

TECHNICAL COOPERATION DOCUMENT

I. Basic Information for TC

▪ Country/Region:	Regional
▪ TC Name:	Support of the Start of Operations of the AquaRating Entity
▪ TC Number:	RG-T2456
▪ Team Leader/Members:	Team Leader: Matthias Krause (INE/WSA) Team Members: Jorge Ducci, Maria del Rosario Navia, Raimon Puigjaner, Iván Montalvo, Roxana Chávez (INE/WSA), Javier Bedoya (LEG/SGO), Maria Eugenia Roca, Ileana Pinto (VPC/FMP)
▪ Taxonomy	Research & Dissemination
▪ Date of TC Abstract authorization:	March 12, 2014
▪ Beneficiary:	Latin America and the Caribbean
▪ Executing Agency and contact name:	The Inter-American Development Bank through the Water and Sanitation Division (INE/WSA) and The International Water Association
▪ Donors providing funding:	The Multi-donor Aquafund (MAF)
▪ IDB Funding Requested:	US\$1,000,000
▪ Local counterpart funding, if any:	US\$360,059
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	June 2014
▪ Types of consultants (firm or individual consultants):	Firm and individual consultants
▪ Prepared by Unit:	INE/WSA
▪ Unit of Disbursement Responsibility:	INE/WSA
▪ TC Included in Country Strategy (y/n):	n/a
▪ TC included in CPD (y/n):	n/a
▪ GCI-9 Sector Priority:	Infrastructure for competitiveness and social welfare

II. Objectives and Justification

- 2.1 The AquaRating tool (AquaRating) is a flagship knowledge product of the Inter-American Development Bank (IDB), consisting of a rating system that assesses the performance of water and wastewater utilities. It was developed as an initiative of the IDB, in collaboration with the International Water Association (IWA). The objectives for this Technical Cooperation (TC) are: (i) to support the start of operations of the AquaRating Entity that will be in charge of overseeing and operating the system; (ii) to apply AquaRating in a selected number of water and sanitation utilities in Latin America and the Caribbean; and (iii) to promote its use.
- 2.2 AquaRating was designed through the TC operation ATN/WP-11217-RG; later on through ATN/MA-13269-RG and ATN/MA-13270-RG, the pilot version of the tool was finalized and tested, and the business model study for the AquaRating Entity was finalized. The IWA has been IDB's partner in the development of the tool and therefore it was identified as an ideal organization to host the AquaRating Entity. The Bank's main goal at this point is to continue

supporting AquaRating through IWA until it's a widely used tool, and transform it into a world-wide standard for performance assessment of water and sanitation providers.

- 2.3 AquaRating is like no other water and sanitation service performance assessment system or methodology. Although AquaRating took into account international standards and other initiatives with similar objectives, it has very innovative and distinctive elements that make it unique, more thorough and reliable. These elements are: (i) universality: it can be used by urban utilities anywhere in the world, and it's applicable under any context, (ii) comprehensive assessment: it assesses all management areas of a utility, and it includes not only performance indicators, but also practices, making the assessment more far-reaching. Because practices are less sensitive to context than indicators, they help assess the way in which utilities are managed, and not only the numerical outcomes of this management, (iii) reliability: AquaRating requires the utility to provide supporting documentation for the information provided. This information and support documentation is verified by an external auditor, and AquaRating is certified by an independent third-party (the AquaRating Entity). This is very important as data quality has been recognized as a cornerstone for the credibility of any performance assessment system, (iv) information for utility improvement: it has the ability to assess current performance and identify improvement potential. The good practices included in AquaRating, and not implemented by the utility may become its short and medium-term objectives.
- 2.4 AquaRating includes 113 assessment elements and it's based on information provided by the utility through a (software) platform. These assessment elements comprise indicators and good practices representative of the highest industry standards. Application of the information provided by the utility to these assessment elements results in a rating for the utility. The total compliance with practices and achievement of the most demanding indicators levels means delivery of an excellent service and, therefore, awards a maximum rating of 100 points.
- 2.5 The pilot version of AquaRating was tested in 13 utilities in Latin America and Spain¹ in order to improve the AquaRating tool. The participating utilities were carefully selected in order to cover a wide range of legal/regulatory framework, sizes, ownership, management models, and technical characteristics.
- 2.6 The main conclusions of the test confirmed that: (i) the online tool is user friendly, (ii) utilities value the knowledge embedded in the system, (iii) utilities value a universally recognized system that can credibly certify their performance, (iv) utilities learned about themselves thanks to the use of the system and identified areas of improvement, (v) some utilities converted the lessons learned into strategies, using the standards set by AquaRating as a reference point, (vi) the information to be provided by the utilities is auditable, and (vii) some see AquaRating as a useful tool to access financing.
- 2.7 The test also provided feedback for improving the tool. Some of the identified changes are being incorporated now with resources from ATN/MA-13269-RG and ATN/MA-13270-RG, and others will be incorporated under the present TC. The main improvements are: (i) streamlining the procedures for documenting and uploading backup information, (ii) streamlining the auditing procedures and reflect the changes in the audit manual, (iii) including an access module in which the utility provides basic information, (iv) improving the definition of backup documentation, (v) fine tuning the definitions of the assessment elements

¹ Agua y Saneamientos Argentinos S.A. (AySA) - Argentina, Companhia de Saneamento Básico do Estado de São Paulo (SABESP)- Brazil, Empresas Públicas de Medellín (EPM) - Colombia, Empresa de Acueducto y Alcantarillado de Pereira S.A. - Colombia, Aguas Andinas - Chile, Aguas de Cartagena S.A. - Colombia, Servicios de Agua y Drenaje de Monterrey I.P.D (SADM) - Mexico, Empresa Pública Metropolitana de Agua Potable y Saneamiento de Quito (EPMAPS) - Ecuador, Obras Sanitarias del Estado (OSE) - Uruguay, Corporación del Acueducto y Alcantarillado de Santiago (CORAASAN) – Dominican Republic, Aqualia- Gestion Integral del Agua S.A.- Servicio Municipal de Aguas de Almeria- Spain, Aguas Municipalizadas de Alicante - Spain, y Empresa Municipal de Agua de Córdoba, S.A. (EMACSA) - Spain.

and updating the software and tool-related documents to reflect all changes, and (vi) improve the navigation functions throughout the software.

- 2.8 The main conclusions deriving from the business model study are: (i) the AquaRating products were defined (see 2.9), (ii) the IDB and the AquaRating Entity require to sign a license agreement in order to grant the AquaRating Entity the right to host, use and operate the system (this agreement is under development), (iii) the AquaRating Entity should have a lean structure at the beginning in order to minimize fixed costs, (iv) the AquaRating Entity requires support from the IDB during the start-up phase for completing certain aspects of the final version of AquaRating, and for developing its operational and functional capabilities, and achieving financial auto-sufficiency (this is addressed with this TC); (v) given that AquaRating is not a well-known product with an established market yet, the AquaRating Entity should initially grant a concession to a single auditing firm² (the concessionaire from now on) while the market grows and until there is enough business for more auditing firms (this concession agreement will follow the license agreement). The auditor verifies the information provided, and produces an audit report, the AquaRating Entity reviews the work of the auditor and produces a rating report for the utility, and (vi) through the concessionaire the AquaRating Entity will guarantee local presence where demand exists.
- 2.9 The AquaRating products will be: (i) AquaRating Demo Basic: includes three-months access to the platform for self-evaluation purposes and limited technical support for the use of the platform, (ii) AquaRating Demo Premium: includes 1 year access to the platform and technical support for the use of the platform, (iii) Full audited AquaRating: includes the access to the platform, technical support for the use of the platform, full audit, a rating, and a report with results and orientations for improvements, and (iv) Certification of AquaRating Professionals: offers training and certification for professionals interested in becoming AquaRating experts.
- 2.10 This TC falls under the AquaFund (GN-2487) scope as it supports the strengthening of water operators with respect to management capacity, corporate structure and transparency, execution capacity, monitoring systems, evaluation and management of information. This TC is also aligned with the Bank's GCI-9 sector priority, infrastructure for competitiveness and social welfare.

III. Description of activities/components and budget

- 3.1 **Component 1: Completion of final version of AquaRating(US\$ 36,055).** This component will finance: (i) activities to complete certain technical aspects of the system, finalize the auditing guidelines, and make final adjustments to the software platform in Spanish, all based on the lessons learned and feedback received during the test of the AquaRating pilot version, (ii) the development of a manual describing the rules for using the AquaRating Label, considering all possible options, (iii) update the translation of all final documents and software into English, as well as the translation into at least another language (the language will be decided upon demand), and iv) the finalization of an application manual. This component is fully financed with IDB resources and will be executed by the IWA, through the hiring of different consultants.
- 3.2 **Component 2: Development of operational and functional capabilities of the AquaRating Entity.US\$ 784,808.** This component will finance two new full-time positions (AquaRating General Manager and AquaRating System Developer) for two years, consultants to provide

² This auditing firm will be Kiwa, the auditing firm selected for the test of the AquaRating auditing process, as it's the only auditing company that knows the AquaRating and has auditors that can be easily accredited at the initial stage. Kiwa is an independent highly qualified international firm having certification as its core business. This is being supported by inspection, testing, technology, training, and data services. Kiwa has customers in many sectors with an emphasis on water, energy, construction, infrastructure, automotive & transport, agro, feed & food, safety and security, health and care, and environment. Customers come from manufacturing and process industries, (business) services, public and private utilities, (local) government agencies and international institutions.

technical support on behalf of the AquaRating Entity to utilities applying AquaRating, office and administrative costs (including office space, office cleaning services, stationery, telephone charges, computer support services, among other costs), and management support through the IWA Executive Director and the IWA Programmes Director. The AquaRating General Manager will be in charge of the overall administration of the tool, including the license agreement between the IDB and IWA and the concession agreement between the IWA and the concessionaire. The AquaRating System Developer will be the AquaRating General Manager's main technical support to achieve the greatest possible use of the system and other AquaRating products worldwide. The hiring of the General Manager and System Developer shall be established as a special condition of execution. This component will be executed by the IWA and will be financed with resources from the IDB and IWA (see [Detailed Budget](#)). The IWA contribution will be in-kind in the form of office and administrative costs, and the time of the IWA Executive Director and the IWA Programmes Director, complemented by a cash contribution.

- 3.3 **Component 3: Training and accreditation of auditors and training and certification of AquaRating professionals. US\$77,430.** As interest in AquaRating grows, it is expected that other auditors will be accredited to join the concessionaires pool, and professionals will see opportunities to support utilities in the preparation and execution of the AquaRating certification process, or in the implementation of post-certification improvement measures (among other opportunities). This component includes the development of e-learning materials and tests for auditors and AquaRating professionals. It also includes the assessment of individual auditors for their accreditation and AquaRating professionals for their certification. Materials and tests will be developed in Spanish, English, and a third language (to be defined), and will be structured for on-line courses. This component is fully financed with IDB resources and will be executed by the IWA, through the hiring of different consultants.
- 3.4 **Component 4: Application of AquaRating in Latin America and the Caribbean. US\$287,266.** This component will finance the application of AquaRating by selected utilities in Latin America and the Caribbean. The utilities will benefit from obtaining a certified independent assessment of their performance that allows them to identify improvement areas, and the Bank will benefit because the in-depth AquaRating assessment is an extremely valuable and effective input for preparing capacity building and investment projects that address the utilities' shortcomings. The selection of the utilities will be based on demand³. It is expected that 4 AquaRating Demo Basic and 6 AquaRating (full audited product) will be financed. This component will be executed by the IDB. The AquaRating products will be paid directly to the AquaRating Entity (Demo Basic) and the concessionaire (Full-Audited AquaRating); therefore direct contracts will be used.
- 3.5 **Component 5: Promotion of AquaRating. US\$166,500.** This component finances the promotion of AquaRating in different events, and special visits to stakeholder groups. The component finances travel costs for the AquaRating Entity team and the IDB team to promote the AquaRating⁴, the participation in meetings, the design and production of a marketing strategy, including marketing and commercial materials, stands preparation, etc. This component will be executed by the IDB and the IWA with IDB resources and IWA in-kind contribution (through the IWA Communications and Engagement Team). The IDB resources

³ Once the countries are identified, an official communication from the national liaison agency of the corresponding country advising the Bank its non-objection with the specific activity will be required.

⁴ This TC will finance travel costs for IDB staff in accordance with GN-2470-2. As this is a knowledge activity, resources from administrative budget, supervision plans or project preparation can't be used for this purpose.

will be split as follows: US\$ 33,500 will be executed by IDB and US\$ 108,000 will be executed by the IWA

Indicative Results Matrix

Outcome indicators	Unit	Baseline	Target
Individual auditors accredited	Auditors	0	6
Utilities that express interest in using AquaRating	Utilities	0	25
Utilities certified by AquaRating	Utilities	0	12
Outputs	Unit	Baseline	Target
Final version of the AquaRating tool developed	Tool	0	1
Final version of the AquaRating Audit Guidelines developed	Document	0	1
AquaRating Label manual developed	Document	0	1
Final version of tool translated into English	Tool	0	1
Application Manual developed	Document	0	1
AquaRating Entity team hired	Team	0	1
Training materials for AquaRating professionals developed	Document	0	1
Training materials for auditors developed	Document	0	1
Test for AquaRating professionals developed	Document	0	1
Test for auditors developed	Document	0	1
Product - AquaRating Demo Basic financed	Product	0	4
Product - Full audited AquaRating financed	Product	0	6
Events where AquaRating is promoted	Events	0	8
Marketing strategy implemented	Strategy	0	1

- 3.6 The total amount of funding needed is US\$1,360,059. US\$1,000,000 will be financed by the IDB through the Multi-donor Aquafund (MAF), and US\$360,059 will be provided by IWA (US\$288,004 as in-kind counterpart financing for Components 2 and 5, and US\$72,055 as cash contribution for Component 2 (see [Detailed Budget](#)). The distribution of resources is as follows:

Indicative Budget (US\$)

Components	IDB	Counterpart	Total
1 Completion of final version of AquaRating	36,055	-	36,055
2 Development of operational and functional capabilities of the AquaRating Entity	449,749	335,059	784,808
3 Training and accreditation of auditors and training and certification of AquaRating professionals	77,430	-	77,430
4 Application of AquaRating in Latin America and the Caribbean	287,266	-	287,266
5 Promotion of AquaRating	141,500	25,000	166,500
Procurement supervision ex-post	8,000	-	8,000
TOTAL:	1,000,000	360,059	1,360,059

IV. Executing agency and execution structure

- 4.1 Since this is a Research & Dissemination (RD) TC it will be executed by The Inter-American Development Bank through the Water and Sanitation Division (INE/WSA) and The International Water Association through their Global Operations Office. The IWA is a global reference point for water and wastewater professionals and it's a self-governing non-profit organization. IWA is headquartered in London, with a Global Operations Office in The Netherlands and offices in Beijing, Bucharest, Nairobi and Singapore. The group's mission is to

serve as a worldwide network for water professionals and to advancing standards and best practices in sustainable water management.

- 4.2 Components 1, 2, and 3 will be executed by the IWA, Component 4 will be executed by the IDB, and component 5 will be executed by both entities with the following distribution: out of component's 5 total amount of US\$ 166,500, the IDB will execute US\$ 33,500 and the IWA US\$ 133,000 (of which US\$ 25,000 pertain to a counterpart contribution in-kind). The IWA will provide counterpart financing as specified in this document and the commitment letter in Annex I.
- 4.3 The execution and disbursement period is 30 and 36 months accordingly. The IDB will disburse the resources to IWA in accordance with a payment and expenses schedule to be prepared by IWA. The IWA will follow Appendix 4 of the Policies for the Selection and Contracting of Consultants financed by the Inter-American Development Bank (GN-2350-9), and Policies for the Procurement of Goods and Works financed by the Inter-American Development Bank (GN-2349-9). The supervision modality will be ex-post. The IDB will designate a consultant for carrying out the ex-post supervision of IWA's contracting and procurement activities on an annually basis, to be funded with a minor portion of the resources under component 4. The IWA audited financial statements will include a note about the IDB resources and a detail of how these resources are used in accordance with the Technical Cooperation components, therefore a separate financial audit for this Technical Cooperation will not be necessary. The IDB will follow IDB Corporate Procurement Policies for contracting consulting firms and other services (GN 2303-20).
- 4.4 For components 1 and 3 the IWA will hire directly the consultants that have been involved in the development of the AquaRating system since 2010 in order to guarantee continuity and ensure a smooth start-up of the AquaRating Entity; additionally they have more knowledge about AquaRating than any other consulting firm, university, or consultant, placing them in a clear position of advantage. These consultants are: Universitat Politècnica de València (UPV), Francisco Cubillo, and Carlos Díaz. For component 4 the services will be provided by the AquaRating Entity (Demo Basic) and the concessionaire (Full-audited AquaRating), as in accordance to the business model, the AquaRating Entity will be the only provider of Demo Basic Product, and the concessionaire will be the only provider of the auditing services for AquaRating for a while (see 2.8). Payments to the concessionaire will be made for each audit upon presentation of a bill and once the IWA approves the services. The justifications for these single-source selections are in line with the criteria set forth in the respective policies (paragraph 3.10 of policy GN-2350-9 and paragraph 5.13.A of policy GN-2303-20).

V. Major Issues

- 5.1 Under ATN/MA-13269-RG and ATN/MA-13270-RG a comprehensive business model study was produced to assess the risks for the AquaRating Entity. The present TC proposal builds on its results. The major risks in achieving the objectives of this TC are the potential low interest on the AquaRating from utilities and sponsors, putting at risk the financial and overall viability of the AquaRating Entity in the future. To mitigate that risk: (i) through TCs ATN/WP-11217-RG, ATN/MA-13269-RG, and ATN/MA-13270-RG, AquaRating has been presented and promoted at top-level international conferences and events; (ii) partnerships with strategic actors like the World Bank Group (WBG), the Asian Development Bank (ADB) and institutional contacts with potential buyers and supporters like leading utilities (including international holdings) and government institutions have been built; (iii) moreover, IWA will leverage on its worldwide membership network of utilities to promote the system; iv) this TC covers the fixed costs for the first two start-up years of the AquaRating Entity and the design and execution of a strategy for widely promoting and disseminating the benefits of

AquaRating, and v) through the concessionaire a certain number of AquaRating sales will be guaranteed.

- 5.2 On one side, the AquaRating Entity will incur costs and needs to be financially viable; on the other hand, consideration has to be given to low income countries that might not find easy to access AquaRating. This TC will finance access to AquaRating for a small group of selected utilities, and at the same time it's anticipated that the IDB will continue supporting the participation of other utilities through different operations to come. The goal is to promote the tool in such a way that it's appealing to other financing institutions and donors. For example, the ADB has already expressed interest in financing the application of AquaRating in a couple of utilities in South East Asia.
- 5.3 A lot of thought was given to the issue of guaranteeing local presence of the AquaRating in Latin America and the Caribbean and other regions of the world (as the goal is to make it a worldwide-used tool), and the conclusion was that the most effective and efficient way was to do it through the concessionaires (see paragraph 2.8). By having one concessionaire at the beginning, and expanding the number as the market develops, the burden of commercialization, and ensuring the existence of accredited auditors in the region, falls on the concessionaires that will see a business opportunity in AquaRating.
- 5.4 The license agreement between the IDB and the AquaRating Entity, and the concession agreement between the AquaRating Entity and the auditor can be complex. A legal firm specialized in intellectual property law and technology, as well as in the development of legal agreements for websites and online platforms, has already been hired in order to develop solid agreements. These agreements will be developed in parallel to guarantee consistency and mitigate risks of the double delegation contained in the business model for AquaRating.

VI. Exceptions to Bank policy

- 6.1 This TC does not involve any exceptions to the Bank's Policies.

VII. Environmental and Social Strategy

- 7.1 Following ESG's project classification process requirements and based on the Environment and Safeguards Compliance Policy (OP-703), this TC falls under Category C. ([See Filters](#)).

Required Annexes:

Annex I: [Counterpart Commitment Letter](#)

Annex II: [Terms of Reference](#)

Annex III: [Procurement Plan](#)