

# Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla (AAA)

## COMPANY BACKGROUND

Sociedad de Acueducto, Alcantarillado y Aseo de Barranquilla (AAA) was the first company established under an innovative policy framework for the water and sanitation sector in Colombia. Called the “mixed capital model,” this framework encourages public-private cooperation to expand coverage in poorer municipalities not effectively served by traditional public utilities. AAA began providing water, sanitation, and solid waste management services to the city of Barranquilla, in northern Colombia, in 1993 with an exclusive

20-year concession that was later extended for another 20 years. The company has since expanded into 12 other municipalities.

AAA is majority-owned by Interamericana de Aguas y Servicios S.A., a Spanish water systems management and consulting services company, at 82.15%. The District of Barranquilla owns a 14.51% stake with the remaining 3.34% being held by private local shareholders.

## AAA'S INCLUSIVE BUSINESS MODEL

When AAA began operating Barranquilla's water and sanitation system in 1993, only 66% of households were connected to water, and only 54% were connected to sewer. Among low-income households, there was virtually no coverage.

Under AAA's concession agreement, the District of Barranquilla (DoB) retained ownership of existing water and sanitation infrastructure, as well as the responsibility for constructing additional infrastructure as required to expand the network. AAA was to pay royalties and invest in network maintenance. However, in 1999, the company launched a major capital investment project with its own funds. At that moment, the value of this investment was equivalent to the payment of the royalties until 2013. The company thus paid in advance the royalties until that year. The Suroccidente Project aimed to extend water and sanitation services to the southwest part of Barranquilla where the city's poorest citizens live. Over the next four and a half years, the approximately \$48 million project installed more than 361 km of water pipeline, 378.9 km of sewerage ducts, and 40,000 household water connections in 53 neighborhoods. The company also installed water meters in each house. The cost of the connection was billed to the household in installments included in each monthly bill.

AAA knew low-income households would be willing to pay for safe water piped into their homes—they typically bought water from tanker trucks at very high prices, and suffered from gastrointestinal diseases related to low water quality and a lack of sanitation services. But turning them into customers took more than physically connecting them to the grid.

Public awareness and community outreach were important first steps. The vast majority of people living in southwest Barranquilla never had access to formal water and sanitation services, and were suspicious of outsiders coming in to offer them. Many people believed that the water meters meant they would have to pay more, and considered sewage a luxury. Doubt and mistrust were encouraged by local political interest groups connected to the water tanker trucks.

AAA responded with a large-scale public awareness campaign about the benefits of water and sewer service in the home, how water meters work,

what the costs are, and how they are billed. The company used radio and television, and hired more than 40 full-time staff—mostly social workers familiar with the area—to help educate community members and answer questions. To integrate itself even further, AAA hired local workers to help dig the pipelines.

Turning low-income households into customers has also required innovations in customer service. For example, recognizing that many of these households' income patterns are variable and many have difficulty saving until the end of the month, AAA went to great lengths to incentivize them and make it easier to pay on time. Customers without bank accounts can pay at pawnshops, grocery stores, and department stores, among others. The company also sets up portable bill paying stations in low-income neighborhoods so that those in arrears can arrange customized payment plans, ensuring their service isn't cut off for long. Customers who stay current with their bills are recognized as “super clients,” receiving discounts and points receivable for goods from local retailers eager to do business with households known to be good payers. “Super clients” also receive special treatment from AAA, including thank-you letters from the CEO, which are valuable in seeking credit. These strategies have had a strong positive impact on the company's collection rate.

Technology has been critical to good customer service and also to keeping costs down. For example, AAA has dramatically improved the way it responds to maintenance requests by using custom software to coordinate field inspectors and work crews via mobile phone. This system has reduced the time it takes to make repairs by nearly half. Such operating efficiency helps AAA keep its prices within reach of low-income households.

Cross-subsidization also helps the company keep prices within reach. By Colombian law, water tariffs are designed such that higher-income households pay more for service than lower-income ones. Specific rates are negotiated with federal regulators, company by company, on a “cost-plus” basis. The federal government also provides subsidies based on the number of people being billed and the specific rates being charged.

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## DRIVERS FOR AAA'S INCLUSIVE BUSINESS MODEL

- Pent-up demand for affordable, safe water in low-income neighborhoods
- Policy framework encouraging public-private cooperation in the water and sanitation sector in Colombia

Before Barranquilla's low-income neighborhoods were connected to the water and sewer grid, they bought water from tanker trucks at very high prices and suffered from gastrointestinal diseases related to low water quality and a lack of sanitation services. AAA saw a market opportunity to provide access to safer, more affordable water in the home.

Colombian government policy also contributed to the market opportunity. To expand water and sanitation services in historically underserved

areas, the federal government promoted the "mixed capital model" in which municipalities allow private companies to operate publicly-owned distribution infrastructure in return for royalties. It also offered subsidies, channeled through municipalities, to make serving low-income households more attractive. In line with these policies, the District of Barranquilla (DoB) concessioned existing infrastructure to AAA and agreed to pass on the federal government subsidy.

## RESULTS OF AAA'S INCLUSIVE BUSINESS MODEL

- 24-hour water and sewer coverage has increased from 66% and 54% in 1993 to 99% and 96% today, respectively
- 1.1 million low-income citizens of Barranquilla connected to water and sewer services, paying 72% less than they would pay water tanker trucks
- Collection rates have increased from 66% in 1996 to 96% today

In 1993, when AAA began operating, only 66% of Barranquilla's population had access to piped water 24 hours a day. Only 54% had access to sewerage. Today, those figures are 99% and 96%, respectively. 1.1 million low-income citizens have been connected for the first time, 350,000 of them through the Suroccidente Project. Such customers pay 72% per cubic meter less, on average, than they did when they relied on water tanker trucks.

Thanks to customer service innovations like convenient bill payment and the "super client" recognition program, AAA has increased its collection rate from 66% in 1996 to 96% today. Technology-enabled efficiency gains have also

contributed to its financial success. From net losses of \$1.86 million in 1996, the company reached a net profit for the first time in 2001, and has been profitable ever since. In 2010, AAA registered net revenues of \$150 million and a net profit of \$0.4 million. AAA also registered a gross margin of 39% and an EBITDA margin of 28% in 2010. As of December 2010, the company had total assets of \$230.3 million, total liabilities of \$131.3 million, and total equity of \$99.1 million.

From its original operations in Barranquilla, AAA has expanded into 12 additional municipalities in Colombia. The company now serves approximately 1.58 million people.



## IFC'S ROLE AND VALUE-ADD

The Suroccidente Project to expand water and sewer infrastructure into Barranquilla's low-income southwestern region required significant capital expenditures that strained AAA's finances. With a \$24 million partial credit guarantee (PCG) from IFC, the company was able to issue two local currency bonds with long maturities that would otherwise have been impossible to obtain, replacing shorter-term debt it had previously used to finance its investment program. The bond issue also helped reduce the company's currency risk, as some of its shorter-term debt had been denominated in dollars, while its revenues were in Colombian pesos. These advantages, combined with process improvements made to comply with IFC's strict guarantee covenants, have put AAA in a solid financial position—helping the company serve low-income households in a financially sustainable way.

In addition to providing the partial credit guarantee, IFC has helped AAA raise its environmental performance standards. Most recently, IFC Advisory Services has begun working with the company on a utility efficiency program intended to reduce unaccounted water levels, as well as energy losses. This program is currently in its first phase of implementation.



IFC's Investment:  
\$24 million partial credit guarantee