

Towards building a tariff methodology for rural water and small Service providers in Colombia

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Abstract/Summary

This document presents the Colombian experience in building a tariff methodology for rural and small town water service providers. For the first time in Colombia, a participatory approach that included water service committee leaders was utilized to develop sector regulation. As part of the approach, small service providers chose different viable alternatives that were later transformed into legal regulation through public citizen consultation. For example, one alternative providers considered was whether to adhere to regulation issued by a central regulator or to follow their own self-regulation rules. The providers preferred adhering to the former to avoid internal conflicts in setting tariffs. In addition to shaping the regulatory approach, the providers’ participation helped ensure that the regulatory norms were understandable and easy to apply. The new participatory approach for the formulation of rural regulation in Colombia was particularly important in light of the weakness of past regulation for the rural sector.

Introduction

Under Colombia’s water and sanitation legislation, the Water and Regulation Commission (CRA) is responsible for setting the regulations, guidelines and methodologies for water service providers throughout the country. Every four years, the President of the Republic appoints four Commissioners. The fixed, four-year terms of these Commissioners does not coincide with the presidential elections, providing a degree of political independence. While the CRA defines policies, the Superintendence of Domiciliary Services (SSPD) is responsible for the control, inspection and oversight of service providers.

Since 1994, tariff frameworks have been divided in two segments: large service providers (large and intermediate cities) and small service providers including rural areas. Small providers are defined as those that attend up to 5,000 subscribers (approximately 20,000 people). Colombia is currently in the process of rolling out a new tariff structure for small service providers that unlike the previous two structures resulted from a participatory approach.

Description of the Case Study – Approach or technology

In Colombia, 11 providers service 70% of the country’s population and over a thousand providers service the remaining 30% of the population, who are based in small towns and rural areas. The exact number of service providers in small towns and rural areas, however, is unknown complicating the regulation and oversight of their service.

With over 20 years of implementing regulatory experience, service providers in urban areas have begun providing more efficient and continuous service while expanding quality and coverage. This is due to a combination of factors including adequate financial resources for providers, the cities’ institutional capacities, and the potential urban areas provide for economies of scale and agglomeration. In Colombia, sector policy and resources have traditionally been focused on the urban sector.

Regulation has not spurred such positive change in small municipalities and rural areas. The regulatory approach was developed with urban areas in mind and its application in rural areas has been difficult. The rural sector also suffers from a lack of public policy, low resource allocation, limited inter-institutional capacity and political interference.

The CRA, the Economic Commission for Latin America and the Caribbean, the Inter-American Development Bank and the SSPD cited low affordability levels, limited technical and administrative capacity, lack of planning by providers, insufficient data reporting, service atomization, lack of specific policies, limited support and technical assistance by the central government, and the complexity of tariff regulation as the main reasons for service providers’ weak performance in rural areas.

There was a clear need to strengthen regulation, policy formulation, resource mobilization and service sustainability in small town and rural areas. As a result, the CRA embarked on a process of reassessing the regulatory approach and developing a new regulatory framework.

In 2014, Colombia, in negotiations with the Organization for Economic Co-operation and Development (OECD) agreed to increase citizen participation when enacting new regulation, given that previously citizen participation *only took place once* the Government made an initial proposal. In light of this agreement, the CRA adopted a participatory, bottom-up approach for the development of a regulatory methodology for the rural sector. The CRA invited approximately 30 leaders of rural and small towns water committees and federations to a workshop to discuss the key elements for the new regulatory framework. The workshop covered institutional issues as well.

Regulatory Issues. The following five themes (in bold) and the main results of the discussion on each theme are presented below.

1. **Resources required for good service provision.** There is a general lack of infrastructure at all service levels and financing structural improvements via tariffs is not viable. Tariffs do not cover O&M costs, and there is no access to subsidies. Water sources are not being protected and water source environmental licensing is cumbersome. There is no training or technical assistance for providers. Educating users on their rights and responsibilities is a priority.
2. **Required actions to improve metering and tariff collection.** Campaigns on rational water use and metering are necessary. Meters and commercial software to control water consumption should be given or subsidized. It is also important to implement measures for cutting, suspending and reinstating services in rural areas.
3. **Convenience of following a regulator’s rules versus each provider developing its own rules.** The group found implementing the central regulator’s regulations more convenient as it would facilitate tariff calculation and promote service sustainability. The participants rejected the self-regulation model because of the difficulty agreeing on tariff levels in their communities.
4. **Difficulties applying current regulatory norms.** Existing regulatory methodologies are complex, making their implementation difficult. There is currently no training on regulatory issues. Increasing tariffs to cover investment costs could cause conflict within the communities as well as collection problems.
5. **Other aspects important for good service provision.** Municipalities should process subsidies and allocations efficiently to ensure providers do not suffer from a lack of financing. The Government should cover infrastructure costs and policies and norms specifically for the rural sector should be enacted.

Institutional Issues. The following six themes (in bold) and the main results of the discussion on each theme are presented below.

1. **Perception of the role of the State.** Financial support to municipalities has become politicized, complicating the transfer of funds. Support from regional governments is low or non-existent. The central government does not reach rural service providers or does so sporadically. Too much red tape is required to obtain environmental licenses to use water sources. There is a lack of institutional coordination in the rural sector.

2. **The role of the State.** Support to rural areas by the State should be done in a coordinated manner. Policy design should involve the Community Organizations for Water and Sanitation Services (*Organizaciones Comunitarias de Servicios de Agua y Saneamiento -OCSAS*). Infrastructure and tariff subsidies should be transferred directly to OCSAS.
3. **Main challenges to rural water policy.** The policy should be focused on the communities. There should be a direct relationship between the Government and the communities to simplify the process of accessing resources and to avoid corruption. The participants proposed creating Public Community Associations for the management and optimization of infrastructure works in rural zones.
4. **Organization structure of water service providers in rural areas.** Participants proposed maintaining the OCSAS structure but improving the legislation around the structure.
5. **Oversight and control mechanism for rural service providers.** Monitoring systems should be seen as a helpful tool rather than a mechanism for generating sanctions. In addition, prior to sanctioning a provider, agreements to improve services should be made. If the recommendations are not adopted, then a sanction should be applied.
6. **Other important aspects for the institutional framework.** Mechanisms to monitor the transfer of municipal resources and subsidies for infrastructure works should be created. The participants proposed a decentralized institutional scheme in order to attend rural communities’ needs.

The workshop’s conclusions on regulation were used to prepare the Regulatory Proposal for small municipalities and rural areas in the country (Resolution CRA No.717 of 2015). This proposal has been presented for public consultation and citizen participation in different areas of the country. Currently, minor adjustments are being made that incorporate citizen feedback; a final resolution is expected to be published by the end of the year. The workshop’s conclusions on institutional issues were sent to the Ministry of Housing, City and Territory to serve as input for the preparation of rural water public policy. An unintended result of the workshop was the formation of an association of rural water leaders, the Colombian Confederation of Communal Water and Sanitation Service Providers (COCSASCOL).

Main results and lessons learnt

Government policy proposals should be developed using a bottom-up, participatory approach. Benefits to this approach include: (i) the collection of information directly from the regulated party; (ii) the pre-identification of potential bottlenecks and difficulties; and (iii) ownership of the policy by the providers.

Conclusions and Recommendations

- **REGULATORY ISSUES.** It is important that a regulatory agency for rural water and sanitation services exists and sets tariffs for the rural sector. Regulatory tariff methodologies should be easy to apply and understand. Tariffs charged in rural areas should cover O&M costs. Infrastructure investments should be the central government’s responsibility. Otherwise, service provision in rural areas will not progress given that the population cannot afford to cover infrastructure investments.
- **INSTITUTIONAL ISSUES.** The central government should provide permanent training and technical assistance programs for OCSAS. This assistance should cover administrative and technical issues and support enhanced coordination among sector institutions. The environmental licensing procedure should be made more efficient. Transfers and subsidies from the central government should be agile and transparent. Rural public policy should be prepared in conjunction with OCSAS. The policy should include feasibility studies for public-community partnerships, direct wire transfers for tariff and infrastructure subsidies, and permanent training and assistance programs on management issues.
- **OTHER ISSUES.** Monitoring activities should be carried out to assist OCSAS and help them develop improvement plans in an effort to avoid future sanctions for service failures. Reporting mechanisms and systems should be simple and should serve to identify the number of providers and administrative and technical standards, as well as to define a baseline to allow for proper monitoring over time. Users need to be trained on their rights and obligations, payment culture, environmental issues, rational use of

water resources and the benefits of metering.

References

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