

Lessons Learned from PPIAF Activities: Structural Reforms in Colombia's Water Supply and Sanitation Sector

A comprehensive PPIAF-funded report, [“Charting a New Course: Structural Reforms in Colombia's Water Supply and Sanitation Sector”](#) (May 2011), illustrates how a series of well conceived policy reforms that create incentives for efficient service providers can radically transform the dynamics of a highly politicized and underdeveloped sector.

Background

It is rarely the case that a single country can present sufficient observations to analyze and evaluate several different models for water provision. Colombia has multiple examples of successful arrangements with the private sector in some of the most underdeveloped regions of the country. In this sense, Colombia presents a nearly unique case of activities in the water supply and sanitation sector. Combining operations, concessions, and ownership, the private sector is active in water supply and sanitation services of 139 municipalities, representing 35% of the urban population in the country. A group of six international specialized operators manages 21 municipalities, while the remaining 118 are operated by small and medium national groups.

Lessons Learned

This report is a useful reference on several key aspects:

- **Impact of private sector participation reforms:** The sector reforms of the 1990s in the water and sanitation services sector in Colombia have generated positive results. Through these reforms, the country was able to set up a significant number of specialized operators—public and private, national and foreign—who have been operating part of the water and sanitation systems with greater efficiency and better management. In larger cities and in some smaller municipalities there has been significant progress in terms of coverage and quality.
- **Importance of reliable data:** Currently the country has a framework of laws, regulations, and sector policy that has stimulated a generation of reliable information for the sector, which defines the setting of tariffs for services based on their production costs. In doing so, the tariffs send adequate signals to rationalize consumption, with a positive impact in the environment, and making it possible to program the extensions of the systems' capacity with efficiency criteria.
- **Merits of a flexible framework:** The policy framework developed has been sufficiently broad for the emergence and coexistence of several schemes of private participation, corporate development, and competition. These have made it possible, for example, to restructure some public companies at a municipal level so that they are more competitive today, using flexible schemes of private-public partnership. This diversity also makes Colombia a special case, at least in the Latin American context.
- **Institutional incentive-mechanism for private sector participation:** The creation of the “Corporate Modernization Program” made it possible to structure a solid and standardized model to establish arrangements with specialized operators in the sector. This was achieved through competitive and free access processes, with objective selection criteria for effective agreements. These processes, which have been successful in municipalities of different sizes, were accompanied by significant state contributions to co-finance investment and mechanisms that facilitate a better targeting of public resources in the sector.
- **Case studies:** The report presents eight case studies illustrating in detail different examples of how private sector participation in the water sector was implemented in the Colombian context, highlighting the lessons learned from each.

Going Forward

The main challenge going forward is to attract specialized operators to the smaller municipalities which do not currently have them. For that purpose, over the last two years the policy framework has been focused

on promoting the sector's development, by using the departments as the intermediate institutional level between the national government and the municipalities, to formulate programs with regional impact and promote comprehensive investment plans.

The idea behind this strategy is to accelerate the expansion of coverage and improve the quality of service, making it easier to meet the following policy guidelines: i) effective inter-institutional coordination within each level and across different levels of government; ii) accelerating the sector's modernization throughout the country; iii) taking advantage of economies of scale by structuring regional supply schemes; iv) connecting the different sources of funding and facilitating the sector's access to credit; v) exercising better control over resources and compliance with regulations; and vi) having comprehensive investment plans with regional perspective for the short, medium and long term.

PPIAF stands ready to support further improvements in Colombia's water supply and sanitation sector, including through the dedicated funding window for sub-national entities (SNTA). This report provides an excellent baseline for development practitioners to spark further growth in this vital sector.