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MEXICO WATER REPORT

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Chilean Water Segment Overview

Water supply and sanitation in Chile is characterized by high levels of access and good service quality. Compared to most other countries, Chile's water and sanitation sector distinguishes itself by the fact that all urban water companies are privately owned or operated. The sector also prides itself on having a modern and effective regulatory framework.

According to the regulatory agency SISS (Superintendent of Sanitary Services), the Chilean urban areas access to water supply stood at 100% and access to sanitation at 98% in 2010, which is one of the highest levels in Latin America. One of the reasons for the high coverage rates in Chile is the early effort for extending and improving the infrastructure. As a result, in 1990, 97% of the urban population was already connected to water and 82% to sanitation.

Service quality is generally good in Chile and water supply is continuous, both in urban areas and in concentrated rural areas. It is regularly controlled by the SISS since it was founded in 1990. The agency examines if services comply with the Chilean Norm NCh 409, which was modified in 2005, and includes standards concerning water quality, water pressure and continuity among others. At the beginning of the 1990s, there were problems regarding the chlorination systems of some water service providers. Consequently, in 1991, 20% of the companies did not comply with the bacteriological norms. In 2010, this share has dropped to about 1%. In the same period, compliance with disinfection norms increased from 89% to more than 99%.

On the wastewater side, as of 2010, 83.3% of Chilean wastewaters were being treated. The sector is currently involved in a major investment program with the goal of treating 100% of all collected municipal wastewater by the end of 2012. It appears that the actions taken since 2010 to reach this 100% goal are still on track.

Policy and Regulation

Responsibility for sector policy in Chile is vested primarily in the Ministry of Public Works, which grants concessions and promotes rural water supply and sanitation through its Department of Sanitation Programs. The responsibility for regulation is shared between the SISS, the superintendents in urban areas, and the Ministry of Health which controls drinking water quality standards in both urban and rural areas.

The SISS controls water and sanitation services in urban areas according to financial and quality norms. To guarantee political independence, the SISS is a decentralized organization with its own budget. It has the right to impose fines on service providers in case of violation of norms, fines which flow directly into the superintendent´s budget. Furthermore, it receives user complaints, assesses their validity and acts on them.

The water and sanitation regulatory system in Chile is considered by the World Health Organization to be a model not only for Latin America but also for Europe. One of its innovative features is the use of a hypothetical efficient model enterprise to assist in determining if tariff increases requested by service providers are justified.

Rural areas

In rural Chile, the ministry of health and the ministry of economy are responsible for supervising water cooperatives and water committees. However, in rural areas, there is no independent regulator such as the SISS in urban areas. Since 1994, the Direction for Water Works (DOH) is in charge of executing the national Rural Potable Water Program (APR).

In rural areas, local water cooperatives and water committees provide water supply services to almost 1.7 million rural consumers. In concentrated rural areas (i.e. rural communities with 150 to 3,000 inhabitants with a concentration of not less than 15 houses per km of water network), there has been significant development due to the national Rural Potable Water Program (APR).

Unlike urban service providers, the rural water supply and sanitation sector has not been the target of regulation like urban services. During the Bachelet Presidential Administration (2006-2010), the government submitted a bill to the Chilean Congress to give this sector a new institutional framework in the form of a specialized agency. While there is still momentum for this reform, to date no changes have been implemented and this agency still has not been created. However, with only 1.2 million or 9% of the Chilean population considered rural, the challenges of rural water access are not nearly as serious as in other Latin American countries. However, the most isolated housing in Chile still lack adequate water connections.

Service provision

Water supply and sanitation services in Chile's urban areas are provided by more than 50 entities. To prevent monopolization, the providers were classified into three categories according to the percentage of the population they serve by them. No person or company is allowed to possess more than 49% of the companies within one category.

Category	**Criterion**	**Number of Companies**	**Total Category Share of Population**
Larger Companies	Serve more than 15% of total population	2	50.5%
Medium Sized Companies	Serve between 4 and 15% of total population	6	34.3%
Smaller Companies	Serve less than 4% of total population	45	15.2%

The three largest companies are:

- **Aguas Andinas**, serving the capital Santiago, majority-owned by the Spanish company Aguas de Barcelona.
- **Empresa de Servicios Sanitarios del Bio-Bío (ESSBIO)**, serving the sixth region and eighth region around Concepción, majority-owned by the Latin American Investment Fund Southern Cross.
- **Empresa Sanitaria de Valparaíso (ESVAL)**, serving the Valparaíso Region, owned by various institutional investors.

Together, the three companies serve 63% of urban water customers in Chile.

Financial aspects

Tariff Level - Water tariffs in Chile differ substantially between regions, reflecting differences in the cost of supplying water. Tariffs in urban areas varied between US$0.80 (Aguas Cordillera in Chicureo) per cubic meter and US$ 4.10 (Aguas Patagonia in Coyhaique) per cubic meter in 2010. In rural areas, tariffs only cover operation and maintenance costs.

Affordability - On average, the water and sanitation bill accounted for 1.14% of household income according to a 2009 survey by the National Statistical Institute. They varied between 0.77% for the highest (wealthiest) quintile and 2.35% for the lowest (poorest) quintile.

Financing and Subsidies - Urban water and sanitation systems do not receive direct subsidies and are financed through the capital market, and ultimately through user fees. However, Chile has an innovative system of means-tested subsidies that allows qualifying poor households to receive a subsidy administered by the municipalities to pay parts of their water and sanitation bills. Rural water systems receive a partial investment subsidy that is defined in the Ley del Subsidio al Agua Potable y Saneamiento. By law, the subsidy can cover 25%-85% of a household's water and sewer bill up to 15 m^3 per month. The client pays the rest of the bill. Beyond 15 m^3, households are charged full price. The subsidy is meant to target only those subsistence level households that are unable to pay for water and is based on ability to pay. Opponents argue this subsidy program can act as a regressive policy and actually hurt the poor because a false assumption is made that high consumption is positively correlated to high income. On the contrary, poor families do not have access to efficient methods of using water in cooking, cleaning, and washing.

Investment - Since the sector was prepared for self-sufficiency, investment increased significantly from an annual average of about US$ 100m in the period 1965 to 1989 to an annual average of US$ 242m in the period 1990 to 1998, when the first company was privatized. According to SISS, since 1998, the annual investment has ranged from US$ 151m in 1999 to US$ 443m in 2002. Total investment in 2010 was US$ 325m.