

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

**URUGUAY**

**CIUDAD DEL PLATA SANITATION PROGRAM, STAGE I**

**(UR-L1149)**

**LOAN PROPOSAL**

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LINKS	
<b>REQUIRED</b>	
1.	<a href="#">Multiyear execution plan (MEP) and annual work plan (AWP)</a>
2.	<a href="#">Monitoring and evaluation plan</a>
3.	<a href="#">Environmental and social management report</a>
4.	<a href="#">Procurement plan</a>
<b>OPTIONAL</b>	
1.	<a href="#">Technical viability</a>
2.	<a href="#">Socioeconomic viability</a>
3.	<a href="#">Financial viability</a>
4.	<a href="#">Draft Operating Regulations</a>
5.	<a href="#">Draft progress monitoring report (PMR)</a>
6.	<a href="#">Compliance with the Public Utilities Policy</a>
7.	<a href="#">Ciudad del Plata Master Plan</a>
8.	<a href="#">Bibliographical references</a>

## ABBREVIATIONS

BOD <sub>5</sub>	Biochemical oxygen demand over 5 days
CdP	Ciudad del Plata
CGN	Contaduría General de la Nación [General Accounting Office]
DDIP	Dirección de Descentralización e Inversión Pública [Directorate of Decentralization and Public Investment]
DGGAS	Dirección General de Gestión Ambiental y Salud [General Directorate of Environmental Management and Health]
DINAGUA	Dirección Nacional de Agua [National Water Directorate]
DINOT	Dirección Nacional de Ordenamiento Territorial [National Directorate of Land Management]
EBITDA	Earnings before interest, tax, depreciation and amortization
ESMF	Environmental and social management framework
ESMP	Environmental and social management plan
INE	Instituto Nacional de Estadísticas [National Statistics Institute]
ISJ	Intendencia de San José [Municipal Government of San José]
OPP	Oficina de Planeamiento y Presupuesto [Office of Planning and Budget]
OSE	Obras Sanitarias del Estado [State Sanitation Works]
PCU	Program coordination unit
SNAP	Sistema Nacional de Áreas Protegidas [National System of Protected Areas]
TCR	Tribunal de Cuentas de la República [Audit Court of the Republic]
TOCAF	Texto Ordenado de Contabilidad y Administración Financiera [Consolidated Code of Accounting and Financial Administration]
URSEA	Unidad Reguladora de Servicios de Energía y Agua [Energy and Water Services Regulatory Unit]
WAL	Weighted average life
WTP	Willingness to pay
WWTP	Wastewater treatment plant

## PROJECT SUMMARY

### URUGUAY CIUDAD DEL PLATA SANITATION PROGRAM, STAGE I (UR-L1149)

Financial Terms and Conditions				
<b>Borrower:</b> Eastern Republic of Uruguay <b>Guarantor:</b> Eastern Republic of Uruguay <b>Executing agency:</b> Office of Planning and Budget (OPP), acting through the Directorate of Decentralization and Public Investment (DDIP)			Flexible Financing Facility <sup>(a)</sup>	
			<b>Amortization period:</b>	25 years
			<b>Original WAL:</b>	15.25 years
			<b>Disbursement period:</b>	5 years
			<b>Grace period:</b>	5.5 years
Source	Amount (US\$)	%	<b>Inspection and supervision fee:</b>	<sup>(b)</sup>
<b>IDB (Ordinary Capital):</b>	20 million	100%	<b>Interest rate:</b>	LIBOR-based
			<b>Credit fee:</b>	<sup>(b)</sup>
<b>Total:</b>	20 million	100%	<b>Currency:</b>	U.S. dollars from the Ordinary Capital (OC)
Project at a Glance				
<b>Project objective/description:</b> The objective of the operation is to provide sanitary sewer service to the population of Ciudad del Plata, located in the Metropolitan Area of Montevideo, and to properly dispose of treated wastewater, contributing in this way to better public health and less environmental pollution.				
<b>Special contractual conditions precedent to the first disbursement of the loan proceeds:</b> (i) the program Operating Regulations have been approved, including the environmental and social management framework (ESMF), staff to be hired for the program coordination unit (PCU), and the house connections plan designed by the executing agency and approved by the Bank; and (ii) an agreement has been signed between the Office of Planning and Budget (OPP) and the State Sanitation Works (OSE) establishing responsibilities including design, contracting, technical supervision, and operation and maintenance as established in the program Operating Regulations (see paragraph 3.7).				
<b>Special contractual conditions for execution:</b> The time limit for the physical start of works will be three years, running from the effective date of the loan contract (see paragraph 3.8). See special contractual conditions in Annex B of the environmental and social management report (ESMR) ( <a href="#">required link 3</a> ).				
<b>Exceptions to Bank policies:</b> None.				
Strategic Alignment				
<b>Challenges:</b> <sup>(c)</sup>	SI	<input checked="" type="checkbox"/>	PI	<input type="checkbox"/>
			EI	<input type="checkbox"/>
<b>Crosscutting themes:</b> <sup>(d)</sup>	GD	<input checked="" type="checkbox"/>	CC	<input checked="" type="checkbox"/>
			IC	<input type="checkbox"/>

<sup>(a)</sup> Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when considering such requests.

<sup>(b)</sup> The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with applicable policies.

<sup>(c)</sup> SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).

<sup>(d)</sup> GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

## I. PROJECT DESCRIPTION AND RESULTS MONITORING

### A. Background, problem to be addressed, and rationale

- 1.1 **Background.**<sup>1</sup> Ciudad del Plata (CdP) is located in the Department of San José, bordering the western part of the Department of Montevideo, and forms part of the Metropolitan Area of Montevideo.<sup>2</sup> According to the latest census figures (2011) from the National Statistics Institute (INE), the city's population stands at 31,146 and has grown 6.6% over the last 15 years, while the population of the country as a whole grew by only 3.6% over the same period. In terms of sanitary sewer coverage, Ciudad del Plata is the only city in the Montevideo Metropolitan Area with more than 20,000 inhabitants still without sewer networks.<sup>3</sup> A feasibility study for a sanitation system in Ciudad del Plata was performed in 2005 and found that the associated costs were high in comparison with other communities of a similar size in Uruguay, due to low population density and topography.
- 1.2 In socioeconomic terms, the resident population of Ciudad del Plata is highly vulnerable with a high degree of informality.<sup>4</sup> According to the monitoring center Observatorio Territorio Uruguay, the 2011 census data and boundaries of the municipios of the National Directorate of Land Management (DINOT) indicate that the number of households with unmet basic needs in Ciudad del Plata exceeds the national average: 25.5% of households have at least one unmet basic need, whereas the national figure is 19.6% of households. Some 52% of CdP households are poor:<sup>5</sup> the value of this indicator is among the highest in the Montevideo Metropolitan Area,<sup>6</sup> and incomes of households headed by women are on average 20% below those of households headed by men.<sup>7</sup> This is of particular importance, because poor households tend to have low health evaluations<sup>8</sup> and price is a major factor in the demand for health investments, including water and sanitation. Small increases in price (cost) reduce investment in sanitation facilities.<sup>9</sup>

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<sup>1</sup> See bibliographical references in [optional link 8](#).

<sup>2</sup> The Montevideo Metropolitan Area encompasses the Department of Montevideo and Ciudad de la Costa, La Paz, Las Piedras, Pando, Barros Blancos, Empalme Olmos, Toledo, Progreso, Joanico, and Ciudad del Plata.

<sup>3</sup> IDB 2015. Universal access to sanitation: alternatives and costs. The case of Uruguay ([link](#)).

<sup>4</sup> Couriel, Jack (2010): De cercanías a lejanías: fragmentación socio-urbana en el Gran Montevideo [From nearby to farby communities: Social and urban fragmentation in Greater Montevideo].

<sup>5</sup> Percentage of poor households according to the poverty line and/or unmet basic needs.

<sup>6</sup> Ministry of Social Development. Identificación y caracterización de la pobreza en unidades espaciales de Montevideo y Área Metropolitana [Identification and characterization of poverty and spatial units of Montevideo and the metropolitan area], 2011 ([link](#)). Estimates using the unmet basic needs approach show that poverty rises sharply for outlying areas of the Montevideo Metropolitan Area. The incidence of unmet basic needs is between 37.0% and 40.9% for outlying areas as a whole, and between 48% and 57% for CdP: the median for the city of Montevideo has an upper limit of 25.9%, which is significantly below the incidence in the outlying areas—at least 11 percentage points—and more than 25% below the incidence in CdP.

<sup>7</sup> Socioeconomic survey, July 2018 ([link](#)). According to the survey data, 52% of households in the project area are below the poverty line calculated for 2017 using the method defined by the INE ([link](#)).

<sup>8</sup> Kremer, M. et al., 2011b ([link](#)) .

<sup>9</sup> Ashraf, N., et al., 2010 ([link](#)), and Kremer, M., et al., 2011a ([link](#)).

- 1.3 Beyond the socioeconomic vulnerability of the CdP population, the lack of effective sanitation (collection and treatment) creates health risks<sup>10</sup> and environmental quality risks in the city, primarily through the dumping of wastewater in stormwater runoff channels, backyards, and swimming areas (beaches and quarries), adversely impacting the quality of life of the population (bad odors, buildup of sewage with the resulting potential health risk, insects, etc.). It also creates an environmental risk through leaching into the groundwater table<sup>11</sup> and dumping of untreated effluents into water bodies (Río de la Plata, Santa Lucía, the Raigón Aquifer). Heat-tolerant coliforms have been detected in the drinking water system,<sup>12</sup> despite regulations<sup>13</sup> stating that drinking water should contain no microbiological pathogens.
- 1.4 According to census data (INE 2011), more than 95% of the population disposes of its wastewater through individual systems via cesspools or “pit privies.” One survey<sup>14</sup> found that 80% of the population separates gray water from black water, sending the latter to cesspools, and dumping gray water indiscriminately on the ground or in storm sewers. Only 30% of households have their cesspools emptied with the necessary frequency (once a month): the remaining families do so less frequently, often waiting for a year or more,<sup>15</sup> which means that only 7.7% of domestic wastewater is collected via vacuum trucks and delivered to the existing treatment plant.<sup>16</sup> The effluents that are not collected and transported to the existing treatment ponds (currently used to treat leachate from the CdP landfill) infiltrate into the water table or are evacuated through the storm drainage system, thereby becoming a source of widespread pollution of surface water bodies. The survey also reveals that the pumping truck service (run by private operators) for collecting wastewater is not affordable: operators charge on average US\$30 per

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<sup>10</sup> There are no statistics on waterborne illnesses associated with a lack of sanitation. According to the CdP Health Center, the only statistics collected are those required by the Ministry of Public Health. These include sex, age, specialist consulted, and are performed exclusively for emergency consultations. The statistics do not cover consultations in polyclinics nor do they include statistics on the reason for the consultation or the diagnosis performed.

<sup>11</sup> Evidence of the impact that wastewater pollution from individual systems has on the subsoil and on groundwater. Groundwater and its susceptibility to degradation, UNEP 2003 ([link](#)).

<sup>12</sup> Diagnostic assessment report. PAUDCP. July 2017 ([link](#)).

<sup>13</sup> Instituto Uruguayo de Normas Técnicas [Uruguayan Technical Standards Institute] (UNIT). Agua potable: Requisitos [Drinking water: Requirements] ([link](#)).

<sup>14</sup> Diagnostic assessment report. PAUDCP. July 2017 ([link](#)).

<sup>15</sup> Socioeconomic survey, July 2018 ([link](#)).

<sup>16</sup> From these surveys conducted in the context of the Master Plan, it emerges that 80% of dwellings in the municipio separate gray water, and only black water goes into the toilet. According to the bibliography, these represent approximately 20% of the wastewater generated (Metcalf and Eddy, 2003, Ekarna, 2008). It can be estimated, then, that the volume of total wastewater generated in the municipio in 2015 was 4,576 cubic meters per day. Based on this value, the daily volume of water discharged into cesspools is calculated at 1,647 m<sup>3</sup> per day. Based on this volume and the total population of 33,893 inhabitants, the volume of wastewater discharged into cesspools can be estimated, at 49 L per person per day. Comparing the 2015 daily theoretical volume of sewage dumped into the black well (1,647 m<sup>3</sup> per day) with the actual volume received (128 m<sup>3</sup> per day), only 7.7% is being recovered and sent to the treatment ponds ([optional link 1](#)).

- trip for emptying between 2 and 5 cubic meters.<sup>17</sup> Moreover, as only 30% of households have underground sewage receptacles (cesspools) located at the front of the property (the remainder are at the rear or to the side), together with the economic and social limitations associated with the population's socioeconomic characteristics, and the high degree of informality, there is a need for special programs for connection to the sanitary sewer network.
- 1.5 Liquid wastes collected from cesspools are transported to a system of treatment ponds located in the northeast section of the city. The treatment system is operated by the Intendencia de San José [Municipal Government of San José] (ISJ). According to the diagnostic assessment, the treatment plant receives almost no maintenance: as a consequence, the level of sludge in the ponds is high, and this reduces the potential volume of treatment and hence compromises the system's purification efficiency. The ISJ, through the General Directorate of Environmental Management and Health (DGGAS), monitors the quality of effluent from the treatment plant, which is dumped into a man-made canal that empties into the Rio Santa Lucia. Of the nine samples analyzed over a period of two years (2015-2017), only two presented values that comply with the quality limits for matter dumped into watercourses, as they relate to the parameters of BOD<sub>5</sub> (biochemical oxygen demand over 5 days), total suspended solids and fecal coliforms. The dumping limits are exceeded in 67% of cases for BOD<sub>5</sub>, 56% of cases for total suspended solids, and 67% of cases for fecal coliforms, thus contributing to deterioration of the recipient water body's environmental quality. At the present time, the plant receives effluents from a population equivalent to 1,400 inhabitants, with an average BOD outflow of 75 mg per liter, thereby exceeding the current standard.<sup>18</sup> In order to treat adequately the wastewater from Ciudad del Plata, the handling capacity of the ponds will have to be expanded.
- 1.6 In short, the institutions responsible for urban water supply in Ciudad del Plata—ISJ and Obras Sanitarias del Estado [State Sanitation Works (OSE)]—face a series of challenges that have consequences for the quality and the environmental sustainability of service delivery. This is an important consideration, as there is a positive link<sup>19</sup> between environmental quality,<sup>20</sup> health and access to water and sanitation.<sup>21</sup> The likelihood of contracting waterborne diseases diminishes<sup>22</sup> when

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<sup>17</sup> Assuming drinking water consumption at 130l/person/day, an average of 3.14 persons per household, and a contribution coefficient of 0.7, the tank cleaners will have to be called every three weeks. This implies a cost of US\$45 per month per dwelling, to avoid infiltration.

<sup>18</sup> Pursuant to Decree 253, the current limits for dumping into watercourses are: pH between 6.0 and 9.0, BOD<sub>5</sub> < 60 mg of O<sub>2</sub>/L, total suspended solids <150 mg per liter, fecal coliforms <5,000 UFC/100 ml.

<sup>19</sup> As documented in numerous microeconomics studies, for example the summaries by Brenneman and Kerf (2002), Annette Prüss-Ustün et al. (2014) and Kremer, Miguel and Zwane, Alix Peterson (2007).

<sup>20</sup> Empirical evidence on the effectiveness of environmental quality actions: Rodríguez-Jeangros et al. (2018) have modeled the effects of sewage treatment on water quality in the Bogotá River ([link](#)).

<sup>21</sup> Mascarini, M. L. et al. (2009) found that sanitation interventions in Salvador, Brazil, reduced the incidence of intestinal parasitosis in children ([link](#)); Barreto, M. et al., (2007) ([link](#)) obtained similar results for diarrhea in the Northeast of Brazil. For the specific case of Uruguay, an impact evaluation conducted by the World Bank in 2012 in the municipality of Treinta y Tres found that children under 12 years living in households with a sewer connection had a 4% lesser probability of having parasites, representing a reduction of 50% in the probability of having parasites when the household is not connected to the sanitation system ([link](#)).



there is a water and sanitation system available,<sup>23</sup> and this has a direct impact on reducing child mortality.<sup>24</sup> Yet the benefits associated with sanitary sewer works will not materialize if the rates of connectivity to the network are low,<sup>25</sup> especially when families do not give priority to the service or lack the means to have themselves connected.<sup>26</sup> The evidence at hand suggests that the lack of economic resources is an important factor behind low connectivity.<sup>27 28</sup>

- 1.7 **Sector institutional framework.** Management of water and sewer services at the national level,<sup>29</sup> in both its operational and its financial aspects, is the responsibility of the OSE. Nationwide, the sector comprises an entity responsible for policy formulation, the National Water Directorate (DINAGUA), an entity responsible for regulation, the Energy and Water Services Regulatory Unit (URSEA) and two utilities: the OSE and the Sanitation Directorate of the Municipality of Montevideo. In addition, the Planning and Budget Office (OPP), through the Directorate of Decentralization and Public Investment (DDIP), has the task of planning and designing policies, including infrastructure for basic services, at the departmental and municipal government levels, as well as coordinating the execution of works.
- 1.8 **Rationale and proposed interventions.** There is a master plan<sup>30</sup> for Ciudad del Plata, to the year 2050, approved by OSE, the ISJ, and DINAGUA. Its goal is to ensure universal access to sanitation for a population projected to reach 61,000 inhabitants by the year. The investment needed to provide sewer service to the entire population of Ciudad del Plata is approximately US\$110 million. In this context, given the magnitude of the amounts needed to fulfill the targets, a staged intervention has been planned. The first stage involves the construction of sewer works to serve the population whose wastewaters can be treated in the existing,

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<sup>22</sup> WHO 2013; White, G.F. et al. 1972; Esrey, S.A., Habicht, J.P. 1986; Fewtrell, L. et al. (2005) and Kremer, M. (2007).

<sup>23</sup> A study in Argentina found that the absence of sewer service increases the likelihood of contracting waterborne diseases by between 11% and 24%, depending on the type of disease. Without sewer service, the probability of contracting diarrhea among children under five years is 0.32 versus 0.21 when there is sewer service available, and the probability of contracting parasites is 0.38 versus 0.14. Halcrow 2013 Plan de Manejo Urbano Ambiental de la CRR - PMUACRR. Tomo IV, Análisis socioeconómico [CRR – PMUACRR Urban Environmental Management Plan. Volume IV. Socioeconomic analysis] ([link](#)).

<sup>24</sup> Formal studies by Wagstaff and Claeson (2004) ([link](#)), and Schady (2015) ([link](#)) found that access to clean water and sanitation infrastructure helps to reduce child mortality. Conte Grand, M. and Coloma, G (2009) found a significant relationship between increased water and sanitation coverage and reduced mortality ([link](#)).

<sup>25</sup> IDB 2014, Water and Sanitation Sector Framework Document, Washington, D.C., Water and Sanitation Division ([link](#)).

<sup>26</sup> Bancalari et al., 2016, "Who connects? Estimation of the sewerage connectivity propensity in periurban Bolivia," IDB Technical Note TN-1075 ([link](#))

<sup>27</sup> Nonexperimental evidence from Sri Lanka found that poverty, the price of service, and the cost of connection were key determinants of the demand for piped water. Pattanayak, S. et al. (2006). The Use of Willingness to Pay Experiments: Estimating Demand for Piped Water Connections in Sri Lanka 3818. WB Working Papers ([link](#)).

<sup>28</sup> In a study in Morocco, Devoto, F. et al. 2012 found that the larger and wealthier households had a greater likelihood of acquiring a water connection ([link](#)).

<sup>29</sup> Except for the sanitation service in the city of Montevideo, responsibility for which resides with the Sanitation Division of the Department of Environmental Development of the Municipality of Montevideo,

<sup>30</sup> Report of the Master Plan for Sanitation, Rain Water, Roads and Associated Public Spaces of CdP, July 2018 ([link](#)).

optimized system of ponds (see paragraph 1.23). Optimization will make it possible to treat the equivalent of approximately 9,500 inhabitants (by 2023), including the population to be covered with the sewer network under this project (8,570 inhabitants), and the current fleet of vacuum trucks. This first stage would cover the treatment of wastewaters from 30% of the current CdP population. The sewer works of the first stage will address neighborhoods (central zone of CdP, SOFIMA, Villa Rives and Delta del Tigre) adjacent to the treatment plant that will be used. By 2050 the population is expected to double. Operation of the treatment system, now in the hands of the ISJ, will be transferred to OSE. A “house connections plan” will also be developed and implemented in the intervention areas, and it will include subsidies to increase connections to the network.<sup>31</sup>

- 1.9 **Gender.** Of a total of 11,495 households in Ciudad del Plata, 504 were analyzed. Of these, 304 are headed by women. As has been observed in Latin America generally, and in Uruguay in particular, female-led households have acquired growing importance in recent decades, and they currently account for more than a third of private households in the country.<sup>32</sup> The increase in households headed by women in Uruguay is occurring within the process of change in the family structure, demographic aging, increased numbers of single mothers, widows, divorcees or abandoned women. There are in fact many different situations that may lead to a female-led household: this heterogeneity reflects the different stages of the lifecycle through which female-led households may pass, as well as the possibilities of reconfiguring these households.<sup>33</sup> Thanks to gender inequalities, households headed by women generally have greater economic difficulty in accessing basic services and resources. In this respect, according to data from the CdP socioeconomic survey, when family incomes are disaggregated by the gender of the household head, women receive on average monthly incomes of 29,861 Uruguayan pesos, or approximately 20% less than the average income of a male-headed household.
- 1.10 **Gender actions.** This operation will reinforce the strategic line of equality of opportunities. Specifically, and considering the gender inequality gap identified in the areas involved in the project, it has been agreed with the executing agency that 50% of the subsidies delivered will be targeted at female heads of household. This will be measured as an outcomes indicator in the results matrix (see paragraph 1.21) and will allow households where inequality prevails to install the

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<sup>31</sup> Several studies have evaluated the effectiveness of reducing the price or subsidizing the cost of investments in sanitation. Garn, J.V. et al., 2017, conducted a systematic review of studies on programs of incentives for the use of latrines and they found that programs involving subsidies or free delivery increased coverage by 16%, but that subsidies combined with educational campaigns had a modest and statistically nonsignificant impact ([link](#)). In another study in India, Patil, S. R. et al. (2014), evaluated the effectiveness of combining educational campaigns with subsidies for the purchase of latrines, and found that the intervention increased the coverage of latrines by 19 percentage points, and reduced open-air defecation by nine percentage points. The program's impact was higher among households with incomes below the poverty line, who benefited from the subsidy component ([link](#)).

<sup>32</sup> See households where declaration of head-of-household is straight forward, e.g., single-person or single-parent households, both sources (2011 Census and 2012 Ongoing Household Survey) provide similar values (Table 5). [http://www.mides.gub.uy/innovaportal/file/57209/1/atlas-sociodemografico-y-de-la-desigualdad-del-uruguay\\_fasciculo-6.pdf](http://www.mides.gub.uy/innovaportal/file/57209/1/atlas-sociodemografico-y-de-la-desigualdad-del-uruguay_fasciculo-6.pdf).

<sup>33</sup> <http://cienciassociales.edu.uy/departamentodesociologia/wp-content/uploads/sites/3/2013/archivos/Art%C3%ADculo%20Nathan-Paredes%20RCCSS.pdf>.

connections needed to access quality service, thereby improving their health and living conditions without affecting their economy, and taking into account the gaps analysis performed previously. This is a concrete and innovative action for the Bank's water and sanitation operations, and thus constitutes a valuable opportunity to yield lessons for other projects and countries.

- 1.11 **The Bank's sector knowledge.** The program is associated with comprehensive strategy of the Bank to support the country in expanding sanitation coverage in the Montevideo Metropolitan Area since 1983, including five stages of urban sanitation in Montevideo (loans 76/OC-UR, 575/OC-UR, 948/OC-UR, 1819/OC-UR and 2605/OC-UR, and 3805/OC-UR), three of which have been completed; the fourth and fifth stages are now in execution. Of the three sanitation stages in Ciudad de la Costa (loans 2095/OC-UR and 2785/OC-UR, 2790/OC-UR, 3258/OC-UR, and 3259/CH-UR), the first two have been completed, and the third is now in execution. In terms of technical cooperation, preliminary designs have been prepared for the sanitation system of the Route 5 South Microregion (operation ATN/OC-14036-UR). In the project zone for the operation in preparation (via operation ATN/OC-15221-UR), work is now underway to prepare the Urban Water Plan, the Master Plan and the integrated preliminary design for sanitation, storm water, roads and associated public spaces of Ciudad del Plata. These interventions will address the issue of narrowing the sanitation coverage gap in the Montevideo Metropolitan Area.
- 1.12 **Lessons learned.** Preparation of this operation has taken into account the lessons learned during the execution and evaluation of similar operations in Uruguay (loans 2095/OC-UR and 2785/OC-UR, 2790/OC-UR) and in the region, in accordance with the Water and Sanitation Sector Framework Document (document GN-2781-8), notably: (i) sewer connection rates tend to be lower when families do not make the service a priority and/or lack the funds to get connected, so there are plans to develop a house connections plan and financing for its implementation (see paragraph 1.18); and (ii) when sewer works are accompanied by drainage and paving works to be financed by an institution or agency other than the source of financing for the sewer works, a coordinator is needed to optimize the overall intervention, so the OPP, acting through the DDIP, will act as executing agency for the program (see paragraph 3.1). In addition, the program reflects the lessons learned with respect to methodologies and strategies for improving connectivity to the sewer network under the following projects: Water and Sewerage Program in Periurban Areas, Phase 1 (grant GRT/WS-11839-B0 and loan 2199/BL-BO), as well as the Cajamarquilla, Nievería, and Cerro Camote Project: Expansion of Water and Sewerage Systems (loan 2545/OC-PE), in relation to the communications plan and incentives strategy that will be inputs for the house connections plan to be implemented during this operation.
- 1.13 **Strategic alignment.** The operation is consistent with the priority area of "Habitat Improvement" in the area of water and sanitation, of the IDB country strategy with Uruguay (document GN-2836), the objective of which is to reduce the qualitative housing deficit and as a result boost the coverage of sanitation services in the Montevideo Metropolitan Area. The operation is included in the update to the 2018 Operational Program (document GN-2915-2). The program is also consistent with the Update to the Institutional Strategy (UIS) 2010-2020 (document AB-3008) and is directly aligned with the development challenge of social inclusion and equality,

bearing in mind that the interventions are targeted toward expanding and improving sanitation services in one of the poorest parts of the Montevideo Metropolitan Area (see paragraph 1.2). The operation is aligned with the crosscutting area of gender equality and diversity, in that it will guarantee women's access to project sewer services, setting a special target of subsidies for households headed by women in the neighborhoods served. The program is also aligned with the crosscutting area of climate change and environmental sustainability, and will finance a final disposal system for wastewater, reducing methane emissions into the atmosphere by some 741 metric tons of carbon dioxide a year, thereby mitigating emissions of greenhouse gases. Approximately 91% of the operation's funds will be invested in mitigation activities, according to the Joint Methodology of the Multilateral Development Banks for Tracking Climate Change Finance ([optional link 1](#)).<sup>34</sup> These resources will contribute to the IDB Group's goal of increasing the financing of climate change related projects to 30% of total approvals by 2020.

- 1.14 Additionally, the program will contribute to the Corporate Results Framework 2016-2019 (document GN-2727-6) through the outputs, "households with new or improved access to sanitation" and "households with wastewater treatment." Lastly, it is aligned with the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), particularly the priority area, "Support the construction and maintenance of socially and environmentally sustainable infrastructure, thus enhancing quality of life," and with the Water and Sanitation Sector Framework Document (document GN-2781-8), particularly the dimensions of success relating to achieving universal access to water and sanitation, improving the quality of services, and preparing and implementing sector projects that incorporate considerations of disaster risk management, climate change, and water security.
- 1.15 **Consistency with the Public Utilities Policy (document GN-2716-6).** The program and the national sector objectives are consistent with the principles of policy document GN-2716-6 and satisfy the conditions of financial sustainability and economic evaluation. OSE has a solvent financial position, which has allowed it to fully cover all its costs and meet its financial commitments to its financiers. OSE's financial projections show that this trend will be maintained into the future (see paragraph 1.27). Moreover, the works to be financed under the project are viable from the socioeconomic standpoint (see paragraph 1.25). OSE charges a discounted rate for low-income households (see paragraph 1.26), and there is a sound institutional framework for the sector, with proper separation of functions and responsibilities (see paragraph 1.7) ([optional link 6](#)).

## **B. Objectives, components, and cost**

- 1.16 **Objective.** The objective of the operation is to provide sanitary sewer service to the population of Ciudad del Plata, located in the Metropolitan Area of Montevideo, and to properly dispose of treated wastewater, contributing in this way to better public health and less environmental pollution.
- 1.17 **Component 1. Structural measures (US\$16.7 million).** This objective of this component is to optimize the existing wastewater treatment system and build

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<sup>34</sup> 2015 Joint Report on Multilateral Development Banks' Climate Finance ([link](#)).

sewer networks (36 km), build chamber 1<sup>35</sup> for each owner fronting on the network (2,990), and build pumping stations (3) in neighborhoods located within the system's service area, for US\$16.2 million. It will also finance final designs for the sanitation works in the targeted areas that are not part of the sample, based on the eligibility criteria established in the program Operating Regulations (see paragraph 3.3), for US\$0.5 million. Thus far, there is an advanced preliminary design for the treatment system and the networks of the San Fernando neighborhood (located in the central zone), and a basic preliminary design for sanitation in four potential target areas (see paragraph 2.3).

- 1.18 **Component 2. Nonstructural measures (US\$2 million).** The objective of this component is to develop and execute the house connections plan, to ensure that households are connected to the sanitation system, by providing subsidies<sup>36</sup> (approximately 1,740) based on household income. This system of incentives seeks to promote the construction of in-home connection works and will have a system to collect information for monitoring purposes. In addition, the component will finance the communication plan and a specialized technical support team for implementing the house connections plan.
- 1.19 **Administration, audit and evaluation (US\$1.3 million).** The program will also finance the costs associated with program administration, works supervision, monitoring and evaluation, and external audits.
- 1.20 **Costs and financing.** The total cost of the program is US\$20 million, to be financed by the Bank with Ordinary Capital resources. The budget, broken down by component, is shown in Table I.1.

Table I-1. Program cost (US\$ millions)

Component	IDB Total
Component 1. Structural measures	16.7
Component 2. Nonstructural measures	2.0
Program administration and supervision	0.9
Audit, evaluation, and monitoring	0.4
<b>Total</b>	<b>20.0</b>

## C. Key results indicators

- 1.21 The Results Matrix (Annex II) includes program outputs and outcomes. Table I.2 presents the main indicators.

<sup>35</sup> Chamber 1 is the chamber located at the inside boundary of the property that connects the public collector with the house connection.

<sup>36</sup> The subsidy system to be implemented is in the design stage and will be part of the house connections plan submitted to the Bank as a condition precedent. In Uruguay, Law 18840 provides a precedent for establishing financing criteria to subsidize the house connection.

**Table I-2. Key indicators**

Outcome indicator	Unit of measure	Baseline	Target
New households with wastewater treated at the CdP plant in the project target area <sup>37</sup>	Number of households	0	1,783
Percentage of households with working connection to sanitation in the project target area	% of households	0	60
New households with access to the sanitation network in the project target area	Number of households	0	2,990
BOD <sub>5</sub> removed at the CdP treatment plant	Kg/BOD <sub>5</sub> day	82	337
Percentage of subsidies delivered to women heads of household	% of subsidies	0	50

- 1.22 **Beneficiaries.** The operation is expected to directly benefit 8,570 inhabitants<sup>38</sup> of Ciudad del Plata (around 3,000 households), whose wastewater will be collected with the resulting environmental and health improvements; a population equivalent to 9,500 inhabitants in terms of improving the treatment of their wastewater, and will indirectly benefit 73,000 inhabitants (26,000 households) living in the lower valley of the Rio Santa Lucia (5.6% of the total population of Montevideo)<sup>39</sup> as a result of environmental preservation of the river and its wetlands, once all the works identified in the master plan are implemented.
- 1.23 **Technical viability.** The Urban Water Plan and the comprehensive Master Plan for sanitation, storm drainage, roads and public spaces of CdP, prepared by the consulting consortium CSI-DHI-SEURECA/VEOLIA and financed through technical cooperation operation ATN/OC-15221-UR, constitutes the basis for the design of the sanitation project (first stage) for Zone A of CdP. That study identified the construction stages in accordance with criteria of technical viability and social and environmental vulnerability. With respect to sanitation, the works for the first stage were defined to address neighborhoods adjacent to the sewage treatment plant, which will be reconditioned: those neighborhoods represent approximately 30% of the current population of CdP, and constitute the target set for 2025 in the Master Plan. The Sanitation Plan for CdP identified the technical viability of upgrading the Leachate Treatment Plant of the CdP Sanitary Landfill, in order to receive and process residential wastewater collected by the new sewer networks, which will provide sanitation service to the neighborhoods of the central zone of CdP and others such as Villa Rives, Sofima, and Delta del Tigre. The wastewater treatment plant to be upgraded comprises a system of treatment ponds, and was designed to receive wastewater collected by the future sewer networks, the flows delivered by the pumping trucks that serve the barrio of Santa Monica, as well as others that will have sewer network service in a second stage, plus the flows resulting from the leaching of solid residues from the sanitary landfill, which will be closed.

<sup>37</sup> Does not include households that use cesspools to evacuate wastewater, due to the impossibility of identifying which households use them properly (without dumping into the street or leaching into the soil).

<sup>38</sup> According to information from INE and the urban population projections conducted for this project by DHI, Seureca-Veolia, CSI (2016) Informe escenarios de población y vivienda [Report on population and housing scenarios]. (CdP) 1603-DGN-SL-INF-PT001.

<sup>39</sup> According to information from the INE, based on the 2011 Census.

- 1.24 The plant is designed to handle a population equivalent to 9,500 inhabitants. Its design flow is 1,908 cubic meters per day, and the quality of processed effluent that will be dumped into the Rio Santa Lucia through an existing canal has been established at  $BOD < 60 \text{ mgO}_2/\text{L}$ ,  $SST < 150 \text{ mg/L}$ ,  $CF < 5000 \text{ ufc}/100\text{ml}$ . The upgrade of the plant was designed to operate on an interim basis until 2025, so as to provide treatment for the CdP sanitation first stage, until the long-term sanitation works (defined in the Master Plan for 2050) enter operation. The technical viability study of the project, the details of the works selected as the sample, and the associated costs are included in Annex 1, Technical viability ([optional link 1](#)).
- 1.25 **Socioeconomic viability.** An ex ante economic evaluation was performed. It included a cost-effectiveness analysis of the alternative solutions proposed for the CdP sanitation system, and a cost-benefit analysis of the alternative selected and of the projects to be financed by the program, including the projects from the sample (see paragraph 2.2). That assessment was conducted between February and July 2018. The technical information on the projects was supplied by OPP and based on the work of the DHI, Seureca-Veolia, CSI consortium.<sup>40</sup> The ex ante socioeconomic evaluation was conducted for all the works in the Master Plan and the Draft Sanitation Project, as well as for the works under stage 1 of that plan, and not only for the projects from the sample (San Fernando sewer network, pumping and impulsion station,<sup>41</sup> and rehabilitation of the existing wastewater treatment plant). The analysis was performed in an integrated manner, to incorporate the benefits from the basic works (collectors and pumping stations), which incorporate a population greater than that of the secondary system works of the sample to be financed with this program.<sup>42</sup> For the analysis of stage 1, the limit was set at the peak capacity of the treatment plant (receptors of effluents from the equivalent of up to 9,500 inhabitants), considering all the networks and basic works needed for this purpose. Similarly, the comprehensive assessment of all the works in the Master Plan and the CdP Sanitation Preliminary Design recognized that the works under stage 1 will make implementation of the subsequent stages viable<sup>43</sup> (II and III) and maximize the environmental benefits. This is a reasonable way of incorporating such basic works into the assessment and does not require the artificial allocation to a single project of the cost of works (collectors, pumping stations, plants) dimensioned for larger populations. The assessment was based on comparing the benefits and costs in conditions with and without the intervention. The costs considered for the evaluation were the incremental costs of investment and of operation and maintenance, valued at efficiency prices. The economic benefits of the collection and sewage treatment projects were estimated using the “willingness to pay” (WTP) calculated from a model adapted for the peripheral

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<sup>40</sup> Urban Water Plan, Master Plan and Comprehensive Draft Project for Sanitation, Storm Waters, Roads and Associated Public Spaces of CdP, April 2018 ([link](#)).

<sup>41</sup> Like the sewer network, the pumping and impulsion station at the sewage treatment plant is included in the comprehensive Master Plan for CdP, and so it has been dimensioned to receive not only the effluents from San Fernando but also the wastewater from the so-called Zone B and other neighborhoods of the central zone of CdP.

<sup>42</sup> The existing system of ponds can be adjusted to handle effluents from approximately 9,500 inhabitants equivalent (including input from the pumping trucks), in order to offer sanitation service to the population of the central area of CdP through a sewer network.

<sup>43</sup> The treatment plant to be upgraded was designed for 2025 and will operate temporarily until the long-term works defined in the Master Plan for 2050 enter operation.



neighborhoods of Montevideo<sup>44</sup> (WTP networks) connected to the network, obtained in the framework of the Master Plan for sanitation and urban drainage of Montevideo (2016) and a percentage of income (WTP environment) calculated on the basis of recommendations from the OPP, National Public Investment System (SNIP) as 0.5% of total household income.<sup>45</sup> This economic benefit emerges from estimates performed in urban sanitation projects in La Paz-Las Piedras (2014)<sup>46</sup> and in Ciudad de Pando (2012),<sup>47</sup> where a WTP survey was specifically conducted in order to have a sustainable final disposal system that would improve and preserve the environmental quality of the receiving water bodies. These WTP values were updated to July 2018 using the consumer price index published by the INE.<sup>48</sup> The results of the analysis show that the operation is viable with economic internal rates of return greater than 12%, and cost-benefit coefficients greater than 1. The analysis was supplemented by the corresponding sensitivity analysis ([optional link 2](#)). For projects in the neighborhoods not included in the sample, the analysis followed evaluation methodologies accepted by the Bank for verifying the ex ante socioeconomic viability of stage 1 of the CdP sanitation system, and only projects that do not alter the ex ante socioeconomic viability will be eligible for financing.

- 1.26 **Ability to pay.** It was confirmed that the monthly service billing to beneficiaries would be less than 5% of family income for the beneficiary population, considering the rates applied by OSE and a monthly water consumption of 15 cubic meters per household. In addition, within its system of rates the OSE offers a discounted rate<sup>49</sup> for users who, because of their low incomes, cannot pay the monthly charge for water and sanitation.
- 1.27 **Financial viability.** A financial analysis was conducted for OSE as the entity responsible for operating and maintaining networks constructed by the program. This financial analysis included a historical analysis, based on OSE's financial statements, as well as application of a financial model that projects the estimated financial position for the next 10 years. The historical financial information indicates that OSE, with its own resources from service delivery (user charges), has been able to fully cover its operation and maintenance and administration costs (as reflected in an EBITDA margin of approximately 20% as an annual average for the last three fiscal years). The projection shows that OSE can sustain its EBITDA margin over the projection period at its current level and therefore will be able to maintain a sound financial position.
- 1.28 **Institutional viability.** The infrastructure constructed will be operated and maintained by OSE, the provider of sewer services throughout the national territory except in the Department of Montevideo. The management of OSE is sound, and it

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<sup>44</sup> Willingness to pay for connections to the sewer network – PDSUM (2016) ([link](#)).

<sup>45</sup> Methodology for estimating economic benefits in investment projects in land use policy. Complementary proposal to the guide for formulating and evaluating investment projects of the SNIP, 2014 ([link](#)).

<sup>46</sup> Socioeconomic analysis of the sanitation project for La Paz and Las Piedras Proye 2014 ([link](#)).

<sup>47</sup> Socioeconomic analysis of the project for upgrading sanitation networks in Ciudad de Pando and interconnections to the treatment plant of Ciudad de la Costa ([link](#)).

<sup>48</sup> <http://www.ine.gub.uy/indicadores?indicadorCategoryId=11421>.

<sup>49</sup> Established by the Ministry of Housing, Land Management, and Environment (MOVOTMA) on 28 December 2017. (<http://www.ose.com.uy/clientes/tarifa-social>).



is pursuing the process of continuous annual improvement through its action plan, which covers areas including: (i) clients and external agents, (ii) finances, (iii) sustainability, (iv) internal processes, and (v) internal capital.<sup>50</sup> The regulator, Energy and Water Services Regulatory Unit (URSEA), oversees the economic regulation and the quality of service, customer retention, the development of standards linked to regulatory aspects, and control over compliance, all of which contributes to delivery of service under adequate conditions of reliability and quality.

## II. FINANCING STRUCTURE AND MAIN RISKS

### A. Financing instruments

- 2.1 **Financing modality and structure.** The program has been designed as an investment loan under the multiple works modality, since it calls for the execution of similar but separate sanitation works in the service area of the wastewater treatment plant, based on eligibility criteria (see paragraph 3.3). The program's preparation involved analysis of a representative sample, which will allow an early start to execution. With a disbursement schedule of five years, consistent with the multiyear execution plan ([required link 1](#)), the program will meet the demands prioritized in the Master Plan of Ciudad del Plata ([optional link 7](#)) and will be governed by program Operating Regulations ([optional link 4](#)) (see paragraph 3.2). The disbursement schedule is presented in Table II-1.

Table II-1. Disbursement schedule (US\$ millions)

Source/year	1	2	3	4	5	Total
IDB Total	1.5	5.0	4.8	5.2	3.5	20.0
Cumulative %	7.5	32.5	56.5	82.5	100.0	

- 2.2 **Representative sample.** To determine the program's viability and to speed execution once approved, the project team analyzed a sample of projects representative of the works to be performed, amounting in total to 34% of the program. These projects are:<sup>51</sup> (i) 8 km of sanitary sewers in the San Fernando district of Ciudad del Plata, and (ii) rehabilitation of the existing wastewater treatment system to ensure that it can handle the volume of wastewater that will be generated with the increased coverage of the sewer systems. The sample projects meet the eligibility criteria established for the operation (see paragraph 3.3).
- 2.3 **Future basket of projects.** Works in the neighborhoods of Villa Rives, Sofima, Delta del Tigre, and Zona Central<sup>52</sup> have been identified (on a preliminary basis, using the same selection process as for the sample) for financing under this operation, once they are prepared, and their feasibility (see paragraphs 1.23 to 1.28) and eligibility have been verified (see paragraph 3.2).

<sup>50</sup> Action Plan 2018 ([link](#)).

<sup>51</sup> Informe de anteproyectos avanzados [Report on advanced preliminary designs] ([link1](#) and [link2](#)).

<sup>52</sup> Includes the neighborhoods of San Fernando, San Fernando Chico, Parque Postel, and Parque del Plata.

## **B. Environmental and social safeguard risks**

- 2.4 Under the Environment and Safeguards Compliance Policy (Operational Policy OP-703), and in accordance with the environmental and social analysis carried out for projects in the sample, the CdP sanitation operation, designed as a multiple works program, has been classified as Category “B,” as it is expected to have localized, moderate negative impacts, primarily during the construction phase (dust, noise, soil pollution, erosion and sedimentation from earthmoving, temporary flooding, disruptions to vehicle and pedestrian traffic, and risk of accidents). None of the projects will have a negative impact on significant natural habitats or cultural sites, nor will they be located in areas where indigenous peoples are present.
- 2.5 The projects in the sample do not call for physical resettlement. The sewer networks will be installed along public roadways, and the treatment plant will be built on publicly owned land. As to the remaining projects, no resettlements are expected, although some minor expropriations may be needed to locate the pumping stations (3). If those lands are privately owned, they will be expropriated under the National Expropriations Law (Law 3958/12),<sup>53</sup> in a manner compatible with the resettlement policy. The consultations, led by the Office of Planning and Budget (OPP) in coordination with the State Sanitation Works (OSE), were held on 5 September 2018, and the OPP is now preparing a report on those consultations.
- 2.6 An environmental and social management framework (ESMF) has been developed. It includes a resettlement framework and a claims and complaints mechanism, and offers guidelines to guarantee compliance with environmental and social safeguards during preparation of future projects, and execution of the program as a whole. The ESMF will be included in the program Operating Regulations (see paragraph 3.2). In order to ensure adequate preparation, supervision, and social and environmental reporting for the projects financed by the program, these aspects will be incorporated into the framework agreement between the executing agency and OSE, which will establish the conditions of support and technical supervision for which the OSE is responsible (see paragraph 3.1). In addition, the executing agency will be strengthened with the addition of a hydraulics engineer (with environmental knowledge) and a social assistant who will take the lead on social matters during work on the sewer networks and the home connections.
- 2.7 Both the environmental and social analysis, which includes an environmental and social management plan (ESMP), as well as the program’s ESMF, were published on the Bank’s website before the analysis mission began, and the final version was rereleased after incorporating considerations resulting from the public consultation held on 5 September 2018.

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<sup>53</sup> The legal procedure for expropriation is stipulated in the National Expropriations Law, Law 3958/12. According to Article 1.a, no one may be deprived of property except for reasons of public utility, qualified by law, and with payment of prior and fair compensation. The expropriation procedure involves a series of acts and tasks to transfer specified assets, belonging to a private person, with the objective of allowing the administration to pursue its commitment to protect the general interest. For purposes of expropriation, an administrative procedure is always necessary and, if agreement cannot be reached between the administration and the owner, the matter will go to trial or to an expropriation process.

### **C. Fiduciary risks**

- 2.8 The executing agency's institutional capacity was assessed using the Institutional Capacity Assessment System (ICAS) methodology. The assessment indicates that the executing agency's institutional capacity reflects a satisfactory level of development and a low level of risk. To ensure that the project coordination unit (PCU) of the Directorate of Decentralization and Public Investment (DDIP) is able to take on the incremental tasks of this new operation, the PCU will be strengthened in the procurement area. The program Operating Regulations will indicate the staff to be hired for the PCU (see paragraph 3.7).

### **D. Other key risks and issues**

- 2.9 **Other risks.** The risk analysis conducted using the Risk Management Methodology for Sovereign-Guaranteed Projects identified the following medium risks: (i) public management and governance risk: coordination problems among the institutions involved, which will be mitigated by the signature of specific agreements with other agencies to establish responsibilities for design, contracting, technical supervision and implementation of actions (see paragraph 3.1); and (ii) development risk: failure to allocate the required budgetary funds, which will be mitigated by submitting a timely request for allocation. In terms of high-level risks, the following were identified: (i) development risk: low rate of connection to the sewer network; in this case the executing agency will prepare and implement a home connections program that includes a communication plan to boost the rate of household connection to the sanitation system, in order to mitigate the risk of low connection (see paragraph 1.18), and (ii) public management and governance risk: limited budget of the Municipal Government of San José for implementing complementary works; in this case the executing agency will encourage constitution of an exclusive trust fund<sup>54</sup> to carry out the drainage and road works that will accompany the sanitation works. Political agreement has been reached on the works trust fund and so has the votes needed for its approval in the San José Departmental Council.
- 2.10 **Program sustainability.** Once the program is completed, the operation and maintenance of the financed works will be the responsibility of OSE, as stipulated in its charter.

## **III. IMPLEMENTATION AND MANAGEMENT PLAN**

### **A. Summary of implementation arrangements**

- 3.1 **Execution mechanism.** The execution mechanism is the one used for projects now in execution with the Bank, with the difference that in this case the Office of Planning and Budget (OPP) will execute the program directly: (i) the Eastern Republic of Uruguay will be the borrower; (ii) OPP, acting through the DDIP, will be the executing agency, and (iii) OSE will remain responsible for operation and maintenance of the facilities to be financed. The OPP will be responsible for interagency coordination, as well as for contracting and procurement activities. It will also assume responsibility for contracting and coordinating the works. As

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<sup>54</sup> The exclusive nature of the trust fund ensures that its resources will be used solely for drainage and road works in CdP, meaning that the funds needed to carry out the comprehensive works will be available.

appropriate, the OPP will sign specific agreements with other agencies establishing responsibilities for design, contracting, technical supervision and implementation of actions. In particular, the OPP will sign an agreement with OSE spelling out responsibilities for the design, contracting, technical supervision, and conditions for transferring the infrastructure for operation and maintenance. The Directorate of Decentralization and Public Investment (DDIP) has a program coordination unit (PCU) with satisfactory experience in executing Bank projects, and its structure is detailed in the program Operating Regulations.

- 3.2 **Program Operating Regulations.** The program will be governed by Operating Regulations that determine the project cycle, the mechanisms and instruments of institutional coordination, and the Bank's participation in that cycle, and will include the following: (i) criteria for eligibility and prioritization of projects; (ii) requirements regarding the technical, environmental, and economic viability of projects; (iii) specific information on the project cycle and the instances of Bank review; and (iv) agreements regarding execution, supervision, and monitoring among the related entities, including responsibilities for design, contracting, technical supervision, operation, and maintenance ([optional link 4](#)).
- 3.3 **Eligibility and prioritization criteria.** The following eligibility criteria for projects will be incorporated into the program Operating Regulations: (i) projects must relate to sanitary sewer infrastructure works in Ciudad del Plata (CdP) located less than 2.7 km from the existing treatment plant; (ii) projects must be located in CdP areas not subject to tidal flooding; (iii) projects must not be located in areas incorporated into the National System of Protected Areas (SNAP); (iv) projects must represent a cost-effective solution;<sup>55</sup> (v) projects must be viable from the technical, economic,<sup>56</sup> social, and environmental perspectives, according to the methodologies to be described in the program Operating Regulations; and (vi) projects must not be classified as category A under Bank Operational Policy OP-703. In addition, the following prioritization criteria will be incorporated into the program Operating Regulations: (i) related to priorities set in the Comprehensive Program of Ciudad del Plata, (ii) shorter useful life of road surfaces, (iii) higher population density, (iv) higher level of household socioeconomic vulnerability, and (v) higher environmental and sanitation risk to the population.
- 3.4 **Procurement.** The procurement of works, goods, and consulting services will be conducted in accordance with the Policy for the Procurement of Goods and Works Financed by the IDB (document GN-2349-9) and the Policy for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9). All procurement processes must be included in the procurement plan approved by the Bank through the Procurement Plan Execution System (SEPA) and the methods and ranges established therein, as described in the Fiduciary Agreements and Requirements (Annex III). The executing agency will prepare a procurement plan approved by the Bank with procurements during the first 18 months of execution ([required link 4](#)). The program calls for the single-source selection of two consultants under the rationale of continuation of services (see Annex III). As the

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<sup>55</sup> Lower cost per connection.

<sup>56</sup> It must be demonstrated that the project is economically viable for the maximum acceptable value of award and contract, presenting an economic internal rate of return equal to or greater than the value of the low-income discount rate set by the National Public Investment System (SNIP).

OPP has prior experience in executing operations with the Bank, it has been decided that the procurement supervision modality will be ex post for all processes below the thresholds for international competitive bidding, and the threshold for international short lists.

- 3.5 **Advances of funds.** Disbursements will be made in the form of advances, in accordance with a financial plan covering a maximum of 180 days. Disbursements will be made when supporting documentation has been provided for at least 70%<sup>57</sup> of the previous advances. The financial plan will be based on the Financial Management Policy for IDB-financed Projects (document OP-273-6), as described in Annex III.
- 3.6 **Audit.** Within 120 days after the close of each fiscal year of the OPP, and during the disbursement period for the financing, the executing agency will deliver audited financial statements for the program to the Bank, duly certified by the Audit Court of the Republic (TCR) or by an independent audit firm acceptable to the Bank, under terms of reference agreed upon with the Bank. The last report will be delivered within 120 days after the date stipulated for the final disbursement of financing. Determination of the scope and other aspects of the audit will be governed by the Financial Management Policy for IDB-financed Projects (document OP-273-6) and the instructions on financial reporting and external audit management.
- 3.7 **Special contractual conditions precedent to the first disbursement of financing of the loan proceeds:** (i) the program Operating Regulations have been approved, including the environmental and social management framework (ESMF), staff to be hired for the program coordination unit (PCU), and the house connections plan designed by the executing agency and approved by the Bank; and (ii) an agreement has been signed between the Office of Planning and Budget (OPP) and the State Sanitation Works (OSE) establishing responsibilities including design, contracting, technical supervision, and operation and maintenance as established in the program Operating Regulations. These conditions are considered essential to ensure that the borrower will be ready to begin program execution, with program Operating Regulations providing detailed guidelines on operational aspects and coordination, and that the borrower has the technical support and supervisory mechanisms in place to ensure smooth execution of the program and subsequent operation and maintenance of the financed infrastructure.
- 3.8 The time limit for the physical start of works will be three years, running from the effective date of the loan contract. This is considered sufficient time to allow flexibility for the start of works based on scheduling, preparation of final designs, and contingencies.

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<sup>57</sup> The Office of Planning and Budget (OPP) is an agency of the central administration subject to the Consolidated Code of Accounting and Financial Administration (TOCAF) (Article 20) and the Audit Court of the Republic (TCR) (Ordinance 81), which establish that all expenditures must go through processes of preventive control by delegated auditors of the General Accounting Office (CGN) and the TCR at the time of contracting (legality intervention) and payment (payment intervention). This lengthens payment processing time, so administrative flows and processes must be adapted to these requirements (document OP-273-6, Annex 1, requirement 3, point 3.3(iii)(d)).

- 3.9 **Operation and maintenance.** The borrower will commit to adopt, through the executing agency or OSE, as appropriate, the necessary measures so that the works and goods within the framework of the project are properly maintained in accordance with generally accepted technical standards. The borrower will deliver a status report on such works and goods through the executing agency during the disbursement period, as part of the six-monthly status reports. If the inspections performed by the Bank, or the reports it receives, determine that maintenance is falling short of the agreed levels, the borrower, acting through the executing agency or OSE, as appropriate, will take the steps necessary to fully remedy the deficiencies.

**B. Summary of arrangements for monitoring results**

- 3.10 Agreement has been reached on a monitoring and evaluation system that includes a data collection plan and indicates the responsible parties and the allocated budget ([required link 2](#)).
- 3.11 **Program monitoring.** The executing agency will be responsible for monitoring and evaluation of the projects to be financed by the program. The monitoring will be done using the Bank's supervision instruments, which include the procurement plan, the multiyear execution plan (MEP), the annual work plan (AWP), the Results Matrix, the progress monitoring report, and the risk management plan. The executing agency will deliver six-monthly reports on the progress achieved, the results obtained, and an action plan for the following six months, within 60 days after the end of each half year.
- 3.12 **Program evaluation.** The program evaluation mechanism will include a midterm evaluation and a final evaluation. The proposed evaluation methodology will be ex ante and ex post, consisting of measuring the baseline results indicators for the project and, after the interventions have been implemented, comparing the measures to confirm that the targets have been met. There will also be an ex post economic evaluation, using the ex ante evaluation methodology but with possible adjustments, and an impact study of the house connections plan, as detailed in the monitoring and evaluation plan ([required link 2](#)). The final evaluation report will be part of the project completion report.

Development Effectiveness Matrix		
Summary		
I. Corporate and Country Priorities		
1. IDB Development Objectives	Yes	
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Gender Equality and Diversity -Climate Change and Environmental Sustainability	
Country Development Results Indicators	-Households with new or upgraded access to sanitation (#)* -Households with wastewater treatment (#)*	
2. Country Development Objectives	Yes	
Country Strategy Results Matrix	GN-2836	Decrease the qualitative housing deficit by increasing the sanitation coverage in the Metropolitan Area of Montevideo
Country Program Results Matrix	GN-2915-2	The intervention is included in the 2018 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution	9.2	
3.1 Program Diagnosis	2.6	
3.2 Proposed Interventions or Solutions	4.0	
3.3 Results Matrix Quality	2.7	
4. Ex ante Economic Analysis	10.0	
4.1 Program has an ERR/NPV, or key outcomes identified for CEA	3.0	
4.2 Identified and Quantified Benefits and Costs	3.0	
4.3 Reasonable Assumptions	1.0	
4.4 Sensitivity Analysis	2.0	
4.5 Consistency with results matrix	1.0	
5. Monitoring and Evaluation	10.0	
5.1 Monitoring Mechanisms	2.5	
5.2 Evaluation Plan	7.5	
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood	Medium	
Identified risks have been rated for magnitude and likelihood	Yes	
Mitigation measures have been identified for major risks	Yes	
Mitigation measures have indicators for tracking their implementation	Yes	
Environmental & social risk classification	B	
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control.  Procurement: nformation System.
Non-Fiduciary	Yes	Environmental Assessment National System.
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project	Yes	Technical Cooperation UR-T1114, Urban Water Plan, master plan and integral draft of sanitation, rainwater, roads and associated public spaces of Ciudad del Plata

Note: (\*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

*The Sanitation Program of Ciudad del Plata (CdP), Stage I, is the first of three projects planned to support the universalization of the access to sanitation in the CdP under the Master Plan for the CdP by 2050. The project aims to provide sanitation service by sewerage to the population of CdP, located in the metropolitan area of Montevideo, and dispose of the treated residual liquids in an appropriate manner, and in this way contribute to improvement of health of population and reduction of environmental contamination. To reach this goal, the project relies on two components: (i) Structural measures, which include optimization of the existing final disposal system, construction of sewerage networks and pumping stations, as well as financing of the executive projects in the intervention areas which are not part of the final sample; and (ii) Non-structural measures, which include the development and execution of the Intra-household Connections Plan. The vertical logic presented in the POD is consistent, covering the inputs, outputs and results. The results matrix includes indicators for the main products and results of the program. All the indicators in the results matrix meet the SMART criteria, although it is considered that the result indicator 3 has the nature of a product indicator. All product and outcome indicators include the sources and means of verification that will be used to measure them. Although no final impact indicators are proposed, the program monitors intermediate indicators of access and use of sewage systems and wastewater treatment. An ex-ante economic analysis was carried out showing the profitability of the project and an ex-post economic analysis is planned. The borrower is the Eastern Republic of Uruguay and the Executing Agency is the Office of Planning and Budget through the Decentralization and Public Investment Division. The executing agency will be responsible for carrying out monitoring and evaluation activities, which includes data collection plan, designation of responsibilities and budget allocation. The project has planned the intermediate and the final evaluation, which will evaluate the results of component (i) using the before-after comparison methodology and a theoretical attribution analysis. In addition, the project includes a quasi-experimental evaluation of component (ii) that will evaluate causal effects of the Intra-household Connections Plan on the connectivity rate in the area of influence of the project.*

Results Matrix										
Project objective	The objective of the operation is to provide sanitary sewer service to the population of Ciudad del Plata, located in the Metropolitan Area of Montevideo, and to properly dispose of treated wastewater, contributing in this way to better public health and less environmental pollution.									
Outcomes										
Indicators	Unit of Measure	Baseline	Baseline year	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
Outcome 1. Households with wastewater treated in the project's area of influence <sup>1</sup>										
1.1 New households with wastewater treated at the Ciudad de la Plata plant in the project target area <sup>2</sup>	Households	0	2018	-	-	348	697	738	1,783	<b>Comment:</b> Annual measures are not cumulative, indicator aligned with CFR. <b>MV:</b> Count registered in the OSE commercial system and reported in the six-monthly status report. <b>Responsible authority:</b> OPP.
Outcome 2: Households with working connections to sewer networks in the project target area										
2.1 Percentage of households with working connection to sanitation in the project target area	% of Households	0	2018	-	-	-	-	-	60	<b>Comments:</b> This indicator is measured as the proportion of households connected to the network out of the total of potential connections in a given year. Annual measures are not cumulative. <b>MV:</b> Count registered in the OSE commercial system and reported in the six-monthly status report. <b>Responsible authority:</b> OPP based on OSE reports.
Outcome 3. Households with access to sewer networks in the project target area <sup>13</sup>										
3.1 New households with access to the sanitation network in the project target area	Households	0	2018	-	600	390	1,500	500	2,990 <sup>4</sup>	<b>Comment:</b> Annual measures are not cumulative, indicator aligned with CFR. <b>MV:</b> Works certificate approved and reported in the six-monthly status report. <b>Responsible authority:</b> OPP.

<sup>1</sup> Indicators from the Bank's Corporate Results Framework.

<sup>2</sup> Does not include households that use cesspools to evacuate wastewater, due to the impossibility of identifying which households use them properly (without dumping into the street or leaching into the soil).

<sup>3</sup> The indicator includes households that have access to the sewer network or access to an individual sanitation solution. This indicator is an interim outcome for achieving outcomes 1, 2 making it possible to separate the effects under Component 2 on access to sanitation from the results of access to sanitation under Component 1

<sup>4</sup> Represents 100% de households in the project target area.



Outcome 4. Improved treatment capacity of the Ciudad del Plata wastewater plant											
4.1	BOD <sub>5</sub> removed at the Ciudad del Plata treatment plant	Kg BOD <sub>5</sub> /day	82	2018	-	-	-	-	337	337	<b>MV:</b> Measures of flow and concentration of BOD at the exit from the plant, reported in the six-monthly status report . <b>Responsible authority:</b> OPP based on OSE reports.
Outcome 5. Improved access to sanitation services for households headed by women											
5.1	Percentage of subsidies delivered to women heads of household	%	0	2018	-	-	-	-	-	50	<b>Comment:</b> Annual measures are not cumulative <b>MV:</b> This indicator is measured as the proportion of subsidies delivered to female heads of household out of the total of subsidies delivered. <b>Responsible authority:</b> OPP based on OSE reports.

Output Indicators											
Component 1: Structural measures											
Output	Unit of measure	Associated outcomes	Cost (US\$ millions)	Baseline	Year 1	Year 2	Year 3	Year 4	Year 5	End of project	Comments/Mean of verification
1.1 Shovel-ready projects completed		2.3	0.25	0	1	1	-	-	-	2	MV: Projects approved by executing agency. Responsible authority: OPP.
1.2 Sanitation system built and operating	System	1.2, 3.4	16.2	0	-	-	-	-	1	1	MV: Certificate of works. Responsible authority: OPP.
Milestone: Treatment plant rehabilitated:	Plant			0	-	1	-	-	-	1	
Milestone: Sewer networks built	Km			0	1	4	7	16	8	36	
Milestone: Pumping stations built	Pumping stations			0	-	1	-	1	1	3	
Component 2: Nonstructural measures											
2.1 Connections plan implemented	Plan	1.2, 5	2.0	0	-	-	-	-	1	1	MV: Six-monthly status report. Responsible authority: OPP.
Milestone: Team established	Team			0	1	-	-	-	-	1	MV: Six-monthly status report. Responsible authority: OPP.
Milestone: Annual communication plan implemented	Plan			0	1	1	1	1	1	1	MV: Six-monthly status report. Responsible authority: OPP.
Milestone: Subsidies delivered	Number of subsidies			0	-	-	340	700	700	1,740	MV: Registry of subsidies delivered. Responsible authority: OPP.

## **FIDUCIARY AGREEMENTS AND REQUIREMENTS**

**Country:** Uruguay  
**Project number:** UR-L1149  
**Project name:** Ciudad del Plata Sanitation Program, Stage I  
**Executing agency:** Office of Planning and Budget (OPP), acting through the Directorate of Decentralization and Public Investment (DDIP)  
**Prepared by:** Abel Cuba and Emilie Chapuis (FMP/CUR)

### **I. EXECUTIVE SUMMARY**

- 1.1 This operation is for US\$20 million, which corresponds to 100% of the financing. The borrower is the Eastern Republic of Uruguay and the executing agency is the Office of Planning and Budget (OPP), acting through the Directorate of Decentralization and Public Investment (DDIP). Its objective is to contribute to improving environmental and sanitation quality for the population of Ciudad del Plata by increasing sanitation coverage provided by public sewer networks, proper disposing of liquid wastes, and increasing the rate of household connections to the sewer system.
- 1.2 The DDIP has within its structure a consolidated coordination unit with experience in implementing investment projects. It previously executed loan 1489/OC-UR, the Municipal Development and Management Program, and is currently executing loans 2668/OC-UR (Subnational Development and Management Program), now in the closure process; 3791/OC-UR (Rural Roads Improvement Program); and 3792/OC-UR (Program for Development and Strengthening of Fiscal and Subnational Service Management). For all these projects it has maintained a satisfactory level of execution with low fiduciary risk. The fiduciary agreements detailed in this document deal with the aspects mentioned, as well as the results of the institutional capacity assessment of OPP, the results of which reflect a low level of fiduciary risk.

### **II. FIDUCIARY CONTEXT OF THE EXECUTING AGENCY**

- 2.1 The results of the institutional capacity assessment of the DDIP coordination unit using the ICAS methodology reveal a satisfactory level of development of its fiduciary systems, and concluded that the fiduciary risk level is low.
- 2.2 The coordination unit will coordinate and administer the operation, acting as general coordinator for executing the program and its components, preparing the various execution, operational, and procurement plans and progress reports, administering resources, preparing financial statements, supporting documentation for expenditures, and other reports in accordance with Bank requirements, and performing tasks related to procurement and contracting processes.

### III. FIDUCIARY RISK ASSESSMENT AND MITIGATION ACTIONS

- 3.1 The fiduciary risk is assessed as low. This finding is based on the institutional capacity analysis conducted during the design phase of the operation (August 2018). This finding is consistent with the OPP's performance in executing operations financed by the Bank, execution of which falls within its responsibility. At the same time, it should be noted that the external audit reports on projects executed by OPP, issued by the Audit Court of the Republic (TCR), have consistently produced reports with a clean opinion and no material audit qualifications.

### IV. CONSIDERATIONS FOR THE SPECIAL PROVISIONS OF THE CONTRACT

- 4.1 The following considerations will be reflected in the Special Provisions: (i) exchange rate: for dollar-based accountability reporting, the exchange rate at which funds are converted to local currency will be used; and (ii) audited financial statements: within 120 days after the close of each fiscal year of the OPP, and during the disbursement period, audited financial statements for the program will be delivered to the Bank, duly certified by the TCR or an independent audit firm acceptable to the Bank, under terms of reference agreed upon with the Bank. The last report will be delivered within 120 days after the date stipulated for the final disbursement of the financing.

### V. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 5.1 The fiduciary agreements and requirements for procurement execution establish the applicable provisions for all planned project procurements. The procurements are divided between works (US\$14.4 million) and consulting firms and individuals (US\$744,161). All procurement activities will be conducted in accordance with Bank policies as described below. Additionally, and at the executing agency's request, Articles 65 and 67 of the Consolidated Code of Accounting and Financial Administration (TOCAF), which govern in particular the mechanism for electronic opening of bids, the request for clarifications, and management of the confidentiality of information related to procurement processes, will be regarded as applicable. These provisions supplement the applicable sections of the Bank's policies without a rule conflict.
- 5.2 **Procurement execution.** The Bank's procurement policy documents GN-2349-9 for the procurement of works and goods, and GN-2350-9 for the selection and contracting of consulting services, will be applicable for all planned procurement activities under this operation. The procurement activities will be included in the procurement plan, which must cover, as a minimum, an initial period of 18 months, and will be updated annually thereafter. The procurement plan must be registered, approved, and published in the Procurement Plan Execution System (SEPA) ([www.iniciativasepa.org](http://www.iniciativasepa.org)) before procurement begins. Once registered, the procurement plan will be updated annually or as necessary if there are substantial changes to the original plan.

- 5.3 The relevance of the expenditure, i.e., the terms of reference, technical specifications, and budget, will be the responsibility of the sector specialist for the project, and will always require the Bank's prior no objection, with respect to the initiation of the procurement itself, and in accordance with the operational criteria of the Project Team Leader.
- 5.4 Without detriment to the relevant IDB policies, direct contracting may be used for technically simple inputs and services of low economic value (least cost) up to a maximum of US\$5,000 or equivalent. Among the country subsystems approved by the Bank, the reporting system will be used.
- a. **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services<sup>1</sup> generated by the project and subject to international competitive bidding (ICB) will be executed using the standard bidding documents issued by the Bank. Procurements subject to national competitive bidding (NCB) will be executed using country bidding documents satisfactory to the Bank. The project sector specialist will be responsible for reviewing the technical specifications of procurement items during preparation of the selection processes.
  - b. **Selection and contracting of consultants.** Contracts for consulting services generated under the project will be executed using the standard request for proposals issued by or satisfactory to the Bank. The project sector specialist will be responsible for reviewing the terms of reference for the contracting of consulting services.
  - c. **Selection of individual consultants.** The program will engage individual consultants, two of whom will be contracted using the procedures established in Section V, paragraph 5.4, of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9), on the justification of continuation of service, given that the consultants in question are currently performing similar tasks at the executing agency and were selected competitively under operation 3792/OC-UR. The fees of these consultants who will be performing the same tasks are expected to remain the same, so the cost associated with this activity is expected to be reasonable. The other consultants will be selected competitively pursuant to section V of the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-9).

**Table 1. Table of threshold amounts (US\$000)**

Works			Goods and related services			Consulting services	
ICB	NCB	Shopping	ICB	NCB	Shopping	International publicity	Short list 100% national
≥ 3,000,000	≤ 3,000,000 ≥ 250,000	≤ 250,000	≥ 250,000	≤ 250,000 ≥ 50,000	≤ 50,000	≥ 200,000	≤ 200,000

<sup>1</sup> Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document [GN-2349-9](#)), paragraph 1.1. Nonconsulting services will be treated as goods.

## A. Main procurements

5.5 As indicated, procurement activities for this operation will be divided as detailed in the following table:

**Table 2. Procurement of works**

Works							
		Estimated amount				Dates	
Activity	Selection/ procurement method	Estimated amount (US\$)	Estimated amount (% IDB)	Other source of financing	Review method	Special procure- ment notice	Contract signature
Ciudad del Plata sanitation. Stage I: Barrio San Fernando	ICB	11,393,797	48%	52%	Ex ante	Nov. 2018	July 2019

**Table 3. Procurement of consulting services**

Consulting services							
		Estimated amount				Dates	
Activity	Selection/ procurement method	Estimated amount (US\$)	Estimated amount (% IDB)	Other source of financing	Activity	Selection/ procurement method	Estimated amount (US\$)
Preinvestment 2nd stage (Villa Rive)	QCBS	250,000	100%	0%	Ex ante	January 19	August 19

\* To access the 18-month procurement plan, [click here](#).

5.6 **Procurement supervision.** Considering the executing agency's experience and performance, procurement activities will be subject to ex post review, except in those cases, as explicitly identified in the Procurement Plan, where ex ante supervision is justified. The following table identifies the thresholds applicable to this provision.<sup>2</sup> Ex post reviews will be conducted every 12 months in accordance with the project supervision plan.

**Table 4. Threshold for ex post review (US\$)**

Works	Goods	Consulting services
≥ 3,000,000	≥ 250,000	≥ 200,000

<sup>2</sup> Note: the thresholds established for ex post review apply as a function of the executing agency's fiduciary capacity for execution and may be amended by the Bank as that capacity evolves.

- 5.7 **Records and files.** Project reports will be prepared and filed using the agreed formats or procedures as described in the program Operating Regulations.

## **VI. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS**

- 6.1 **Programming and budget.** For preparation of the national five-year budget of the executive branch, agencies of the central administration present their proposal to the Ministry of Economy and Finance (MEF) prior to 31 July of the first year of the government's mandate. The MEF coordinates the process of preparation with the advice of the Office of Planning and Budget (OPP) and the National Office of the Civil Service (ONSC). The proposed national budget is then submitted to the executive branch, which approves and forwards it to the Legislative Branch prior to 31 August of the same year. The budget is reviewed, approved, and its amounts made public: no amendments may be made that would entail a greater expenditure. Annual restructurings or expansions of the budget are prepared by the executive branch when presenting the "Accountability Report" and the annual balance of budgetary execution. Within six months after the end of the fiscal year, the executive branch presents those reports to the legislature, and may propose amendments for well-grounded reasons. The project's budget will be managed through the country system, the Integrated Financial Information System (SIIF).
- 6.2 **Accounting and information systems.** The project will keep its accounts in its own institutional system, and in the country system (SIIF), through which the budgetary allocations approved for the project by the Five-year Budget Law are managed. Those allocations are earmarked and executed through the SIIF, so the procedures established by the CGN will have to be followed, in order to process commitments and payments related with the project.
- 6.3 The financial statements for the project will be issued on a regular basis, on a modified cash basis. The project financial statements, which will be audited annually, will be the following: (i) statement of cash received and disbursements made, and (ii) statement of cumulative investments.
- 6.4 **Disbursements and cash flow.** The project resources will be managed through the Cuenta Única Nacional [National Single Account] (CUN), for which the General Treasury of the Nation, at the request of the project execution unit, must establish a special account at the Central Bank of Uruguay (BCU). This account will hold the funds disbursed by the Bank but, as it is a payee account (meaning payments cannot be made from it), a specific bank account for the project will have to be opened at the state commercial bank, Banco de la República Oriental del Uruguay (BROU) for purposes of making the corresponding payments.
- 6.5 Disbursements will be made in the form of advances based on actual liquidity needs, properly supported by financial and disbursement projections. These advances will preferably be made on a six-monthly basis, once supporting

documentation has been provided for at least 70%<sup>3</sup> of the previous advance; the accountability forms and the financial planning spreadsheet will be required as documentation. The e-Disbursements system will be used for processing disbursement requests. The exchange rate for converting payments in local currency into the currency of the loan will be the “pesofication rate.”

- 6.6 **Internal control and internal audit.** The internal control system is based on the country system defined in the relevant legislation. Pursuant to the accounting and financial administration regulations, the TCR must verify all expenditures related to project execution. The degree of reliability for execution of this operation is therefore high.
- 6.7 In terms of institutional controls, OPP will maintain the conditions established for execution of the Bank-financed projects now in execution and will ensure that dedicated fiduciary officers are involved at all times.
- 6.8 **External control and reports.** The country system for external control is run by the TCR. Thus far, all operations executed by OPP have been audited by the TCR, which has consistently produced timely assessments and clean opinions for the annual reports. In this case, it has been agreed that the project may be audited either by the TCR or by an independent audit firm acceptable to the Bank.
- 6.9 The annual financial audit reports and the evaluation of internal control will be presented for each fiscal year during the disbursement stage, on or before 30 April of the following year. The closing financial audit report for the project will be delivered within 120 days after the date of the last disbursement. The engagement of the audit firm, as well as the relevant terms of reference, will follow the financial management policy guidelines of document OP-273-6. The audit costs may be financed from the loan.
- 6.10 **Financial supervision plan.** The financial supervision plan addresses the following points: (a) participation in a launch workshop arranged by the project team, involving a brief presentation of project financial management; (b) a review of the conditions precedent of a financial nature (chart of accounts, agreement with TCR, demonstration of the budgetary allocation of funds); (c) review of the annual work plan (AWP) and the initial financial plan prepared by the executing unit as support for the first advance to be requested, once the program is declared eligible; and (d) if necessary, a financial visit during project execution to evaluate factors such as reconciliation of the account of advances and investments, implementation of the recommendations from the external audit, and quality and timeliness of the accounting records and documentation files.
- 6.11 **Execution mechanism.** The OPP will be responsible to the Bank for project execution. A description of the processes for which the resources will be used will be described in the program Operating Regulations.

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<sup>3</sup> The Office of Planning and Budget (OPP) is an agency of the central administration subject to the Consolidated Code of Accounting and Financial Administration (TOCAF) (Article 20) and the Audit Court of the Republic (TCR) (Ordinance 81), which establish that all expenditures must go through processes of preventive control by delegated auditors of the General Accounting Office (CGN) and the TCR at the time of contracting (legality intervention) and payment (payment intervention). This lengthens payment processing time, so administrative flows and processes must be adapted to these requirements (document OP-273-6, Annex 1, requirement 3, point 3.3(iii)(d)).

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-\_\_\_/18

Uruguay. Loan \_\_\_/OC-UR to the Eastern Republic of Uruguay  
Ciudad del Plata Sanitation Program, Stage I

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Eastern Republic of Uruguay, as Borrower, for the purpose of granting it a financing aimed at cooperating in the execution of the Ciudad del Plata Sanitation Program, Stage I. Such financing will be in the amount of up to US\$20,000,000 from the resources of the Bank's Ordinary Capital, and will be subject to the Financial Terms and Conditions and the Special Contractual Conditions of the Project Summary of the Loan Proposal.

(Adopted on \_\_\_\_ 2018)

LEG/SGO/CSC/EZSHARE-1028536987-9653  
Pipeline No. UR-L1149