

The impact of privatization approaches on the productivity growth of the water industry: a case study of Chile

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Abstract

The water industry faces the challenge of implementing privatization reforms. This process mainly adopts the following two approaches: the privatization of public water and sewerage services (WSS) and the privatization of water companies' ownership. This paper investigates the impact of both privatization approaches on changes in productivity in the water industry. In doing so, the Luenberger productivity indicator (LPI) was computed for a sample of Chilean water and sewerage companies (WaSCs) for the period 1997–2013. Unlike the most commonly applied index (Malmquist productivity index), the LPI simultaneously takes into account output expansion and input contraction. The results evidenced that productivity in the Chilean water industry decreased after its privatization. However, in the sub-periods in which the ownership of WaSCs was privatized, the productivity of the water industry increased due to technical improvements. On the other hand, the concession of WWS to private WaSCs involved a regression in productivity. From a policy perspective, regulators and managers of WaSCs at the international level can learn important lessons from the Chilean case to improve the productivity of the water industries in their countries.