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BOLIVIA

SMALL COMMUNITY WATER PROGRAM

(BO-L1013)

LOAN PROPOSAL

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Monitoring & Evaluation Arrangements	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174165
Plan of Action	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1199171
Procurement Plan Matrix	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174404
DISCRETIONARY	
Technical options	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174320
Socio economic analysis	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1172854
Institutional Capacity	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174375
Draft Operating Regulations	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174474
Evaluation of PROAGUAS	http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=1174444

Abbreviations

CIDA	Canadian International Development Agency
DUF	Directorate of Funds
IARIS	Indicator for Basic Sanitation Investment Areas
IDB	Inter-American Development Bank
EPSA	Entidad Prestadora de Servicios de Agua Potable y Alcantarillado Sanitario
FNDR	National Regional Development Fund
FPS	Productive and Social Investment Fund (<i>Fondo de Inversión Productiva y Social</i>)
FSO	Fund for Special Operations
FUNDASAB	Foundation to Support Sustainable Basic Sanitation
OC	Ordinary Capital
NGO	Non Governmental Organization
PAHO	Pan-American Health Organization
PDCR	Rural Community Development Program
PROAGUAS	Basic Sanitation Program for Small Municipalities
PROSUB	Basic Urban Sanitation Program
SAP	Project Administration System
SEQ	Social Equity Qualification
SISAB	Superintendence for Basic Sanitation
SIDA	Swedish International Development Cooperation Agency
UNICEF	United Nations Children's Fund
VSB	Deputy Ministry of Basic Services

PROJECT SUMMARY
BOLIVIA
SMALL COMMUNITY WATER PROGRAM
(BO-L1013)

Financial Terms and Conditions ¹					
Borrower: The Republic of Bolivia Executing Agency: Productive and Social Investment Fund (<i>Fondo de Inversión Productiva y Social</i>)				OC	FSO
			Maturity:	30 years	40 years
			Grace Period	6.5 years	40 years
			Amortization	Semiannual payment	Bullet payment
Source	Amount (US\$)	%	Disbursement Period:	6 years	6 years
Ordinary Capital (OC)	14,700,000	60	Interest Rate	Adjustable	0.25%
Fund for Special Operations (FSO)	6,300,000	26	Inspection and Supervision Fee	0	N/A
Local	3,500,000	14	Credit Fee	0.25%	N/A
Total	24,500,000	100	Currency	U.S. Dollars	U.S. Dollars
Project at a Glance					
Project Objective and Description: The aim of the operation is to improve quality of life in rural areas. The purpose of the operation is to increase the coverage of sustainable potable water service and wastewater disposal in rural areas. The target for the Program is 200,000 new rural beneficiaries of potable water and sanitation services. The Program will comprise four components: (i) program management (US\$1.7 M); (ii) potable water and sanitation projects (US\$15.8 M); (iii) community support (US\$2.0 M); and (iv) institutional strengthening (US\$900,000). The Program will contribute approximately 500 new rural communities with potable water and sanitation services to the goal of 3,000 such communities established in the IDB Water Initiative.					
Special contractual clauses: The following will be special conditions precedent to the first disbursement of the resources of the financing: (i) Evidence that a subsidiary agreement exists between the Ministry of Finance and the FPS, by which the loan resources are made available for the administration of FPS, and stipulating the responsibilities of the FPS; (ii) Evidence of the creation and functioning of arrangements, within the organizational structure of FPS, for the effective management of the Program, including global planning, monitoring and control, as well as the employment of the sanitation engineer, social specialist, and environmental professional; (iii) The approval of the Operating Regulations by the IDB; and (iv) Evidence of the issuance of Environmental License to the FPS for the Program. The IDB may authorize the release of an advance payment of up to US\$100,000, conditional on complying with the Bank's general conditions precedent to first disbursement, to contract the sanitation engineer, social specialist, and environmental professional.					
Exceptions to Bank policies: None					
Project consistent with Country Strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/>					
Project qualifies for: SEQ <input checked="" type="checkbox"/> PTI <input checked="" type="checkbox"/> SECTOR <input checked="" type="checkbox"/> GEOGRAPHIC <input checked="" type="checkbox"/> HEADCOUNT <input type="checkbox"/>					
¹ The interest rate, credit fee, and inspection and supervision fee mentioned in this document are established pursuant to the document "Guidelines for Lending to D2 and IFF Countries: Implementation of Parallel Lending and Policy-Based Allocation", dated March 27 th , 2007 and may be changed by the Board of Executive Directors, taking into account the available background information, as well as the respective Finance Department recommendations. In no case will the credit fee exceed 0.75%, or the inspection and supervision fee exceed 1% of the loan amount (*) (*) With regard to the inspection and supervision fee, in no case will the charge exceed, in a given six-month period, the amount that would result from applying 1% to the loan amount divided by the number of six-month periods included in the original disbursement period.					

I. DESCRIPTION AND RESULTS MONITORING

A. Background

- 1.1 **Introduction.** The Government of Bolivia has requested a new loan of US\$21 million to increase potable water and sanitation coverage in rural areas. The loan would finance the Small Community Water Program described in this document, which would result in water and sanitation services for 200,000 new rural consumers.
- 1.2 **Rural Water in Bolivia.** According to figures from the 2001 census used by the Ministry of Water there are approximately 1.7 million people living in rural areas of Bolivia without an improved water supply. The PAHO puts the figure at 2 million, which represents 70% of the rural population. Approximately the same number of rural inhabitants lack basic sanitation. These people live in very small, dispersed communities, or on the margins of rural towns with populations of up to 10,000 inhabitants.
- 1.3 Water services in Bolivia are governed by Law 2066, promulgated in April 2000, which incorporates the implementation of policies to manage the water and sewage sector in line with generally accepted practice. It defines separate organizations for service provision, policy-setting and regulation, as well as the roles and institutional frameworks within which these organizations will work. The Deputy Ministry of Basic Services (VSB), within the Ministry of Water, is responsible for establishing sector policy and planning water and sanitation investments. The VSB has an explicit mandate to manage international financing for the sector. The Superintendence for Basic Sanitation (SISAB)¹ is responsible for regulating the sector and has the usual attributes relating to protection of the consumer and approval of tariffs. The law charges SISAB with issuing concessions to the 28 operators that provide services in cities with more than 10,000 inhabitants and licenses to operators that provide services to between 2,000 and 10,000 inhabitants². SISAB is required to keep a register of all operators that provide services to communities of less than 2,000 people.
- 1.4 The law specifically defines an operator as *Entidad Prestadora de Servicios de Agua Potable y Alcantarillado Sanitario* (EPSA). The EPSA public credit law, Law 2649 of April 2004, makes the EPSA subject to public credit, and eligible for transfers of external finance and other sources of financing, for the construction of water and sewage infrastructure. In rural areas, EPSA are usually community water committees, but in some cases associations or cooperatives, especially in the east of the country. International and national experience has shown that such an institutional model, based on community involvement, and a community-based operator, is key to the success of rural water projects. Many rural communities have lacked the support necessary to help them understand the technical and financial implications of providing the services. Projects have proved unsustainable because they are inadequately operated, and because

¹ *Superintendencia de Saneamiento Básico.*

² The present government plans to eliminate the use of concessions. All operators will in future operate with a license.

water committees often charge tariffs that are inadequate, or ineffectively collected, which leads to a lack of money to keep the system functioning.

- 1.5 The Government has channeled financing for the water sector through the Single Directorate of Funds (DUF)³, created to implement the Government's poverty reduction policy. Within the DUF, the National Regional Development Fund (FNDR)⁴ makes credit available to municipalities for systems serving more than 10,000 people, and the Productive and Social Investment Fund (FPS)⁵ provides subsidies for the construction of water and sanitation projects for smaller communities. The FPS operates as a technical implementation agency.
- 1.6 In terms of the Law of Popular Participation⁶ (Law number 1551 of April 20, 1997), municipal governments receive transfers from the central government to co-finance infrastructure projects, including rural water and sanitation projects, with financing from the FPS or other central government agencies. The municipal governments assign resources to each community based on population. The level of financing required from the municipalities has been defined in the Law of National Dialogue⁷ (Law No. 2235 of July 31, 2001) and depends on the level of poverty, with the poorest municipalities contributing the least, as given in Table 1.

Table 1: Municipal counterpart financing required by Law of National Dialogue		
Municipal Category	Central government financing (%)	Municipal government financing (%)
I	80	20
II	80	20
III	80	20
IV	80	20
V	85	15

- 1.7 In May 2004, the Government published Presidential Decree 27487, creating a Sector Finance Policy, which is intended to harmonize the rules for financing water and sanitation projects in a way that would promote sustainable services. On the same day, the Government published Presidential Decree 27486, creating a foundation to support sustainable basic sanitation (FUNDASAB)⁸, designed to provide technical assistance for EPSA. Both the Sector Finance Policy and FUNDASAB have received considerable support from the international organizations working in the sector. Neither is fully functional; the FUNDASAB is not operational because of legal technicalities, and the regulations for the Sector Finance Policy still have to be finalized. The VSB is working

³ *Dirección Única de Fondos.*

⁴ *Fondo Nacional de Desarrollo Regional.*

⁵ *Fondo de Inversión Productiva y Social.*

⁶ *Ley de Participación Popular.* This law defines municipal responsibilities for public services, mechanisms for transfers and mechanisms for community participation.

⁷ *Ley de Diálogo Nacional.* This law establishes guidelines for poverty reduction, defines institutional roles and criteria for the distribution of resources.

⁸ *Fundación de Apoyo a la Sostenibilidad en Saneamiento Básico.*

with the international organizations to make them fully functional. In the meantime, the VSB proposes using the method defined in the Sector Finance Policy for establishing priorities using an Indicator for Basic Sanitation Investment Areas (IARIS)⁹, based on shortfall of coverage and poverty.

- 1.8 **The Government's sector strategy.** The country's strategy for the sector has been stated, in broad terms, in the National Development Plan 2006 to 2010. The Government intends to: (i) introduce more decentralization in sector regulation, incorporating more community participation. It intends to change the nature of the central regulatory organization, while maintaining its autonomy; (ii) eliminate the present range of concessions and licenses as a form of agreement under which water and sewage services are provided to cities with more than 2,000 inhabitants. Urban EPSA would be granted one of two types of license, depending on the number of people served, which would be similar in scope to the concessions and licenses. SISAB will continue to register EPSA that serve communities of less than 2,000; and (iii) eliminate the use of international private companies as operators.
- 1.9 The VSB has drafted a new law to govern water services with institutional changes to reflect the policies of the present government. The preparation and presentation of this law has been relegated in priority while the Ministry of Water prepares a new general water law.
- 1.10 The VSB has drafted a plan of action for the sector, which comprises an inventory of urban, peri-urban and rural water and sanitation projects and programs for which they are seeking financing.

B. Support water and sanitation programs by the IDB and other agencies

- 1.11 **The Basic Sanitation Program for Small Municipalities (PROAGUAS).** In recent years, the PROAGUAS has represented the principal effort to reduce the rural water and sanitation coverage deficit. It is financed by IDB loan 1050/SF-BO for US\$40 million approved in December 1999 and the date for final disbursement will be November 30th 2007.
- 1.12 The objectives of PROAGUAS are: (i) Increase coverage and quality of basic sanitation services in communities with populations of less than 10,000. (ii) Make basic sanitation services sustainable in the medium and long term by involving the community in preparation, implementation and operation of the projects. (iii) Strengthen the capacity of municipalities and other entities executing and operating the projects.
- 1.13 To benefit from PROAGUAS, a community must: (i) have expressed its agreement with the project and the level of service it will deliver; (ii) be willing to pay a contribution of 20% of the capital cost of the system, a minimum of 5% in cash, and the rest in labor and materials; (iii) be willing to pay user tariffs to cover the costs of operating and maintaining the project, plus a contribution to a fund for the replacement of electromechanical equipment and (iv) have a legally constituted water committee to administer, operate and maintain the system, collect the tariffs and keep financial

⁹ *Indicador de Áreas de Inversión en Saneamiento Básico.*

records. The corresponding municipality must be committed to pay the counterpart of 10% of the capital cost of the project in cash, and include the project in the municipal investment plan.

- 1.14 The PROAGUAS has been implemented by the FPS and, in terms of delivering outputs, must be judged successful. Ninety percent of the loan funds have been disbursed, and all of the remaining funds have been allocated to individual projects. The targets for measuring compliance with the objective of increasing coverage are: 300,000 people benefiting from new water services in 850 communities (so far PROAGUAS has recorded 416,000 people benefiting in 777 communities) and 150,000 people benefiting from new sanitation services in 150 communities (so far, there are 155,000 people benefiting in 129 communities). The targets related to community development were: 850 water committees legally constituted and operating (771 achieved to date), and 1900 individuals trained as water or sanitation system operators (1,410 achieved to date).
- 1.15 A formal evaluation of PROAGUAS contracted by the IDB found that the majority of projects were sustainable. It also highlighted areas of concern in the implementation of the Program that prejudiced the proper operation of certain projects. These concerns must be addressed in the design of the implementation of future programs and include: (i) over 20% of the projects approved did not comply with the rules established for technical and economic viability; (ii) the community development activities that were too limited, in both qualitative and quantitative terms, (iii) inadequate supervision by the municipalities of construction and community development activities, and (iv) inadequate monitoring and control on the part of FPS. A combination of these factors has led to: (i) designs that are inappropriate and not compatible with the communities needs; (ii) electro-mechanical equipment that is poorly installed; (iii) communities that do not pay adequate tariffs because they were not agreed prior to construction; (iv) operators that are poorly trained; and, consequently, water and sanitation services that are neither financially nor technically sustainable. The KfW contracted an evaluation that reached similar conclusions.
- 1.16 The PROAGUAS has left a portfolio of 251 projects with completed designs, but without financing for the construction.
- 1.17 **Other IDB supported operations in the sector.** The FNDR is currently executing the Basic Urban Sanitation Program (PROSUB) with a US\$70 million loan from the IDB (loan 987/SF-BO). PROSUB makes sub-loans available to municipalities for the construction of water and sanitation projects. It has suffered from prolonged implementation, and the date for final disbursement is August 2007. Eighty percent of the funds from the loan have been disbursed.
- 1.18 **Activities of other agencies.** The German government has actively supported putting into operation the sector policies defined in Law 2066, and has made grants available for the design and implementation of the Sector Finance Policy and the FUNDASAB. It has made a strong commitment to financing water and sanitation projects for intermediate cities. Through the aid agency, GtZ, and the development bank, KfW, it has made financing available to Oruro (approximately US\$37 million), Potosí and

Minero Potosí (approximately US\$14 million), Trinidad (approximately US\$15 million) and for intra-municipal operators created to serve *mancomunidades* in the Chaco and Bustillo regions (approximately US\$28 million). The KfW is preparing an operation of approximately US\$25 million to finance potable water and sanitation projects in small communities.

- 1.19 The European Union has granted financing of US\$61 million to support the sector policies defined in Law 2006, and the development and implementation of the Sector Finance Policy and the FUNDASAB. The operation includes approximately US\$36 million for infrastructure construction outside the metropolitan areas. Other recent projects financed by European Union grants include: US\$24 million for water and sewage services to the peri-urban areas of the city of Santa Cruz, and US\$30 million for a basic health project in Potosí and Tarija, which has an important potable water and sewage component.
- 1.20 Among other bilateral organizations, the Netherlands, the Swedish International Development Cooperation Agency (SIDA), and the Canadian International Development Agency (CIDA) all support a UNICEF multi-donor project for poverty reduction that includes donations for the construction of water systems in poor rural areas. The different agencies have cooperated closely with each other, and with the Government of Bolivia, in the design of the projects, which all follow closely the model adopted for PROAGUAS, with a strong component for community development.

C. The Proposed Program

- 1.21 **Problem addressed.** The Program is designed to reduce the coverage shortfall (see paragraph 1.2). While, as with PROAGUAS, finance from the Program will be available for any community of less than 10,000 inhabitants, it is expected that the overwhelming majority of the projects will be in small communities of 500 inhabitants or less. While addressing this shortfall, the Program will support the benefiting communities in overcoming the weaknesses, which threaten the sustainability of the services (see paragraph 1.4).
- 1.22 **Program strategy.** The Strategy for the Program is based on four considerations: (i) it should follow the basic design of PROAGUAS, involving the communities in the preparation, construction and operation of the projects; (ii) it must incorporate lessons learned from the evaluation of PROAGUAS; (iii) it should reinforce the principal institutional responsibility within the sector; and (iv) it should be as compatible as possible with the parallel program being proposed by the KfW.
- 1.23 In keeping with accepted practices for rural water programs, and following the basic design for PROAGUAS, the Program will make the communities central in all phases of the development, construction and operation of the projects. The Program will be strengthened by incorporating lessons learned from PROAGUAS: (i) The Program will require that designs are as simple as possible consistent with providing the community with a level of service that they select. (ii) The Program will allocate a higher percentage of the budget to community support activities than previous projects. The community support will be provided by qualified NGO or consulting firms. (iii)

Community support activities will commence from the time that a project is inscribed in the Program and confirmed for financing, and will continue in parallel with project development until the project has been operating for 12 months. (iv) The organizations contracted to provide the community support services will be explicitly required to assist the communities, and their EPSA, meet conditions related to the preparation, construction and operation of the projects. (v) The FPS and municipalities will be strengthened in key areas to enable them to better supervise, monitor and control Program activities.

- 1.24 The water and sewage sector, as it is presently arranged (see paragraphs 1.3 and 1.4), is compatible with the IDB Policy for Public Services (OP-708). Law 2066 provides an adequate legal framework. The principle sector functions are carried out by different entities: the VSB is responsible for policy making and planning; SISAB is responsible for regulation; and the EPSA are responsible for providing the services. The Program will reinforce the roles of each: (i) The VSB has established the rules by which the projects are inscribed and given priorities within the Program. The Program will also provide the VSB with the information on projects constructed and operating to facilitate sector planning. (ii) To assist SISAB, the EPSA will be required to register with SISAB, and to provide the routine information required by SISAB. (iii) The Program will strengthen the institutional identity of the EPSA by requiring, and making funds available for, the registration with SISAB mentioned above, and by making funds available for establishing a legal identity for the EPSA by registering with the local municipality or prefecture. The proposed changes to the law (paragraph 1.x) do not appear to conflict with IDB policy. The proposed program will support small, community-based operators, which are largely self-regulated, and will not be affected by any changes in regulatory structure. This is consistent with the view of the KfW, and is one of the reasons why it has decided to support a program for small communities (see paragraph 1.18).
- 1.25 The Government of Bolivia has worked closely with the IDB and the KfW to develop the Program in parallel with that being prepared by the latter (see paragraph 1.18). The two organizations have agreed to harmonize the regulations for their respective programs as much as possible and have shared the results of formal evaluations. Both organizations intend to use the FPS as the executing agency for their programs, which will be implemented as a continuation of the PROAGUAS, but incorporating activities to take advantage of lessons learned from the evaluations (see paragraph 1.15). The KfW participated in the analysis mission for the Program. Both programs will gain from the installed institutional capacity within the FPS.
- 1.26 **Justification.** The Program can be justified in terms of demand. Even allowing that the coverage deficit has been reduced by over 400,000 people since 2001 by new consumers benefiting from PROAGUAS and the UNICEF, well over 1 million rural dwellers still lack and improved drinking water and basic sanitation. The proposed Program will reduce the figure by 200,000 people, and the parallel KfW operation will make a similar reduction. The two operations together will therefore reduce the deficit by up to 40%, making a significant contribution to the country's effort to meet the Millennium Development Goals.

- 1.27 The new program assumes approximately the same investment cost per beneficiary as PROAGUAS. While the decreased size and dispersion of the communities will tend to increase the investment cost per capita, simpler designs and economies of scale more streamlined contracting will have the opposite effect.
- 1.28 The preparation of the Program has been informed by a detailed socio-economic evaluation. This evaluation has shown that the projects are viable subject to certain investment costs per connection limits, which depend on the type of project, and socio-economic condition of the community. The evaluation shows that, after paying a tariff that is sufficient to cover the EPSA cost of administration, operation, maintenance and replacement of electro-mechanical equipment, the communities are sufficiently poor to justify a subsidy of 100% of the capital cost.
- 1.29 The Program will contribute approximately 500 new rural communities with potable water and sanitation services to the goal of 3,000 such communities established in the IDB water initiative.

D. Program design

- 1.30 **Program objectives.** The aim of the operation is to contribute to improve quality of life in rural areas. The purpose of the operation is to increase the coverage of sustainable potable water service and wastewater disposal in rural areas.
- 1.31 The Program is designed to provide water and sanitation services to a minimum of 200,000 new rural consumers. As with PROAGUAS, communities of up to 10,000 inhabitants, that have not received financing from a government supported program during the previous five years, will be eligible to receive financing for new projects and extensions to existing projects. It is estimated that the average project will serve between 500 and 750 people, meaning the Program will finance between 250 and 400 individual projects.
- 1.32 **Component 1: Program management (US\$2,675,000 from the IDB loan).** This component will cover the cost of managing the Program, including the costs of the FPS in planning, monitoring and control of all activities, and in disseminating the Program throughout Bolivia. It will include the costs of evaluating and auditing the Program.
- 1.33 **Component 2: Potable water and sanitation projects (US\$11,885,000 from the IDB loan).** This component will cover the costs of design, construction, and supervision of construction for individual community water and sanitation projects. The individual community projects will be compatible with the technical and financial capacity of the members of the community, and will have been selected by the community with the help of the community support component described below. Funds from Component 1 will be used to cover the costs of consultants for design and supervision, and contractors for construction, of the works.
- 1.34 **Component 3: Community support (US\$4,000,000 from the IDB loan).** This will include activities needed to support the communities so that they can make effective decisions up until the time their projects are operating in a sustainable manner. During development of an individual community project, the activities will include: organizing

the community and creating a formal water committee and forming an EPSA; requesting registration for the EPSA with the local municipality and SISAB; educating and training the community in the use and usefulness of water, including the impact on health and the environment, its value and the cost of services, and the importance of paying tariffs to ensure sustainability; guiding the communities in the design and scope of water and sanitation projects based on their technical complexity and running costs; guiding the communities in organizing an assembly of members to approve the project, including the tariffs to be charged. During the construction and commissioning phase of a project, the activities would include training for the organization responsible for operation and maintenance of, as well as financial administration, of the project; educating the community and the EPSA on environmental responsibilities, specifically the protection of the raw water source, the conservation and rational use of water, and the proper disposal of wastewater; ensuring that the EPSA is registered with SISAB. For twelve months after the project has been put into operation, the activities would include routine visits to review operations and unscheduled visits when requested by the EPSA to resolve problems. Component 3 will cover the costs of consultants or NGOs, specialists in community development and rural water projects, that will provide continuous support from the time a community first enters into the Program until twelve months after the project is put into operation.

- 1.35 **Component 4: Institutional strengthening (US\$340,000 from the IDB loan).** This component will include specific activities to strengthen potential entities responsible for the community support activities, the FPS and municipalities where needed to ensure efficient implementation of the Program. The activities will include: the dissemination of the Program; training workshops for municipalities, with an emphasis on procurement; training workshops for potential providers of community support services on the requirements of the Program; the systematic gathering and collating of information, experience and lessons learned generated by the Program; the training directly related to the Program for FPS staff; training in project management planning and control for the Program Management Unit within FPS; teaching material, computers and ancillary equipment, water test kits, and vehicles.
- 1.36 **Cost and financing.** The Government of Bolivia has requested a loan of US\$21 million. The Bank would make US\$14.7 million available as Ordinary Capital and US\$6.3 million available as resources from the Fund for Special Operations. An estimate of the breakdown of the Program costs is given Table 2.

Table 2: Estimate and breakdown of Program costs (US\$)			
	IDB	Counterpart	Total
Program management	2,675,000	-	2,675,000
Investment Management	2,100,000		2,100,000
Monitoring and Evaluation	250,000		250,000
Operational and Financial Auditing	325,000		325,000
Potable water and sanitation projects	11,885,000	2,400,000	14,285,000
Water and Sanitation Projects	11,885,000	2,400,000	14,285,000
Community support	4,000,000	1,000,000	5,000,000

Community Development	4,000,000	1,000,000	5,000,000
Institutional strengthening	340,000	-	340,000
Institutional Strengthening GM's, and Others	100,000		100,000
Institutional Strengthening Executor	240,000		240,000
Financial costs	2,100,000	100,000	2,200,000
Interests	2,100,000		2,100,000
Loan Commission		100,000	100,000
TOTAL	21,000,000	3,500,000	24,500,000
%	86%	14%	100%

- 1.37 The Government of Bolivia has indicated that counterpart financing will contribute 15% of the value of the Program. The counterpart funds are those that will be paid by the municipalities as part of their contribution to infrastructure projects required in terms of Law of Popular Participation (see paragraph 1.6). The communities themselves will not be required to contribute to the cost of the projects.

E. Results Framework

- 1.38 There is a close correlation between sanitation services and health. Therefore, new consumers of water and sanitation services will be considered a proxy for improved quality of life and the Program will have delivered its anticipated result when it reaches the targets related to the purpose: 200,000 new consumers of water and sanitation services.
- 1.39 Each project will pass through a cycle of four phases: inscription, preparation, construction and operation, the completion of each of which is marked by a series of targets which must be met before moving on to the next phase. These targets are linked to both the specific objective of the Program, and form part of the Results Matrix (Annex I) that will be used to monitor implementation progress, as well as determine whether the Program achieves its specific objective.

F. Social Equity and Poverty Targeting

- 1.40 The Program qualifies as a social-equity enhancing project (SEQ) as defined in the Report on the Eighth General Increase in the Resources of the IDB (document AB-1704, August 1994). The Program also qualifies as a Poverty Targeting Investment (PTI), as set out in Review of Poverty Classification of IDB Loans under the Eighth Replenishment (document GN-1964-3, June 1997). The justification is geographic, the target population being rural, where over 50% are classified as poor in terms of the IDB's classification. This was confirmed by a socio-economic analysis of a sample of potential projects.

II. FINANCING STRUCTURE AND MAIN RISKS

G. Financing Instruments, Incentives via Contractual Conditions

- 2.1 The Program will be a conventional multiple works operation.
- 2.2 Parallel loans will be made as set out in the “Guidelines for Lending to D2 and IFF Countries: Implementation of Parallel Lending and Policy-Based Allocation”, of March 21st, 2007. The resources from the loans will be disbursed in parallel over a period of 6 years.
- 2.3 The loan resources will be disbursed to a revolving fund in the Central Bank in accordance with IDB normal practice.

H. Technical Issues

- 2.4 The technology to be utilized for the Program is well know and has been tried and tested in Bolivia. The range of technical solutions is given in the Technical Files of the Program.

I. Sustainability of projects

- 2.5 The sustainability of individual projects is always a risk for rural water programs. The design of the Program focuses on this problem. The possibility that the EPSA are not able to make the services financially sustainable is mitigated by the following: (i) the requirement that communities agreed to tariffs levels before projects are declared eligible; (ii) the inclusion, as part of the community support component, of activities to socialize tariff in beneficiary communities; and (iii) the inclusion of funds to provide continuous support from the time a community first enters into the Program until twelve months after the project is put into operation.

J. Enviromental and Social Safeguard Risks and Mitigation Measures

- 2.6 The individual projects in the Program will have a net positive social and environmental impact as they will improve the beneficiaries’ quality of life and that of the environment. The Program is designed to make sure that the communities are fully informed about the implications of the projects, and that they are involved in decision-making during the design and implementation of the project. None of the projects is likely to require relocation of population groups. If during Program execution the need for resettlement or expropriation became evident, this would be done according to the Bank’s OP-710 and national legislation.
- 2.7 The Program will have an impact on the environment both as it abstracts raw water for use, and returns wastewater. To protect the raw water source from over-exploitation and pollution, the Operating Regulations will contain strict rules for the design and construction of abstraction works. To ensure efficient use of water the community support component of the Program will include activities to make the users conscious of the value of water, and the importance of conservation.

- 2.8 It is unlikely that the construction of sewerage will be economically viable, except possibly for projects on the peripheries of small towns, where such systems already exist. Where there is no sewerage, the projects will include for the construction of individual solutions, pit latrines (normal practice in Bolivian rural areas), or septic tanks. Standpipes will be constructed to standard designs over infiltration pits to ensure the efficient disposal of “grey” water.
- 2.9 As the Program will have local short-term environmental impacts, primarily during the construction phase (e.g. dust, odor and construction waste generation, traffic interruption, accident risk) the IDB project team considers it to be a Category B operation in accordance with the IDB’s Environment and Social Safeguards Policy, which implies overriding the “Toolkit” C classification. These local short-term impacts will be mitigated with commonly used environmental impact control measures within the construction contracts. An Environmental Analysis has been carried out, which focused on the environmental evaluation of PROAGUAS, as well as the identification of the nature of the impacts, mitigation measures and management structure necessary to make this Program environmentally and socially viable.
- 2.10 The principal findings of the Environmental Analysis of the Program were: (i) projects executed under PROAGUAS suffered from lack of resources to ensure effective environmental management, (ii) the range of projects proposed under the new Program are environmentally and socially viable as long as they meet the eligibility criteria in the Operating Regulations and (iii) the environmental management structure of the Program must include hiring, with Program resources and to Terms of Reference agreed with the Bank, a full time environmental specialist within FPS (the environmental coordinator of the Program), responsible for ensuring compliance with the Program’s environmental mitigation measures assisted by environmental specialist within each of FPS’s departmental offices. The environmental supervision of works will be done by firms hired with Program resources.
- 2.11 The Bank will finance a consultant to write the necessary documents (*“fichas ambientales, planes de mitigación y de seguimiento ambiental”*) to ensure the licensing of the Program at the national level. The granting of the Program’s Environmental License by the Ministry of Biodiversity, Forest Resources and Environment, is a contractual condition prior to first disbursement.

K. Fiduciary Risk

- 2.12 As part of the preparation of the Program the institutional capacity of FPS has been analyzed using the ICAS methodology. The analysis covers the following capacities and systems: (i) Planning and Organization capacity (Planning of Activities, and Organizational Management); (ii) Execution capacity (Personnel Management, Goods and Services Management, and Financial Management); and (iii) Control capacity (Internal Control, and External Control). As a result of the analysis, the development level of FPS’s institutional capacity is qualified as “Satisfactory”, and the associated institutional risk level is qualified as “Low”. These qualifications apply for each of all seven systems reviewed in the analysis.

- 2.13 FPS is knowledgeable of IDB standards and procedures, and possesses a complete executing infrastructure, including information systems and formalized procedures.
- 2.14 However, studies of the operational capacity of FPS commissioned by the IDB, KfW, and the Word Bank for the preparation of future operations have identified a need for strengthening in two areas: The Project Administration System (SAP) and Monitoring and Control.
- 2.15 The Project Administration System (SAP) used by FPS must be upgraded and improved. As part of the Rural Community Development Program (PDCR) under preparation by the World Bank, a new version of the SAP will be developed and implemented in FPS, that will include improved Activity Planning functionalities. The present Program will finance the upgrade of Information Technology equipment and interconnection between FPS headquarters and departmental offices, together with training and tools for project planning.
- 2.16 Monitoring and Control by FPS will be strengthened, both at central and decentralized (Departmental Offices) levels, to ensure a closer control of the projects executed by the municipalities. A Monitoring and Control Unit will be created at FPS headquarters, which will include a sanitation specialist and a social specialist dedicated to the Program, and each Departmental office will have at least two controllers dedicated to the Program.

L. Implementation Risk

- 2.17 The risk that FPS lacks the physical capacity to implement the Program on time is related to the fiduciary risk. The specialists required for the tasks of implementation are employed in functional units within FPS headquarters and in the departmental offices. The individual projects are not challenging to implement, but the parallel implementation of approximately 500 such projects within a comparatively short time period requires intensive planning and follow-up to coordinate all of the different actors and to take corrective action. The FPS will create a Program Management unit for the Program, which will be responsible for detailed planning, coordinating all of the actors and taking the corrective action necessary to keep the Program on schedule. This unit will be in addition to the professional staff noted in the text above: the sanitation and social specialists will be located in the Monitoring and Control Unit; and the environmental specialist will be located in the Environmental Unit.
- 2.18 A specific risk related to the above is FPS capacity to ensure that the projects are technically and economically viable, a problem signaled in the evaluation of PROAGUAS (see paragraph 1.15). The Monitoring and Control Unit, and the strengthened team working on the Program should eliminate the problem, but the FPS will submit the designs of the first 100 projects to the IDB for review prior to construction.

III. MANAGEMENT PLAN

A. Implementation Arrangement

- 3.1 The Government of Bolivia will be the Borrower. The FPS will be responsible for managing Program implementation. The individual projects will be implemented by the relevant municipalities, who will be responsible for contracting the construction, supervision of construction, and the community support. ***Evidence that a subsidiary agreement exists between the Ministry of Finance and the FPS, by which the loan resources are made available for the administration of FPS, and stipulating the responsibilities of the FPS, will be a condition precedent to the first disbursement from the loan.***
- 3.2 The FPS will implement the Program using its existing structure, and that proposed for future reorganizations, with the respective specialists working in functional units in the headquarters in La Paz, and in the nine departmental offices. The FPS will contract three new specialists to work full-time on the Program: a sanitation engineer, a social specialist, and the environmental professional (see paragraph 2.6). The FPS will ensure that the arrangements for implementation include clear responsibilities for the Program's successful implementation and will incorporate personnel to the global planning and control of the Program. ***Evidence of the creation and functioning of arrangements, within the organizational structure of FPS, for the effective management of the Program, including global planning, monitoring and control, as well as the employment of the sanitation engineer, social specialist, and environmental professional, will be a condition precedent to the first disbursement from the loan.*** If requested by the FPS, the IDB will authorize the release of an advance payment of up to US\$100,000, conditional on complying with the Bank's general conditions precedent to first disbursement, to contract the sanitation engineer, social specialist, and environmental professional.
- 3.3 The FPS will have responsibility for global Program management and will draw up the overall plan for implementation. The FPS will be responsible for the monitoring and controlling of all Program activities, and for coordinating the multiple actors, including consultants, contractors, municipalities and communities, to ensure the Program is concluded on time, within the budget, and in accordance with the Program's Operating Regulations. The FPS will be responsible for drawing up and implementing a plan for the dissemination of the Program throughout Bolivia. Details of the dissemination plan will be incorporated in the Program's Operating Regulations. ***The approval of the text of the Program's Operating Regulations by the IDB will be a condition precedent to the first disbursement from the loan.***
- 3.4 The FPS will be responsible for the environmental management of the Program, and will have specific responsibility for obtaining the Program's Environmental License. ***Evidence that the Deputy Ministry of Biodiversity and the Environment has issued an Environmental License to the FPS for the Program, will be a condition precedent to the first disbursement from the loan.***

- 3.5 The Deputy Ministry has established that the criteria for setting priorities among eligible projects will be those defined for the Sector Finance Policy. The FPS will collect and collate requests for projects that are received by the FPS, the VSB, and other organizations. The FPS will define the eligible projects, and apply the rules for setting priorities and submit a schedule to the VSB. The VSB will be responsible for the correct application of the criteria for setting priorities, and will revise the schedule of projects prior to approval. The FPS will implement those projects that already have designs that have been financed by PROAGUAS (see paragraph 1.16).

B. Project Cycle

- 3.6 Each project will pass through the following phases: (i) Inscription: The FPS and VSB will follow the process outlined in paragraph 3.5 to inscribe eligible projects and assign priorities. (ii) Preparation: The relevant municipality will contract the consulting firm or NGO that will provide the community support activities through all the phases of the project cycle. The municipality will also hire consulting firms to prepare designs and demonstrate project feasibility. (Projects that already have designs, such as those in the portfolio of projects already prepared with financing from PROAGUAS will be subject to revision.) (iii) Construction: The municipality will contract a company for the construction, testing, and putting into operation of the works. (iv) Operation: The commencement of the operating phase is marked by the formal transfer of the right to use the works from the municipality to the EPSA. For the purpose of the Program, the operating phase lasts for 12 months, during which time the community will continue to receive support financed by the Program. After this phase, data from the individual projects will be recorded to determine whether they have proved sustainable.
- 3.7 The conditions that define completion of each project phase, and conditions precedent to the following stage, are given in the Results Matrix, Annex I.
- 3.8 The Program's Operating Regulations will contain detailed procedures for the activities incorporated in each of the project phases.

C. Procurement

- 3.9 Procurement will be as set out in IDB policy. The text of the Procurement Plan is attached as Annex II and the Procurement Plan spreadsheet is included in the mandatory annexes as an electronic link.

D. Monitoring, Evaluation and Auditing

- 3.10 Monitoring and evaluation activities are set out in the mandatory annexes as an electronic link. Auditing provisions are set out in the same annex, and are in accordance with IDB policy.

E. Plan of Action

- 3.11 The FPS has prepared a Plan of Action for complying with the conditions precedent to first disbursement (see electronic annexes).

Annex I

Results Matrix

Project Purpose

Statement: The purpose of the operation is to increase the coverage of sustainable potable water service and wastewater disposal in rural areas.

Outcome indicator: 200,000 new rural consumers with potable water and sanitation services.

Intermediate Outputs

The intermediate outputs, that will be used to monitor progress in Program implementation, are based on an assumption of 500 individual projects, serving an average of 400 new consumers each.

Milestone event	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
1. Projects formally inscribed in Program	150	300	450	500	500	500
2. Projects preparation completed	50	150	300	450	500	500
3. Projects operating	0	75	200	400	500	500
4. Projects operating sustainably for 12 months	0	0	75	200	400	500

Intermediate outputs are defined by sets of indicators. Each set of indicators marks a milestone event between two phases of the project cycle. Compliance of the indicators is a condition precedent to commencing with the next phase of the project cycle.

- 1. Projects formally inscribed in Program.** To be inscribed in the Program, projects must comply with the following indicators:
 - a. The project is defined to benefit a community of less than 10,000 inhabitants based on the 2001 census.
 - b. The project is for a community that has not benefited from a potable water and sanitation project that is part of an FPS Program within the last five years.
 - c. The project is designed to increase coverage to beneficiaries that do not have water or sanitation services.

Certification by FPS of compliance with these indicators will be a condition precedent to commencement of project preparation.

<p>2. Project preparation completed. The following indicators will be used to demonstrate that project preparation is complete.</p> <ul style="list-style-type: none"> a. Commitment of the Municipal Government to: (i) make the corresponding counterpart payment; (ii) contract the construction and supervision of the works; and (iii) transfer to the EPSA the formal right to use the works once constructed. b. Evidence that the project is feasible in technical, socioeconomic and financial terms, and that it complies with the environmental rules established in the conditions of the Program's Environmental License. The project design must detail the number of beneficiaries. c. Evidence that the project has the necessary rights, licenses and wayleaves relating to the use of land, materials and water sources. d. Evidence that an EPSA exists with: (i) statutes, (iii) a formal document of conformation signed by the General Assembly of members, and (iii) officials nominated. e. The signed minutes of the General Assembly of members agreeing to the project and defining: (i) the technical alternative selected; (ii) the level of service the project will provide; and (iii) the tariff the beneficiaries will be charged to cover EPSA's costs of operation, administration, maintenance and replacement of electro-mechanical equipment. f. A formal submission from the EPSA to SISAB requesting registration. <p><u>Certification by FPS of compliance with these indicators will be a condition precedent to commencement of construction.</u></p>
<p>3. Projects operating. The following indicators will be used to demonstrate that a project is Operating:</p> <ul style="list-style-type: none"> a. Subscription of the Right of Use Transfer Agreement between the Municipal Government and the EPSA, which will list the beneficiaries and define the EPSA's rights and obligations related to: (i) the level of service that will be provided; (ii) condition and maintenance of the infrastructure; and (iii) tariffs that will be charged. Copies of the Agreement will be sent to the VSB. b. EPSA's registration with SISAB. <p><u>Certification by FPS of compliance with these indicators will be a condition precedent to commencement of the twelve-month operating period during which sustainability is tested.</u></p>
<p>4. Projects operating sustainably for 12 months. The following indicator that will define that the twelve-month operating period during which sustainability is tested has been completed:</p> <ul style="list-style-type: none"> a. A formal document from the organization responsible for community support, certified by FPS, and forwarded to the VSB, confirming the number of beneficiaries and reporting on: (i) whether the EPSA is functioning in operational and legal terms; (ii) whether the project is providing the anticipated level of services; and (iii) whether the income from tariffs is enough to cover the EPSA's cost of administration, operation, maintenance and the replacement of electro mechanical equipment. <p>The information from this document for each community will used to demonstrate whether the Program has reached its target of 200,000 new consumers with sustainable water and sanitation services.</p>

PROCUREMENT PLAN

I. GENERAL INFORMATION

Borrower: Government of Bolivia	Project: BO-L1013
Executing agency: Fondo de Inversión Productiva y Social [Productive and Social Investment Fund] (FPS)	Publication date of the General Procurement Notice: March 2008 ^{*1}
Approval date of the Procurement Plan: November 2007 ^{*1}	Period covered by plan: 18 months
Estimated date of project approval by the Board of Executive Directors: November 2007	Estimated date of signature of the loan contract: December 2007
Estimated date of the final disbursement: December 2013	

Note: ^{*1}- Estimated date.

II. INTRODUCTION

Procurements for the proposed project will be carried out in accordance with the Policies for the Procurement of Works and Goods Financed by the Inter-American Development Bank (document GN-2349-7) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-7), of January 2005, and with the provisions established in the loan contract and this procurement plan.

III. PROCUREMENT PLAN

The Procurement Plan for the Small Community Water Program, which covers in detail the first 18 months of project execution and tentatively the entire period, has been agreed between the Bank and the Productive and Social Investment Fund (FPS). The plan, which is summarized in Appendix 1, indicates the procedure to be used for the contracting of works or services, and the method of selecting consultants, for each contract or group of contracts. It also indicates the estimated cost of each contract or group of contracts; the requirement for ex ante or ex post review by the Bank; and estimated dates for the publication of specific procurement notices or notices that the process has started up. The Procurement Plan will be updated every six months or whenever necessary.

A. Project procurement

The following is a general description of project procurements.

Works procurement: The works to be contracted include packages of potable water and basic sanitation projects in small communities. In principle, none of the works contracts would be subject to international competitive bidding (ICB) because, in accordance with the initial portfolio proposal and with project location and size, the estimated contract amounts are below the ICB thresholds. Procurement subject to national competitive bidding (NCB) will use national bidding documents satisfactory to the Bank that are based on the Bank's standard documents.

Procurement of consulting services: Consulting services for the program include hiring specialized firms for technical supervision of works and implementation of community development for each package of projects in the Procurement Plan and each environmental management design and plan and design for new water and sanitation projects. Support staff will also be hired for the Program Management Unit.

Consulting firms will be selected for the project using the Bank's standard request for proposals (SRFP), or a request for proposals (RFP) satisfactory to the Bank in cases where the SRFP does not apply. Individual consultants will be selected pursuant to Chapter V of policy document GN-2350-7.

Shortlists of consultants for consulting services with an estimated cost of less than US\$200,000 equivalent per contract may consist solely of national firms.

Advance procurement and retroactive financing: The amounts for advance procurement and retroactive financing under the project will be determined during negotiation of the loan contract, if applicable.

IV. CAPACITY OF THE EXECUTING AGENCY AND SUPERVISION OF PROCUREMENT BY THE BANK

A. Assessment of the executing agency's capacity to administer procurement

The Productive and Social Investment Fund will be responsible for verifying project procurements, which will be made by the relevant municipalities. The Bank is familiar with the executing agency's capacity to carry out the procurement actions, based on execution of loan 1050/SF-BO, and rated the overall risk to the project arising from the administration of procurement as low. However, since the procurement processes will first be carried out by the municipalities, the executing agency will train all the beneficiary municipalities participating in the program.

Significant deficiencies identified and corrective actions agreed upon are summarized below:

Deficiencies	Corrective action	Completion period	Comments
Bidding and competitions to be carried out by municipalities with low capacity	The FPS will conduct procurement training events following the standards set forth in the loan contract, and will supervise the municipalities' actions.	February to June 2007	Estimated dates, depending on fulfillment of the conditions precedent

B. Frequency of procurement supervision

Project procurements will be reviewed ex ante, with the possibility of switching to the ex post modality following an evaluation that the Bank will conduct after a test period to be agreed upon by the Bank and executing agency. All procurements using international competitive bidding procedures will be reviewed ex ante. The frequency of ex post reviews, if any, will be every six months at most, and the executing agency's capacity will be rated taking into account the opinion of the Procurement Specialist in the Country Office. All procurements to be made in a given period must be included in the Procurement Plan approved by the Bank and will follow the methods and ranges laid out therein. During loan negotiations with the Bank, the FPS will agree on a Procurement Plan outlining in detail the procurements for the first 18 months of execution, together with all other program procurements on a preliminary basis.

The frequency of ex post reviews and the thresholds established for the ex ante review of contracts will be consistent with the assessment made of the executing agency's capacity. These thresholds and ex post review frequencies may be adjusted as part of the updates and changes to the Procurement Plan, based on executing agency performance and progress on the corrective action described above.

Annex III

Safeguard and Screening Form for Classification of Projects

Safeguard Screening Form

PROJECT DETAILS	IDB Sector	Water and Sanitation
	Type of Operation	Investment Loan
	Additional Operation Details	
	Country	Bolivia
	Project Status	Second Phase Operation or Repeat Loan
	Investment Checklist	Infrastructure Water and Sanitation
	Team Leader	Christopher Jennings
	Project Title	Small Community Water Program
	Project Number	BO-L1013
	Safeguard Specialist(s)	Coral Fernandez
	Assessment Date	2007-10-12
	Assessment Number	2007-10121111-2
	Additional Comments	

PROJECT CLASSIFICATION SUMMARY	Project Category: C	Override Rating: B	Override Justification: Elevate: other (add details in final report)
	Conditions/ Recommendations	<p>Category "B" operations require an environmental analysis (see Environment Policy Guideline: Directive B.5 for Environmental Analysis requirements).</p> <p>The Project Team must send the PCD (or equivalent) containing an Environmental and Social Strategy (ESS -- the requirements for an ESS are described in the Environment Policy Guideline: Directive B.3; paragraph 9) and the SSF to the CESI.</p>	

SUMMARY OF IMPACTS/RISKS AND POTENTIAL SOLUTIONS	Identified Impacts/Risks	Potential Solutions
	No issues identified	

ASSESSOR DETAILS	Name of person who completed screening: Coral Fernandez	Date: 10/12/07
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	Comments:
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Safeguard Policy Filter

PROJECT DETAILS	IDB Sector	Water and Sanitation
	Type of Operation	Investment Loan
	Additional Operation Details	
	Country	Bolivia
	Project Status	Second Phase Operation or Repeat Loan
	Investment Checklist	Infrastructure Water and Sanitation
	Team Leader	Chris Jennings
	Project Title	Small Community Water Program
	Project Number	BO-L1013
	Safeguard Specialist(s)	Coral Fernandez
	Assessment Date	2007-10-12
	Assessment Number	2007-10124746-2
	Additional Comments	

SAFEGUARD POLICY FILTER RESULTS	Type of Operation	Investment Loan	
	Safeguard Policy Items Identified (Yes)	The operation is a repeat or second phase loan.	(B.14)
	Potential Safeguard Policy Items (?)	No potential issues identified.	
	Recommended Action	Operation has triggered 1 or more Policy Directives; please refer to appropriate Directive(s). Complete Project Classification Tool. Submit Safeguard Policy Filter Report, PCD (or equivalent) and Safeguard Screening Form to CESI Secretariat.	
	Additional Comments		

ASSESSOR DETAILS	Name of person who completed screening:	Coral Fernandez
	Title	Environmental Protection Specialist, INE/WSA
	Date	2007-10-12