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## Different Policy to Evaluate Privatization of Water-based Systems

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### Key Message

Another limiting factor or BSM implementation is privatization of irrigation infrastructure system. In most cases, the infrastructure value depends on the implicit price of water. Very frequently infrastructure has a high price disregarding the water value, which becomes a limiting factor to establish a further compensation to water producers/providers. This is happening in many cases of privatization in the Andes.

In several cases, lack of access to water is due to the lack of capital to access that water rather than the amount of water available. This situation creates the following paradox: very cheap water associated to high fees.

## Summary

In the Andean context privatization of irrigation systems (aqueducts and dams) is common. When a bid is called for a system, assigned prices are based on infrastructure rather than on the price of water. This is also true for new constructions since for the project to be profitable, the price of direct construction is higher than the price of water. These project feasibility design analyses bring in a benefit distribution distortion that affects public institutions, investors and water producers and make it difficult to design *a posteriori* compensations that incorporate the concept of water management efficiency.

Analyses capable of quantifying distribution of benefits are required. Good project design would probably produce less private returns but more social benefits for further distribution among major actors.

Failure to conduct these analyses would result in designing mechanisms that can't work in practice since current compensation for water is already included in infrastructure price what makes it difficult for users to pay twice for water.