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The Global Partnership on Output Based Aid

Colombia: Natural Gas Distribution for Low-income Families on the Caribbean Coast

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May 8, 2012

Sector Background

- **Natural gas reserves**
 - 4.2 trillion cubic feet sufficient to provide 15 years of consumption
- **Supportive Regulatory Framework:**
 - The Public Utilities Service Law defines the system of cross-subsidies for consumption - allocated through monthly consumer bills
 - **No subsidies** available for **connection** charges – connection cost determined by regulator – average cost is **US\$371**
- Distribution companies help finance connection and conversion costs – however, **not affordable for urban poor** – earn less than legal minimum wage of **US\$168**
- **Promigas**, a longstanding IFC client and natural gas distribution company approached GPOBA to expand on a small Dutch OBA pilot

Project Background

- Over **50%** of Colombia's entire population still lives **below the poverty line**
- Households in the Caribbean (5 to 7 people per hh) with average **annual family** income of less than **US\$168**
- Since 1990 Government developed subsidy scheme to provide services to poor hhs (**60% of the poor remain without service**)
- Cost of **switching to gas** is high thus low income families rely on dangerous and less efficient energy sources



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OBA Scheme

- **Objective:** connect 35,000 poor households in the Promigas service area along the Caribbean coast to natural gas services for cooking purposes
- **Targeting** – Population in Strata 1 and 2 as determined by National Planning Department criteria
- **Output** – New Connection and continued service delivery (3 months billing and collection) –stove included
- **Private Sector Leveraging:** subsidies expected to cover 38% of capital costs; remainder through user contribution, six-year loans by Promigas
- No bidding, as incumbent - subsidy based on percentage of regulated connection cost (**unit cost**)
- **Sustainability:** customers pay tariffs covering O&M (or are subsidized by FSSRI)



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