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“Social policies and private sector participation in water supply – the case of Colombia”

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prepared for the UNRISD project on
“Social Policy, Regulation and Private Sector Involvement in Water Supply”

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1. Introduction

Private sector participation (PSP) in Colombia was limited prior to 1991. The Colombian constitution did not allow PSP in the water sector. It was limited to supplying inputs or building infrastructure under contract from a public entity. The 1991 Constitution allowed for a stronger role of PSP in the water industry. However, significant PSP through management or concession contracts began in earnest only after the issuance of Law 142 in 1994. The first experience of this type occurred in 1994, with the award of a management contract to Aguas de Barcelona in the city of Cartagena, although minority private share ownership had already been introduced earlier in the city of Barranquilla, Florencia and Monteria. During the present decade PSP in the Colombian water sector has expanded significantly with the award of at least 19 additional contracts in other localities. There is a wide diversity in the scope of these experiences, some being merely management contracts while others involve investment commitments under a BOT framework and still others are outright concessions.

As of today, close to 10% of the water supply companies in Colombia are in private hands or of mixed private-public ownership. This figure however understates the real extension of PSP in water in Colombia since the private sector is involved predominantly in large companies. Thus, as a share of population supplied, the importance of the private sector is larger than 10% (19% by some sources (Owen 2006)). Clearly, the private sector is an important agent in the Colombian water sector.

Recognizing the importance of adequate water supply and sanitation for the alleviation of poverty, this chapter investigates the impact of PSP on the poor and how social policies are designed to help them. Although the data does not allow us to make conclusive judgements as to the role of social policies in making PSP amiable to the poor, it is probable that the particular subsidy scheme used in Colombia to reduce the financial burden of utility bills on poorer households was a contributing factor. This is particularly so when we consider that the errors of exclusion —poor deserving households who do not receive the benefit— is extremely low, at least among connected households. However, we also show that in the particular case of the water sector, this scheme is overly generous (approaching towards universal assistance), with significant leakages to non-deserving households (high errors of inclusion). In addition, many poor households are not connected and therefore do not benefit from the subsidy scheme.

This chapter is organized as follows. The following section presents a brief history of the Colombian water sector, and characterizes its general regulatory framework, including the institutional arrangements, and the tariff setting procedures. It also presents some general statistics of access to water and sewerage services. Next section describes the different PSP experiences in the Colombian water sector. Subsequently, we review the available information regarding the impacts of PSP on poverty related issues. In the next Section we discuss the subsidy scheme used in Colombia to make water more affordable to the poor, its targeting properties, and its potential role in explaining the empirical results discussed earlier. The paper concludes with some policy recommendations.

2. The Colombian water section

2.1. Legal and institutional framework

The Constitution of 1991, and the Public Services Law 142/94 established a new legal and institutional framework for infrastructure services in Colombia that assign important roles both to the state and to the private sector. The 1991 Constitution identified public utilities as one of the core services that contribute to the well being of the population. It reiterated the ultimate responsibility of the state for ensuring the provision of these services to the citizens (Article 365) and its obligation to supervise and control their provision (Article 334), and it assigned an important role to the private sector, by stating that these services may be provided directly by the state or *delegated to the private sector or community based organizations* (Article 365).

Law 142/94 is a Public Utilities Law that covers all sectors within a consistent and unifying framework. It promoted the adoption of cost recovery tariffs for the utilities, and established limits on the extent of cross-subsidization between customers. It also provided the institutional framework under which the public utilities sectors currently operate. It created the Superintendence for Public Services (SSPD), in charge of ensuring the adequate control and supervision of the public utilities, and defined the functions of three Regulatory Commissions, one for water and sanitation (Regulatory Commission for Water and Sanitation, or CRA), another for electricity and gas (Regulatory Commission for Electricity and Gas, or CREG) and a third one for telecommunications (Regulatory Commission for Telecommunications, or CRT).

In Colombia, the line Ministries are responsible for policy formulation, as well as for the granting of concessions. In the case of the water and sanitation sector, the line ministry is the Ministry of Environment, Housing and Territory Development (MMAVDT for its acronym in Spanish). The advanced degree of decentralization in Colombia places, however, significant limits on the authority of the MMAVDT. As is common in many other countries, water and sanitation services in Colombia are a municipal responsibility. Municipal governments are responsible for guaranteeing service provision, and have the power to tax the services, define areas of service, and territorial planning issues, while the central government retains the responsibility of supervising the ex-post performance of all utilities nationwide and has the obligation to intervene in the management of utilities found to be in financial distress. This is done through the Superintendence for Public Services that supervises the performance of the public services providers and monitors their compliance with service and safety standards and other regulations issued by the Regulatory Commission of Water and Sanitation (CRA for its acronym in Spanish).¹ CRA defines tariff-setting methodologies based on standard formulas and on investment plans by the operating companies and sets quality and technical standards to be followed by the utilities. Its two central functions are the regulation of monopoly power and the

¹ The Superintendence of Public Services oversees market competition, certifies the dwelling categories of residential users in the allocation of subsidies, and ensures that the subsidies reach the poor, based on this categorization. It issues opinions to the Regulatory Commission and the line Ministry regarding the performance of service providers and their compliance with sector laws and regulations. It also investigates irregularities, conducts inspections, penalizes companies that fail to comply with the rules, and has the authority to intervene and liquidate non-performing public enterprises. Finally, it acts as an appeals body for consumer complaints against service providers. The Superintendent is appointed by the President.

promotion of competition. For services in transition, CRA has the responsibility of determining the steps towards market liberalization. It can decide when it is appropriate to establish regulated tariffs or to allow free determination of prices in the market place. The MMAVDT presides the Regulatory Commission, however, and its favourable vote is needed to approve any decision. CRA is not in charge of environmental regulation, which is handled by Autonomous Regional Corporations.

2.2. Access to water and sanitation services

This section characterizes the situation of access to water and sanitation services in Colombia using data from the Living Standards Measurement Survey of 1997 and 2003. This survey is representative for the country regions and for the urban and rural areas. Table 1 shows the distribution of households between the urban and rural areas, with households classified by expenditure per capita quintiles.² The information contained in this table allows us to place the access statistics in context. First, it becomes evident that most of the country's population lives in urban areas (only 24.6% of the households are located in rural areas). Second, the poorest 20% of households are predominantly in rural areas. However, if we consider the 40% poorest households, there are over 2.5 million in urban areas compared to less than 2 million in rural areas.³

Table 1: Urban/rural household distribution by expenditure per capita quintile, 2003

	Urban		Rural	
	#	%	#	%
Q1	962,669	43.0	1,276,488	57.0
Q2	1,542,172	68.9	697,505	31.1
Q3	1,802,005	80.5	435,934	19.5
Q4	2,022,464	90.3	217,524	9.7
Q5	2,116,122	94.6	121,225	5.4
Total	8,445,432	75.4	2,748,676	24.6

Source: ECV, 1997 and 2003, Departamento Nacional de Estadística, DANE.

² We use expenditure rather than income to classify households in the income distribution. Expenditure is more stable than income and is a better proxy for 'permanent income'. We also use equivalent scales to calculate the expenditure per capita. Every member of the household 18 years old or more has a weight of one, while members under 18 years old have a weight of 0.5.

³ It must be noted, however, that 72% of the rural population is poor. Thus, in absolute numbers there are more poor households in urban than rural areas, but in relative terms there are more poor households in rural areas.

Table 2: Access to piped water and sewerage according to whether the household receives the service from a water provider in exchange for payment

		Water			Sewerage		
		Urban	Rural	Total	Urban	Rural	Total
1997	Q1	94.4%	40.8%	61.1%	77.8%	8.7%	34.9%
	Q2	96.9%	52.6%	82.2%	84.6%	15.9%	61.9%
	Q3	99.1%	58.1%	91.2%	89.0%	25.4%	76.8%
	Q4	98.8%	63.1%	94.9%	93.8%	28.8%	86.7%
	Q5	99.4%	78.9%	98.7	95.7%	32.2%	93.6%
2003	Q1	93.9%	48.1%	67.8%	77.0%	10.6%	39.1%
	Q2	96.7%	56.0%	84.1%	86.1%	16.1%	64.3%
	Q3	98.1%	59.2%	90.5%	91.2%	25.2%	78.3%
	Q4	98.5%	65.6%	95.3%	94.2%	27.8%	97.7%
	Q5	98.6%	53.9%	96.2%	95.7%	18.3%	91.5%

Source: ECV, 1997 and 2003, Departamento Nacional de Estadística, DANE

Table 2 and Table 3 show access to water and sanitation services using two alternative definitions. Table 2 shows access statistics for households that report to receive the service from a provider, in exchange for payment. Table 3 uses a more flexible definition by including the households that report to have access to water and sanitation through any acceptable solution, as defined by the United Nations.⁴

Table 3: Access to water and sanitation through an acceptable solution as defined by the United Nations

		Water			Sewerage		
		Urban	Rural	Total	Urban	Rural	Total
1997	Q1	94.4%	43.4%	62.7%	93.4%	54.3%	69.1%
	Q2	96.9%	54.9%	83.0%	97.9%	70.2%	88.7%
	Q3	99.2%	62.8%	92.2%	99.5%	76.0%	95.0%
	Q4	98.8%	65.5%	95.2%	99.5%	81.0%	97.5%
	Q5	99.4%	82.4%	98.9%	100.0%	84.0%	99.4%
2003	Q1	97.5%	63.6%	78.2%	94.8%	62.9%	76.6%
	Q2	98.8%	70.6%	90.1%	97.8%	76.3%	91.1%
	Q3	99.1%	72.3%	93.9%	99.3%	80.4%	95.6%
	Q4	99.4%	76.2%	97.1%	99.6%	90.7%	98.7%
	Q5	99.2%	63.6%	97.2%	99.8%	85.2%	99.0%

Note: acceptable solutions for water are: household connection, well, and public fountain. For sanitation: sewerage, septic tanks, latrine and others.

Source: ECV, 1997 and 2003, Departamento Nacional de Estadística, DANE.

Table 2 shows that lack of access to water in Colombia is a problem almost exclusively for rural households. Access to sewerage services is also very low for rural

⁴ Water: household connection, well, and public fountain. Sanitation: sewerage, septic tanks, latrine and other.

households, although it is still quite low for urban households in the first two quintiles of the income distribution. From Table 3 it can be seen, however, that many households do have access to non-public sanitation services such as septic tanks and latrines.

While there is still a long way to go, the numbers do show some progress in connecting households to these services between 1997 and 2003.⁵ We still need to establish to what extent this progress is connected to the involvement of the private sector in the provision of water and sanitation services.

Table 4: Connected households with uninterrupted water service

		Water		
		Urban	Rural	Total
1997	Q1	61.8%	70.7%	65.5%
	Q2	71.3%	62.5%	69.5%
	Q3	73.2%	63.1%	72.0%
	Q4	77.0%	66.5%	76.3%
	Q5	84.1%	74.3%	83.8
2003	Q1	63.0%	60.0%	61.8%
	Q2	68.7%	60.7%	67.1%
	Q3	75.7%	63.35	74.2%
	Q4	78.6%	63.9%	77.6%
	Q5	83.2	67.5%	82.7%

Source: ECV, 1997 and 2003, Departamento Nacional de Estadística, DANE.

Table 4 shows, however, that not all households with access to piped water have continuous service (24 hours a day, 7 days a week). It is interesting to note that the percent of households in quintiles 1 and 2 (poorest 40% of the population) with uninterrupted service fell from 1997 to 2003, while the percent of connected households in these groups increased over the same time period.

Finally, Table 5 provides another view of water service quality in Colombia. These statistics are only available for 2003. They show that service quality is quite poor for a considerable share of households in all income quintiles, and especially for those located in rural areas.

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