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Tuesday, April 10, 2012



AAA agents negotiate water payment plans with customers in a low-income neighborhood.

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NEWSBEAT

When a water meter is worth more than a house

How one company excels in the difficult business of providing water and sanitation services to the urban poor

By *Paul Constance*

BARRANQUILLA, COLOMBIA — When a woman in a shantytown calls the water company to complain about a ruptured pipe that is flooding her street, what kind of response should she expect?

If the shantytown is located in Soledad, a municipality adjacent to the Colombian city of Barranquilla, she can expect the pipe to be repaired within 14 hours. Soledad is home to nearly half a million extremely poor people, many of whom were forced to flee their homes by guerrilla conflicts in other parts of the country. It has high levels of crime and unemployment, primitive dirt roads, and all the problems usually associated with squatter settlements on the margins of Latin America's cities.

But as of three years ago, most of Soledad has excellent water and sewer services. Consider the response to a call reporting a broken pipe. During a recent visit to the operations headquarters of AAA, as the local water company is known, a reporter watched as three full-time telephone operators logged customer calls onto a computer system. Following the call about the pipe, the system generated a text message that was broadcast to one of several roving field inspectors. Company officials explained that the inspectors ride motorcycles to better negotiate Soledad's rutted roads. When the inspector received the message, he hurried to site of the leak and used a customized cell

phone to file a text report describing the diameter of the broken pipe and other technical details.

Back at AAA's facilities, software designed by the company converted the report into a work order, added it to a list of pending repairs and broadcast an update to the head of a work crew that was already in the field. The system uses a digital map of the city to plot the shortest route between each work site and automatically adjusts the sequence of work orders to ensure that crews waste as little time as possible driving between jobs.



Technicians at AAA's main plant monitor the progress of repair crews in the field.

Each crew's progress was monitored on a giant screen in a room at AAA headquarters that looks like an air traffic control center. "We used to do all this by voice," said Edgardo Gutiérrez, AAA's Operations Manager. "But then we figured out that it would be a lot quicker to eliminate conversations and just use text." As a result, AAA has cut the average time it takes to repair a leak to 14 hours, down from almost twice as long a few years ago.

A different kind of water company. This intensive use of technology to improve efficiency and customer service is one reason for AAA's emergence as one of the fastest-growing water companies in Latin America. Since 1997, when it began winning contracts to manage water services in areas adjacent to Barranquilla, AAA has expanded into eight additional municipalities. It now serves nearly 1.5 million people in Colombia and has won contracts to operate water services in Ecuador and the Dominican Republic as well.

But the key reason for AAA's rapid growth is its willingness to focus on a market segment that other companies tend to avoid. In Barranquilla, more than 76 percent of AAA's customers are in the three lowest of six income segments used by the Colombian government. In Soledad, 98 percent of the population is in the three lowest segments, and poverty levels are similarly high in all the other municipalities where AAA operates.

AAA is one of several Colombian water companies that have emerged over the last decade as a result of the country's unique approach to water regulation and financing. A key aspect of that approach is the separation of responsibilities regarding investment and operation. While national and local governments still provide nearly all the capital needed to expand water and sanitation infrastructure, Colombia's municipalities have the option of hiring private companies to operate the services on a contract basis (See link at right, "The day that water ran uphill," for more details).

Though water and sanitation providers in Colombia's largest and wealthiest cities have remained under traditional public management, many of the poorest and least developed parts of the country have adopted a "mixed-capital" model in which the service is jointly

controlled by municipal governments and private “operating partners”. This arrangement has distinct advantage for cash-strapped municipalities. In exchange for an annual management fee and a modest percentage of revenues, operating partners must meet ambitious targets ensuring that coverage is extended to low-income areas quickly—sometimes before the current mayor concludes his term in office.

Meeting these targets is anything but easy. According to Carlos Ariza, AAA’s general manager, operating in areas where “a house is worth less than a water meter” poses challenges that most water companies never face.

Not necessarily welcome. To begin with, people in the poorest and most marginalized areas don’t necessarily welcome the arrival of formal water company. When AAA hired Aguas de Barcelona, a private Spanish firm, to serve as operating partner in 1996, more than 60 percent of Barranquilla’s population had no water service at all or had it for only a few hours a day. Intestinal diseases were out of control, especially among children. Protests against the municipal water service were commonplace, and the issue had become a permanent headache for the municipal government.



ROGER HAMILTON—IDB/ID

The pre-World War II building housing AAA's water treatment facilities has been beautifully restored.

Yet when AAA announced that the new operating partner would oversee an ambitious program of service improvements and expansion, many residents reacted with alarm.

After years of neglect by local authorities and of paying exorbitant prices to informal water vendors, some residents suspected that the new arrangement would be designed to take advantage of them. Though they were generally eager to have an in-home water connection, low-income consumers were not as willing to pay for sewer service, which many considered a luxury instead of a necessity. When AAA began to install residential water meters in homes that had never had them, many consumers worried that the devices would result in big water bill increases.

Some economic and political interest groups in Barranquilla had little to gain from a significant improvement in service to low-income communities. According to Luis Fernando Arboleda, a former AAA general manager, the lucrative business of selling water in low-income neighborhoods via tanker trucks had become a nexus of political corruption. “We had a saying-‘One water truck for each city council member’,” he recalled.

Politicians in opposition parties, for their part, took advantage of public anxiety about increases in the water rate. “The water service was terrible, so naturally we were in the habit of not paying the bill,” recalls Guillermo Hoenisberg, Barranquilla’s current mayor. “When

service began to improve, a lot of people didn't understand the importance of paying, and some political candidates even encouraged them not to, as a way of getting votes. I myself was opposed to the private operator, for ideological reasons."

Given this context, AAA officials quickly realized that it would be difficult, if not impossible, to function as a traditional water company that simply builds pipelines, installs water meters, and sends out bills.

Earning legitimacy. AAA's executives concluded that the only solution was to start by earning the trust of its customers and the explicit support of the city's political and economic leaders. According to Arboleda, officials from Aguas de Barcelona went out into Barranquilla's poorest neighborhoods and interviewed thousands of people with the goal of understanding their expectations and assumptions regarding water and sanitation. These interview also revealed a great deal about the financial limitations and money-management habits of people in the lowest income levels.



Community assemblies, like this meeting in the municipality of Soledad, are a central part of AAA's strategy of ensuring it maintains legitimacy among low-income consumers.

The interviews convinced AAA new operator that it would need to conduct a massive communications campaign to educate low-income consumers about the health benefits of in-home water and sewer service, the costs of providing the service, the importance of water meters in monitoring consumption, how monthly bills would be calculated, and related topics. AAA would

eventually hire more than 40 staff, many of them social workers by profession, to work full-time in these community outreach efforts.

Simultaneously, AAA adopted an aggressive external relations strategy that contrasts sharply with the cautious, low-profile approach preferred by water companies in many other Latin American cities. AAA runs elaborate public information campaigns in radio, television and the press. It also regularly hosts lunches and workshops for local journalists where company officials offer detailed explanations of the company's activities and answer questions.

On the political front, AAA insists on frequent meetings with municipal officials to coordinate activities with other public services and head off potential conflicts. Company officials also make sure that the mayor gains political advantage from every milestone in the service improvement works. During ribbon-cutting ceremonies to inaugurate a new extension of the water network, for example, officials always make sure the mayor dominates the proceedings.

The strategy got its first full-scale test when AAA announced plans to install 40,000 new water connections in 53 barrios in the southwest section of Barranquilla that were inhabited by some 370,000 of the city's poorest people. According to company records, during a

three-year period AAA's community outreach staff conducted more than 60,000 home visits, 6,410 community assemblies, and 570 educational workshops in this area. AAA hired more than 3,000 unskilled workers from the barrios to help dig new pipelines. The main local newspaper, prompted by continuous attention by AAA's press relations staff, published a total of 240 articles on the expansion projects.

Instead of installing meters and immediately sending out bills, AAA decided to use a gradual approach. In some cases the company would start by delivering water for free, and then bill new customers for 10 cubic meters of water per month, even if their actual consumption was far higher. After two months the fee would be based on 20 cubic meters, and after six months, it would be based on actual consumption. According to company officials, this approach relieved most consumers' anxiety about the water meter and encouraged them to start monitoring their own consumption.

By the time work in the 53 barrios had been completed, the tide of public opinion had turned decisively in AAA's favor. "The results were there for everyone to see," recalls mayor Hoenigsberg. "There was a complete turn-around in the quality of service for the poor, and for the city as a whole."

Everyone must pay. According to Hoenigsberg, he and other political leaders were gradually persuaded that in order to be financially sustainable and continue expanding service into low-income areas, AAA had to collect enough revenue to cover operating costs, maintenance and debt service. "Today you no longer see politicians telling people not to pay their bill," Hoenigsberg said.

But AAA could only become sustainable if it raised water rates to realistic levels and—more importantly—if it began to disconnect consumers who weren't paying. This was a potentially explosive issue. Many wealthy individuals and important companies were in the habit of ignoring water bills. And the notion of cutting off water to people in poor communities was obviously problematic.

Fortunately, by the mid-1990s Colombia's water regulation authority had established a rational system for setting rates throughout the country, so AAA could not be accused of arbitrarily increasing fees. And thanks to a system of cross-subsidies (in which wealthy consumers pay a surcharge that helps to lower the rate for the poor) low-income consumers pay AAA a small fraction of what the informal water truck vendors used to charge.

Still, AAA's managers knew that the company's hard won legitimacy might be undone if water cutoffs became an issue, so they developed a comprehensive system to facilitate and encourage payment among low-income customers. According to Ariza, the system acknowledges the reality that many low-income families in Barranquilla live day-to-day on small amounts of cash earned from informal occupations. It can be difficult for these families to save up funds to pay for a monthly bill, even if this represents a large savings compared

to what they previously paid to water truck vendors.

Most low-income families also lack easy access to banks and cannot afford to spend much on public transportation. In fact, their only participation in a financial system of sorts takes place at small pawnshops that are ubiquitous in Barranquilla's shantytowns.

As a result, AAA has established partnerships with virtually all of Barranquilla's pawnshops that enable people to pay their water bill while conducting other transactions. Similar partnerships allow customers to pay their water bills at banks, department stores, grocery chains, and sports clubs through the city (customers with computer access can even pay online).

"We're constantly experimenting with our billing programs," said Ariza, AAA's general manager. "Our goal is to make it easy for people to pay their water bill and to get into the habit of paying on time." Most recently, AAA has tested biweekly instead of monthly bills and has signed a contract with a collections company whose agents will go directly to the home of customers who request the service.

Despite these measures, thousands of AAA's low-income customers still miss their payments each month, and thousands more have their water cut off when they go for two months without paying. To ensure that cutoffs are short-lived, every month AAA billing agents set up portable, outdoor "payment stations" in low-income neighborhoods. Local residents approach the stations and work out customized payment plans ("convenios de pago") with the agents. The plans allow customers to catch up on missed payments over several months, so long as they pay the current month's fee—and they result in immediate restoration of water service.

Most recently, AAA has developed a program to reward customers who consistently pay their bill. The program, known as "Supercliente" (super customer) awards modest prizes and certificates to customers who stay on top of their bill. "We've learned that people appreciate recognition for their efforts to pay on time," says Arisa. "In some households we've seen people hang their certificate up on the wall."



A poster promoting AAA's reward program for customers who pay their bill on time. The surfer holds a copy of AAA's monthly statement.

Although all these measures might seem excessive to executives in a traditional water company, the results are impossible to argue with. In 1996 AAA collected payment for only 66 percent of the bills it sent out. Today its overall collection rate stands at 86.6 percent—an unheard of level given the socio-economic profile of its customers.

This means that AAA has the cash flow necessary to keep service expansion commitments in low-income communities. In Barranquilla, AAA has reached 99.4 percent water coverage and 96.5 sewer

coverage, some of the best indicators in all of Latin America.

Questions? Comments? Suggestions? Please write to editor@iadb.org

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