Tools to guarantee Access to low income families to W&S services

Good practices from some Latin American countries: Chile and Colombia

Similar system are used in Peru and some federal states/provinces from Brazil and Argentina.
Since mid-90s water rates/tariffs become regulated

W&S regulatory Commission define the water rates methodology (in Chile it is in the law)

Rates increased significantly in real terms

Although consumption (m3 / family / month) reduced significantly

bills became an important part of the income of the poor families

To permit financial sustainability of water services rates have to be defined to full cost recovery
## 2. Financial Tools

<table>
<thead>
<tr>
<th>Cross Subsidies (differential rates/tariff)</th>
<th>Subsidies (rates lower than economic cost) to poor families.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Overprices (rates higher than economic cost) to high income families/nonresidential users.</td>
</tr>
<tr>
<td>Direct Subsidies</td>
<td>Subsidies (rates lower than economic cost) to poor families.</td>
</tr>
<tr>
<td></td>
<td>Budget transfers to water companies to cover a portion of the water bill of poor families.</td>
</tr>
<tr>
<td>Public Investment in water services</td>
<td><strong>National government transfer to municipalities:</strong></td>
</tr>
<tr>
<td></td>
<td>Permanent transfer (by law) to be used in W&amp;S sector (investment or subsidies).</td>
</tr>
<tr>
<td></td>
<td>Occasional (annually defined) transfer to selected municipalities to W&amp;S investment.</td>
</tr>
</tbody>
</table>

- Investment with company (private or public) funds have to be recovered through rates
- Investment with municipal/national budget do not have to be recovered through rates
3. Limits to subsidies

- Only the poor families
- Only to the volume of water considered basic
- Limited in time (Chile’s Case)

- Not to low consumption of all families
- Between 10 – 20 m³/family/month
- Can be renewed at the request of the family
4. Focusing subsidies

4.1 Individual Focusing: Chile’s Case

Each family is interviewed.

Evaluation of economic situation gives points.

If the family reaches the defined score, it has the right to the subsidy.

Only two groups of beneficiaries.

Direct subsidies: Financing by national budget.

It is a fairly accurate (focusing) system.

It is an administratively costly system.
4. Focusing subsides
4.2 Zonal Focusing: Colombia’s Case

Zonal Focusing

All families in the zone get the same class

All families in the same class have the same subsidy/over price

In the smaller municipalities the classification is house by house

Zones (or blocks) of the municipality are classified by its urban conditions

Houses are classified in 6 groups (stratums):

- Stratum 1 y 2 receive subsidies
- Stratum 5 y 6 and Non residential user pay over prices
- Stratum 4 and official users:
  Do not receive subsidies
  Do not pay overprices

It is a less administratively costly system

It is a less accurate (focusing) system

Cross subsidies: Financing by high income users, non residential, plus local budget
5. W&S Subsidies and Over prices in the 30 largest Colombian utilities

<table>
<thead>
<tr>
<th>Utilities</th>
<th>Subsidies</th>
<th>Over prices</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>The 10 largest</td>
<td>282,684</td>
<td>203,094</td>
<td>79,590</td>
</tr>
<tr>
<td>20 following</td>
<td>47,905</td>
<td>24,604</td>
<td>23,302</td>
</tr>
<tr>
<td>Total (30 largest)</td>
<td>330,589</td>
<td>227,697</td>
<td>79,590</td>
</tr>
</tbody>
</table>

This difference is covered by municipal contributions.

30 providers, serving 117/1122 municipalities
More than 70% of households

Exchange rate 1868.9
5 Destination of Municipal Drinking Water Resources
(2013) US$ Million

- Direct Investment: US$ 418.3 (65%)
- Subsidies: US$ 222.3 (35%)

Total: US$ 641