one of private participation in water management.

2. A consensus should be sort on formulas to improve the effectiveness and efficiency of the provision of services taking due account of the need for sustainability and of equity in their provision.

3. It is necessary that a base be created for the multiple use of water and that this concept be included in the regulatory framework.

4. The experience of private participation in the different countries of the Americas should be brought together and information on the pros and cons of different alternatives should be made available to governments.

17. There is much discussion of the possible external effects or third party effects of private participation. In discussing such effects, it is necessary to take into account that private participation and especially, the use of the market is an alternative to the present system. The present system two produces external or third party impacts and these must be compared to those expected with privatization. Only on the basis of an objective comparison of the two can a reasonable judgment be made of the advantages and disadvantages.

18. Of themselves neither private participation nor market forces can resolve all the problems facing the water sector in Latin America and the Caribbean. Each issue must be considered on its own merits to see whether private participation and deregulation can assist in its resolution.

19. It was agreed by all participants that private participation in the provision of water-based public services required:

1. Clear regulatory requirements to ensure goals of government and society are met.

2. Clearly transparent calls for any proposals for privatization of services so all bidders are on the same basis.

3. There is a need more discussion of the issues in a manner similar to this workshop and to involve municipal and state as well as central governments in the discussion.

20. In this respect, it is necessary to record that many decisions on privatization and how to proceed are taken by municipal or provincial (state) governments. Representatives from these levels of government were not present at the workshop and rarely at any meetings of this nature. There is a need to identify ways to reach out to these levels of government to share ideas, discuss both privatization options (advantages, disadvantages, etc.) and alternative models on how to go forward.

21. Finally, it was concluded that:

1. In the countries of Latin America and the Caribbean, it seems that greater private participation in the basic public services related to the water resource is a necessity to attract investment that the state cannot make.

2. As these are basic services, any private participation requires a regulatory framework which clearly guarantees, on the one hand, the public interest and, on the other, private interests.

3. The market is not necessarily the only solution, but it should be used as a management tool where appropriate taking into account the interests of society as a whole.

Annex 1

The Organizing Committee

The organizing Committee was composed of the following members:

Dr. Vinio Floris, Co-chair, then with Harvard University, Cambridge, Massachusetts, now an International Consultant, Florida, USA.

Dr. Terence Lee, Co-Chair, ECLAC, Santiago, Chile.

Mr. Robert Montgomery, Woodward-Clyde, Madison, Wisconsin, USA.

Mr. Breck Plauche, Espey, Huston & Associates, Inc., Austin, Texas, USA.

Mr. Alberto Levy, Lyndon B. Johnson School of Public Affairs, University of Texas at Austin, Austin, Texas, USA.

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Annex 3
Programme

Tuesday, 3 October

19.00-20.30 Informal welcome. Reception at the El Fundador Hotel.

Wednesday, 4 October

09.00-09.30 Registration

09.30-10.00 ***Inauguration***

Gert Rosenthal, Executive Secretary, ECLAC, Santiago, Chile.

10.00-10:45 ***Plenary Session I*** - Basic Concepts in a Market-based Water Policy.
Moderator: Terence Lee, ECLAC, Santiago, Chile

Guest speaker - Renato Gazmuri, Santiago, Chile.

10:45-11.00 Coffee.

11.00-12.15 ***Plenary Session II*** - Concepts, Principles and Implementation of Privatization.

Moderator: Cathy Vogel, Miami, Florida, USA

Paper 1: Terence Lee, ECLAC, Santiago, Chile. "Alternatives for Private Participation in the Provision of Water Services".

Paper 2: David Graham and Patrick Connolly, Jamaica Water Supply Company, New York, USA, "Privatization in Latin America. The interests and concerns of a North American operating company".

Paper 3: Allan Milledge, Milledge, Iden and Held, Miami, USA. "Florida's Two Devices for Water Management".

Discussion.

13.00-15.00 Lunch

15.30-17:30 **Plenary Session III** - Institutional and Legal Issues, and Government.
Moderator: Vinio Floris, Florida, USA.

Paper 4: Miguel Solanes, ECLAC, Santiago, Chile. "Water Supply and Sanitation: Legal Aspects".

Paper 5: John K. Banyard, Severn-Trent, Birmingham, United Kingdom. "An overview of British Water Privatization".

Paper 6: Walter Lyon, Pennsylvania, USA. "Privatization Law and Water Institutions".

Discussion.

17.15-18.00 **Special presentation:** "A private fund for infrastructure investment".
Fundelec Group, New York.

Thursday, 5 October

09.00-10:15 **Keynote Address:** Dr. Rodrigo Carazo, Former President of Costa Rica.
Moderator: Vinio Floris.

10:15-10:45 Coffee.

10:45-12:15 **Plenary Session IV** - Environmental Issues.
Moderator: Axel Dourojeanni, ECLAC

Paper 7: Jack Day, Green Bay Metropolitan District, Green Bay, USA. "Toward the Privatization of Water Utilities in the Great Lakes Region of North America".

Paper 8: Gonzalo Castro, World Wildlife Fund, Washington, D.C., USA. "Environmental Conservation, Water Management, and Privatization: Identifying Win-Win Situations".

Paper 9: Eduardo Taboada, Irrigation Directorate, Province of Tucumán, Argentina. "Irrigation in Tucuman: Project of Transference".

Discussion.

12.30-13.30 Invited Speaker: Sr Felipe Sandoval, Minister-CORFO (Corporación de Fomento de la Producción), Chile.
Moderator: Terence Lee, ECLAC.

- 13.30-15.00 Lunch.
- 14:00-15:30 **Plenary Session V** - Case Studies and Experiences I.
Moderator: Breck Plauché, Texas, USA.
- Paper 10: Patrick Packham, SAUR-UK, UK. "SAUR-UK Group Privatization of United Kingdom Water".
- Paper 11: Fernando Peralta, Confederación de Canalistas, Santiago, Chile. "Water Markets: the Case of Chile".
- Paper 12: Douglas A. McTavish, International Joint Commission, Windsor, Canada. "Privatization of Services in the Great Lakes Basin".
- Discussion.
- 16:30-16:45 Coffee
- 16:00-17:30 **Roundtable Discussion:** The Chilean Privatization Experience.
Moderator: Terence Lee, ECLAC.
- Panelists:
Mr. Alex Chechilnitzki, President Chilean Chapter of AIDIS
Mr. Juan Pablo Donoso, General Manager, AGUAS QUINTA S.A., Chile
Sr. Carl J. Bauer, Universidad of California-Berkeley
Sr. Lawrence McGrath, Grupo Fundelec
- 20.00-22.30 Banquet at La Hacienda Restaurant.

Friday, 6 October

- 09.00-10.30 **Plenary Session VI** - Case Studies and Experiences II.
Moderator: Robert Montgomery, Wisconsin, USA.
- Paper 13: Alberto Levy, The University of Texas at Austin, Texas, and Marcos Cornejo, Grupo Profesional 8086, Caracas, Venezuela. "Privatization of Water Systems: The Experience of Venezuela".
- Paper 14: Daniel Coria, Coria Jofré y Asociados, San Juan, Argentina. "Reorganization and Transfer of Water Management to the Users. The experience in the Province of San Juan, Argentina".
- Discussion.

10.30-10.45	Coffee.
10.45-11.00	Organization of work groups.
11.00-12.00	<i>Working Group Sessions</i>
12.00-12.30	<i>Plenary Session VII</i> - Final Comments and Conclusions.
12:30	Adjourn.