

Water privatisation in Latin America, 2002

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1. Introduction

This report sets out the main developments and current situation in respect of water privatisation and restructuring in Latin America as at June 2002. It is divided into four main sections:

- Multinationals active in Latin America
- Public sector water and resistance
- Major issues: Argentina crisis, conditionality, problems, labour issues, public finance
- Developments by country: south America, central America

2. Multinationals active in Latin America

2.A. Multinationals warn against ‘unrealistic demands’

While Suez still claim that privatisation of water is the best way to extend services to the poor, the other French multinationals Vivendi and SAUR have stated explicitly that they cannot provide services to the poor without government subsidies and guarantees and public sector investment.

In a recent presentation to the World Bank, Mr Talbot, CEO of Saur, highlighted what he called *They highlight* – “unrealistic demands” on the private sector in developing countries, such as providing “connections for all”. He said that the level of investment required cannot be met by the private sector “...” – “The scale of the need far out-reaches the financial and risk taking capacities of the private sector”; and rejected the feasibility of full cost recovery, saying that the idea that “water pays for water” is “no longer realistic in developing countries: Even Europe and the US subsidise services.....Service users can’t pay for the level of investments required, not for social projects.”¹

In a presentation in 2001, in Africa, Vivendi staff said that private firms are able to invest in water if a) the risks are ‘fairly’ apportioned and b) the firm is able to generate a ‘fair’ profit. They acknowledge that this limits investment to ‘big cities where the GDP/capita is not too low’, and where a concession is supported by ‘Guarantees securing the flow of payments by the municipalities or Governments’ and / or ‘Sufficient and assured revenues from the users of the service.’²

2.B. The multinationals

Water in Latin America, like the rest of the world, is overwhelmingly dominated by the two French multinationals Suez and Vivendi. Suez and Vivendi between them hold two-thirds of the world’s privatised water market. The next biggest companies – SAUR, Thames, Anglian, IWL – are very much smaller.

2.B.1 Suez

Suez is the dominant multinational in Latin America. The operations of Aguas de Barcelona, of Spain (Agbar - see below) are also effectively part of the Suez group through its control of AgBar. It controls the flagship privatisation of Aguas Argentinas (jointly with Vivendi and Anglian Water), holds the first water concession in Brazil, in Limeira; the largest in Chile, EMOS in Santiago; the remaining one in Bolivia, in La Paz; the oldest one in Colombia, in Cartagena; and through Agbar it controls a water concession in Habana, Cuba. It has just won the management contract for Puerto Rico, which was run by Vivendi for 7 years.

Suez makes maximum use of political and financial connections in pursuing its business, a technique developed in France and Europe. Suez subsidiaries were convicted of bribery in Grenoble, France 7 years ago. Suez also seeks to use communities themselves to help make connections to poor areas profitable, for example through free labour from the residents themselves, in La Paz and Buenos Aires.

MNC	Country	Concession	Share
Suez	Argentina	Aguas Argentinas	
Suez	Argentina	Aguas Cordobesas	
Suez	Argentina	Aguas de Santa Fe	
Suez	Bolivia	Aguas de Illimani	
Suez	Brazil	Aguas de Limeira	
Suez	Brazil	Aguas do Amazonas	
Suez	Brazil	Aguas Guariroba	
Suez	Chile	Aguas de Valdivia	
Suez	Chile	Aguas Decima	
Suez	Chile	Aguas Metropolitanas	
Suez	Chile	Aguas Quinta	
Suez	Chile	Aguas Andinas (EMOS)	
Suez	Colombia	ACUACAR	
Suez	Colombia	Alcantarillado y Aseo	Stake sold
Suez	Colombia	BAS	
Suez	Colombia	Metroagua	Stake sold
Suez	Cuba	Aguas de la Habana	
Suez	Cuba	Aguas de Varadero	
Suez	Mexico	Lyonnaise (Mexico)	
Suez	Mexico	Simas	
Suez	Mexico	TECSA	
Suez	PuertoRico	Ondeo (Puerto Rico)	
Suez	Uruguay	Aguas de la Costa	

2.B.2 Vivendi

Vivendi has been much less successful in Latin America than Suez. It is a junior partner in Aguas Argentinas ; the lead multinational in Sanepar, the biggest Brazilian water privatisation ; and has other smaller contracts through Proactiva, its joint venture with the Vivendi-controlled Spanish company FCC. However, Vivendi has lost two major contracts in the region – in Tucuman, Argentina, and in Puerto Rico. The Sanepar concession is experiencing problems with performance.

MNC	Country	Concession	Share
Vivendi	Argentina	Aguas Argentinas	8
Vivendi	Argentina	Aguas de Aconquija (terminated)	90
Vivendi	Argentina	Aguas del Valle	
Vivendi	Argentina	Proactiva Medio Ambiente (Argentina)	
Vivendi	Brazil	Sanepar	30
Vivendi	Colombia	FCC Tunja	
Vivendi	Mexico	Omsa	50
Vivendi	PuertoRico	Compania de Aguas (terminated)	100
Vivendi	Uruguay	Aguas del Sauce	100
Vivendi	Venezuela	FCC Monagas	

2.B.3 SAUR

SAUR, the third largest water company in France, and fourth in the world, is not active in Latin America except in Mendoza province, Argentina, where it is a partner in a joint venture with Azurix and Italian gas group ENI.

MNC	Country	Concession	Share
SAUR	Argentina	OS Mendoza	32.1

2.B.4 RWE-Thames Water

Thames Water was a UK water company, which is now 100% owned by the German energy company RWE. In Latin America RWE-Thames has bought stakes in some of the Chilean water and sanitation companies (Essbio, Essam, Essel, IAS). It also has one of the management contracts in Mexico City.

Some of RWE-Thames' main international ventures elsewhere in the world are in joint ventures with Vivendi (Australia, Berlin, Budapest sewerage) or Suez (Budapest water) Note relations with Vivendi (Berlin, Bud, Adel). Note problems in Thai and earlier. Note problems with leakage.

MNC	Country	Concession	Share
RWE	Chile	Essam	64
RWE	Chile	ESSBIO	51
RWE	Chile	ESSEL	51
RWE	Mexico	Thames (Mexico)	

2.B.5 Anglian Water

Anglian Water is a UK water company. It has a minor stake in Aguas Argentinas. It also has a controlling stake in the Chilean company Esva. It did have a venture in Brazil some years ago, but made a big loss.

MNC	Country	Concession	Share
Anglian Water	Argentina	Aguas Argentinas	4.5
Anglian Water	Chile	Esva	35

2.B.6 Other UK companies

Other UK companies which used to be active in the region include:

2.B.6.a Severn Trent

Severn Trent used to have a management contract in Mexico City; and also had a management contract in Trinidad, which was terminated.

2.B.6.b Biwater

Biwater (now trading internationally as Cascal, a joint venture between the UK company Biwater and the Netherlands municipal utility Nuon) held a sanitation concession in the Mexican tourist resort of Puerto Vallarta since the mid-90s, which experienced performance problems. Biwater also has a bulk water supply concession in Panama, which has been the subject of corruption allegations.

MNC	Country	Concession	Share
Biwater Capital	Mexico	Aguas Negras de Puerto Vallarta	100
Biwater Capital	Panama	Aguas de Panama	

2.B.7 Spanish multinationals

2.B.7.a Aguas de Barcelona (Agbar)

AgBar is part of Suez, one of two owners of the holding company which owns 51% of Agbar. Its operations are covered in the commentary on Suez (see above). Interagua, which was partly owned by Spanish electricity company Endesa, is now 100% owned by AgBar.

2.B.7.b Aguas de Bilbao

Aguas de Bilbao has one concession in Argentina, AGBA in a part of Buenos Aires province. This is in a joint venture with Spanish construction company Dragados/Urbaser (see below) and Impregilo (Italy – see below). It has another concession in Uruguay, Uragua, this time in consortium with Spanish energy company Iberdrola.

2.B.7.c Dragados/Urbaser/Dycas

Construction company Dragados has environmental subsidiaries Urbaser and Dycasa have a concession in Misiones province in Argentina. Dragados is also a partner with Aguas de Bilbao in AGBA (see above).

2.B.7.d Canal de Isabel II/Tecvasa

Two Spanish companies, the Madrid municipally-owned water company Canal de Isabel II, and the Valencia-based privately-owned Tecvasa, jointly control Colombian water company Triple A (AAA) (through the Spanish companies' owning 75% of Inassa, which in turn owns 60% of Triple A). Tecvasa also owns 49% of the joint ventures AAA Servicios and LASSA, the other 51% being owned by Triple A.

In Colombia, Triple A has operations in Barranquilla, Santa Marta, Soledad and Puerto Colombia. AAA Servicios has international operations in the state of Zulia, Venezuela and the western half of Santo Domingo. LASSA has a concession in Samborondon, Ecuador.

2.B.8 Portuguese multinational

The Portuguese presence is through the state-owned IPE/Aguas de Portugal. Aguas de Portugal is present in Prolagos in Brazil, and in Chile – it was a partner to Thames in Essel, but sold its share to Thames.

MNC	Country	Concession	Share
Aguas de Portugal	Brazil	Prolagos	93.5
EdP	Chile	Essal	
EdP	Chile	IAS	50

2.B.9 Italian multinationals

2.B.9.a Acea,

Acea is the water and energy utility of the city of Rome, is 51% owned by the municipality of Rome and 49% privately owned. It holds two contracts in Latin America – a BOT bulk water concession in Rio Chillón, in a joint venture with Italian construction multinational Impregilo; and Aguas de San Pedro, in Honduras, in a joint venture with other Italian companies including construction company Astaldi

Astaldi was also involved in the Cochabamba privatisation, as a partner in the Misicuni construction project. Impregilo is also a partner in AGBA, Argentina, with Aguas de Bilbao. In Italy, Acea has just formed a

partnership with Electrabel, part of the Suez group, to jointly pursue electricity business. Italian group Edison SpA is also a co-owner of IWL (see below under USA, Bechtel). Montedison is itself now controlled by a holding company dominated by French state-owned electricity company EdF. EdF is a partner of Vivendi in a joint venture heating company called Dalkia.

MNC	Country	Concession	Share
Acea	Peru	Rio Chillón	
Acea	Honduras	Aguas de San Pedro	

2.B.10 US-based multinationals

2.B.10.a International Water (IWL)

This company is 50% owned by Bechtel, the giant USA construction multinational, and 50% by the Italian group Edison SpA (see above). IWL was the group which owns Aguas de Tunari which was terminated in Cochabamba after disastrous price rises. It now has a concession in Guayaquil, Ecuador, without any competition from other bidders. Though owned by a US and an Italian company, IWL is registered in the UK, and operates through an intermediate company registered in the Netherlands.

MNC	Country	Concession	Share
Bechtel	Ecuador	Guayaquil Interagua	

2.B.10.b Azurix (now liquidated)

This subsidiary of Enron no longer operates. Its contract in Buenos Aires province has been terminated, and the other parts of Azurix were sold off. The company failed even before the collapse of its parent, Enron. The operations in North America were sold to AWW, now owned by Thames /RWE. It is not clear what happened to the activities of Azurix in Mexico – principally the concessions in Cancun and one of the four management contracts in Mexico City.

MNC	Country	Concession	Share
Enron	Mexico	Azurix Cancun	
Enron	Mexico	IACM	
Enron	Mexico	IASA	

2.B.11 Local companies

As in the rest of the world, there are very few examples of local private water companies not controlled by the multinationals. One case is that of Latin Aguas, in Argentina, which holds contracts covering about 9 million people.

3. Public sector water and resistance to privatisation

3.A. Brazil: Porto Alegre, Sao Paulo and continuing struggle

There is a continuing strong campaign against water privatisation in Brazil, involving the trade unions, political parties and others. The planned privatisation of Rio de Janeiro's water was effectively stopped in 1999, and Brazil has some very good examples of public sector water companies operating effectively and democratically.

The water company of Porto Alegre, DMAE, remains wholly owned by the city council, an efficient performer, and also subject to Porto Alegre's participative budgeting process.

The Sao Paulo state water company, SABESP, is the largest water company in Latin America, and an efficient operation, which managed to survive the Brazilian currency crisis. It has raised loans from the IADB and the Japan Bank for International Cooperation, and in 2001 considered raising a special form of finance from the New York stock market.

3.B. Emcali, Colombia

Emcali, wholly owned by the municipality of Cali, provides water, sewerage, electricity and telecommunications to 3 million people. In the 1990s Emcali was given an international credit rating of BBB (better than the multinational-owned Aguas Argentinas, for example) : in April 1999 this was downgraded to BB+, and in April 2001 it had fallen to CCC. The financial stresses were entirely caused by the terms of a power purchase agreement (PPA) with private generating company TermoEmcali, which required Emcali to buy electricity even if it did not need it or could not afford it. Privatisation was proposed as the solution, and this has been strongly – and successfully – opposed by the trade union, SITRAEMCALI, through strikes, occupations, and an international campaign including PSI and affiliates. As at April 2002 the company remained in public hands.³

3.C. Reverting to public: Tucuman, BA Province (Argentina), Cochabamba (Bolivia), Trinidad

In three cities where private contracts have been terminated the service has reverted to public sector operation. In both Tucuman and BA Province, Argentina, the proposed new public companies are majority owned by the public authorities, and minority owned by the trade unions, which seems a new model. In Cochabamba, the service has reverted to the old municipal company. PSI is seeking to arrange support and advice from the association of public sector water companies in the USA, through a 'public-public partnership' to help rebuild an efficient and sustainable public sector service. In Trinidad the state water authority took back the management of the system after Severn Trent were sent home in 1999.

3.D. Other successful opposition: Paraguay, Panama, Trinidad, Tegucigalpa (Honduras), Uruguay

After a long campaign, the opposition to privatisation of water in Paraguay succeeded in June 2002 in getting the privatisation plans indefinitely suspended, and so the water company remains state-owned. Paraguay thus joins Panama, and the cities of Rio de Janeiro (Brazil) and Tegucigalpa (Honduras) in preventing privatisation from taking place. In Uruguay, a continuing vigorous campaign against privatisation, led by the trade union FFOSE, has protected the main water company from privatisation and focussed critical attention on the problems with two small privatisations.

4. Major issues

4.A. Argentina and economic crisis

The single most important development in the Argentine water sector is represented by the economic and financial crisis affecting the country, which has exposed the perverse relation between structural adjustment, water privatisation and the implications of macro-economic distortions.

The water concessions were based on protecting the multinationals, so that prices were indexed to the US dollar, for example. With the collapse of the Argentinian currency, however, that indexation is no longer sustainable. In 2002, following Argentina's default on the external debt, a new law on "Public Emergency and Reform of the Exchange Regime" (Law N° 25,561) abolished the parity between the Argentine Peso and the US\$ and aimed to revise the regulatory and contractual framework applying to the privatised utilities. It specifically abolished the "dollarisation" of prices and the periodic adjustment of tariffs to foreign inflation and currencies. The law also provided for the renegotiation of the contracts with the privatised companies operating the utilities according to a number of criteria, to take into account *"the impact of prices on the competitiveness of the economy and the distribution of income; the quality of the services and the investing plans, when they were considered in the leasing*

contracts; the consumers' interests and the accessibility to the system; the security of the systems; and the profits of the firms".⁴

There has developed a struggle between the Argentinian people, as consumers of water, and the foreign investors, like Suez and Aguas de Barcelona, represented by the French and Spanish governments. Aguas Argentinas (led by Suez), the largest and most prominent of the privatised water companies in Argentina, started an intensive lobbying campaign aiming to protect its shareholders' interests. In February 2002, the management of Aguas Argentinas and the French ambassador in Argentina, Paul Dijou, had a private meeting with the vice Minister of Economy and a senior ministerial official. The management of Aguas Argentinas sent a note to the Sub-secretary of Hydric Resources, informing him of Suez' unilateral suspension of a number of obligations of Aguas Argentinas, including the investment objectives in the contract renegotiated as recently as January 2001.⁵

The outcome of this struggle seems crucial. If the companies cannot avoid taking at least some of the risk for the crisis, then water privatisation in developing countries may become an economically less attractive way of making money.

4.B. Loans and conditionalities driving privatisation

The loans from international development institutions, which are all public sector, government institutions, are central to the financing of nearly all the privatisations. Private investment from the multinationals themselves may be only a small part of the money involved.

In many cases, the main driving force behind privatisation are the conditionalities imposed by the various international financial institutions (IFIs). These include the IMF, whose structural adjustment policies often demand the privatisation of state services, including water; the World Bank, which may make privatisation a condition of its loans to governments, or may supply finance via the International Finance Corporation (IFC), the arm of the WB which invests only in the private sector; and the Inter-Americas Development Bank (IADB), whose loans may also insist on privatisation. In all cases, the imposition of privatisation is effectively a political demand: there are well-established banking criteria for evaluating a company's credit-worthiness, which apply whether it is public or private (see 'Water in Public Hands'). The use of conditionality is also contrary to the explicit statement agreed by the Bonn conference on water in December 2001 that privatisation should not be applied as a condition of finance by any donors.

In addition, the loans of the European Investment Bank (EIB), an EU parastatal set up to finance developments of interest to European countries and companies, is often acting as a source of funds in Latin America available only to European private companies.

In addition, the political risk insurance arm of the World Bank, the Multilateral Insurance Guarantee Agency (MIGA) is providing financial security from risk for the privatised water concession of IWL in Ecuador, by providing protection against political, currency and even, to some extent, performance risk.

And the WB also incorporates the international arbitration court – ICSID – which is responsible for hearing claims by multinationals after termination of concessions.

Table: Loans and conditionalities supporting privatisations

Concession	Country	Multinational	Bank	Date	Value
Ag Arg	Arg	Suez (+Viv, Anglian)	WB-IFC	1994	(Equity)
Ag Arg	Arg	Suez (+Viv, Anglian)	IADB	1999	\$120m loan (+ IADB guarantee of parallel \$120m private loan package)
Ag Arg	Arg	Suez (+Viv, Anglian)	IADB	2001	\$140m
AGBA (BA Provincia)	Arg		IADB	2001	Loan requested by AGBA is \$208.4m cf total 5-yr investment programme of \$233m.

Concession	Country	Multinational	Bank	Date	Value
Cordoba	ARG	Suez	EIB	1997	\$40m loan – compare total inv of \$87m in 2 years
Aguas de Misiones	ARG	Dragados	EIB	2001	\$18m loan to help finance \$63m upgrading in Posadas and Garupa. Guaranteed by Spanish bank Caja de Madrid and insured by EU against political risks.
Argentina (general)	ARG	(any PPP)	WB	1999	\$30m to restructure/PSP 7 utilities in medium/small towns.
Sanepar	BRA	Vivendi	WB-IFC	2001	\$30m investment in AGC
Manaus	BRA	Suez	BNDES	2001	R\$72m loan to help Suez buy company and another loan to finance investment
Prolagos	BRA	Aguas de Portugal	EIB	2001	(discussing) \$38.8m loan to finance investments.
Aguacar	COL	Suez/Agbar	WB	1999	\$85m for expansion
Ecapag	ECU	IWL	IADB	1997	\$40m – half for privatisation process, half for investment
Ecapag	ECU	IWL	WB-MIGA	2001	\$18m guarantee, covers polit risk and performance bond.
Aguas de Chillan	PERU	Acea	-	2001	Sold \$25m bonds + \$10m equity to local Peruvian pension funds etc. Credit rating AA+ because underpinned by take-or-pay agr with auth, government guarantee to auth, tariff indexed to \$US.

4.C. Prices, investment, regulation, corruption, performance, distortion

A number of problems can be observed in the existing water privatisations. They can be categorised in a number of ways:

- Not extended – where the service is not extended to the poor, despite contractual obligations
- water quality – where performance is poor in terms of water quality
- prices and investment – where prices are raised without proper justification
- under-investment – where less money is invested than was specified
- corruption – where politicians, parties or public authorities are induced to make bad choices

Concession	Country	MNC	Problem	Comments
AGBA	ARG	Ag Bilbao	Underinvestment, Renegotiation No competition	Bid very low, after 18 months, failure to invest. No contest - other bidders (Urbaser, Dycasa) withdrew – joined AGBA after won contract.
BA Prov	ARG	Azurix	Terminated	Bad performance, financially unsustainable
Cordoba	ARG	Suez	Poor unconnected Unequal power Job cuts	Informal housing not covered, domestic pipes remain responsibility of households. Jobs cut from 1300 to 436 in 2 years.
Tucuman	ARG	Viv	Terminated No new interest	Poor performance
Cochabamba	BOL	IWL	Price rises Terminated	ADT/IWL suing for compensation
Sanepar	BRA	Vivendi	Poor quality Fraud	
Limeira	BRA	Suez	Procedural irregularities Underinvestment Renegotiation	Company invests only half the promised amount, performance problems.
Manaus	BRA	Suez	Underinvestment	Suez says cannot extend as promised because of bad system, inflation, low return
Campo Grande	BRA	Suez/Agbar	Underinvestment	Investment plans fall from \$144 to \$105m over length of concession.
EMOS	CHILE	Suez	Price rises Non-competitive	Prices rise 15% (regulator wanted cut of 6%, company wanted 58% rise). Also moves into

Concession	Country	MNC	Problem	Comments
				industrial wastewater; awards Degremont \$217m Farfana contract (1/3)
Esval	CHILE	Anglian	Price rises Fines for poor service Non-competitive	Prices rise 15% (regulator wanted cut of 15%, company wanted 25% rise). Poor performance at treatment plant. Purac gets \$29.7m contracts for 1/3 treatment plants
Cartagena	COL	Suez/Agbar	No competition Management fee Anti-union Poor unconnected	No other bids in 1995. Labour unions attacked. WB says 1/3 of people not connected. Mangt fee to Agbar rising 2.94% > 4.25% in 4 years.
Gyuayaquil	ECU	IWL	No competition Labour problems	All workers sacked, re-employed most after negot. Workers sue for failed promises. Training financed by IADB money
Amagua	ECU	AAA	No competition Corruption	JV set up with no tender, just selected invitees.
Uragua	URU	AgBilb/Iberdrola	Price rises Transparency Failure	No accounts as required; price rises sharper than promised; breakdown of pipes hits tourist sites.
Maldonado	URU	Suez/Agbar	Price rises Poor quality	Connection prices 5x other local company; water smells, been criticised by GWP

4.D. Labour issues

Cutbacks in staff and conditions are sometimes central to the process of privatisation. In Aguas Argentinas, for example, staffing reductions were important to the economics of the private company. In Limeira (Brazil) Suez made substantial cuts in staff and pay and conditions when it took over. In Cartagena, Colombia, Suez-Agbar dismissed workers, especially union activists, and rehired them selectively.

In Guayaquil, Ecuador, workers were dismissed and selectively rehired by IWL. Following negotiations, the company agreed to contract the majority of former employees, to provide training to those hired; workers not re-hired by the water concessionaire would also benefit from training to transition to other jobs. Both training programmes were to be funded by an IADB loan, through its Worker's Transition Program. However, Guayaquil Interagua broke this agreement, and only contracted about 20% of former employees. As a result, workers took legal action against the company⁶.

In Chile, the water union Fenatraos signed an agreement on workers' rights following privatisation with the government (similar to agreements reached separately with Emos and Essbio). The agreement set up a voluntary retirement scheme before the privatisation, established compensation payments based on years of service "once a new operator takes over", a safeguard system which protected a worker's position for three years, and a reserved right for workers to buy a stake in the company.⁷

By contrast, in Paraguay, the existing level of redundancy compensation was seen as a problem in the debate on the privatisation proposals (now abandoned).

4.E. Public finance and fiscal issues

Pressure on public finances is one clear motive for privatisation. Governments or municipalities may seek to get rid of responsibility for the debts of a water service, or be required to find ways of raising revenue from sales to reduce public sector debts.

In either case, the privatisation of services effectively creates a longterm debt to the private companies, whereby consumers are obliged to pay the cost of capital investments over the lifetime of the concession, usually 30 years (and in Mendoza, Argentina, 95 years). Another aspect of this is when companies take legal

action to demand compensation for lost profits if concessions are terminated – for example, the privatised Sanepar has used the threat of a demand for compensation to stop remunicipalisation in Ponta Grossa, in the Brazilian state of Parana.

5. Developments by country: South America

5.A. Argentina

5.A.1 Aguas Argentinas

Aguas Argentinas was the ‘flagship’ of water privatisation. In 1993 the concession for the city of Buenos Aires was awarded to a consortium of Suez, Vivendi, Aguas de Barcelona (Suez-controlled) and Anglian Water. By the end of 2001 the concession had experienced a number of problems and was embroiled in the Argentinian economic crisis.

In February 2001, Expansion reported that Aguas Argentina had been fined US\$ 600,000 for overcharging consumers or, more precisely, for levying undue charges (“cobros indebidos”). Aguas Argentinas had to refund the amounts charged in excess to consumers⁸. Also, in September 2001, a court ruling ordered Aguas Argentinas to halve water tariffs to 60,000 commercial users who, according to consumers, had been charged a total of Peso 240m in excess in six years⁹.

In January 2001, Suez announced that after long discussions it had renegotiated the Aguas Argentinas concession to provide for the “social costs” of connecting low-income consumers who could not afford to pay. Aguas Argentinas was faced with a loss of \$60m as it was unable to collect connection charges for new extensions in poor areas. The company was thus allowed to apply cross-subsidy by charging better-off clients to cover these ‘social’ costs. Consumers challenged the legality of these charges. The renegotiation provided for “a water tariff increase, beyond inflation, of 3.9% per year for the period covering 2001-2003”¹⁰.

From 2001 the credit ratings of Aguas Argentinas were steadily down-rated, in parallel with the credit ratings of the government, until they reached C or below, which is virtually worthless. The downgradings of Aguas Argentinas' ratings rested with the perceived political risk following the economic and financial crisis hitting Argentina. Standard and Poor's added as a positive factor the company's right to compensation if the concession was revoked: *“While the rating on the transaction is based on Aguas' credit strength and the preferred creditor status of the IADB, the structure also benefits from the company's right to compensation if the concession agreement to provide water and sewage services is terminated by the Argentine government or by the company for any reason. The creditworthiness of the termination compensation to be paid by the government is consistent with the double-'B' foreign currency sovereign credit rating of the Argentine government”*.¹¹

Considerable price increases were introduced before privatisation to make the concession more appealing to private operators: a rise of 25% was approved in February 1991 and another of 29% in April 1991; in April 1992, tariffs were marked up by VAT of 18%; with a further 8% increase shortly before the May 1993 concession award. The concession agreement was renegotiated from February to September 1997 and substantially altered so that little remained of the initial covenant. The new renegotiated contract provided for automatic tariff adjustment in case of currency devaluation, or increases in the costs of Aguas Argentinas.

5.A.2 Azurix in Greater Buenos Aires: terminated

Awarded in June 1999, Azurix' concession covering two of the Buenos Aires Province's three regions ran into trouble following allegations of poor service quality, and failure to honour contractual commitments as well as financial problems¹²

In October 2001, Azurix announced it would withdraw from the contract as of January 2002 accusing the regional government of "serious breaches"¹³, and would claim compensation for a sum of up to US\$ 400m¹⁴. The concession was terminated in March 2002. Following this, operations were taken over by Aguas Bonaerense, an interim public sector water company set up by the provincial government of Buenos Aires and the water trade unions, with the mandate to operate the water system for 120 days.

5.A.3 AGBA seeks renegotiation following problems with Gran Buenos Aires concession

In July 2001, AGBA - 20% owned by Aguas de Bilbao; 27.4% owned by Urbaser; and 42.6% owned by Impregilo - lagged behind the projected investment plan after 18 months of operations in the Gran Buenos Aires region. As a result, AGBA was holding talks with the local government aiming to renegotiate the concession agreement and take into account the "unforeseen events". When AGBA was awarded the 30-year concession in 1999, the successful consortium initially included Aguas de Bilbao, Impregilo and the Argentinean company Sideco. The Aguas de Bilbao/Impregilo/Sideco consortium submitted the only bid and won the concession - Urbaser (Dragados group) and Dycasa failed to submit tenders despite being pre-qualified. But after the concession was awarded in November 1999, Sideco left the consortium "for strategic reasons" and Dycasa and Urbaser joined it.

5.A.4 Aguas Cordobesas

In Cordoba (1.4m population), the water concession has been run by Suez-ONDEO subsidiary Aguas Cordobesas since 1997. In 1998 the concession obtained a Euro36.8m (US\$ 40M) 10-year loan from the EIB.

The concession agreement required Aguas Cordobesas to extend water supply coverage from 83% to 97% over the 30-year duration of the concession. "By mid-2000 service coverage for water had reached 87%, compared with only 40% for sewerage". However, it remained unclear whether the projected 97% coverage ratio included low-income areas, for which the operator seemed to have no legal requirement to connect residents to the network. Also, the 1997 contract only provided for the operator's responsibility to build and extend the primary network and not residential connections, which remained the responsibility of the municipality or individual households. This was contested by many residents in low-income neighbourhoods. The tariff structure failed to take into account social considerations due to its substantially regressive nature, which had a relatively stronger impact on low-income than on high-income consumers. As for employment levels, "Staff numbers fell from around 1,300 before the concession was awarded to 436, in 1999".

The unclear distinction of responsibilities between the provincial government, which owned the infrastructure, and the municipality weakened "the overall regulatory role of the public sector, at the same time enhancing the bargaining strength of the private concessionaire". Also, "lack of job security and constant rotation of senior and middle-ranking staff within the provincial government and its regulatory body" meant that the private operator had a superior knowledge of the concession arrangement, resulting in a power imbalance between Aguas Cordobesas and the concessionaire/regulator. Lack of transparency and public participation added up to a poor regulatory framework, in that "There is no citizen watchdog committee to monitor the implementation of the water contract and the performance targets to be met by the concessionaire are not in the public domain".¹⁵

5.A.5 Tucuman water from private to public

In 1995, Aguas del Aconquija, a subsidiary to Générale des Eaux (now Vivendi) was granted a 30-year concession to supply the province of Tucuman. Although water tariffs doubled following the award, the company failed to accomplish the planned investment programme allowing the water supplied to turn brown¹⁶. As a result, consumers stopped paying bills and the concession was terminated in October 1998. The government, which was provisionally carrying out operations on its own, then started seeking World Bank funding for investment¹⁷. The company filed a US\$ 300m compensation suit with ICSID, which decided to dismiss Vivendi's claims. The French multinational has appealed.¹⁸

In December 2001, the Argentine government decided to scrap previous plans to award a new privatised concession for Tucuman's water system after termination of that awarded to Vivendi's Aguas de Aconquija in 1995. Instead, Sapem - 90% owned by the province of Tucuman and 10% owned by the workers union of OST (Obras Sanitarias de Tucuman) - would manage and operate water services for 30 years.

5.A.6 Catamarca water concession – Proactiva (FCC/Vivendi) wins with highest “canon”

In April 2000, FCC and Vivendi joint subsidiary Proactiva Medio Ambiente won the Catamarca water concession in Argentina prevailing over Urbaser. Proactiva won the 30-year concession after offering to pay 12.5% of annual billing to the provincial government (Urbaser offered 12.35%)¹⁹.

5.A.7 Aguas de Misiones: Dragados get EIB finance and EU political risk cover

In January 2001, the EIB announced it would issue a US\$ 18m, 15-year loan (with 4-year grace) to Dragados subsidiary SAMSA for water supply and sanitation in the Province of Misiones, Argentina. The loan would be covered under the EU budget guarantee programme against political risks including currency transfer, expropriation and war and civil disturbance²⁰.

5.A.8 Rioja: Latin Aguas

Rioja has a rare example of a local water company not apparently owned by a multinational. In April 2002 the water utility serving Argentina's La Rioja province, Aguas de la Rioja, officially transferred a 30-year concession to provide potable water and sewerage services to Argentine private operator Latin Aguas.²¹ Latin Aguas also holds operating concession for Salta province's Aguas de Salta and Corrientes province's Aguas de Corrientes. The company provides 1.59 million residents with potable water and 1.11 million with sewerage service in 132 localities in the three provinces. Latin Aguas' annual sales are US \$ 78.8mn.

5.A.9 World Bank loan to support water PPPs in medium-sized cities

In June 1999, the World Bank issued a US\$ 30m, 15-year loan to Argentina, designed to support water reforms in seven provincial and municipal utilities in medium-sized cities (50,000 to 500,000 inhabitants), including private sector participation in management and operation, introduction of regulatory structures, and introduction of "tariff policies and tested investment alternatives to better reach poor consumers".²²

5.B. Bolivia

5.B.1 La Paz, El Alto: failure to deliver to poor

Aguas de Illimani, the Suez-led concession in La Paz, has had problems in extending services to the poor while remaining profitable. The concession was awarded to a Suez-Lyonnaise subsidiary in 1997. The contract included explicit targets for extending connections to poor households, including the shanty town area of El Alto. The contract has not however provided adequate financial incentives for the company to make extensions in some areas, and it proposed that the service offered to the poor should be determined by ability to pay rather than by public policy.²³

According to the New Yorker the poorest households were not profitable customers because they consumed too little. “the people in El Alto weren't using enough water. Accustomed to Andean peasant life, they were extremely careful with water, never wasting a drop, and they continued to be so even after they had taps installed in their homes. This was good conservation, but it was bad for Suez's bottom line, and the corporation was disappointed in the return on its investment”. In April 2002 there were protests at the service delivered by Aguas de Illimani.²⁴

5.B.2 Water war and termination in Cochabamba

In September 1999, the International Water-led consortium Aguas del Tunari was awarded a 40-year concession for the water and sanitation system of Cochabamba, the third largest city in the country with some 500,000 inhabitants. Water tariffs increased by up to 200% in order to cover the costs of the Misicuni project, a massive engineering scheme causing water to cost “roughly six times that of alternative sources” and provide for a guaranteed 15% real return. The massive tariff hikes hit the people of Cochabamba where

the minimum wage was less than US\$100 per month. The average water bill was estimated to equal 22% of the monthly pay of a self-employed man and 27% of that of a woman. The concession was terminated in April 2000, following social unrest and military repression which left one person dead, two blinded and several injured. In July 2001, Aguas del Tunari was reported as seeking compensation under a bilateral investment treaty in case negotiations with the government failed²⁵.

In June 1999, the Bank's review of public expenditure in Bolivia recommended that "no subsidies should be given to ameliorate the increase in water tariffs in Cochabamba, which should reflect the full cost of provision of the Misicuni multipurpose project". Later, the review document expanded on the point: "so far the Government has made the clear decision that there will be no public subsidy ... and that the users will pay in full for the [water] services [in Cochabamba]. It is critical that the Government maintains this position." This would have the obvious effect to place all the burden of the over US\$ 200m Misicuni project and the guaranteed 15% real return on consumers²⁶.

Table: Estimated savings for Cochabamba consumers in 2001, as a result of termination of the Aguas del Tunari concession

USER CATEGORY	TOTAL SAVINGS FOR 2001	YEARLY SAVINGS PER HOUSEHOLD OR BUSINESS	% OF THE MONTHLY MINIMUM WAGE
Empty land	\$27,550	\$9.41	14%
The very poor	\$439,423	\$19.73	29%
The poor	\$748,323	\$40.16	60%
Middle class +	\$1,042,765	\$110.12	164%
Commercial users	\$1,211,888	\$208.98	312%
TOTAL/AVERAGE	\$3,469,952	\$58.71	87%

Sources: SEMAPA computer records; <http://www.democracctr.org/bechtel/waterbills/waterbills-global.htm>.

In November 2001, International Water's subsidiary Aguas del Tunari filed a US\$ 25m compensation claim with the World Bank's ICSID (International Centre for the Settlement of Investment Disputes).

5.C. Brazil

5.C.1 Sanepar

In 1998 Parana state part-privatised its state water company Sanepar. Sanepar is now 60% owned by the Parana state, 30% owned by Vivendi and by the Brazilian Andrade Gutierrez Group. The World Bank's IFC is now an indirect investor: ²⁷ in November 2001, it decided to invest US\$30m in acquiring a 16% stake in AGC.

Following a marked increase in the number of people suffering from renal problems and diarrhoea, analysis carried out by Parana state laboratory in August 2001 found that water supplied by Sanepar in Itaperuçu was contaminated by faecal colibacteria. The samples analysed contained no chlorine at all and the concentration of faecal coliform bacteria was capable of causing disease²⁸. Also, Sanepar supplied water of quality below legal requirements in the metropolitan region of Curitiba, with bad smell and taste due to algae contamination²⁹.

In September 2001, local NGO Instituto Timoneira was to take legal action against Sanepar for supplying contaminated water. The legal action aimed at making Sanepar management liable under criminal law for endangering public health and would seek compensation as well as the imprisonment and repatriation of

Sanepar managing director Jean-Marie d'Aspe³⁰. In December 2001, Jean-Marie d'Aspe returned to France as director of Groupe des Eaux de Marseille, 48.82% owned by Vivendi and 48.82% owned by ONDEO³¹.

In August 2001, Brazilian environmental agency Ibama (Instituto Brasileiro do Meio Ambiente) fined Sanepar R\$ 1m for exploiting groundwater sources without the required licence. The licence could only be obtained after submission of an environmental impact assessment of the implications of groundwater abstraction. Land slippage causing damage to properties in the Curitiba region had been attributed to groundwater abstraction³². Also, in August 2001 local councillors and environmentalists denounced Sanepar for discharging raw wastewater into the river Vermelho³³.

In August 2001, Sanepar's president Carlos Afonso Teixeira was to report to parliament and answer questions on allegations of diverting financial resources, inflated investment costs (more precisely, inflated invoices for works contracts), and excess management remuneration³⁴. Other allegations included the anticipation of interest payments and the irregular employment of 346 workers through a non existing emergency plan³⁵.

Loss of local control

The part-privatisation of Sanepar in June 1998 led to a loss of local control over water operations, suggesting that public-private partnerships (PPPs) are not partnerships of equals. In August 2001, the president of the parliamentary Special Commission of Investigation (CEI, Comissão Especial de Investigação) revealed that Sanepar's statute was modified in September 1998 (3 months after the acquisition of Sanepar's shares) in order to allow Vivendi-led consortium Dominó Holding to control the state water company. While Paraná state retained ownership of 60% of Sanepar's shares with the private partner holding a 39.71% stake, Dominó Holding exerted 59.3% of total voting power within the Board of Directors against the state government's 40.7%. The private consortium appointed the managing director ("*diretor de operações*"), the finance director and the supervisory director ("*diretor-superintendente*"), while the state appointed the chairman ("*diretor-presidente*"), the director of investor relations, the administrative director ("*diretor administrativo*"), and the director of new businesses ("*diretor de novos negócios*"). Of the nearly 4,200 Sanepar employees, 3,640 (around 87% of the total) worked under the three directors appointed by Dominó Holding and 544 (13%) worked under the directors appointed by the government³⁶.

According to local press reports, in April 2002 the municipality of Maringá was to take legal action against the tariffs increases imposed by Sanepar. Tariff increases in Maringá would be higher than anywhere else in the state of Paraná, with the exception of the capital Curitiba. In May 2002, a court ruling suspended the validity of the 18.6% tariff increase imposed by Sanepar. Neighbouring municipalities seemed to be following the example of Maringá: Paranaíba city council obtained a court ruling which ordered the restitution to consumers of the amounts charged as a result of the increases. Astorga city council decided that wastewater charges would be reduced from 80% to 30% of water supply charges, arguing that the prevailing ratio was "abusive". Finally, Maringá city council established a commission with the mandate to investigate Sanepar's behaviour in the municipality as regards accounting and financial matters. In June 2002, city councillors in Foz do Iguaçu denounced irregularities in invoicing, including less than transparent bills with no breakdown of costs for water supply, sanitation and other services, charging for services which in most cases were not provided, and charging for minimum consumption. The city councillors proposed that wastewater charges be reduced from 80% to 30% of water supply charges, that a water regulator for the municipality of Foz do Iguaçu be set up, that minimum consumption be fixed in relation to the costs incurred by individual consumers, and that Sanepar issue transparent bills to each consumer.

5.C.2 Water privatization, corruption and murder in Tangará, Brazil

In July 2001, Daniel Lopes, city councillor of Tangará da Serra, state of Mato Grosso, was murdered as he left the city hall in the same day where a vote was held which approved water privatisation. First police investigations related the murder to Lopes' opposition to the privatisation and led to the exposure of a major corruption scandal and the imprisonment of 14 people in March 2002, 8 of whom were city councillors. Detained city councillors confessed having received from R\$10,000 to R\$40,000 each in exchange for approving the privatisation, in the form of a 30-year concession.³⁷

5.C.3 Manaus:

In June 2000, Suez-Lyonnaise des Eaux was awarded a 30-year water and wastewater concession in Manaus (1.2m inhabitants), Amazonia state, Brazil. The concession would be renewable for another 15 years and Suez also acquired a 90% stake in the publicly-owned water company Manaus Saneamento for Euro 111m (R\$ 193m). Total investment over the life of the concession was estimated at US\$ 280m or Euro 300m, 40% of which in the first five years. Lyonnaise initially pledged that in five years it would extend water supply to 95% of the population and sanitation to at least 30% of the population (from 10% actually receiving sanitation services). However, after the concession award Suez stated that sanitation was in "dreadful" conditions and that changes could not be introduced overnight³⁸. Financial support would be provided by the state owned development bank BNDES (Banco Nacional de Desenvolvimento). BNDES agreed to issue a R\$ 72mn loan to help Lyonnaise pay the R\$ 193m price. BNDES would also support the company's investment programme³⁹.

5.C.4 Prolagos, Rio de Janeiro

In late 2000, Aguas de Portugal took over Brazilian water company Prolagos, holding a water supply and sanitation concession and serving around 250,000 people in the Rio de Janeiro lakes district. Portuguese state-owned Aguas de Portugal held a 93.5% stake in Prolagos. Prolagos was about to be privatised to Hochtief and Preussag in 1999, but the German companies eventually withdrew due to "legal and political problems".

In October 2001, Aguas de Portugal was reported as being negotiating a Euro 38.8m (US\$ 35m) loan with the EIB (European Investment Bank). The loan would finance Prolagos' investment in the concession area, covering the municipalities of Buzios, Cabo Frio, Sao Pedro da Aldeia, Iguaba and Arraial do Cabo, for the year 2002⁴⁰.

5.C.5 Campo Grande, Mato Grosso

In July 2000, the Suez-Agbar venture Interagua won a US\$ 217m, 30-year water supply and sewerage concession in Campo Grande, the capital of Brazil's state of Mato Grosso do Sul. The joint venture was initially reported as being Interagua, but in December 2000 AgBar said the joint venture was called Aguas Guariroba, 50% owned by Agbar, 41% by Cobel, and 9% by Mato Grosso state water company Sanesul. Agbar, which owns 53% of Interagua, is the operator of the Campo Grande concession.

The operations taken over by Interagua represented 44% of Mato Grosso state water company Sanesul's revenues. So that Sanesul was "now operating at a monthly operating deficit of 20%". Sanesul was to be restructured by October 2000 and would be "considering new operational models", including a PPP to finance ongoing projects⁴¹. Not surprisingly, Sanesul posted a loss of R\$ 1.46m in the first half of 2001, compared to a profit of R\$ 2.88m for the same period of 2000⁴².

5.D. Chile

The water privatisations in Chile started in 1999, by the sale of shares in existing public sector water companies. There was widespread political opposition to the water privatisation from political parties⁴³ and the trade unions – including a series of strikes.⁴⁴ In 2000, after presidential elections, the Chilean government suspended the privatisations, and transferred the money paid for Esva and Essbio to the relevant regional/local authorities.⁴⁵ It resumed the following year by inviting tenders for 20-35 year concessions for Essam and Essat, rather than selling shares in the companies,⁴⁶ despite further opposition from the unions and in parliament. The opposition pointed out that EMOS, water company of the capital Santiago, was seen as a model of efficiency even by the World Bank;⁴⁷ that the government had already made much of the necessary investments in some companies; and that in 2001 Chile's national average coverage was already 99.6% for water supply and 93.3% for sewage.

The workers of EMOS also went on strike over compensation.⁴⁸ In all the privatisations, 10% of shares are reserved for employees. A general agreement governing compensation and training of workers affected was

signed between the government and the trade union in 2001 (see above), after agreements reached with EMOS - compensation based on 42 days pay per year of service⁴⁹ - and Essel, for one months pay per year of service.⁵⁰

Following privatisation, EMOS and Esval both showed sharp price rises, profit increases, and major contracts awarded to subsidiaries of the new owners.

EMOS and ESVAL water rates rose by 15% in 2000, after a dispute with the regulator.⁵¹ EMOS was also fined for billing irregularities, and Esval for a faulty wastewater treatment and failure to extend the system.⁵² Emos profits in 2000 were US\$ 71.23m, an increase of 197.6% over 1999⁵³; Esval profits rose to US\$18.6, compared with a loss of 21.8m in 1999. EMOS awarded the \$315m La Farfana BOT (one of three) to Suez subsidiary Degremont in 2000.⁵⁴ In 2001 Esval awarded one of three treatment plant contracts to Anglian's subsidiary Purac.⁵⁵

Company	Date sold	Town/region	New owners	Comment
EMOS (now Aguas Andinas)	1999	Santiago	Suez-Agbar, 42%	Guaranteed 33% profit margin, Suez appoints 4/7 directors.
Essal	1999	Region X	Iberdrola	Iberdrola now wants to sell
Esval	1999	Valparaiso	Anglian water, 35%	Enersis (Endesa) held 7%, but Anglian bought their shares in 2000.
Essbio	2000	Region VIII, Concepcion	RWE-Thames, 50.9%	
Essel	1999	Region VI	RWE-Thames, 51%	Was half-owned by EdP, which later sold shares to Thames
Essam	2001	Region VII	RWE-Thames 64%	Concession; no competing bid

5.E. Colombia

5.E.1 Cartagena

In 1995, a public-private joint venture was set up to provide water supply and sanitation to Cartagena de Indias (900,000 inhabitants). Aguas de Barcelona was the only bidder in an international tender for a 45.91% stake. The city council owned 50% and a number of private investors, of whom company employees were a majority, owned the remaining 4.09%.

The municipality made privatisation the priority at the expense of most other considerations; the needs of the poor were not addressed in the contract, the existing workforce were made redundant and forced to reapply for their former jobs, worksites were occupied by police and army to defeat union opposition; the tender and award of the concession was "shrouded in mystery"; the municipality now has no effective professional capacity in water and sanitation, and is effectively at the mercy of the company in negotiations. The result is that many of the poor are 'invisible' to the contractor: the company claimed that over 90 per cent of the population were connected by 1999, whereas a World Bank report the same year stated that "Nearly one-third of the population, mostly in poor neighbourhoods, is without running water and basic sanitation services". The company's estimates are based on a gross underestimation of the target population because they ignore those citizens who reside outside the legally-defined "urbanised" area of the municipality.

In 1995 the newly elected mayor of Cartagena was fiercely opposed to the way the water PPP had been set up leading to the award of the contract to Aguas de Barcelona in December 1994. This was due to lack of transparency and accountability and potential inducements to corruption. The mayor wanted to annul the contract and remunicipalise the water services but changed his mind when the World Bank made clear that it

would have made funding conditional to privatisation. As a result, the mayor did not terminate the contract and simply renegotiated the terms of the arrangements with Aguas de Barcelona.⁵⁶

Acuacar had a responsibility for operating water supply and sanitation, but limited responsibility for financing investments. Immediately after being awarded the 26-year affermage-style contract, ACUACAR signed a fee-based management with Aguas de Barcelona. So that Aguas de Barcelona was remunerated through the dividends paid to shareholders and the management fees, calculated as a percentage of Acuacar's gross income.

This arrangement has allowed Aguas de Barcelona to extract increasing revenues from its Cartagena operations, as management fees were calculated as a growing percentage of Acuacar's gross income. "In the first four years of operation, this management fee was fixed at 2.94%, 3.37%, 3.82% and 4.25% respectively of gross income. In 1999 AGUACAR declared profits of \$1.96m. In the same year, AGBAR received a total of around \$2,100,000 from its involvement in the Cartagena concession - \$900,000 from its dividend share and \$1,200,000 from its management fee". (In 2002, Agbar sold its other interests in Colombia but retained its shares in Acuacar).

Another striking feature of the Cartagena PPP was that the alleviation of the financial burden carried by the municipal water operations. "When the water supply was privatised, the municipality retained responsibility for payment of pensions to the staff of the former municipal-owned water company. This heavy financial obligation, currently 16,000m pesos per year (\$8m), reduces the funds available for social investment in health and education. This factor should be taken into account when evaluating the overall impact of PSP on the urban poor".

Finally, the Cartagena PPP undermines local democratic control over water services. "The Municipality of Cartagena lacks the minimal technical support in its negotiations within the joint venture. To all intents and purpose it is a "sleeping" partner. However, by wilfully neglecting capacity building for its own organisation, the municipality is running the risk of very negative consequences for the long-term sustainability of the partnership".⁵⁷

5.E.2 Triple A: Soledad and elsewhere

Colombian water company Triple A (AAA) is effectively controlled by the Spanish companies Canal de Isabel II – Madrid's municipally-owned water company - and Valencia-based privately-owned Tecvasa. In Colombia, Triple A has operations in Barranquilla, Santa Marta, Soledad and Puerto Colombia. The 20-year concession to provide water services to the municipality of **Soledad** in Colombia, with around 400,000 inhabitants, was awarded in December 2001.

5.E.3 Emcali

See above for the long-running fight over privatisation

5.F. Ecuador

5.F.1 Guayaquil

In December 2000, International Water put forward the only bid for the Guayaquil water concession and was therefore awarded the concession with no competition, to start in April 2002. IWL has promised US \$ 1bn investment during the 30 year concession, 55,238 new connections in the first five years and increase service coverage to 95% after 10 years of operations.⁵⁸ In February 2002, a report by the Ecuadorian Centro de Derechos Economicos y Sociales revealed how Guayaquil's water supply and sanitation system had been privatised to International Water Limited following loan conditionality imposed by the IADB. The report also revealed that water workers had taken legal action against the private water operator for failure to comply with its pledges.

MIGA has given a \$18m guarantee to IWL for the Guayaquil water concession. This represents MIGA's first coverage of a water project and of a performance bond. The guarantee offered protection against political

risks – expropriation, civil disturbance – and also "covers a performance bond ... against the risk of wrongful call." ⁵⁹.

5.F.2 Samborondon: Amagua irregularities

In September 2000 Colombian-Spanish joint venture LASSA (Canal Isabel II- Tecvasa and their venture Triple A) took over the privatised water company Amagua in Samborondón, Ecuador. There had been allegations of corruption because Amagua was given the contract without competition in May 2000. Amagua was created as a public-private joint venture between the municipality and an AAA Servicios subsidiary Maverick – AAA Servicios itself is also part of the Triple A group..

5.G. Paraguay: privatisation halted

In June 2002 the Paraguay parliament voted by 32 to 7 to suspend indefinitely the privatisation plans for the state-owned water company Corposana. This was greeted by the trade unions as *“una gran victoria contra el FMI, el BM, la globalización y el neoliberalismo. Para eso, los compañeros se movilizaron por 15 días.”*

The proposal to privatise Corposana had been driven by fiscal motives and IMF conditionality: *“The proceeds of the sale will go towards plugging Paraguay's fiscal deficit, in order to comply with IMF targets”*. However, Corposana’s debt (US\$ 190m) would offset the eventual proceeds of privatisation, so the result would have been a long-term liability of having to pay higher tariffs with nothing in return. The cost of preparing for privatisation was financed by a \$12m loan from the World Bank, including a \$1.4m public relations contract (the largest ever PR contract awarded in Latin America) funded by WB. Corposana was to be divided into a maximum of seven concession areas, in some cases grouping together urban zones to make the operating licenses more profitable and attractive to private investors.

A major obstacle to privatisation was the level of redundancy compensation payments to public employees. Current legislation provided for an indemnity pay of 19 months for each year of service, which would lead to a total indemnity pay of US\$ 400m in both the water and the telecoms sectors.⁶⁰

5.H. Peru

5.H.1 Rio Chillón bulk water supply concession

In January 2000, ACEA and Impregilo won a 27-year contract worth US\$80 m for the concession to provide bulk water supply to the northern region of Lima, Peru, with a population of 750,000. Bulk water is supplied on a take-or-pay basis to Lima's state-owned water company Sedapal. Agua Azul is made up of Italian company Acea – part municipally-owned, part privatised (45%), Italian construction company Impregilo (45%) and Peru's largest construction company Cosapi (10%). Acea’s 2001 annual report showed post-tax profits of Euro 1.8m by Agua Azul.

Agua Azul financed their 2-year US\$ 35m investment programme by raising US\$ 10m equity, and selling a US\$ 25m bond issue, to local investors including pension funds. This was highly rated because the state water company Sedapal has signed a take-or-pay agreement, which is further guaranteed by the government, and the price is indexed to the US dollar. Financial operators believed that "Peru's \$3.4 billion-asset private pension system might invest up to \$100 million in the securities issued to finance government concessions in the medium term".⁶¹

The IADB has recommended this concession as a model⁶².

5.I. Uruguay

5.I.1 - Aguas de la Costa water privatisation a "dreadful experience"

In 1998 a small private water concession was given to Aguas de Barcelona subsidiary Aguas de la Costa. This privatisation was a "dreadful experience", with excessive charges and tap water which was undrinkable

and malodorous. Even the pro-privatisation GWP (Global Water Partnership) acknowledged that "Criticisms over inadequate tariffs, inefficient service, and more recently problems with the quality of water supplied, make this a very bad example of privatised concession". Nevertheless, "the Government is considering the extension of water supply and sanitation to the rest of the country".⁶³

5.I.2 Uruguay – problems with accounts and bacteria

In 2000 a water supply and sanitation contract covering an average population of 375,000 inhabitants in the tourist resort of Maldonado, was awarded to private company Uruguay, a subsidiary of Spanish water company Aguas de Bilbao in partnership with Spanish energy company Iberdrola.

By June 2001, only 8 months after operations started, several problems had become apparent. Those included price increases and errors in invoicing, service interruptions, delays in fulfilling the operator's obligations and incomplete payment of entry fees.

In June 2001, a critical report by PSI affiliate FFOSE (Federacion de Funcionarios de OSE, the trade union representing the employees of the national water agency OSE, Obras Sanitarias de lo Estado) revealed that the concessionaire did not report every month on samples analysis; nor had it sent to OSE the required information on invoicing and its accounts.

In April 2002 water supplied by Uruguay was found to be contaminated by coliform bacteria, and OSE declared a public health emergency. Out of 20 samples in Punta del Este and Piriapolis, 4 showed fecal coliform bacteria, and the water supply was declared unsafe by OSE, which recommended boiling the water before drinking it.⁶⁴ The company claimed that OSE's action was more connected with politics than with water, and in May the minister for the environment intervened, claiming that there was no public health emergency, and announced he was setting up a joint commission with OSE to examine the situation.⁶⁵

5.J. Venezuela

The first Venezuelan water privatisation came in August 2001, after the Inter-American Development Bank issued a US\$ 100m 20-year loan to Venezuela in November 1998. The multilateral loan was aimed to support "decentralization of the (water) sector, create and consolidate efficient and optimally sized service operator companies, and promote private sector participation in newly created companies".⁶⁶

The contract went to AAA Servicios (Canal Isabel-Tecvasa, with their venture Triple A) with an estimated turnover of \$ 40m per year, is for management of Hidrolago - a subsidiary to state-owned water company Hidroven - which is responsible for providing water supply and sanitation to 3.5m inhabitants in the state of Zulia, with 21 municipalities including Maracaibo.

6. Developments by country: Central America

6.A. Costa Rica

A 25-year BOT (Build, Operate and Transfer) contract is being planned to upgrade the sewerage system in the capital San Jose, with projected investment of US\$ 285m. In May 2002, Spanish investment bank Nmas1 presented the details of the concession to the city's water supply and sanitation company AyA (Acueductos y Alcantarillados). Nmas1 expected the timetable for the concession to be completed by the end of May 2002⁶⁷. Trade union Sipaa (Sindicato de Profesionales de AyA) opposed the proposal as a form of creeping privatisation and Nmas1 acknowledged that social opposition was a potential problem. However, the Spanish bank relied on the fact that the new Costa Rican administration of president Abel Pacheco supported the concession process⁶⁸.

6.B. Cuba

In January 2000, Aguas de Barcelona was awarded a 25-year concession as part of a 50:50 joint venture with the Cuban state to supply water to the whole of Havana (2.2 million inhabitants)⁶⁹. As of June 2002, the public-private joint venture Aguas de la Habana recorded water leakage of around 50%⁷⁰.

6.C. Dominican Republic

Triple A Dominicana, a subsidiary to Canal Isabel II and Tecvasa through AAA Servicios, holds a concession for the western half of Santo Domingo (2.5 million people), the capital city of the Dominican Republic⁷¹.

6.D. Jamaica

In June 2002, Jamaica's NWC (National Water Commission) revealed it intended to fund upgrading of Kingston's sanitation system through a mix of multilateral, bilateral and private sector finance. The US\$ 140m investment programme would be partly financed by the Inter-American Development Bank (US\$ 20m), partly financed by the Japanese Bank for International Cooperation (US\$ 40m), while a no better specified private sector company had offered to fund the remaining US\$ 80m.

In February 1999, the Inter-American Development Bank approved a US\$ 422,500 loan to support the NWC in the implementation of private sector participation pilot schemes in Ocho Rios, Montego Bay and Negril⁷². After the construction of multi-million wastewater treatment plants in the three tourist resorts, "many customers had difficulty in connecting because of the prohibitive cost"⁷³.

6.E. Honduras

After being awarded a 30-year water supply and sanitation concession, in February 2001 Acea subsidiary Aguas de San Pedro started operations in San Pedro Sula (527,000 inhabitants). 31% owned by Acea, the operating consortium also included Italian companies Agac of Reggio Emilia, construction company Astaldi (see Italian multinationals/Acea), Ghella and Lotti & Associati, with local company Terra SA holding a 5% stake. Projected investment in the course of the concession amounted to US\$ 180m. Acea expected sales of US\$ 9m in the first year of operations, which would increase to US\$ 35m in the following years⁷⁴.

6.F. Mexico

In December 2000, Mexico's Comision Nacional Del Agua (National Water Commission) pointed to the poor performance of Azurix in Cancun and Mexico City. In March 1999, Azurix bought a 49% share in Cancun's water company from Aguas de Barcelona, with the right of operation for 25 years. More than one year after, the Comision Nacional Del Agua revealed that the water system of the Mexican tourist resort "had received minimal investment so far". In June 1999, Azurix acquired a 49% stake in IASA from Severn Trent. IASA, which provides metering, billing, collections, operations and maintenance services to some 2 million people in Mexico City, "reported lacklustre progress"⁷⁵.

In July 2001, Aguas de Barcelona announced it had been awarded a 25-year water supply and sanitation concession in Saltillo, in the Mexican state of Coahuila (650,000 inhabitants). AgBar bought a 49% stake in Simas (Sistema Municipal de Aguas de Saltillo), which projected sales of Euro 21m (US\$ 19.1m) in 2001, and planned to invest Euro 81.9m during the life of the concession⁷⁶.

6.G. Nicaragua

Water privatisation in Nicaragua was first introduced in the cities of Matagalpa and Jinotega, where the new private water companies are owned by former high-level bureaucrats in national water utility ENACAL. The Inter-American Development Bank has promised to lend US\$14bn if the government negotiates contracts with a water multinational "to provide specific upgrading services to ENACAL in Managua and to fully manage the water utilities in Leon and Chinandega".

In June 2001, a 30% increase in water tariffs was introduced at national level following pressures from the IMF. The hikes led to the joint protest of trade unions, consumers associations, human rights and women's groups, which demonstrated peacefully and took legal action. The coalition of organisations claimed that the price increases were against existing regulations providing for the tariff structure to remain unchanged for periods of five years and violated the principle of public service and the right to access to a basic service⁷⁷.

6.H. Panama

In June 2002, the bidding procedure for the selection of a private operator to upgrade the capacity of the Chilibre water treatment plant was underway. Tenders submitted for a second contract for the upgrading of distribution networks, including leakage control and a registry of users and networks, were also being evaluated⁷⁸. The two projects were expected to have a total value of US\$70m to US\$80m in investments and would be financed by the Inter-American Development Bank⁷⁹.

6.I. Puerto Rico

Vivendi has managed water agency PRASA (Puerto Rico Aqueducts and Sewers Authority) for 7 years under a management contract awarded in 1995. The Puerto Rico Office of the Comptroller issued two critical reports in August 1999 and May 2001. There have been major problems with performance, including deficiencies in management, operation and maintenance of the infrastructure, a ballooning deficit, quality and efficiency. Comptroller Manuel Díaz-Saldaña declared that water privatisation "has been a bad business deal for the people of Puerto Rico"⁸⁰.

In May 2002, Vivendi was dismissed and Suez was awarded a 10-year US\$ 4bn operation and management contract, possibly to be renewed for 20 years. The contract covered operation, maintenance and renovation of water supply and sanitation infrastructure, customer services and human resources management. Ondeo succeeded as it pledged to rescue PRASA's budget. According to the Global Water Report, "The option of returning management to the public authorities was considered and it is understood that some local officials would have preferred to take back control of the state-owned utility. Some have expressed anxiety at the implications of Ondeo's metering plans. Previously the bills have been calculated on the basis of estimates"⁸¹.

7. Notes

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