

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

PERU

**IMPROVED ACCESS TO WATER AND SANITATION SERVICES IN
SMALL MUNICIPIOS**

(PE-M1049)

DONORS MEMORANDUM

This document was prepared by the project team consisting of: Daniel Shepherd (MIF), Project Team Leader; Sergio Campos (INE/WSA); Jaime Giesecke (MIF/CPE); David Bloomgarden (MIF); Ruben Doboin (MIF); and Diego Buchara (LEG). Jessica Olivan (MIF) helped to produce this document.

CONTENTS

I.	EXECUTIVE SUMMARY.....	1
II.	BACKGROUND.....	2
	A. The water sector in Peru.....	2
	B. Importance of water services	3
	C. Innovative experiences in the region's water sector.....	4
	D. Resources available to invest in projects	5
	E. The problem	5
	F. Proposed program	5
III.	BASIC OBJECTIVES AND COMPONENTS	6
	A. Objectives.....	6
	B. Components and activities	7
	Component 1: Strengthening the participation and management capacity of communities and local authorities	7
	Component 2: Promoting and strengthening specialized operators.....	8
	Component 3: Processing and disseminating outcomes.....	9
IV.	COST AND FINANCING.....	9
V.	EXECUTING AGENCY AND EXECUTION MECHANISM.....	10
	A. Executing agency	10
	B. Execution mechanism	11
VI.	MONITORING AND EVALUATION.....	12
VII.	BENEFITS AND RISKS.....	13
	A. Benefits.....	13
	B. Risks	13
VIII.	ENVIRONMENTAL AND SOCIAL IMPACT	13

ANNEXES

Annex I	Logical framework
Annex II	Summary of itemized budget
Annex III	Table of projects in the public-private partnership cluster

APPENDIX

Proposed resolution

INFORMATION AVAILABLE IN THE MIF FILES

Annex IV	Operating Regulations
Annex V	Itemized budget
Annex VI	Timetable
Annex VII	Details and criteria for selecting program regions
Annex VIII	Matrix for evaluating localities and municipios interested in participating in the program
Annex IX	Draft framework agreement to be signed by Agualimpia and beneficiary municipios
Annex X	Draft terms of reference for the administrative-financial assistant
Annex XI	Procurement plan
Annex XII	Institutional analysis of Agualimpia
Annex XIII	Terms of reference for the diagnostic assessments of provinces in the different regions of Peru

ABBREVIATIONS

COVAPS	Comités vecinales de agua y saneamiento [community water and sanitation committees]
JASS	Juntas administradoras de los servicios de saneamiento [sanitation services administrative boards]
MIF	Multilateral Investment Fund

**PERU: IMPROVED ACCESS TO WATER AND SANITATION SERVICES IN SMALL MUNICIPIOS
(PE-M1049)**

I. EXECUTIVE SUMMARY

Country:	Peru	
Executing agency and beneficiary:	Agualimpia (nongovernmental organization)	
Beneficiaries:	The direct beneficiaries of the program will include: (i) microenterprise specialized operators delivering services in the water sector; (ii) at least 25 localities and their respective authorities; and (iii) approximately 3,000 families with better access to water services.	
Objectives:	The general objective of the program is to facilitate access to adequate water and sanitation services, primarily for Peru's poor communities. Its purpose is to strengthen the capacity of communities and specialized operators, as well as that of local authorities, so they are able to implement more efficient, higher quality, sustainable models for expanding water and sanitation services.	
Financing:	MIF (nonreimbursable): ¹	US\$1,989,950
	Local counterpart:	US\$1,300,000
	Total:	US\$3,289,950
Execution and disbursement periods:	Execution period:	48 months
	Disbursement period:	54 months
Exceptions to Bank policies:	None	
Special contractual conditions:	The conditions precedent to the first disbursement of the contribution are: (i) delivery of the annual work plan for the first year of the program; (ii) the entry into force of the Operating Regulations for the program; and (iii) creation of the program advisory board.	

¹ The MIF contribution includes US\$9,950 for the impact evaluation account and US\$30,000 for Cluster activities.

Special execution condition: Each selected municipio may only participate in the program once it has signed a framework agreement with the executing agency (see paragraph 3.6).

Environmental and social impact:

This program has been classified as a category “C” operation (environmental and social impact review on 7 January 2008).

Coordination with other official development institutions:

Program activities will be coordinated with the Water for All program being financed by the Inter-American Development Bank and the World Bank. In addition, Kreditanstalt für Wiederaufbau is expected to participate in the program advisory board (see paragraph 5.3).

II. BACKGROUND

A. The water sector in Peru

- 2.1 The water and sanitation coverage rate in Peru is among the lowest in Latin America. According to estimates, 6.7 million of Peru’s 27.5 million people lack access to water, and 11.8 million lack access to sanitation services (2006-2015 National Sanitation Plan). The unserved population is primarily poor. An estimated one in five Peruvians draws water from wells, rivers, irrigation ditches, and springs, many of which are contaminated. The rest who lack water in their homes must purchase it from tank trucks, in many cases paying up to eight times more for water of dubious quality. In addition, a large percentage of people who have water and sanitation services face problems related to quality and reliable service.
- 2.2 There are 50 decentralized municipal utilities delivering water and sanitation services in Peru’s urban and rural areas, with the exception of Lima, where the system is administered by a State-owned company. Sanitation services administrative boards (JASS) serve rural localities with fewer than 2,000 inhabitants, and municipios provide services directly in localities of between 2,000 and 30,000 inhabitants. In smaller municipios (fewer than 30,000 inhabitants), which number nearly 500 in Peru, community water and sanitation committees (COVAPS) play a key role as associations that determine the type of service that residents wish to receive. COVAPS operate distribution systems based primarily on public standpipes and set guidelines for usage rates; user contributions fund construction of these systems.
- 2.3 The delivery of water and sanitation services in small cities and rural areas is unreliable. This is largely due to a weak regulatory framework, which delegates service delivery, regulation, and supervision functions to the district municipios, resulting in conflicts of interest, particularly with regard to rate setting. In addition, many municipios lack sufficient human or financial resources to run and maintain

the systems and develop expansion programs. Also, the Sistema Nacional de Inversión Pública [National Public Investment System] requires feasibility studies for the financing of investments, which must conform to a series of principles, processes, technical standards, and methodologies, which often require a significant investment of time to justify the project. The JASS and COVAPS typically lack the capacity to strategically develop and efficiently manage investment projects in various sectors, including water and sanitation. Therefore, although the financing needed to execute a project is often available, the technical capacity is often not.

- 2.4 The Ministry of Housing, Construction, and Sanitation launched the Water for All program in August 2006 to coordinate publicly funded sanitation projects and programs in urban and rural areas throughout Peru. Water for All will pursue activities throughout the country and lists countless localities in its plans. However, because its management and operational capacities are limited, it is focusing on large cities. In the rural sector, Water for All is complemented by the World Bank's National Rural Water Supply and Sanitation Project. In September 2007, the Inter-American Development Bank approved a US\$100 million loan for a sanitation sector reform program, which includes strengthening the legal and regulatory framework for rural areas and small localities as one of its components. The reforms agreed on with the Government of Peru are consistent with the principles of this operation inasmuch as they will promote the participation of specialized operators in the delivery of services.

B. Importance of water services

- 2.5 Studies have shown that the poorest households generally have the lowest rates of access to infrastructure and related services.² Improvements in infrastructure have a multiplier effect, because they provide direct and indirect opportunities for economic and social development for the majority of the population. In the social sector, infrastructure improvements contribute to human development by empowering communities and bringing about improvements in health and education.
- 2.6 One of the objectives of the Millennium Development Goals is to reduce by half the number of people without water and sanitation services by 2015. Greater water and sanitation coverage will help reduce the rate of waterborne disease and the risk of epidemics and environmental contamination among people at the base of the economic and social pyramid.³

² Clark, G. and S. Wallsten. 2003. *Universal Service: Empirical Evidence of the Provision of Infrastructure Services to the Rural and Poor Urban Consumers*. En P.J. Brook y T.C. Irwin, eds., *Infrastructure for Poor People: Public Policy for Private Provision*. Washington, D.C.: World Bank.

³ Jahan, S. and R. McCleery. 2005. *Making Infrastructure Work for the Poor: Synthesis Report of Four Country Studies*. New York: UNDP.

C. Innovative experiences in the region's water sector

- 2.7 In the early 1980s, Brazil pioneered a low-cost model for connecting groups of houses to water and sanitation services in Brasilia, Salvador, and Parauapebas. Rather than separately connecting each house to the public network, connection points were established for groups (blocks) of houses, substantially reducing the cost. This communal approach may represent a savings on the order of 40% over conventional systems.
- 2.8 In Colombia, private companies have successfully assumed the role of operating and maintaining small and medium-sized water and sanitation systems. In some cases, the operators are semi-public companies formed by the municipal governments. Under this model, the government controls the operator's activities and obtains investment funds for infrastructure projects. A private company receives a minority percentage of the shares and/or a contract to provide services contingent on its meeting strict targets for quality and expansion of coverage. The operators have adapted services to the needs of low-income consumers. A mobile office is used to reach neighborhoods lacking public transportation. These practices have resulted in high collection rates, generating resources to finance the municipios' investments in water and sanitation infrastructure improvements.
- 2.9 The World Bank, through its Water and Sanitation Program, launched the Small Town Pilot Project in Peru to develop new water and sanitation management models for small towns. The project was implemented in nine towns in different parts of the country and met with considerable success. Its achievements include shedding light on the principal problems relating to lack of access to water in small towns and identifying the factors to be considered in order to improve access in this type of setting.
- 2.10 The Small Town Pilot Project held a closing workshop in July 2006 that identified the most important conclusions and lessons learned for this type of project, as follows: (i) consider different management models, particularly ones that recognize that a significant proportion of small town residents are at the base of the period; (ii) ensure access to information and the direct participation of the community in selecting the service management model; (iii) enlist the participation and support of local entities, such as JASS or COVAPS, to ensure monitoring of the quality of services provided by specialized operators; and (iv) incorporate a component on the culture of water into projects, in order to promote integrated management and conservation of water resources.
- 2.11 Agualimpia is a new nongovernmental organization created to facilitate access to financing for the works needed to establish water and sanitation systems in various parts of the country. To date, Agualimpia has been working in the regions of Ancash, Ayacucho, and La Libertad, helping communities take the necessary steps to obtain reliable, efficient access to water and sanitation services. Through this work, Agualimpia has found that the first steps in the process, such as preparing a project and technical profile, represent the biggest obstacles for communities with

scarce resources, owing to their lack of technical capacity and expertise. The technical units in the municipal governments, for their part, also tend to lack capacity, resulting in unnecessary processing delays.

D. Resources available to invest in projects

- 2.12 Peru is currently experiencing unprecedented economic growth. This year, the Peruvian government will have over US\$4 billion to invest in social projects. Local and regional governments obtain funding from a number of sources: (i) the fund created from the *canón minero* [mandated shareouts of mining revenues]⁴ and the *aporte voluntario* [voluntary contribution of mining revenues],⁵ for projects located in the geographic areas where minerals or metals are extracted; (ii) from the *canón/sobrecanón del petróleo* [shareouts of petroleum revenues] and the *canón del gas* [shareouts of natural gas revenues];⁶ (iii) direct financing from the central government for infrastructure works; and (iv) in other cases, funds from multilateral institutions.

E. The problem

- 2.13 Despite efforts to improve access to water services, small *municipios* have been unable to take advantage of project financing opportunities owing to lack of institutional capacity. The absence of effective planning and quality controls has often resulted in investments with low social, economic, and financial returns, to the detriment of the users (particularly the poorest) and the financial position of the service providers. Rates are typically set too low to ensure the sustainability of system maintenance and administration services, resulting in systems that are in need of repair or are completely abandoned. In addition, the limited management capacity of the COVAPS and JASS, as well as certain municipal water and sanitation utilities, hinders the development of sustainable investment projects that meet basic requirements. The situation is even worse in small towns, where many of the proposals to expand or improve service coverage are not developed in consultation with the beneficiary population or with their support. As demonstrated in several countries, citizen participation is essential to obtaining access to basic services and ensuring an acceptable level of quality.

F. Proposed program

- 2.14 The role of the program will be to facilitate activities with local governments (districts, provinces, and regions) and communities to strengthen their capacity to

⁴ The *canón minero* was created by the General Law on Mining and requires the central government to share mining revenues with regional and local (district, provincial, and municipal) governments.

⁵ The *aporte voluntario* is based on several agreements the Ministry of Energy and Mines negotiated with mining companies beginning in 2006 to create two funds (for a total of US\$800 million over five years) to promote social wellbeing and development and improve living conditions for people and communities in mining areas.

⁶ There is a *canón del petróleo* [shareouts of petroleum revenues] and a *canón del gas y condensados de gas* [shareouts of natural gas and condensate revenues], known as the *canón gasífero*.

effectively manage their human, social, legal, financial, and natural resources. The executing agency, Agualimpia, is leading the way for local governments by financing the preinvestment studies and advising on feasibility studies required by the National Public Investment System where applicable. The program will ensure that investments are made in successful projects, strengthening the management capacity of local governments, creating educated, committed beneficiary communities, and coordinating the local supply of technical specialists and professionals with the investments in construction, operations, and maintenance. In addition, it will ensure that appropriate rates are set to make the water and sanitation systems more sustainable.

- 2.15 As part of the process, small municipios will receive assistance in installing systems with appropriate technologies, such as communal systems, including a social component to train the communities so they are able install residential plumbing connections as the civil works are executed. As part of the process of informing and transmitting technical knowledge to the public, the studies for the works will be conducted jointly with the local government and community, which will have responsibility for the project to be executed. The program will work to empower the community to assume oversight of the investments in water and sanitation services, creating capacity in the community to resolve other community problems.
- 2.16 Initially, the program will serve the regions of Ancash and Ayacucho, with plans to serve two additional regions subsequently. These areas have been chosen on the basis of: (i) their location within Peru's poorest areas; (ii) lack of potable water and sanitation systems; (iii) requests from the municipios in those regions; (iv) access to funds for investments in water and sanitation projects eligible under various revenue shareout regimes, or access to central government financing; and (v) geographic distribution throughout the country, for the strongest demonstration effect. (For further details, see Annex VIII in the technical files.)
- 2.17 The participation of the Multilateral Investment Fund (MIF) is essential because it will boost private sector involvement in: (i) training private community associations in the management of water and sanitation systems; and (ii) building systems.
- 2.18 This program will be part of the MIF cluster "Supporting competitiveness through public-private partnerships" (document MIF/GN-107).

III. BASIC OBJECTIVES AND COMPONENTS

A. Objectives

- 3.1 The general objective of the program is to facilitate access to adequate water and sanitation services, primarily for Peru's poor communities. Its purpose is to strengthen the capacity of communities and specialized operators, as well as that of local authorities, so they are able to implement more efficient, higher quality, sustainable models for expanding water and sanitation services.

- 3.2 The program has three components: (i) strengthening the participation and management capacity of communities and local authorities; (ii) promoting and strengthening specialized operators; and (iii) processing and disseminating outcomes.

B. Components and activities

Component 1: Strengthening the participation and management capacity of communities and local authorities (MIF: US\$1,382,500; Local counterpart: US\$856,400)

- 3.3 This component will ensure the efficiency and sustainability of institutional processes for designing, constructing, administering, and supervising water and sanitation systems in poor communities by effectively coordinating the activities of local authorities and the communities served and by strengthening the communities' capacity to perform societal oversight and provide health education to all social stakeholders.
- 3.4 The following activities are planned: (i) prepare a diagnostic assessment (mapping) of the status of water and sanitation systems for each beneficiary region; (ii) prepare a diagnostic assessment of access to water and sanitation services in collaboration with the interested parties in each selected community; (iii) design and/or adapt and publish supporting materials for execution of the work plans resulting from the social consultations in each selected community; (iv) facilitate the preparation of works investment profiles and technical files for each community; (v) train the selected communities; (vi) determine the most appropriate management models in consultation with each community and its respective authorities to ensure the sustainability of water and sanitation works, including the organizational, management, and participation structures; (vii) train the local technical units and local consultants; (viii) support the works procurement and execution process and help the communities oversee the technical and administrative management of the systems; and (ix) assist in the development of legal ordinances on water and sanitation systems in the beneficiary municipios.
- 3.5 The rural and urban communities to receive support from the program will be selected using the information generated from the diagnostic assessments of the provinces selected in the four regions, based on the following selection criteria: (i) a population of at least 30,000 inhabitants; (ii) lack of service or deficient coverage, quality, or quantity of water and sanitation services; (iii) a source of water supply; (iv) availability of sufficient funds to finance the work;⁷ (v) adequate organizational structures, determined based on the existence of grassroots community organizations; (vi) the existence or imminent adoption of a land tenure system; (vii) the absence of support or intervention of other public or private programs in

⁷ Neither this program nor Aqualimpia will finance or execute any of the infrastructure works for the water development projects.

- the short or medium term; and (viii) a location beyond the coverage area of a municipal water and sanitation utility.
- 3.6 The localities and respective municipios will be competitively selected by a program advisory board (see paragraph 5.3) based on the above criteria. Once the localities have been selected, each participating municipio will sign a framework agreement with Agualimpia (see Annex IX) establishing the initial terms of the execution, financing, and cost recovery structures for operations and maintenance, and the commitments of the municipio and other participants. At that point, Agualimpia will engage consultants to conduct an in-depth analysis of each locality. As part of the analysis, the consultants will produce a diagnostic assessment of each locality, design a community participation structure, and develop service delivery models that best address the needs of each community. The program will assist with contracting, financing, and supervision in connection with preparing the technical profiles for the water and/or sanitation works (see the Operating Regulations in Annex IV for further details).
- 3.7 Once the technical profile for the works has been approved by the authorities, the corresponding technical file will be assembled and submitted to the government agency or private entity financing the work (see the Operating Regulations in Annex IV for further details). Once a local government has obtained financing, advisory services will be provided under the program to issue the call for proposals and select, with community participation, and contract the entity that will execute the infrastructure work, as well as perform technical and financial oversight.
- 3.8 Owing to the complexity of this work, two technical coordinators will be hired. A technical coordinator for engineering will coordinate and supervise the technical aspects of the program, particularly the preparation of technical profiles and files. A technical coordinator for community relations will coordinate activities with the communities and the microenterprises participating in the program.

Component 2: Promoting and strengthening specialized operators (MIF: US\$93,400; Local counterpart: US\$82,400)

- 3.9 This component will establish the necessary conditions for creating and strengthening the capacity of local specialized operators to maintain and administer water and sanitation services. The following activities are planned: (i) train local authorities' technical units; (ii) train potential specialized operators; and (iii) help specialized maintenance and administration operators manage water and sanitation systems until they are able to do so smoothly on their own.
- 3.10 This component is intended to generate opportunities for specialized operators to manage and maintain water and sanitation systems. Specialized operators may include community associations (for example, JASS and other organizational forms). Various forums and events will be held to identify and train operators. In addition, specialized operators that decide to enter the water and sanitation sector will receive support and advisory services in supervising the administrative and technical management of the systems. The purpose of this support is to ensure that

authorities, the community, and the specialized operators provide efficient, smooth, and sustainable management of water and sanitation services in the selected community. This support will be provided during community forums for discussion and analysis, by presenting the control points the community should consider for monitoring and evaluating the activities of local authorities and specialized operators.

Component 3: Processing and disseminating outcomes (MIF: US\$123,100; Local counterpart: US\$87,200)

- 3.11 This component will provide the tools necessary to compile, analyze, and evaluate the information generated during program execution in order that outcomes may be clearly and widely disseminated. The following activities are planned: (i) hold program launch events in each region to disseminate objectives and goals to the different national, regional, and local authorities, communities, and the private sector; (ii) develop a program monitoring system; (iii) produce and distribute program promotional materials; (iv) develop a proposal for standardizing the formats of profiles and technical files for water and sanitation works for consideration by national authorities; (v) document and present case studies, lessons learned, etc.; (vi) hold a workshop to analyze and discuss program sustainability; and (vii) hold regional and national seminars.
- 3.12 The program monitoring process has two parts: (i) development of a baseline with outcome and impact indicators for communities, local authorities, and specialized operators participating in the management models to be developed; and (ii) an online system to monitor progress and outcomes. The process of developing this system will also support the preparation of regional and community diagnostic assessments, which will collectively establish the initial evaluation (baseline) for the activities and productivity of the various participants. The indicators will be based on a methodology developed by a consultant and will include the relevant social, cultural, sanitation, health, environmental, and economic elements for measuring program outcomes and impact.
- 3.13 The program will seek to ensure that profiles and technical files for works are prepared in a clear and straightforward manner and meet the minimum technical quality standards to ensure the work is executed properly. To this end, Agualimpia will propose to the authorities involved a standardized format for submitting profiles and another for submitting technical files. While these activities will produce benefits for all sector stakeholders, they are not mandatory conditions for program execution.

IV. COST AND FINANCING

- 4.1 The program has a total budget of US\$3,289,950. Of this amount, the MIF will contribute US\$1,989,950 and Agualimpia will contribute US\$1,300,000 in local counterpart resources, half of which will be in cash.

Table 1. Budget by Component (US\$)				
Components	MIF	Local Counterpart	Total	%
I: Strengthening the participation and management capacity of communities and local authorities	1,382,500	856,4000	2,238,900	68.9
II: Promoting and strengthening specialized operators	93,400	82,400	175,800	5.4
III: Processing and disseminating outcomes	123,100	87,200	210,300	6.5
Program administration unit	163,200	243,700	406,900	12.5
Evaluations	55,000	--	55,000	1.7
Financial audits	40,000	--	40,000	1.2
Contingencies	92,800	30,300	123,100	3.8
Subtotal	1,950,000	1,300,000	3,250,000	100
Percentage	60%	40%	100%	
Impact evaluation account	9,950	--	9,950	
Cluster activities	30,000	--	30,000	
TOTAL	1,989,950	1,300,000	3,289,950	

- 4.2 **Recognition of expenditures.** The Bank may recognize up to US\$15,000 in expenditures incurred by Agualimpia on or after 11 February 2008 to finance the regional assessments planned under component I against the local counterpart contribution.
- 4.3 **Sustainability.** The sustainability of the program is based on the demonstration effect it will have. First, progress in the first localities targeted by the program will have a multiplier effect in neighboring communities as demand is generated for strengthened management capacity and the creation of private companies to execute infrastructure work and to administer, operate, and maintain water and sanitation systems. The framework agreement (Annex IX) will define a cost recovery model that provides sufficient resources to ensure that the infrastructure is properly operated and maintained. All these factors will contribute to the sustainability of this program.

V. EXECUTING AGENCY AND EXECUTION MECHANISM

A. Executing agency

- 5.1 The program executing agency will be Agualimpia, a nonprofit nongovernmental organization legally constituted in April 2007. Its mission is to increase access for Peru's poor communities to residential water, sewage, and sanitation services. Agualimpia was created to work with municipios in poor areas to promote and design water and sanitation projects. Through this work, it came to realize the importance of educating Peruvians about the need for safe drinking water and encouraging them to pay for this service. To meet its objectives, Agualimpia works

directly with local governments, national authorities, and financial entities interested in improving access to water services.

B. Execution mechanism

- 5.2 A program administration unit will be formed to administer the program and will include a program manager, an administrative assistant, and a part-time accountant. The program manager will: (i) plan, coordinate, supervise, and monitor technical and administrative aspects of activities needed to fulfill the work plan and achieve the expected outcomes for the duration of the program; (ii) prepare annual work plans; (iii) draft terms of reference and identify, select, and contract, and evaluate the performance of external consultants; (iv) prepare semiannual, midterm, and final progress reports on the technical and financial performance of the program; (v) supervise the work of the two technical coordinators (see paragraph 3.8); and (vi) convene the advisory board to support coordination, planning, and execution of activities.
- 5.3 At program startup, an advisory board will be formed by representatives from the relevant national institutions involved in water and sanitation services, including the Water for All program, CARE Peru, Kreditanstalt für Wiederaufbau, the Sociedad Nacional de Minería, Petróleo y Energía [National Society of Mining, Petroleum, and Energy], the CENTRUM Business School of the Pontificia Universidad Católica del Peru, and Caritas. The board will: (i) select the projects to be supported under component I; (ii) review fulfillment of the annual work plans; (iii) help coordinate the program with the activities and initiatives of other entities; and (iv) develop and support promotion and dissemination strategies.
- 5.4 **Execution period and revolving fund.** The program execution period will be 48 months, and the disbursement period will be 54 months. MIF resources will be disbursed through a revolving fund of up to no more than 15% of the MIF's total contribution. The fund may be replenished upon presentation of expense vouchers and verification of the fulfillment of disbursement triggers. Both the review of expense vouchers and the onsite verification of the fulfillment of disbursement triggers may be conducted ex post, as determined in the supervision plan. In the case of eligible expenses that do not individually exceed US\$300,000 equivalent, disbursement requests submitted to the Bank may be accompanied by a list of the expenses incurred, with no need for expense vouchers, which will nonetheless be kept by the executing agency for subsequent review by the Bank. Disbursements of local counterpart resources will be reported in the disbursement requests presented to the Bank (expense vouchers and/or replenishment of the revolving fund) for nonreimbursable technical-cooperation funds and will comply with the pari passu counterpart funding requirement. Annual financial audits will be conducted, which will also be used to review the climate of control and the executing agency's procurement capacity.
- 5.5 **Procurement.** Goods and services will be procured by the executing agency in accordance with the applicable Bank policies (documents GN-2349-7 and

GN-2350-7 of July 2006). Procurement procedures will ensure transparency and competition at the lowest cost. Procurements will be reviewed ex ante. However, during program execution, the Bank may evaluate the executing agency to determine whether an ex post modality can be implemented. The first procurement plan for the program is presented in Annex XI. The executing agency will update the procurement plan at least once a year.

VI. MONITORING AND EVALUATION

- 6.1 The MIF, working from the Country Office, will perform supervision and control of the program, monitor compliance with contractual clauses, process disbursement requests, and receive the audited financial statements. Each year, the program administration unit will prepare and submit an annual work plan. The unit will also prepare and submit progress reports within 30 days after the end of each six-month period, and a final report within 30 days after the last disbursement.
- 6.2 A baseline will be developed at program startup and during program execution.⁸ Two evaluations will be conducted. A midterm evaluation will be conducted when 50% of the funds have been disbursed or halfway through the execution period, whichever occurs first, and will cover, at a minimum: (i) the demand shown by municipios for support from the program; (ii) the effectiveness of the training programs for beneficiary microenterprises; (iii) the percentage of program-supported municipios that obtain financing for the installation of water systems; and (iv) the complementarity of this program with other initiatives to promote potable water and sanitation systems in Peru. On the basis of recommendations proposed by the evaluator, the Bank and the executing agency will decide on any corrective actions necessary to ensure adequate program execution.
- 6.3 The final evaluation will be conducted at the end of program execution or when 95% of the funds have been disbursed. In addition to the quantitative and qualitative indicators used in the midterm evaluation, it will consider: (i) the impact on program beneficiaries and participants (beneficiary companies and customers), considering the indicators in the logical framework; (ii) the success of water systems supported by the program; (iii) the achievements in terms of the proposals to standardize formats for profiles and technical files; (iv) changes in public policies relating to the water sector; and (v) lessons learned and best practices.
- 6.4 Three months before the end of the execution period, a closing workshop will be held to jointly evaluate outcomes and identify the steps needed to ensure sustainability.

⁸ The program baseline will draw on the diagnostic assessments planned as part of component I, which will be conducted in each region (see paragraph 3.12 for further details).

VII. BENEFITS AND RISKS

A. Benefits

- 7.1 This program is intended to fill the significant gap in access to safe drinking water facing many localities. By expanding access to water and sanitation services in the various regions of the country, the program is expected to improve the quality of life for the Peruvian people, particularly low-income groups, by reducing the adverse health- and development-related problems associated with the lack of these two basic services. It is also expected to lower the cost of access to water.

B. Risks

- 7.2 The program faces three major risks. The first risk is that demand among municipios and localities might be lower than expected. Mitigating factor: Agualimpia has consulted numerous municipios as to their interest and has determined that there is demand for program services. In addition, the diagnostic assessment planned in component I, combined with promotional activities in the regions to be included in the program, will help ensure that potential beneficiary municipios are aware of program services.
- 7.3 The second risk relates to access to financing for water and sanitation works. Mitigating factor: there are a number of possible funding sources for civil works, such as the canón minero [mining royalty], the canón del gas y petróleo, trusts, municipal budgets, and central government funding. In addition, in order to be selected to participate in the program, candidate localities must have access to the necessary financing.
- 7.4 The third risk is associated with the fact that Agualimpia is a young organization. Mitigating factor: Agualimpia is believed to have the support and expertise needed to implement the program, thanks to the involvement of very high-level people with experience in the country's water and sanitation sector. In addition, the project team conducted an institutional assessment of Agualimpia (see Annex XII) and pointed out, among other findings, that the advisory board will play an important role in monitoring execution and ensuring good coordination with other efforts in the sector (see paragraph 5.3). Lastly, the program uses a results-based disbursement model (see paragraph 5.4), which will make it easier to ensure good performance.

VIII. ENVIRONMENTAL AND SOCIAL IMPACT

- 8.1 The program is intended to generate positive social impacts by improving access to water and sanitation services for urban and rural families with scarce resources. The model promotes the empowerment of families in the community, ensuring that they can fulfill a societal oversight role vis-à-vis water and sanitation investments. The availability of safe drinking water in the participating localities will improve the health of the community and reduce infant mortality. In terms of environmental impact, the program will promote a culture of water (an appreciation of benefits,

costs, and maintenance), which will contribute to the wise use and conservation of water resources and the effective channeling of waste in order to avoid environmental contamination.

- 8.2 This program has been classified as a category “C” operation and was accepted by the Environmental and Social Impact Review Secretariat on 7 January 2008.

**PERU: IMPROVED ACCESS TO WATER AND SANITATION SERVICES IN SMALL MUNICIPIOS
(PE-M1049)
LOGICAL FRAMEWORK**

Narrative summary	Indicators	Means of verification	Assumptions
OBJECTIVE			
To facilitate efficient, sustainable access to quality water and sanitation services for Peru's poor communities.	<u>Two years after program completion:</u> <ul style="list-style-type: none"> There is a 10% reduction in the number of acute diarrhea cases in children under 5 years in beneficiary localities, based on figures at program startup. The management models generated by the program are replicated in at least 3 other regions of Peru. The work model developed by the executing agency (Aqualimpia) is replicated in at least 1 country. 	<ul style="list-style-type: none"> Information from national and regional authorities in the water and sanitation sector. Official health statistics and surveys. Statistics on water and sanitation coverage. Statistics from business associations in the water and sanitation sector. Report of ex post evaluation conducted by an independent consultant. 	<ul style="list-style-type: none"> The macroeconomic, political, institutional, and legal context in Peru and its regions remains favorable for the introduction and acceptance of a culture of water in Peru's poor, isolated communities, and the efforts of the various entities responsible for the sector are successfully coordinated.
PURPOSE			
To strengthen the capacity of communities and specialized operators, as well as that of local authorities, so they are able to implement more efficient, higher quality, sustainable models for expanding water and sanitation services.	<u>At the end of program execution:</u> <ul style="list-style-type: none"> In at least 20 communities with water shortages, the coverage, continuity, and quality of water has increased for at least 80% of the inhabitants, in keeping with the Millennium Development Goals (specifically, the seventh goal). A general model of community representation (with different versions), accountability, and access to specialized water and sanitation services has been designed, implemented, and tested in at least 20 localities. At least 20 specialized operators are in operation and providing water and sanitation systems management and maintenance services. The time required to authorize profiles and technical files for works in the beneficiary municipios is noticeably reduced. 	<ul style="list-style-type: none"> Final evaluation. Project completion report. 	<ul style="list-style-type: none"> The local authorities and communities increase their commitment to making significant efforts to instilling the new culture of water, in terms of awareness of benefits, costs, and maintenance. Economic resources for supporting the creation of water infrastructure in poor areas are available.

Narrative summary	Indicators	Means of verification	Assumptions
COMPONENTS			
<p>Component 1. Strengthening the participation and management capacity of communities and local authorities.</p>	<p><u>At month 6 of execution:</u></p> <ul style="list-style-type: none"> • Implementation of the management model for sustainable water and sanitation systems has begun in 6 communities. <p><u>At month 18 of execution:</u></p> <ul style="list-style-type: none"> • At least 12 local authorities from an equal number of communities have begun receiving technical training in water and sanitation systems. <p><u>At month 24 of execution:</u></p> <ul style="list-style-type: none"> • At least 16 communities have begun implementing a management model for sustainable water and sanitation systems • At least 16 communities have conducted training programs for schoolteachers on the subject of water resources awareness and education. <p><u>At month 36 of execution:</u></p> <ul style="list-style-type: none"> • At least 25 communities have begun implementing a management model for sustainable water and sanitation systems. • At least 25 local authorities from an equal number of communities have received technical training in potable water and sanitation systems. 	<ul style="list-style-type: none"> – Framework agreements and specific agreements with each selected community. – Reports on local authorities' training. – Reports on training of schoolteachers. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	<ul style="list-style-type: none"> – There is financing to execute the works. – Communities are interested in working together with local authorities to develop management models for water and sanitation systems. – There is certainty as to the right to harvest and use water resources in the selected communities. – There is certainty as to the tenure of the land where the communities are located. – There is coordination between the various Peruvian institutions in the water and sanitation sector.

Narrative summary	Indicators	Means of verification	Assumptions
<p>Component 2. Promoting and strengthening specialized operators.</p>	<p><u>At month 12 of execution:</u></p> <ul style="list-style-type: none"> • Training has begun for the technical units of at least 6 local authorities from an equal number of selected communities. • At least 15 professionals have been trained in at least 2 regions of the program. <p><u>At month 24 of execution:</u></p> <ul style="list-style-type: none"> • Training has begun for the technical units of at least 16 local authorities from an equal number of selected communities. • Training for professional groups has begun in at least 3 regions of the program. • At least 4 training events have begun for specialized operators. <p><u>At month 36 of execution:</u></p> <ul style="list-style-type: none"> • Training has begun for the technical units of at least 25 local authorities from an equal number of selected communities. • Training for professional groups has begun in the 4 regions of the program. • At least 6 training events have been held for specialized operators. 	<ul style="list-style-type: none"> – Reports on training of local authorities. – Reports on training of professionals. – Reports on training of specialized operators. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	<ul style="list-style-type: none"> – The economic and political conditions are conducive to the creation of specialized operators to provide water and sanitation systems administration and maintenance services. – There is coordination between the various Peruvian institutions in the water and sanitation sector.
<p>Component 3.- Processing and disseminating outcomes.</p>	<p><u>At month 6 of execution:</u></p> <ul style="list-style-type: none"> • All program launch events have been held. <p><u>At month 18 of execution:</u></p> <ul style="list-style-type: none"> • A proposal has been developed to standardize the formats of profiles and technical files for water and sanitation works. <p><u>At month 48 of execution:</u></p> <ul style="list-style-type: none"> • All national and regional activities to disseminate case studies and lessons learned have been completed. • The program sustainability workshop has been held. 	<ul style="list-style-type: none"> – Records of launch events. – Consultant's report on the proposed design for standardizing profile and technical file formats. – Reports on national and regional dissemination events. – Records of sustainability workshop outcomes. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	<ul style="list-style-type: none"> – There is interest on the part of regional and national governments in applying the standard format for profiles and technical phones. – Safe drinking water continues to be an important issue in Peru.

Narrative summary	Indicators	Means of verification	Assumptions
ACTIVITIES			
<i>Component 1. Strengthening the participation and management capacity of communities and local authorities.</i>			
1.1 Develop a diagnostic assessment (mapping) of the water and sanitation systems in each of the regions to be served.	<ul style="list-style-type: none"> Diagnostic assessment of the two initial regions: completed before month 3 of execution. Diagnostic assessment of the two subsequent regions: completed before month 10 of execution. Communities identified: at least 60 in the first year and 100 in the second year of execution Communities selected: at least 12 in the first year and 25 total in the second year of execution 	<ul style="list-style-type: none"> Regional diagnostic assessments: Minutes of the program advisory board meeting. Letters of invitation sent to local authorities in the communities identified. Semiannual progress reports. 	
1.2 Coordinate objectives, goals, and activities to be executed with local authorities in the selected communities.	<ul style="list-style-type: none"> Framework agreements signed between Agualimpia and local authorities of the selected communities: at least 12 in the first year and 25 total in the second year of execution Community diagnostic assessments (baseline): at least 12 in the first year and 25 in the second year of execution 	<ul style="list-style-type: none"> Signed framework agreements. Community assessments. Semiannual progress reports. 	
1.3 Develop and implement a social intervention model in each community selected.	<ul style="list-style-type: none"> General social intervention model: implemented before month 6 of execution. General design of materials: by month 7 of execution. Printing of supporting materials: by month 8 of execution. Implementation of social intervention models begun for each community: at least 8 at the end of the first year and 20 at the end of the second year of execution. 	<ul style="list-style-type: none"> Study on the general social intervention model. Study on the general design of materials. Supporting materials for social intervention printed. Records of events to launch social intervention activities in the selected communities. Semiannual progress reports. 	
1.4 Prepare and oversee investment profiles of works for each selected community.	<ul style="list-style-type: none"> Investment profiles of works supervised/prepared for each community: at least 8 at the end of the first year and 20 at the end of the second year of execution. 	<ul style="list-style-type: none"> Investment profiles. Semiannual progress reports. 	
1.5 Prepare and oversee technical files of works for each selected community.	<ul style="list-style-type: none"> Technical files of works supervised/prepared for each community: at least 6 communities at month 18 and 16 at month 30 of execution. 	<ul style="list-style-type: none"> Technical files. Semiannual progress reports. Midterm evaluation. 	

Narrative summary	Indicators	Means of verification	Assumptions
1.6 Develop training programs for the communities.	<ul style="list-style-type: none"> • Training methodology and content developed: by month 8 of execution. • Training modules held in each selected community: at least 2 in the phase prior to systems construction, 3 during systems construction, and 2 during launch of water and sanitation service operations. 	<ul style="list-style-type: none"> – Model training plan. – Report on each training module in each community. – Semiannual progress reports. – Midterm evaluation. 	
1.7 Determine the most appropriate management models with each community and its respective authorities.	<ul style="list-style-type: none"> • Meetings held with local authorities and leaders from each selected community: at least 2 per community during development of management models, when the steps to be followed to promote and/or strengthen specialized operators should be clearly defined. • Implementation of the management model to ensure sustainability of works in each community: at least 6 communities at month 18 and 16 at month 30 of execution. 	<ul style="list-style-type: none"> – Minutes of meetings – Management model document for each community. – Semiannual progress reports. – Midterm evaluation. 	
1.8 Provide advisory services to local governments on the process of soliciting bids and executing civil works.	<ul style="list-style-type: none"> • Works tendered for each selected community trained: at least 8 by the end of month 18, and 20 by the end of month 28 of program execution. 	<ul style="list-style-type: none"> – Model training plan. – Report on each training event in each community. – Semiannual progress reports. – Midterm evaluation. 	
1.9 Support the institutionalization of water and sanitation services.	<ul style="list-style-type: none"> • At least one municipal ordinance or other legal provision per participating municipality. • Models for community representation, accountability, and access to specialized technical services: at least 3 in the first 3 years of execution 	<ul style="list-style-type: none"> – Authorities enact ordinances. – Semiannual progress reports. – Midterm evaluation. 	
1.10 Provide advisory services to the community on oversight of the administrative and technical management of the systems.	<ul style="list-style-type: none"> • Water systems are operating efficiently and independently: at least 3 in the first 3 years of execution 	<ul style="list-style-type: none"> – Semiannual progress reports. – Midterm evaluation. 	

Narrative summary	Indicators	Means of verification	Assumptions
<i>Component 2. Promoting and strengthening specialized operators.</i>			
2.1 Develop and implement training for local governmental technical units and local consultants.	<ul style="list-style-type: none"> • Training methodology and content developed: by month 8 of execution. • Local authorities and consultants have started implementing training plans in selected communities: at least 8 at the end of the first year and 20 at the end of the second year of execution. 	<ul style="list-style-type: none"> – Model training plan. – Report on each training event. – Semiannual progress reports. – Midterm evaluation. 	
2.2 Develop and implement a training methodology and content for professionals in the water and sanitation sector.	<ul style="list-style-type: none"> • Training methodology and content developed: by month 12 of execution. • Training courses and workshops begun: at least 6 courses and/or workshops in the second year and 12 in the third year of execution. 	<ul style="list-style-type: none"> – Model training plan. – Report of each training event. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	
2.3 Develop and implement a training methodology and content for specialized operators.	<ul style="list-style-type: none"> • Training methodology and content developed: by month 18 of execution. • Training courses and workshops begun: at least 6 specialized operators receive training in the second year and 12 in the third year of execution. 	<ul style="list-style-type: none"> – Model training plan. – Report on each training event. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	
2.4 Provide advisory services to specialized operators on water and sanitation system management to ensure independent, smooth operations.	<ul style="list-style-type: none"> • Coordination mechanism for providing advisory services, monitoring, and supervising administrative and technical management: established and in operation by the end of the third year of the program. 	<ul style="list-style-type: none"> – Minutes of meetings – Financial reports from each specialized operator. – Semiannual progress reports. – Midterm evaluation. – Final evaluation. 	
<i>Component 3. Processing and disseminating outcomes.</i>			
3.1 Hold several program launch events.	<ul style="list-style-type: none"> • Program launch meetings in the provinces selected from the first two regions during the first 3 months and from the second two regions in month 10 of execution. 	<ul style="list-style-type: none"> – Minutes of meetings – Records of events. – Semiannual progress reports. 	
3.2 Develop the program monitoring system.	<ul style="list-style-type: none"> • System designed and in operation by month 6 of execution. 	<ul style="list-style-type: none"> – System design study. – System-generated reports. – Semiannual progress reports. 	

Narrative summary	Indicators	Means of verification	Assumptions
3.3 Develop and reproduce materials for program dissemination.	<ul style="list-style-type: none"> • By month 6 of execution, promotional material has been distributed to various national, regional, and local government authorities and to community leaders and business associations in the water and sanitation sector. • Program website online by month 7 of execution. • A water and sanitation awareness campaign has been launched in the third year of execution. 	<ul style="list-style-type: none"> – Receipts for delivery of promotional materials. – Outcomes of program launch campaigns. – Number of visits logged on program website. – Report on strategy to raise awareness. – Semiannual progress reports. – Midterm evaluation. 	
3.4 Develop a proposal to standardize the formats of profiles and technical files for water and sanitation works.	<ul style="list-style-type: none"> • Proposal developed: by month 18 of execution. 	<ul style="list-style-type: none"> – Report by the consultant on development of the proposal. – Semiannual progress reports. – Midterm evaluation. 	
3.5 Document and present case studies and lessons learned.	<ul style="list-style-type: none"> • Report on case studies and lessons learned: by month 46 of execution. 	<ul style="list-style-type: none"> – Report on case studies and lessons learned. – Final evaluation. 	
3.6 Hold a workshop to analyze and discuss program sustainability.	<ul style="list-style-type: none"> • Sustainability workshop held in the third year of execution. • Follow-up on the third-year workshop held in the fourth year of execution. 	<ul style="list-style-type: none"> – Workshop reports. – Final evaluation. 	
3.7 Hold regional and national seminars.	<ul style="list-style-type: none"> • Regional seminars: 1 per region at least 3 months prior to the end of execution. • National seminar: 1 held at least 3 months prior to the end of execution. 	<ul style="list-style-type: none"> – Workshop reports. – Final evaluation. 	

ANNEX II
PERU: IMPROVED ACCESS TO WATER AND SANITATION SERVICES IN
SMALL MUNICIPIOS
(PE-M1049)

		Total			
			Counterpart		
	Description	MIF	Cash	In kind	Total
1	Component 1. Strengthening the participation and management capacity of communities and local authorities	1,382,500	476,400	380,000	2,238,900
1.1	Develop a diagnostic assessment (mapping) of water and sanitation systems in each of the regions to be served.	0	25,600	0	25,600
1.2	Coordinate objectives, goals, and activities to be executed with local authorities in the selected communities.	87,500	15,000	0	102,500
1.3	Develop and implement a social intervention model in each community selected.	18,000	53,000	0	71,000
1.4	Prepare and oversee the investment profiles of works for each selected community.	393,600	113,400	0	507,000
1.5	Prepare and oversee the technical files of works for each selected community.	787,200	206,800	0	994,000
1.6	Develop training programs for the communities.	51,200	36,750	16,000	103,950
1.7	Determine the most appropriate management models with each community and the respective authorities.	0	8,200	0	8,200
1.8	Provide advisory services on the works procurement and execution process.	29,600	17,650	16,000	63,250
1.9	Contribute to the institutionalization of water and sanitation services.	15,400	0	4,000	19,400
1.10	Provide advisory services to the community on oversight of the administrative and technical management of the systems.	0	0	344,000	344,000
2	Component 2. Promoting and strengthening specialized operators	93,400	56,400	26,000	175,800
2.1	Develop and implement training for local governmental technical units.	13,400	19,850	8,000	41,250
2.2	Develop and implement a training methodology and content for specialized operators.	22,400	7,750	8,000	38,150
2.3	Provide support for specialized operators on water and sanitation system management to ensure independent, smooth operations.	57,600	28,800	10,000	96,400

		Total			
			Counterpart		
	Description	MIF	Cash	In kind	Total
3	Component 3. Processing and disseminating outcomes	123,100	83,200	4,000	210,300
3.1	Hold several program launch events.	0	8,400	0	8,400
3.2	Develop the program monitoring system.	15,000	0	0	15,000
3.3	Develop and reproduce materials for program dissemination.	0	70,000	0	70,000
3.4	Develop a proposal to standardize the formats of profiles and technical files for water and sanitation works.	13,600	0	0	13,600
3.5	Document and present case studies and lessons learned.	27,200	0	4,000	31,200
3.6	Hold a workshop to analyze and discuss program sustainability.	7,300	0	0	7,300
3.7	Hold regional and national seminars.	60,000	4,800	0	64,800
4	Program administration	163,200	8,000	235,700	406,900
4.1	Personnel	158,400	0	158,400	316,800
4.2	Overhead	4,800	0	77,300	82,100
4.3	Supervision and monitoring	0	8,000	0	8,000
5	Evaluations	55,000	0	0	55,000
6	Financial audits	40,000	0	0	40,000
7	Contingencies	92,800	30,300	0	123,100
	SUBTOTAL	1,950,000	654,300	645,700	3,250,000
	Evaluation impact account	9,950	0	0	9,950
	Cluster activities	30,000	0	0	30,000
	TOTAL	1,989,950	654,300	645,700	3,289,950

**PERU: IMPROVED ACCESS TO WATER AND SANITATION SERVICES IN SMALL MUNICIPIOS
(PE-M1049)**

PROJECTS IN THE MIF CLUSTER “SUPPORTING COMPETITIVENESS THROUGH PUBLIC-PRIVATE PARTNERSHIPS”

	Project number / Date approved	Project title, executing agency, and amount	Signing date and original disbursement period in months	Percentage disbursed	Comments: Satisfactory execution or problems in execution, including delays, extensions, reformulations, change in executing agency, etc.
1	ATN/MT-8724-BR 19 May 2004	Public-Private Association – Minas Gerais Ministry of Planning, Budget and Management US\$675,000	5 July 2004 36 months	52.52%	Project activities agreed on to fulfill the established objectives continue to be implemented satisfactorily.
2	ATN/MT-9587-BR 14 December 2005	National Program for the Institutional Development of Public-Private Partnerships Ministry of Planning, Budget and Management US\$2,480,000	20 October 2006 36 months	0%	Progress is slow, and the project is using counterpart funds (approximately US\$200,000 to date) and processing reimbursements with MIF resources, instead of using a revolving fund.
3	ATN/MT-9636-CO 21 December 2005	Public-Private Partnership Program in IIRSA Instituto Nacional de Concesiones [National Concessions Board] US\$420,000	31 August 2006 24 months	20%	Although there were initial delays in execution, the issues were resolved favorably and implementation is satisfactory at this time.
4	ATN/MT-10287-ME 14 February 2007	Program to Promote Public-Private Partnerships in Mexican States – PIAPPEM Inter-American Development Bank US\$3,930,000	14 February 2007 60 months	2.57%	The performance indicators show a positive trend, and it appears highly probable that the assumptions will hold true.